



Dear members of the ENVI committee,

A well-designed Carbon Border Adjustment Mechanism (CBAM) can bolster climate ambition in the European Union and internationally. It can help slash emissions from the goods we produce and import, and can stimulate the demand and supply of green industrial products.

Ahead of your vote on the CBAM proposal on 17 May 2022, we urge you to support the following:

**1. A CBAM that includes all high-emitting sectors and indirect emissions from the start**

As a climate policy tool, the CBAM should aim to deliver the greatest emissions reductions. To this end, it must cover ETS sectors that contribute significantly to climate change and involve high levels of international trade.

MEP Mohammed Chahim's proposal to add hydrogen, organic chemicals and plastics to the scope of CBAM goes in the right direction and we urge you to support it. This would ensure that chemical products that are substitutes for other materials - such as plastic substituting steel and aluminium - are treated the same way and do not end up shifting pollution to other sectors rather than eliminating it. In addition, please support the full inclusion, by 2030, of all ETS sectors in the CBAM. This would ensure that all emissions from energy-intensive sectors are tackled and rapidly reduced.

The CBAM must also cover indirect emissions from the start. Their inclusion would result in a larger environmental benefit as it would provide importers with an incentive to adopt both cleaner production processes and to boost their renewable energy capacity. We therefore urge you to support the inclusion of indirect emissions and the definition proposed in the compromise text.

**2. A faster phase-out of free allowances for all ETS sectors**

Ending free allowances to CBAM sectors only in 2030 would undermine the effectiveness of the CBAM and the ETS as instruments to reduce emissions in the EU and globally.

To incentivise emission reductions within the EU and climate action globally, the CBAM must be implemented only as an *alternative* to current carbon leakage protection measures. Ideally, this would involve the immediate elimination of free pollution permits.

A faster phase-out of free allowances to CBAM sectors would be beneficial on multiple fronts:

- It would provide a clear financial incentive for EU industries to invest in cleaner production processes in time for the EU to be a frontrunner in green technologies and processes
- It would allow **member states to generate more than €500 billion in additional revenues up to 2030** to reinvest into the green transformation of our economies,

including European industries by supporting investments urgently needed in clean innovation and energy efficiency measures.

- In addition, this earlier phase-out would **inject up to an extra €160 billion by 2030 into the ETS Innovation Fund**. Auctioned allowances would support industrial decarbonisation much more efficiently than ill-targeted free allowances have done since the start of the ETS Directive.

The elimination of free allowances must also apply to the ETS sectors that are set to be included in CBAM after its entry into force.

### **3. Earmarking revenues from the sale of CBAM certificates for climate mitigation and adaptation in least developed countries**

Revenues from the sale of CBAM certificates must be channelled directly to support climate mitigation and adaptation in least-developed countries. Setting up a dedicated fund and clearly earmarking CBAM revenues for this purpose would demonstrate the EU's commitment to global decarbonisation efforts and to climate justice.

Allocating CBAM revenues to the EU's budget would instead raise legal challenges under the World Trade Organisation and could strengthen partner countries' perception that the CBAM is a protectionist and fiscal measure.

These issues are crucial to the successful implementation of CBAM. We urge you to have them front of mind during your deliberations and voting next week.

Should you have any questions, please don't hesitate to contact us.

#### **Contact**

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