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Carbon border adjustment mechanism: how can the European Union move forward?

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The creation of an EU carbon border adjustment mechanism (CBAM) is one of the measures foreseen under the Green Deal. European industry, which has to pay for its carbon emissions under the EU Emissions Trading Scheme (EU ETS), is being penalised in the face of international competitors who are not subject to the same constraint; a so-called adjustment measure would restore fair competition and in the medium term prevent carbon leakage from third countries into the EU. However, the issue remains politically sensitive on the international stage, in trade and environmental negotiations, where the EU must respond to a double criticism of protectionism and unilateral action. In this context, the EU must scrupulously assess the foreseeable, but also unintended impacts of the proposed approach, promote dialogue and listening, and bring domestic and international promises together around the same expectation.

The different records of legitimacy invoked by the European Union

The concerns, even opposition, that this issue had generated among the Member States some ten years ago seem to have partly dissipated. In the European debate, the introduction of trade regulations with an environmental objective now seems not only useful, but also legitimate and realistic; and this project is widely supported in economic (business, trade experts), environmental and political circles. Moreover, intellectual production on the subject and its technical dimensions is abundant and well documented. Furthermore, the European Union cannot delay any longer an announced review of the current mechanisms for the "protection" of vulnerable industries, which is necessary to confirm the strengthening of its climate ambition and the reform of the EU ETS.

Within this framework, different types of arguments justify, from a European point of view, the establishment of the CBAM. A first set of arguments explicitly targets those EU trading partners who would not play the game on environmental issues, and in particular would "not do enough" in the framework of the Paris Climate Agreement. This offensive approach is accompanied by a more consensual narrative, which builds the legitimacy of a border adjustment on European climate leadership, the region's lead in implementing ambitious policies (and notably carbon pricing) and the need to regulate trade so as not to ruin these efforts (to the detriment of all). The argument does not impose a value judgement on the carbon policies of the countries concerned, but recognises that, in the framework of the Paris Climate Agreement, the diversity of situations, ambitions and policy instruments mobilised *de facto* introduces distortions of competition, which need to be rebalanced. The old narrative focusing on third countries is being replaced by a discourse centred on the EU, its environmental project and its conditions for success; but the question of the impacts on its partners is totally avoided.

By multiplying the registers of legitimacy, the EU is making design compromises more complex and at the same time weakening its case both technically (compatibility with the World Trade Organisation) and diplomatically. It therefore needs to clarify its intentions—and above all what it does not wish to do. The burden of proof lies on the EU, and it must demonstrate, rather than assert, that its initiative will benefit those of its partners who are committed to carbon neutrality. The political reception will also depend on the narratives that the EU and its Member States are able to impose in the global debate, and on their ability to listen (and influence design compromises) to vulnerable countries in order to avoid a sense of 'fait accompli'. The issue at stake then goes beyond carbon adjustment alone to encompass the EU's entire trade policy, its development policy and its role in the Paris Climate Agreement.

A necessary dialogue

Europe and its Member States must therefore mobilise and engage in a more open dialogue with their partners around four themes.

The vulnerability of Europe's trading partners. Rhetorically, the adjustment measures are primarily aimed at the major emerging countries, first and foremost China. In practice, studies show that many intermediate or less developed countries, particularly on the African continent, are also among the most at risk economies, due to their specialisation or their lower administrative capacity. This is also the case for nearby countries (Turkey, Egypt, etc.) for which Europe provides stability to certain industrial capacities in counter-cyclical periods. Conversely, EU trade with the major emerging countries is more diversified and their capacity to adapt is greater. A distinction must be made here between *de facto* vulnerability and the political capacity to make it a rallying point. A country with little "impact" can become a spokesperson; it is therefore in its interest to speak with a large group of countries.

The perimeter of the adjustment mechanism. Should it be reduced to a few commodities such as steel, aluminium and cement? Or should it gradually be extended to all EU imports, including agricultural products? Tariffing all EU imports will multiply the grounds for conflict and make it easier for those who already speak of "green protectionism"; a mechanism restricted to a few commodities will be easier to sell than a generalised system of export aid. The risks of overbidding within the EU should not be underestimated as they also blur the international message.

The potential attractiveness of an adjustment mechanism for partners developing domestic carbon pricing. Making an adjustment mechanism a tool for trade regulation not only at the borders, but also within "pro-active" clubs (where, in accordance with the Paris Agreement, the carbon price can vary), would make it possible to deploy this approach in a different and less stigmatising political perspective.

The broader perspective from which countries, or regions, perceive the proposed adjustment mechanism. The Green Deal pays little attention to the international dimension, and the New Neighbourhood, Development and International Cooperation Instrument (NDICI) is, through its priorities and budgets, in line with historical continuity. By strongly associating the CBAM with it, the EU is muddying the waters and seems to want to lead its transition into retreat, instead of proposing to its partners a set of measures (in trade, development and cooperation, or investment) aligned with the domestic ambition of the Green Deal. The CBAM itself may be accompanied by investment support measures, or capacity building measures, but these will only be of value if they are supported by a broader framework.

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