European Economic and Social Committee

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Carbon markets: Emergence, structuring and challenges for European industry

OPINION

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Carbon markets: Emergence, structuring and challenges for European industry
(own-initiative opinion)

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1. Conclusions and recommendations

1.1 The new deal of carbon markets

1.1.1 Numerous carbon markets are functioning in the world and the EU Emissions Trading System (ETS) is not working in isolation. These carbon markets have different sizes and follow different rules but they share common features with the establishment of some market mechanisms to measure carbon dioxide and other greenhouse gas emissions and to fix pricing per tonne.

1.1.2 These local carbon markets should be monitored by the European Commission in order to identify the best practices that could be useful for revising the ETS and the directive on energy. This knowledge and understanding of other carbon markets is also key for calibrating the Carbon Border Adjustment Mechanism, which should apply differently to countries with carbon markets and countries without carbon markets.

1.1.3 The ongoing COVID-19 pandemic cannot slow down action on climate change, either at the European or international level. That means that the European Green Deal should be put in place in line with the planned timetable. The slightest delay takes us away from the goal of carbon neutrality by 2050. More importantly, recovery packages must be aligned with the EU climate goal and have to be harmonised with the objective of the European Green Deal.

1.1.4 The EESC considers that the adoption of Article 6 of the Paris Agreement is a key opportunity to strengthen climate action post-2020.Therefore the EESC asks the European Commission to obtain a clear mandate from Member States to reach the necessary compromise for the adoption of Article 6 guidance during COP26 in 2021.

1.2 The regulation of trade between carbon markets

1.2.1 Different carbon markets in different jurisdictions generate different carbon price levels, currently from 1 to above 30 USD/tCO_2e, which means that the bilateral trade flows between each of these carbon markets should take these differences into account through some specific mechanisms (compensation, adjustment, etc.) for the most energy-intensive and trade-exposed sectors (steel, cement and others).

1.2.2 For the EU, this issue of asymmetrical carbon price levels should be a priority. Different options are available to mitigate this asymmetry and protect the competitiveness of European industry, including free allocation, ETS linking and Carbon Border Adjustments.

1.2.3 The EESC supports the Green Deal policy and asks the European Commission to table the various proposals as planned in the coming months, including the one on the Carbon Border Adjustment Mechanism. While such a mechanism could potentially bring a level playing field for the most CO_2-intensive sectors in the EU compared to their competitors from third markets belonging to countries that do not have ambitious climate policies, much of its effectiveness will be determined by the proposed implementing details, which the EESC is eagerly waiting to learn.

1.2.4 Considering that the Carbon Border Adjustment Mechanism is a legislative priority of the current mandate of the European Commission, and the EESC is already contributed to this reflection in order to design a tool that is compatible with the WTO rules, effective in the fight against climate change and useful for the competitiveness of EU industry[1]. The goal is also to prevent countervailing measures from third countries thanks to a consultation process that will include a dialogue on methodology for measuring and comparing carbon emissions and best available technologies.

1.2.5 In all cases, such climate policy measures should be a part of a global comprehensive policy including industrial measures, access to finance and investment, standardisation efforts, R&D programmes and training policies to ease the transition towards clean technologies in the EU.

1.2.6 The phasing out of the most distortive fossil fuel subsidies in the EU should be organised properly at the level of Member States and take into account the need to use a part of the revenues from the selling of ETS allowances to ensure a just transition for the coal-dependent regions. This policy will help the EU to commit itself more assertively in the emerging WTO plurilateral negotiation on the reduction of fossil fuel subsidies.

2. The emergence of numerous carbon markets in the world and their features

2.1.1 Definitions

2.1.1.1 Carbon pricing is one of the key policy tools to reduce GHG emissions. As defined by the World Bank: "Carbon pricing is an instrument that captures the external costs of greenhouse gas emissions – the costs of emissions that the public pays for, such as damage to crops, health care costs from heat waves and droughts, and loss of property from flooding and sea level rise – and ties them to their sources through a price, usually in the form of a price on the carbon dioxide emitted."

2.1.1.2 The concept of carbon pricing can take different forms when translated into a policy: carbon tax or carbon market. One of the most common forms is an emissions trading system. As explained by the OECD: "Emission trading systems contributes to economic efficiency by facilitating emission reductions where it is cheapest to achieve them. Polluters who would find it costly to reduce their emission are allowed to buy emission allowances from polluters that can abate at lower costs. In a "perfectly" working market, the costs of reducing an additional unit of emissions would be equalised, and total costs of reaching a given environmental target would be minimised."

2.1.1.3 There are two main types of trading systems: the cap-and-trade system where an upper limit on emissions is fixed and emissions are either auctioned or distributed for free according to specific criteria and the baseline-and-credit system in which there is no fixed limit on emissions, but polluters that reduce their emissions more than they otherwise are obliged to earn "credits" that they sell to others.

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1 OJ C353, 18.10.2019, p. 59.

2.2 **Global overview**

2.2.1 At present, there are 21 emissions trading systems operating across four continents and covering 29 jurisdictions. These systems operate at the supranational, national, and subnational (state, province and city) level. Jurisdictions making up 42% of global GDP are using emissions trading. ETSs cover 9% of global GHG emissions, and almost one sixth of the global population lives under an ETS in force. Another 24 systems are currently being developed or under consideration[2].

2.2.2 The existing ETSs are:

- at the supranational level: the EU ETS, which includes the EU Member States plus Iceland, Liechtenstein and Norway,
- at the national level: Kazakhstan, Mexico, New Zealand, the Republic of Korea, Switzerland,
- at the province and state level: California, Connecticut, Delaware, Fujian, Guangdong, Hubei, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Nova Scotia, Quebec, Rhode Island, Vermont,
- at the city level: Beijing, Chongqing, Saitama, Shanghai, Shenzhen, Tianjin, Tokyo.

2.2.3 The EU ETS is the largest and oldest ETS. It accounts for around 45% of the EU's emissions and it was launched in 2005. It is followed, both in terms of size and launch date, by California and Korea.

2.3 **Common and specific features of carbon markets**

2.3.1 Common features

2.3.1.1 Although there are no two identical ETSs, some features and design choices are common across different systems, or at least recurrent in most cases:

- Sectoral coverage: most ETSs cover the power and industrial sectors, which in most countries account for a significant share of the national GHG emissions;
- Allocation rules: most systems divide the allocation of emissions allowances between free allocation and auctioning;
- Carbon leakage and competitiveness rules: most systems allocate allowances free of charge to compliance entities in sectors deemed at risk of carbon leakage as a way to preserve their competitiveness.

2 https://icapcarbonaction.com/en/?option=com_attach&task=download&id=677

2.3.2 Specific features

2.3.2.1 Nevertheless, there tend to be differences across different ETSs, especially concerning specific design features:

- Sectoral coverage: the exact sectoral coverage differs across ETSs. Some ETSs, for instance, only cover the power sector, while others extend beyond power and industry to cover other sectors such as waste, transport, domestic aviation, buildings and forestry;
- Market stability provisions: several ETSs have market stability provisions, which can take the form of price floors and ceilings and allowance reserves;
- Flexibility provisions: the availability and rules for flexibility provisions such as banking, borrowing and the use of international credits differ across ETSs;
- Carbon price: in an ETS, the carbon price is not set (with the exception of specific price regulations, such as price floors and ceilings), it is determined by the market balance and dynamics. Prices in different ETSs therefore range from a few euro to above 30 per tonne;
- Cap decline: the year on year cap decline rate is different across systems and reflects the ambitiousness of the country's long-term emission reduction goal;
- Carbon leakage and competitiveness rules: specific rules for carbon leakage as well as the sector covered by these rules differ across ETSs;
- The use of revenues: revenues from the auction of allowances can be used in different ways. In some systems they are used for specific purposes, such as supporting R&D, compensating covered entities, etc., while in other systems they flow into the overall public budget. In the EU, Member States should use at least 50% of auctioning revenues for climate- and energy-related purposes.

2.4 **Quick overview of the EU ETS, the first and largest carbon market**

2.4.1 The European Union's Emissions Trading System (EU ETS) is the first and largest cap-and-trade system for reducing GHG emissions[3]. The EU ETS has been established and extended over three successive phases: Phase I (2005 to 2007), Phase II (2008 to 2012, aligned with the first commitment period under the Kyoto Protocol), Phase III (2013 to 2020, aligned with the second commitment period under the Kyoto Protocol)[4].

2.4.2 The upcoming phase IV will start in 2021 and run to 2030. The EU ETS covers approximately 11 000 power stations, manufacturing plants and other stationary installations, as well as aviation activities, across 30 countries: the 27 EU Member States and Iceland, Liechtenstein and Norway. In total, around 45% of total EU GHG emissions are covered by the EU ETS[5].

2.4.3 The EU's 2030 Climate and Energy Policy Framework, adopted in October 2014, reaffirms Europe's strategy towards decarbonisation, and extends the bloc's decarbonisation goals beyond

3 IETA: 10 years of Emissions Trading in Europe: towards a new beginning?, May 2015, http://www.ieta.org/resources/EU/EUETS%20Paper%20May_FINAL.pdf

4 Ibid.

5 Ibid.

2020, including the goal to cut GHG emissions by at least 40% (compared to 1990 levels) by 2030.

2.4.4 The contribution of the EU ETS in achieving the above-mentioned GHG reductions by 2030 is to reduce emissions by 43% (compared to 2005) in the sectors covered by the EU ETS[6]. Phase IV of the EU ETS will run from 2021 until 2030. The aim of Phase IV is to increase the pace of emissions cuts, to set up better-targeted carbon leakage rules and to fund low-carbon innovation and energy sector modernisation[7]. The European Commission introduced new rules to reform the EU ETS ahead of Phase IV and, most significantly, to align the cap reduction trajectory with the 2030 emission reduction goal.

2.5 Complementary measures in the framework of a global EU climate policy

2.5.1 At the EU level, the EU ETS is not the only EU-wide policy that has been implemented to meet the bloc's 2020 climate and energy target. The EU's 2020 climate and energy package set three different goals, to be met by 2020:

- A 20% reduction, below 1990 levels, in GHG emissions;
- A 20% share of renewable energy in the bloc's energy mix;
- A 20% improvement in energy efficiency.

2.5.2 While the EU ETS was meant to be the key policy instrument in decarbonising the European economy and meeting the first goal, the Renewable Energy Directive (RED) and the Energy Efficiency Directive (EED) were implemented to meet the second and third goal.

2.5.3 Moreover, a number of Member States have implemented complementary and overlapping policies at the national level, mainly in the form of price floors and coal phase-outs. To ensure efficient regulation, it is important to avoid the negative impacts of complementary and overlapping policies.

2.5.4 The implementation of complementary and overlapping policies could significantly affect the functioning of the EU's carbon market. A sharp decrease in emissions from these policies would result in reduced demand for emissions allowances and, as a consequence, would distort market balance.

2.5.5 This impact can to a certain degree be mitigated by the Market Stability Reserve (MSR), which started to operate in January 2019 and aims to absorb the surplus of allowances accumulating in the market. In the years 2019-2023 the MSR will withhold 24% of the surplus. This number will decrease to 12% from 2024 onwards, and from 2023, allowances held in the MSR above the total number of allowances auctioned during the previous year will no longer be valid. Nevertheless, it is crucial to ensure greater transparency and comparability of such overlapping policies with the EU ETS and, where impacts are significant, minimise the negative impacts.

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6 Ibid.

7 European Commission (Climate Action): Revision for phase 4 (2021–2030), Last accessed March 2018, https://ec.europa.eu/clima/policies/ets/revision_en

2.5.6 The issue of fossil fuel subsidies granted at national and regional levels should move higher on the EU agenda given their magnitude: up to 300 billion euro a year, which accounts for one third of the total investment for the Green Deal and leads to more proactive commitment of the EU in the emerging negotiation in the WTO on a global phasing out of fossil fuel subsidies.

2.5.7 The EESC also identified renewable energies as a great tool for regional development (biomass, wind, solar, etc.). The main issue was how to combine both policies, the gradual phasing out of subsidies to fossil fuel energies (coal, oil) and the phasing-in of incentives to renewable energies.

3. Challenges and opportunities for the future of carbon markets

3.1 COVID-19 and its impact on climate policy

3.1.1 In the EU, containment measures led to a drop in carbon dioxide (CO_2) emissions of 58% per day[8]. If these measures last 45 days in a majority of Member States, 45 megatonnes of CO_2 can be avoided in 2020, representing 5% of the EU's annual emissions. In road and air transport, daily emissions are 10 times less than normal, while the decrease reaches 40% in energy.

3.1.2 The current drop in emissions is expected to be temporary and the EU will soon face the same decarbonisation challenges[9]. That means that the European Green Deal should be put in place in line with the planned timetable. The slightest delay takes us away from the goal of carbon neutrality by 2050.

3.1.3 Market instruments to reduce greenhouse gas (GHG) emissions are showing good resilience to the effects of COVID-19. Prices for emission allowances have declined, reflecting a lower expected demand, giving short term relief to impacted businesses. Market stabilisation measures that are built into most of the existing emissions trading systems ensure that the decline in carbon prices does not drop below a certain level and that it will not be prolonged in the medium- to long-term. It is important to ensure that these measures are adequate to withstand the impact of COVID-19. This is essential to ensure long-term certainty on carbon prices. Regulators have also been able to ensure flexibility with compliance and regulatory deadlines at a time of highly disruptive circumstances.

3.2 The adoption of common rules to unleash the potential of carbon markets (Article 6 of the Paris Agreement)

3.2.1 The Paris Agreement, adopted in December 2015, set the stage for action on climate change into the second half of the century, if not much longer. Under the Paris Agreement, participating countries are expected to put forward Nationally Determined Contributions (NDCs) outlining

8 Sia Partners: CO_2 emissions in the EU, 1 April 2020.

9 Carbon Brief: https://www.carbonbrief.org/analysis-what-impact-will-the-coronavirus-pandemic-have-on-atmospheric-CO_2, 7 May 2020.

their contribution to the overall goal of the Agreement. NDCs tend to be quite diverse, but usually include an emission reduction target for the following 10 years.

3.2.2 Article 6 of the Paris Agreement aims at establishing a framework for countries to cooperate on implementing NDCs, including through market-based approaches. It therefore has the potential to establish a framework for creating an international carbon market under the Paris Agreement. More importantly, it can be a key driver for the uptake and expansion of carbon pricing policies and emissions trading systems. Through Article 6, countries that operate an ETS will be able to link their system to another ETS and use the link as a way to achieve their NDC. Countries will also be able to procure international credits to be used for compliance with their domestic policies through an international market framework. UNFCCC negotiations failed to adopt guidance for the operationalisation of Article 6 at COP24 in 2018 and at COP25 in 2019, due to substantial diverging among some parties. The adoption of Article 6 guidance is now on the table at COP26, and it is crucial to conclude this process without further delays.

3.3 The negotiation of an ambitious and balanced bilateral agreement between the EU-27 and UK Carbon markets

3.3.1 There is a consensus in the European Commission that the UK would be a formidable partner on climate change issues but there is also a sense that, to stand the test of time, clear climate provisions need to be embedded in the agreement in order to frame the UK's manoeuvres in diverging from EU rules.

3.3.2 The EU approach is based on four elements:

- The Paris Agreement should be an essential element of the FTA. That means that one of the parties could suspend the provisions of the Treaty if the other party was in breach of such a provision.
- Both parties should reaffirm their commitments to climate neutrality by 2050: the UK has already legislated on it internally but we believe that a provision on the future Agreement between the EU and the UK would reinforce this commitment.
- Level playing field and non-regression clause: this is a critical element for the EU. If we want this Partnership to stand the test of time, we need to ensure that future administrations in the UK do not lower the current high standards we have in the fight against climate change.
- Creation of a UK system of carbon pricing: the UK decided to leave the EU ETS. In 2019 the UK represented 7% of total ETS allowances, and in certain sectors like aviation, their share reached 19%. It is thus crucial, that the UK build its own market taking into account compatibility with the EU system. The UK presented on June 1st a proposal to create a domestic ETS. The EU is open to the possibility of a linking agreement between the future UK ETS and the EU ETS, if such linking does not harm the integrity of the EU ETS.

3.4 **Lessons learnt from the Comprehensive Economic and Trade Agreement (CETA) and opportunities for bilateral climate cooperation**

3.4.1 A provision that links trade and environment is found in Article 24.4 of CETA, where Canada and the EU both reaffirm their commitments to the implementation of multilateral agreements to which they are party. This provision could be a bridge to discussions between Canada and the EU on the implementation of MEAs where common concerns are shared, including a basis for Canada and the EU to develop or lead new cooperative climate initiatives under the Paris Agreement.

3.4.2 Article 22.3 of CETA calls for cooperation on Canada-EU trade promoting sustainable development. The work plan under Article 24 includes cooperative work on the impact of trade and investment on environmental policy and consideration of trade-related aspects of the climate regime, such as carbon markets and clean technology transfer and development. Article 24.12 contains a list of 10 illustrative areas of potential cooperation on environmental matters between the parties, where some would see CETA serve as a platform to "multi-lateralise" national policy development.

3.4.3 Joint EU-Canada work on Border Carbon Adjustments (BCAs) is one area of potential cooperation on "trade-related aspects of the current and future international climate change regime." This cooperation could be in the area of information-sharing and agreeing on best practice, for example, in the areas of calculating the embodied carbon in traded goods or aligning methodologies to address competitiveness and leakage across Emissions-Intensive Trade-Exposed (EITE) sectors currently covered in national compliance emissions trading systems in both Canada and the EU.

3.4.4 With support from affected industries, such as cement or aluminium, there could also emerge viable opportunities for joint EU-Canada sectoral cooperative pilots on ETS design and approaches to preserving competitiveness and leakage avoidance (e.g. common benchmarks and methodologies to calculate free allocations, common BCA, etc.).

3.5 **Lessons learnt from the expansion of the sectoral scope: transport and fuels**

3.5.1 As the EU explores future modifications to its EU ETS, significant and close attention should be paid to market design and operationalisation experiences across North America's subnational emissions trading regimes. One particular area with valuable lessons for the EU relates to how California and Quebec have expanded ETS coverage to include transportation and fuel sectors. Since 2015, California and Quebec distributors of transportation fuels, natural gas, and other fuels have held compliance obligations under the joint Western Climate Initiative (WCI) cap-and-trade programme. Covered entities from this sector do not receive free allowance allocations, but are required to purchase through quarterly state-administered auctions or the private secondary market.

3.5.2 Another US development worth watching is the Transportation Climate Initiative[10] (TCI), a regional collaboration of 12 US North-east and Mid-Atlantic states and the District of Columbia that seeks to improve transportation, develop the clean energy economy and reduce carbon emissions from the transportation sector. The initiative builds on the region's leadership in reducing power sector GHG emissions through a regional compliance cap-and-trade programme, the Regional Greenhouse Gas Initiative (RGGI), introduced in 2009. With one third of all GHG emissions across TCI jurisdictions coming from the transportation sector, participating states are working through 2020 to develop a collaborative "model rule" approach with ETS programme design recommendations for addressing these currently uncovered – and increasing – sector emissions. The intention is for the new or expanded ETS programme(s) to launch initial compliance periods as early as 2022.

3.5.3 The climate and economic benefits of broader ETS sectoral expansion are clear: the bigger and broader the market, the wider the range of market participants, abatement opportunities, technological innovations and improved efficiencies, resulting in lower programme and per tonne abatement costs and an expanded portfolio of emission reductions, clean finance and investment.

4. Challenges for the EU climate and industrial policies

4.1 A successful overhaul of the ETS system

4.1.1 The EU's 2030 Climate and Energy Policy Framework, adopted in October 2014, set out the following goals:

- cut GHG emissions by at least 40% (compared to 1990 levels),
- achieve at least a 27% share for renewable energy,
- improve energy efficiency by at least 27%.

4.1.2 As part of the European Green Deal, presented in December 2019, the European Commission plans to increase the EU's 2030 target, including for the EU ETS. The goal is to increase the overall 40% reduction target to 50% or 55%, in order to put the EU's emissions on track to reach carbon neutrality by 2050. The comprehensive and detailed plan to raise the 2030 targets is expected to be presented in October 2020, and specific proposals for revisions of relevant legislative measures will be presented in June 2021. These proposals will include a review of the EU ETS Directive, possibly combined with the Market Stability Reserve (MSR) review.

4.1.3 This means that the EU ETS target for 2030 and the rules of the system will be subject to a thorough review in the coming years. As this review gets underway it will be crucial to dedicate detailed attention to the key features of the EU ETS and how they impact European industry.

10 https://www.transportationandclimate.org/content/about-us

4.2 **The design and the implementation of an EU Carbon Border Adjustment Mechanism**

4.2.1 The idea of a carbon tax at the borders of the EU was already present in the agenda of Ursula von der Leyen when she was a candidate. Since her appointment as President of the European Commission, this reflection on EU carbon adjustment mechanisms that could take several shapes – taxes, mirror-ETSs or standards – is a priority for the European Commission.

4.2.2 DG Taxud launched an on-line consultation in March 2020 in order to collect the views of all the stakeholders. The results of this consultation as well as debates with experts from the Member States will be useful for drafting a legal proposal in spring 2021. The future carbon measures should be compliant with WTO rules and other international obligations of the EU. This essentially means that they must be non-discriminatory and proportionate according to the case-law.

4.3 The EESC advises the Commission to deepen its reflection on the various policy options, such as a reformed ETS, Carbon Border Adjustment, a VAT rate adjusted to carbon intensity, and to compare them in terms of:

- impact on carbon and investment leakage, in a future situation of higher prices and lower availability of ETS allowances in the EU,
- legal certainty on compliance with WTO rules,
- acceptability by trading partners,
- technical feasibility, specifically regarding the existence of globally accepted accounting and measurement standards and of reliable and recognised databases[11].

4.4 **Advantages of an EU carbon adjustment mechanism**

4.4.1 Such a mechanism will shield EU energy-intensive companies (steel and cement, for example) from cheaper imports coming from third countries with no or weaker climate policy (no carbon market, no carbon pricing). This adjustment would re-establish a level playing field between EU companies and third country companies that could, for instance, take the form of a levy on imported goods, based on average prices in the EU ETS. Such mechanisms will help prevent carbon leakages and avoid the race to the bottom for energy-intensive industries while protecting the competitiveness of EU industries and reducing the competitiveness of cheap carbon-intensive imports.

4.4.2 Because the EU represents 10% of global GHGs, such a mechanism could also send a positive signal to like-minded countries trading with the EU (Canada, the UK, Switzerland) which will benefit from a kind of mutual recognition of their own ETS and exonerate their domestic companies from paying any levy on their exports to the EU-27.

11 OJ C353, 18.10.2019, p. 59.

4.4.3 In doing so, the EU will ensure coherence between its internal and external commitments and improve its climate policy with the revision of the Energy Directive in order to meet the challenges to reduce GHGs by 50-55% from 1990 levels by 2030 and achieve carbon neutrality by 2050.

4.4.4 These potential carbon border measures could be an alternative to the current measures that address the risk of carbon leakage in the EU's Emissions Trading System (free allowance of CO_2 quotas granted after an in-depth analysis of the emission profile, best available technologies, and so on). There is an ongoing debate on whether a carbon border measure would replace or work alongside existing competitiveness measures in different sectors and/or in the same sector. It is also important to understand what the implications could be for imports and exports of electricity in interconnected grids.

4.5 **Disadvantages of an EU carbon adjustment mechanism**

4.5.1 The use of carbon border measures could invite retaliation from third countries supplying raw material to the EU such as the USA, China or India which will create new trade barriers in a context in which the contraction of world trade due to COVID-19 will be huge – between 18% and 32% according to a recent WTO publication.

4.5.2 The use of a Carbon Border Adjustment could also undermine the UNFCCC's multilateral approach and could be seen as a repudiation of international cooperation in favour of more unilateral approaches.

4.5.3 The cost of some imported raw material from third countries which have poor climate policies will be more expensive for their EU buyers. That means that the price competitiveness of some large European manufacturing companies (in automotive and construction industries) that process these raw materials could be decreased, while EU exports of the finished goods could be altered.

4.5.4 The sectoral coverage of a border carbon adjustment might differ from the coverage of existing measures to protect competitiveness: the possible coverage of carbon border measures might be limited to sectors like cement and steel where the risk of carbon leakage is the highest while the sectoral coverage of the carbon leakage measures has a wider scope (chemicals, textile dyeing and finishing activities, for instance).

4.6 **The sectoral approach**

4.6.1 The steel sector in the EU is under pressure from fierce global competition with steel-makers from China, Turkey, Algeria or Iran which do not have ETSs covering this sector and already export 30 million tonnes of steel to the EU. The European Steel Association (Eurofer) supports the introduction of a Carbon Border Adjustment Mechanism for environmental, economic and legal reasons and considers it a precondition to avoid the risk of carbon leakage. This mechanism should cover steel finished and semi-finished products and be based on a proper accounting system to measure the CO_2 footprint of the products through some "Equivalence

Agreements" with third countries and coexist during a transitional period with the EU ETS free allocation of quotas.

4.6.2 The European cement sector (CEMbureau) welcomes the idea of a CBA Mechanism given the strong risk of carbon leakage in an EU industry with low margins. This sector, which is engaged in a long-run investment cycle in order to meet the goal of climate neutrality by 2050, sets out several conditions such as transparent methodology, WTO compliance, broad sectoral coverage with all the sectors covered by the ETS and coexistence with the free allocation of quotas until 2030.

4.7 Dialogue with third countries

4.7.1 The EESC supports opening up dialogue with third countries in order to discuss the content and the impact of carbon border measures on their exports to the EU. This dialogue should take a different form with countries that have ambitious climate policies (like Canada) than with others without such ambitious climate policies (the United States, China, Russia).

4.7.2 We know for instance that the US administration is following the evolution of reflections on EU Carbon Border Adjustment measures very closely. In the WTO, during the process of assessment of the EU Trade Policy, some US officials already showed their concern about any EU carbon border measures.

4.8 The ultimate goal of global carbon pricing

4.8.1 The EESC insists on the need to combine and harmonise the various available tools in order to combat the climate crisis. As relevant international organisations and businesses consider that the carbon pricing signal is key to obtaining effective progress in combating climate change and in creating an attractive environment for investments in the long-run in order to accelerate ecological transition for public and private actors (industry, transport, housing, agriculture, etc.), the EESC pleads in favour of a harmonisation of approaches across different jurisdictions, ultimately leading to the emergence of a comparable price signal across different jurisdictions.

4.8.2 In the transition period before the adoption of a comparable price signal, as well as a common agreed methodology to measure carbon footprints, regional carbon pricing between like-minded countries (the EU-27, the UK, Switzerland, Latin America, the US Mid-West, South-East Asia and others) should be gradually harmonised. The creation of such regional carbon markets will imply common carbon market infrastructures (a kind of Carbon Single Market) while some carbon-specific mechanisms could be put in place vis-à-vis third countries.

4.8.3 However, in order to avoid the emergence of a carbon trade war between countries and regional customs unions, a WTO waiver that will establish the rules according to which these Carbon Border Adjustment Mechanisms (carbon tax, mirror-ETS, standards) must be set up and function in compliance with two WTO key principles: proportionality and non-discrimination.

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