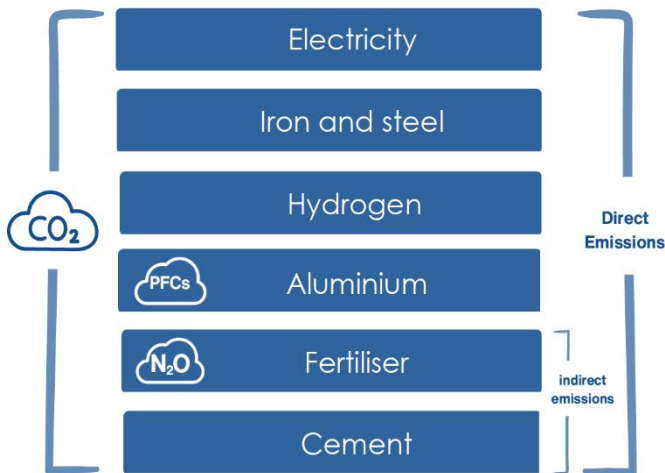


The European Union's Carbon Border Adjustment Mechanism

The European Union is pursuing ambitious environmental objectives through **the European Green Deal**, a comprehensive set of policy initiatives and measures introduced by the European Commission in December 2019. One of the key aims of the EU green deal is to make Europe climate neutral by 2050 and decouple the bloc's economic growth from resource use and environmental degradation. The plan covers a wide range of sectors including energy, transport, industry, and agriculture. While the European Green Deal is a regional undertaking, it requires all exporters of products sold on the European market to comply with the environmental standards and regulations set. This has significant implications for the continent as the EU is the largest trading partner of many African states. In 2021, 28% of Africa's total exports were destined for European markets.

One of the most important and contentious regulations under the EU Green Deal is **the Carbon Border Adjustment Mechanism (CBAM)** which was first proposed in 2021 and garnered political agreement from the Council of the European Union and the European Parliament in December 2022. The CBAM regulation provides for a mechanism to address the contested issue of carbon leakage, the process whereby ambitious environmental policies in one region influence investment and trade flows, leading to the relocation of emissions-intensive activities to lower regulatory-cost regions. By requiring importers to pay a carbon price equivalent to that paid by EU producers under the EU Emissions Trading System (ETS), the CBAM aims to level the playing field for businesses operating in the EU and those operating in regions with less stringent carbon regulations. The tax will initially apply to goods in sectors most at risk of carbon leakage: **cement, iron and steel, aluminium, fertilisers, electricity and hydrogen** as well as some precursors and downstream products. In 2026 there will be a new proposal on how to expand the scope of the CBAM to cover all ETS sectors by 2030 as appropriate.

SECTORS & EMISSIONS COVERED



The actual embedded emissions of goods that will be covered by the CBAM comprise

Direct emissions: emissions resulting from the production processes of goods and for some sectors, where applicable, **Indirect emissions:** emissions resulting from the production of electricity consumed in the production processes of goods.

Greenhouse gases covered include CO₂ for all sectors, Perfluorochemicals (PFCs) for certain aluminium imports, and Nitrous Oxide (N₂O) for certain fertiliser imports.

Unit: tonne of CO₂ equivalent

The transitional phase of the CBAM will commence on the 1st of October 2023. During this time only reporting obligations will apply. The requirement to purchase CBAM certificates will be effective from 2026; from 2026-2034, free allowances under the EU ETS will be phased out while the CBAM is phased in. From 2026, EU importers of goods into the customs territory of the European Union will need to obtain CBAM certificates to cover the embedded emissions in those goods imported into the EU. The price of these certificates will be linked to the price of EU ETS allowances to ensure that importers pay the same carbon price as domestic producers. If a non-EU producer can show that a carbon price has already been paid for the production of imported goods in a third country, this cost can be deducted. By 2034, 100% of the CBAM liability will have to be paid.

No countries, other than those linked to the EU ETS, will be exempt from the regulations, despite numerous proposals for concessions to be made for LDCs or countries highly dependent on exports in emission-intensive, trade-exposed sectors. This [tralac infographic](#) shows which African states are the largest exporters of CBAM goods to the EU. Special and differential treatment is limited to a provision stating that the EU should provide technical assistance for developing and least-developed countries (Article 54).

What does this mean for African exporters in the coming years? While reporting obligations officially start in October 2022, the data for the 4th quarter of 2022 will be due in January 2023. African exporters should prepare to collect data from the start of October to report to their EU importers by January 2023. The exact methodologies for determining embedded emissions will be elaborated in Implementing Acts that are

expected to be released by mid-2023. The details of how monitoring, reporting and verification will work under the regulations also need to be substantiated.

The release of implementing Acts should be watched closely by producers in CBAM sectors to ensure that a compliant system for monitoring, measuring, and reporting the actual emissions embedded in their exports is established. Where EU importers cannot access such data from producers, the emissions value of their imports will be set at the average emission intensity of the country of origin, increased by a markup (the size of the mark up is yet to be specified). If neither accurate data on actual emissions or national averages are available for a specific good, the emissions values shall be based on the average emission intensity of the X per cent worst-performing EU ETS installations for that type of good. The value of X is yet to be determined. This means is that the failure to provide accurate emissions data (at the firm or country level) results in a penal default tax that will undermine the competitiveness of the relevant export.

An outreach strategy is reportedly under development to help EU industries and industries in third countries understand the methodology and reporting obligations in the transitional period. African stakeholders in CBAM industries should follow these developments closely.

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