

EU climate action: provisional agreement reached on Carbon Border Adjustment Mechanism (CBAM)

Negotiators of the Council and the European Parliament reached an agreement of a **provisional and conditional** nature on the **Carbon Border Adjustment Mechanism (CBAM)**. The agreement needs to be confirmed by ambassadors of the EU member states, and by the European Parliament, and adopted by both institutions before it is final.

I am very pleased that we reached this agreement today. The Carbon Border Adjustment Mechanism is a key part of our climate action. This mechanism promotes the import of goods by non-EU businesses into the EU which fulfil the high climate standards applicable in the 27 EU member states. This will ensure a balanced treatment of such imports and is designed to encourage our partners in the world to join the EU's climate efforts.

Jozef Síkela, Minister of Industry and Trade of Czechia

This provisional agreement is dependent on some aspects which are relevant for CBAM but need to be spelled out in other pieces of legislation on which negotiations are still ongoing. The Council presidency considers that the CBAM regulation can be **formally adopted only once the elements relevant for CBAM are resolved in other related dossiers**.

Concerning the products and sectors which fall within the scope of the new rules, CBAM will initially cover a number of specific products in some of the most carbon-intensive sectors: **iron and steel, cement, fertilisers, aluminium, electricity and hydrogen, as well as some precursors and a limited number of downstream products**. **Indirect emissions** would also be included in the regulation in a well-circumscribed manner.

Under the provisional agreement, CBAM will begin to **operate from October 2023 onwards**. Initially, a simplified CBAM would apply essentially with **reporting obligations only**. The aim is to collect data. **From then onwards, the full CBAM will kick in**. It would be phased in gradually, in parallel to a phasing out of the free allowances, once it begins under the revised EU emissions trading system (ETS) for the sectors concerned. This will ensure compatibility of CBAM with international rules on trade.

The phasing out of free allowances for CBAM sectors still needs to be agreed in the context of the ongoing **EU ETS negotiations**. Further work is also required on measures to prevent carbon leakage on exports.

Ensuring full compatibility of CBAM with international obligations of the EU, including in the area of international trade, remains of fundamental importance.

The financing of administrative expenses of the European Commission, which will take on many centralised CBAM-related administrative tasks, will need to be decided in accordance with the annual **EU budget procedure**.

Background

The Commission presented its proposal for a regulation establishing a carbon border adjustment mechanism on 14 July 2021. It addresses greenhouse gas emissions embedded in certain goods listed in Annex I of the proposal, upon their importation into the customs territory of the Union, in order to prevent the risk of carbon leakage.

CBAM targets **imports of products in carbon-intensive industries**. The objective of CBAM is to prevent - in full compliance with international trade rules - that the greenhouse gas emissions reduction efforts of the EU are offset by increasing emissions outside its borders through relocation of production to non-EU countries (where policies applied to fight climate change are less ambitious than those of the EU) or increased imports of carbon-intensive products.

CBAM is designed to function in parallel with the EU's Emissions Trading System (EU ETS), to mirror and complement its functioning on imported goods. It will gradually replace the existing EU mechanisms to address the risk of **carbon leakage**, in particular the free allocation of EU ETS allowances.

Technical work on the proposal took place in an Ad Hoc Working Party on CBAM, which the Council specifically established for negotiations on this proposal. The Council reached its position (general approach) on the proposed regulation on 15 March 2022. The European Parliament voted its position on 22 June 2022. Trilogue negotiations between the co-legislators started on 11 July and ended in the provisional agreement reached today.

Press office - General Secretariat of the Council

Rue de la Loi 175 - B-1048 BRUSSELS - Tel.: +32 (0)2 281 6319

press@consilium.europa.eu - www.consilium.europa.eu/press