

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.

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Deal reached on new carbon leakage instrument to raise global climate ambition

- Scope extended to hydrogen, certain precursors and indirect emissions and some downstream products
- CBAM rules to apply from 1 October 2023 with a transition period
- New rules in full compliance with World Trade Organisation rules

On Tuesday morning, MEPs reached a provisional agreement with Council to set up an EU Carbon Border Adjustment Mechanism to combat climate change and prevent carbon leakage.

According to the deal reached, an EU Carbon Border Adjustment Mechanism (CBAM) will be set up to equalise the price of carbon paid for EU products operating under the [EU Emissions Trading System](#) (ETS) and the one for imported goods. This will be achieved by obliging companies that import into the EU to purchase so-called CBAM certificates to pay the difference between the carbon price paid in the country of production and the price of carbon allowances in the EU ETS.

The law will incentivise non-EU countries to increase their climate ambition. Only countries with the same climate ambition as the EU will be able to export to the EU without buying CBAM certificates. The new rules will therefore ensure that EU and global climate efforts are not undermined by production being relocated from the EU to countries with less ambitious policies.

The new bill will be the first of its kind. It is designed to be in full compliance with World Trade Organisation (WTO) rules. It will apply from 1 October 2023 but with a transition period where the obligations of the importer shall be limited to reporting. To avoid double protection of EU industries, the length of the transition period and the full phase in of the CBAM will be linked to the phasing out of the free allowances under the ETS. This will be negotiated later this week in connection with the revision of the ETS and the results integrated into the CBAM regulation.

The scope of CBAM

CBAM will cover iron and steel, cement, aluminium, fertilisers and electricity, as proposed by the Commission, and extended to hydrogen, indirect emissions under certain conditions, certain

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precursors as well as to some downstream products such as screws and bolts and similar articles of iron or steel.

Before the end of the transition period the Commission shall assess whether to extend the scope to other goods at risk of carbon leakage, including organic chemicals and polymers, with the goal to include all goods covered by the ETS by 2030. They shall also assess the methodology for indirect emissions and the possibility to include more downstream products.

The governance of CBAM will be now more centralised, with the Commission in charge of most of the tasks. By the end of 2027, the Commission will do a complete review of CBAM including an assessment of progress made in international negotiations on climate change, as well as the impact on imports from developing countries, in particular the least developed countries (LDCs).

Quote

After the deal, rapporteur [Mohammed Chahim \(S&D, NL\)](#), said: "CBAM will be a crucial pillar of European climate policies. It is one of the only mechanisms we have to incentivise our trading partners to decarbonise their manufacturing industry. On top of this, it is an alternative to our current carbon leakage measures, which will allow us to apply the polluter pays principle to our own industry. A win-win situation."

A press conference with the rapporteur and Pascal Canfin (Renew, FR), the Chair of the Committee on Environment and Public Health is scheduled for Tuesday morning at 09.30 CEST in Strasbourg. [More information on how to follow here.](#)

Next steps

This partial deal is dependent on an agreement on the reform of the EU Emissions Trading System. Parliament and Council will have to formally approve the agreement before the new law can come into force. The new law will come into force 20 days after its publication in the EU Official Journal.

Background

CBAM is part of the "[Fit for 55 in 2030 package](#)", which is the EU's plan to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels in line with [the European Climate Law](#).

Further information

[Steps of the procedure](#)

[Press conference with the rapporteur and ENVI Chair \(13.12.2022 at 09.30 CEST\)](#)

[EP Think Tank: EU carbon border adjustment mechanism \(20.06.2022\)](#)

[EP Think Tank: Infographic on Fit for 55 in 2030](#)

[Free photos, video and audio material: Fit for 55 in 2030](#)

[Committee on the Environment, Public Health and Food Safety](#)

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