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# Reporting obligations during the transitional period of the Carbon Border Adjustment Mechanism

## Carbon Market Watch's Feedback

Carbon Market Watch (CMW) has reviewed the draft Commission implementing regulation on the reporting obligations during the transitional period of the newly introduced Carbon Border Adjustment Mechanism (CBAM). We appreciate the rigour of the proposed methodology to determine the embedded carbon of goods that are within the scope of the CBAM. Yet, a few shortcomings need to be urgently addressed:

- Indirect emissions of steel and aluminium are not included in the scope of the CBAM (Annex II, 2.15 Crude steel; 2.16 Iron and steel products; 2.17 Unwrought aluminium; and 2.18 Aluminium products), in contrast to the other product categories, where they are included. Not including indirect emissions for key sectors such as steel and aluminium would be a crucial oversight as it will not incentivise the production of these materials with renewable energy. It also fails to properly mirror the EU ETS legislation where emissions from energy production are covered and fully exposed to the carbon price through the auctioning of emission allowances. Furthermore, it risks creating further distortion to the level playing field, especially for companies that have invested or are considering investing in clean production processes and/or renewable energy generation capacity. We recall that 14 EU member states already issue State aid for indirect cost compensation to energy-intensive industries, and the CBAM should be implemented as an alternative to the current measures against alleged carbon leakage.
- The CBAM should support circularity and stimulate secondary production of steel and aluminium. However, a definition for 'scrap' is missing in Annex III A.1. (Definitions). 'Scrap' should only refer to post-consumer scrap and should exclude scrap resulting from the steel or aluminium production processes themselves (home scrap, internal scrap), as these kinds of scrap are the result of process inefficiencies.

- Concerning the aggregated goods categories for cement (Annex II, 1), we suggest including non-hydraulic cements. Although their market share is very limited (~3%), it is larger than the market share of aluminous cements (~1%) that are included.
- As the ultimate goal of carbon pricing systems and border adjustments such as the CBAM is to reduce global carbon emissions in a sustainable way, we advise against too much simplification for administrative purposes.
  - Oversimplification of the methodology used to calculate embedded emissions could lead to shortcuts and approximations that in turn could result in disclosing wrong or lower emissions. This would render the CBAM a futile exercise and potentially allow loopholes that could be exploited by importers.
  - In particular, if emissions from biomass are not considered for compliance, then they should adhere to minimum sustainability requirements also outside of the EU. It is crucial that the CBAM does not end up incentivising exporters to use significant amounts of unsustainably sourced biomass in an attempt to reduce direct or indirect emissions of the goods they export to the EU.

The reduction of the allocation of free allowances needs to happen in line with rapid application of the 'polluters pay' principle for it to become effective. Making industry accountable for the climate impact they cause can stimulate and raise revenues for the transformation of business models and direct investments into cleaner production processes.

Getting the CBAM methodology right is key not only to successfully set the framework for an innovative emission reduction policy, but also because its implementation in Europe is already inspiring other jurisdictions to consider implementing similar carbon pricing mechanisms for goods produced within and entering their territory.

## Contact

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