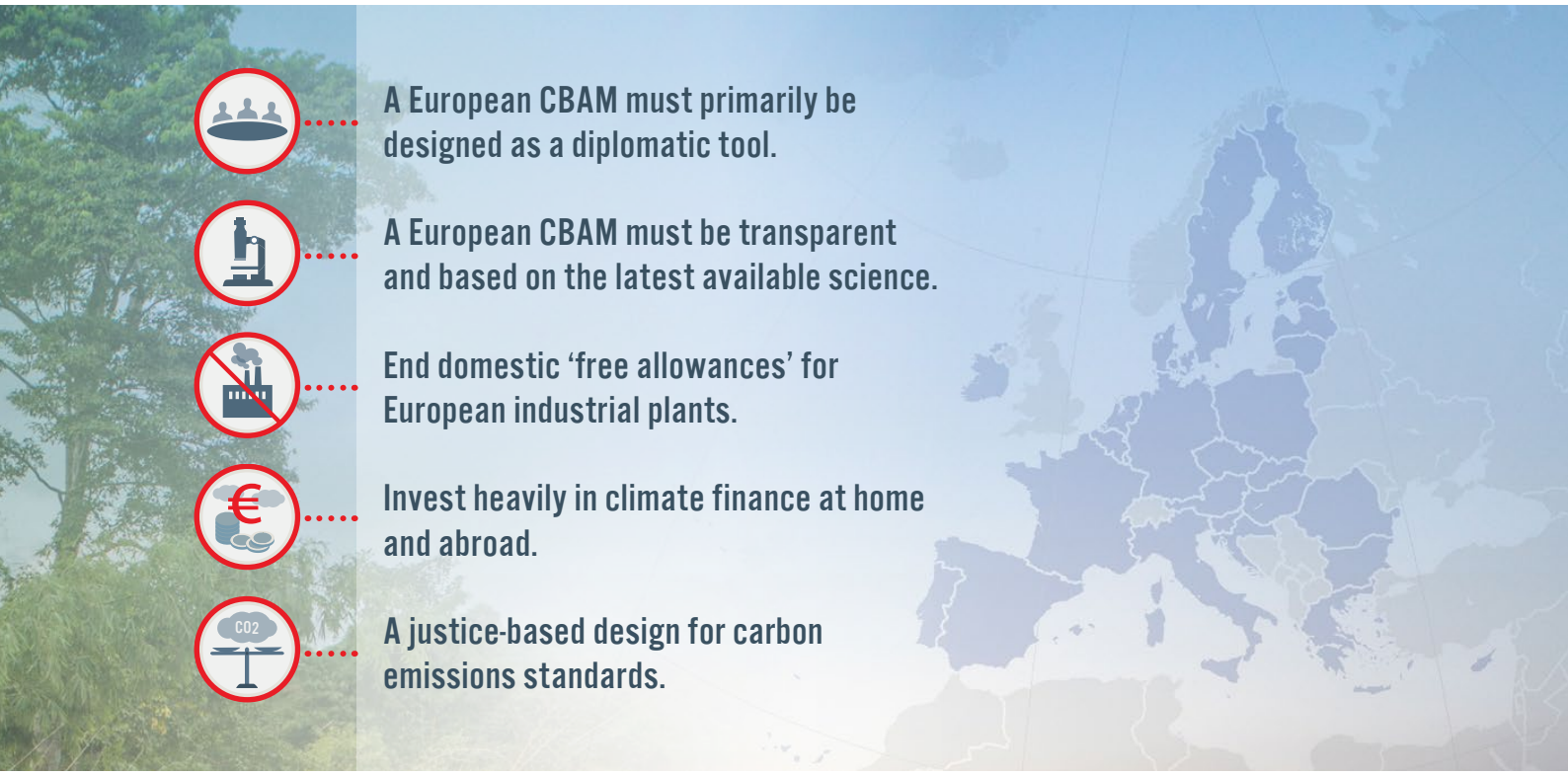
EJF RECOMMENDATIONS

for a just European Union carbon border adjustment mechanism

ENVIRONMENTAL JUSTICE FOUNDATION
Protecting People and Planet



We face a clear and present danger

Climate breakdown is the issue of our time. It presents an existential threat that jeopardises the well-being and basic human rights of hundreds of millions of people in the near-term while destroying our planet's natural environments and eliminating species. Already at 1°C increase, global heating is a threat multiplier, compounding existing economic, political, social and ecological stresses and inflicting harsh penalties in the poorest communities on our planet. All of these changes are interconnected and will amplify each other, devastating global biodiversity and making vast areas of our planet uninhabitable.

We already live in climate apartheid, one of astonishing injustice where those who contributed the least to our heating planet, its poorest and most vulnerable inhabitants, are being affected first and worst. In an unjust world, 99% of all deaths from weather-related disasters occur in developing countries[1] – even though the world's poorest 50% of the population was responsible for just 7% of cumulative emissions from 1990 to 2015.[2]

The EU's moral duty to fight climate change

The European Union has a historical and moral responsibility to be a leader in the fight to halt global climate breakdown. The EU was responsible for 40% of global CO2 emissions from 1850 to 2011 (excluding land use change and forestry),[3] and Europeans per capita consume 1.5 to 2.5 times more land, carbon, and water than the global average.[4] Although the EU has taken steps to begin addressing its historical responsibility for climate change, we urgently need more ambitious, faster and far-reaching decarbonisation across all sectors of the economy.

Evaluating the EU's existing emissions reductions policies

The creation of the EU's Emissions Trading System (ETS) in 2005, the first in the world, was an important step in the EU's decarbonisation journey. The ETS' cap-and-trade model covers around 40% of the EU's carbon emissions and helps to manage emissions from more than 11,000 heavy energy-using power stations and industrial plants like oil refineries, steel and iron works, and factories making construction materials and chemicals, as well as commercial airlines.[5] However, it is limited by its low carbon price and 'free allowances' practice. Different analyses of the ETS have indicated that it has had an impact on lowering emissions in some of the sectors it covers, with one study estimating that the ETS reduced CO2 emissions by over 1 billion tonnes between 2008 and 2016, or a reduction of roughly 3.8% of total EU emissions compared to a world without the ETS.[6] This demonstrates that although existing policy tools for emissions reductions are a good start, they need to be strengthened and complemented with further mechanisms to encourage the wholesale decarbonisation of the European and global economies.

In 2021, the ETS is being revised to better align with the Paris Agreement target to limit global heating to well below 2C. Under this revision, all sectors covered under the ETS must reduce their emissions by 43% from 2005 levels by 2030.[7] Furthermore, the ETS is being strengthened as an investment driver, with the creation of low-carbon funding mechanisms for businesses to accelerate their transition. The pace of annual reductions in allowances is being increased, but the ETS will keep on allocating 'free allowances' to industrial plants.

The continuation of 'free allowances' under phase 4 of the ETS represents a failure to fully leverage the potential of the ETS as a tool for rapid decarbonisation in Europe. The logic behind these permits to pollute is that European industry should not be disadvantaged against non-European companies not bound by emissions reductions targets. However, these fears of 'carbon leakage' - where European industries will relocate production to avoid high carbon prices - have not been borne out by the evidence under the ETS, and predictive models have found very limited risk of future leakage.[8] In practice, the free allowances have acted as a barrier to real emissions reductions: where the power sector - which must purchase allowances - has steadily decarbonised over time, industrial plant emissions reductions have stagnated since 2012.[9] Furthermore, the free allowances result in missed income opportunities, essentially using taxpayer money to subsidize pollution permits: non-profit Carbon Market Watch calculated that from 2008-2015, Member State governments lost out on at least €143 billion in revenue from the distribution of free allowances.[10]

It is clear that the ETS is not as strong a decarbonisation tool as it could be. If the EU is going to be a true world leader in the fight against climate change, it needs to step up its ambition on decarbonisation policy at home and complement domestic decarbonisation mechanisms with policy tools to promote rapid, wholescale emissions reductions in the products it imports onto its single market.

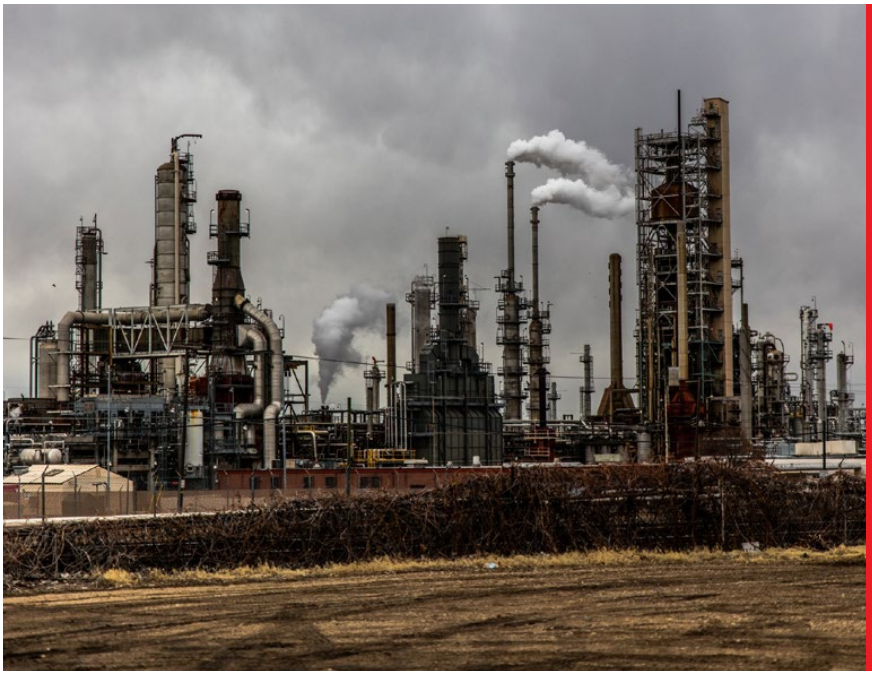


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Photo by Patrick Hendry on Unsplash

Closing the gap: how a carbon border adjustment mechanism can promote global decarbonisation

The EU Green Deal lays out a powerful vision for a more just and sustainable future. But if the EU is to truly be the first carbon neutral continent, it will need to look to its supply chains in addition to domestic production.

A carbon border adjustment mechanism (CBAM), if implemented correctly, could be a major positive force for decarbonising European consumption and helping drive accelerated emissions reductions worldwide. In its simplest form, CBAM could impose a levy on the carbon emissions associated with the production and distribution of goods imported into the European single market - the lower an item's carbon footprint, the lower the levy. Proponents of CBAM say that it will level the playing field between European companies and those in countries with less stringent emissions standards, and will encourage European manufacturers to choose more sustainable products in their value chains.[11] However, critics of a CBAM point to concerns that it could be construed as protectionism, and be challenged under World Trade Organisation rules of non-discrimination. Even more concerningly, commentators have raised concerns that a poorly designed CBAM could be co-opted to further slow European industrial emissions reductions, and when combined with free allowances under ETS provide 'double protection' from decarbonisation pressures. This protection of domestic European industry could further unfairly burden industries in developing countries.

In order to be effective, a European CBAM must help to fill the gaps of the ETS at home and be a positive force for decarbonisation abroad: targeting uncooperative high emitters with levies and supporting emissions reductions in developing countries. A fit-for-purpose CBAM would serve as an additional global climate diplomacy tool, focussed on real decarbonisation everywhere and advancing the creation of a global carbon pricing system.

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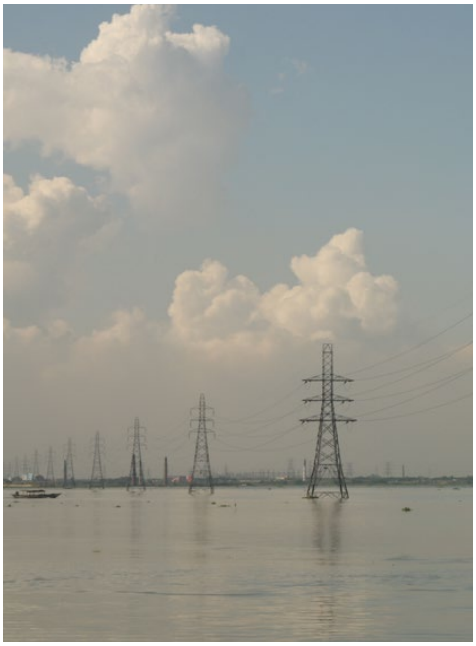

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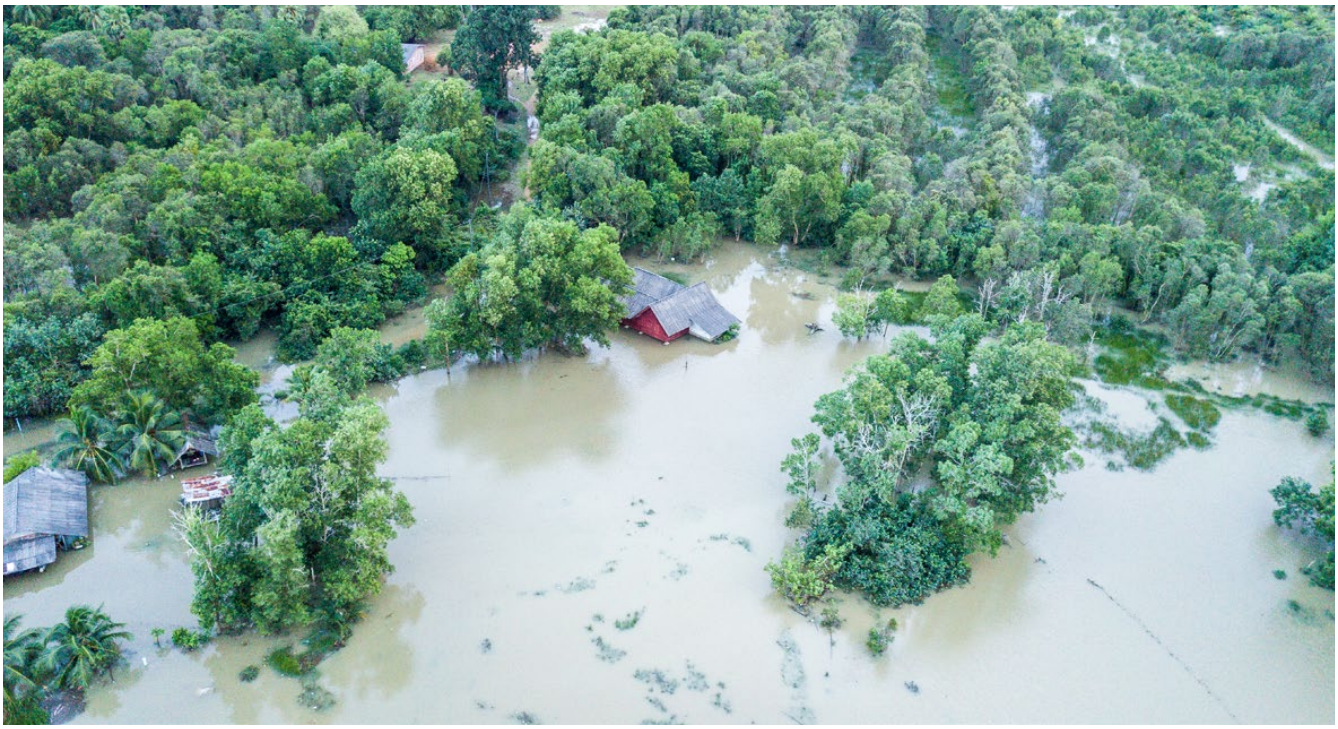
Effects of coal mining in Estercuel, Spain. Credit: Jennifer Woodard Maderazo.



99% of deaths from extreme weather events occur in developing countries. © EJF

EJF recommendations for a just and effective EU CBAM

EJF cautiously supports the EU's interest in designing a carbon border adjustment mechanism within a portfolio of European climate policies. However, the question of justice and the Fair Share model must be at the heart of an EU CBAM. The climate crisis is already profoundly unjust: a European climate mitigation tool must not exacerbate the unfairness of the impacts of global heating. In order to prevent new global divisions between countries with high and low-carbon export structures, the EU must carefully assess risks and involve stakeholders across foreign government, international organisations, industry, and civil society in the design of a European CBAM.[12] In order to be just, effective and truly advance meaningful global decarbonisation in line with the Paris Agreement, EJF has five key recommendations for a European CBAM.

1. A European CBAM must primarily be designed as a diplomatic tool.

A CBAM could help to strengthen the EU's work to encourage and pressure third countries – in particular large emitters – into adopting and implementing more stringent climate targets, including up-to-date, ambitious, 1.5°C-aligned NDCs, carbon pricing systems that are similar in stringency to the EU ETS; and other policies which lead to real emission reductions in line with the country's Fair Share and historical responsibility to limit global warming below 1.5°C.

2. A European CBAM must be transparent and based on the latest available science.

CBAM levees must be calculated according to a transparent, science-based benchmark system of greenhouse gas emissions incurred in the production and distribution of the good and cover both direct and indirect emissions. Therefore, if a foreign producer can prove that their goods have a lower carbon footprint than the benchmark, they can avoid all or part of the levee. If an exporter country has similarly rigorous greenhouse gas emissions reductions policies in place as the EU, complying producers can also avoid all or part of the border tax. In this way, the CBAM can truly target emissions reductions, rather than serving as part of the border levee.

3. End domestic 'free allowances' for European industrial plants.

EJF rejects unfounded fears of "carbon leakage" which have led to the policies of free allowances to pollute for EU industry under the existing ETS system. Investment in emissions reductions is an economic benefit, not a cost, and policy must reflect this. A new CBAM system must ensure that free allocations for industrial sectors are rapidly phased out in order to further accelerate the decarbonisation of EU industry and close the existing loopholes which hamstring the green transition. Without further bolstering its credibility on decarbonisation at home, the EU will not succeed in leading global efforts to reduce emissions and meet the Paris targets.

4. Invest heavily in climate finance at home and abroad.

The revenue from an EU CBAM should be designated as an EU own resource and must be allocated to climate action, including decarbonisation, mitigation and adaptation initiatives in the EU and abroad. At least 50% of CBAM income should be invested in international climate finance in favor of developing countries and Small Island Developing States, including support for:

- Green technology transfer and knowledge sharing for industrial greenhouse gas emissions reductions in developing countries to ensure CBAM is aligned with the Sustainable Development Goals and equitable economic development;
- Financing for adaptation measures and Loss & Damage; and
- Support for nature-based solutions, biodiversity conservation & restoration in partnership with local communities.

CBAM income could be a major contribution towards the increased commitments needed in international climate finance in order to achieve a just transition and protect vulnerable communities from the worst impacts of climate breakdown. The income derived from a CBAM and allocated to developing countries should be counted as part of augmented EU international climate finance commitments to significantly increase on the $100 billion floor agreed to under the Paris Agreement.

5. A justice-based design for carbon emissions standards.

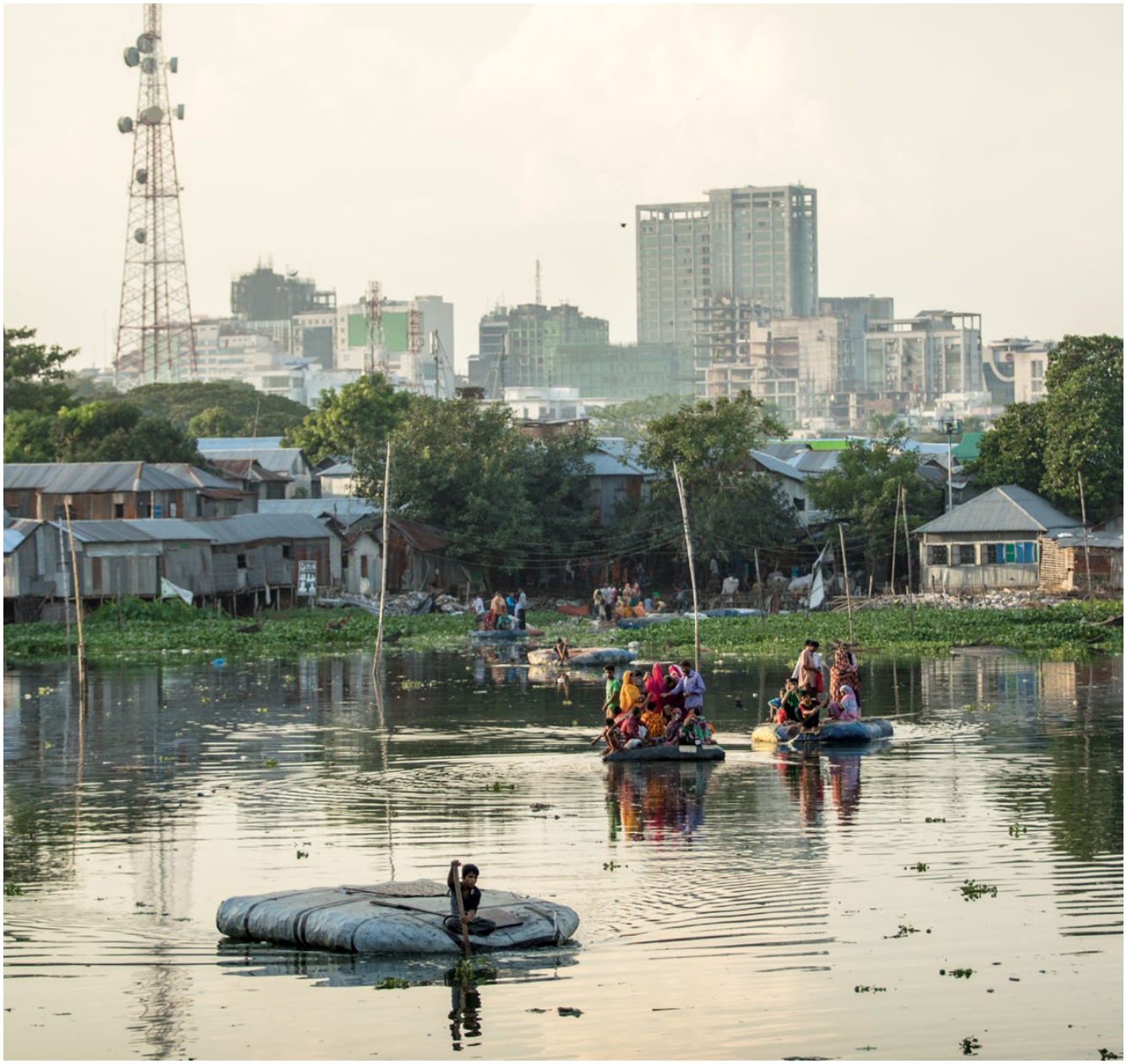
In order to respect the justice dimension of the climate crisis and ensure that developing countries are not disproportionately harmed by an EU CBAM, the EU must support and consult with third countries who bear less responsibility for historical greenhouse gas emissions. Any European mechanism must be designed to include different carbon standards for different countries with reference to the UNFCCC's principle of "common but differentiated responsibilities", in line with Fair Share thinking and adjusted to technological capacity. This could for example mean excluding LDCs and SIDS from CBAM requirements, or providing them with a realistic "free allowance"; however, any exceptions need to be stringently enforced to ensure allowances are not captured by Global North-owned companies with operations in developing countries, but actually support the sustainable development of locally-owned and operated industries. The EU CBAM should also set clear and transparent rules for working with foreign governments to improve domestic climate policy and industry adherence with Fair Share emissions reductions targets, as well as providing for technology transfer and support to reduce industrial emissions in developing countries and to strengthen institutional capacity for the reporting and verification of carbon emissions.

There will be no silver bullets

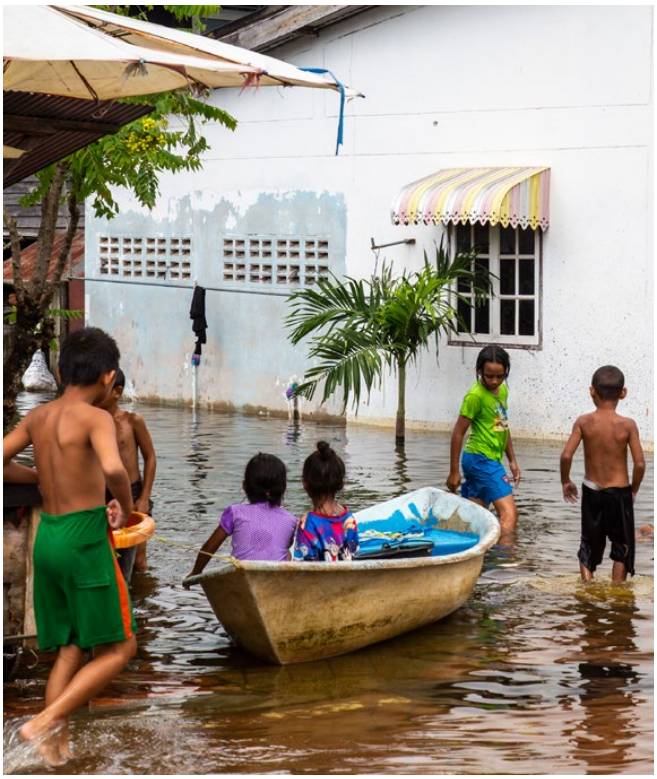
A justice-based design for a CBAM that is effective, collaborative and encourages real emissions reductions worldwide is possible. With it, the EU can bolster its credibility as a global climate leader and take on its fair share of the decarbonisation we need to avoid the most catastrophic impacts of climate change.

However, a CBAM alone is not enough and cannot be an excuse for inaction on domestic emissions reductions: rather, it must form part of a holistic and ambitious whole of the economy approach to the green transition. The Green Deal lays out this kind of far-reaching vision, and EJF urges the Commission and the Parliament to quickly enact all of its provisions, including expanding EU international climate finance for adaptation and Loss & Damage, and development aid for low and zero carbon technologies.

The climate crisis and the human rights abuses it is already causing are the biggest challenges of our era. The time to act is now: the EU must take decisive, urgent action to protect people and the planet by rapidly developing and enacting a just and effective CBAM which will help push rapid decarbonisation worldwide to meet the Paris targets.



Global heating is already destroying livelihoods and forcing communities to leave their homes, as can be seen in the overcrowded urban slums of Dhaka, Bangladesh. © EJF



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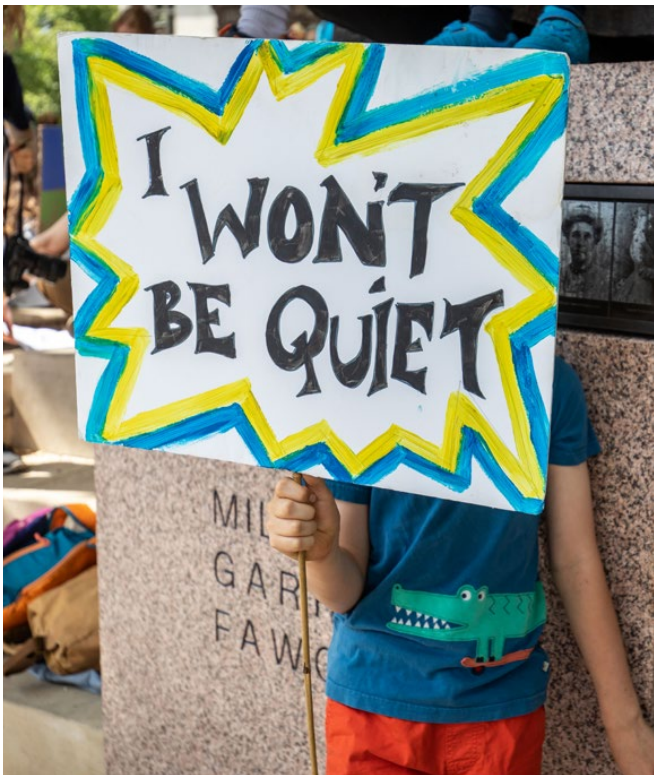

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