

# **INDUSTRIAL DECARBONIZATION, THE EU CBAM AND COMPETITIVENESS**

## **Policy Roundtable**

Carbon leakage: (how) can we effectively prevent that risk?

# EU CBAM AND COMPETITIVENESS

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## EU CBAM basics

- CBAM goods will pay a carbon price on embedded emissions from 2027.
- Pilot sectors: Iron & steel, aluminum, cement, electricity, hydrogen, ammonia & fertilizers.
- Regulated entities are importers and not producers.
- Carbon prices paid in third countries are recognized and reduced from the CBAM payment.

## Does it create a level playing field between EU and other firms?

- Partly yes: Basic products with the same embedded emissions pay the same carbon costs.
  - Free allowances are phased out as the EU CBAM is phased in.
  - But: Only on EU markets, no level playing field on export markets.
  - But: Regulatory burden is higher for third-country products than for domestic products because CBAM regulates products, and the EU ETS regulates installations.
  - But: Indirect emissions from electricity are only partially covered under CBAM (for fertilizers and cement); some EU members use electricity price compensation.
  - But: Large-scale support programs for industry, like CCfDs.
- What is the level playing field anyway?

# ENABLING VISION FOR COMPETITIVENESS

## Level playing field: a misleading concept

- Competitiveness is a complex concept: Carbon costs are only one small component.
- The fear of losing shares on international markets drives the idea of creating 100% equal conditions.
- This is an illusion and potentially not even wanted.
- EU firms have many advantages over other firms.

→ Focusing on the level playing field may be misleading.

## Competitiveness is NOT preserving the status quo

- Policy focusses on preserving the status quo, i.e., maintaining current production level and market shares.
- Change has always been present in industrialization (e.g., textile sector).
- Moving towards a low-carbon economy might mean that e.g.
  - electricity-intensive industries shift to countries abundant in RES, or
  - emission-intensive materials are replaced by alternatives.

→ Preserving the status quo means blocking industrial transformation.

## Industrial policy should enable transformation

- Focus on real competitive advantages. Support should focus on:
  - Setting up low-carbon infrastructure
  - Developing new technologies
  - Providing regulatory certainty
- Push for a wider coverage of carbon pricing, through CBAM or initiatives like the Canadian Global Carbon Pricing Challenge
- Less rigorous approach to CBAM, enabling third countries to introduce carbon pricing themselves.

# ROLE OF RESEARCH

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## How can research support industrial transformation?

### DO

- Go on assessing carbon leakage to gain a realistic picture.
- Start thinking backwards from a future scenario (all-electric world, hydrogen economy, etc.).
- Work with other social scientists to develop visionary scenarios.
- Develop new design elements of ETSs and other instruments needed in this scenario.
- Propose mechanisms for ETSs to ensure net-zero emissions.

### DON'T

- Don't confuse carbon leakage and industrial transformation.
- Don't base ex-ante models on the status quo, e.g., regarding current production levels.
- Don't propose improvements to little details of existing design elements.