



CBAM EC proposal: EU industries oppose the automatic phase-out of free allowances, and call for export adjustments and better enforcement provisions

Brussels, 16 July 2021 – **AEGIS Europe** believes that as long as other regions do not show the same climate ambition as Europe and comparable industries do not pay the same climate costs, EU policymakers need to ensure that high climate ambition is met with improved, reciprocal measures to protect the most exposed against carbon leakage. Thus, the package should include measures to avoid all forms of carbon leakage¹ through the loss of export competitiveness, source shifting and circumvention. This would strengthen the effectiveness of the measure, thus helping EU industries to better contribute to the overarching climate goals.

"AEGIS Europe considers that free allowances and indirect cost compensation should be maintained in full well beyond 2026 to allow sufficient time for the deployment of low carbon technologies. ETS free allowances and CBAM are not alternatives but are complementary measures to address different types of carbon leakage, thus maintaining them both is not double protection. We would like to point out that an independent [legal study](#)² commissioned by our Alliance concluded that keeping free allowances with a CBAM is WTO compatible," comments Inès Van Lierde, Chair of AEGIS Europe.

AEGIS Europe urges that the costing and limiting of carbon emissions in the EU should not harm EU exports. If EU exports become uncompetitive because of decarbonisation they will lose out to exports from countries not decarbonising as carbon-limited exports will be replaced by products from high carbon sources leading to carbon leakage. Adjusting the carbon burden of European producers' exports would avoid this. If the adjustment for exports is integrated into the ETS, it is not a subsidy under WTO rules. To maximise the effectiveness of its climate policies, the EU must strive to ensure the competitiveness of its exports. Thus, by becoming a significant exporter of low-carbon products and technologies and thus replacing high-carbon products in third countries, a significant reduction in global emissions would be triggered.

European industries consider that countries with equivalent ETS systems - equivalent carbon costs and reduction obligations - should be treated fairly and CBAM exemptions should be envisaged. However, AEGIS Europe believes that more rigorous controls should be in place to evaluate the equivalence of carbon costs in those countries with a track record of interfering in markets to boost production and facilitate exports.

The CBAM proposal is complex. It is open to loopholes and circumvention. AEGIS Europe points out that the definition of circumvention in the current CBAM proposal is narrow and vague since it only covers cases of slight product modification and does not cover, for instance, source shifting and cost absorption. CBAM must apply to goods brought into the customs territory of the EU, even if those goods are subject to special procedures such as the inward processing regime.

"The CBAM proposal as it stands leaves considerable room for improvement and we would appreciate the opportunity to offer suggestions in that direction to ensure Europe's ambitious climate goals are achieved while maintaining a level playing field for European industries and mitigating the impact on downstream industries," concluded Inès Van Lierde, Chair of AEGIS Europe.

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About AEGIS Europe:

AEGIS Europe is an industry alliance that brings together more than 20 European manufacturing associations from metals and ceramics to energy and transportation industries committed to manufacturing in the EU on a truly level playing field ensured by a rules-based free and fair international trade. Our members account for more than €500 billion in annual turnover, as well as for millions of jobs across the EU.

¹This refers to situations where compliance costs related to climate policies cause a shift in production and/or consumption (either within the EU or in third countries) resulting in an increase in net global GHG emissions

² [Legal study](#) carried out by the law firms King & Spalding and Nctm on behalf of AEGIS Europe, June 2021