

CATF Comments on a Carbon Border Adjustment Mechanism



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Introduction

The Clean Air Task Force (CATF), a climate and energy organization dedicated to decarbonizing our energy system with staff in the US and Europe, welcomes the European Commission's climate ambition, leadership on the issue, and pursuit of policies to decouple greenhouse gas emissions from economic growth. CATF applauds the European Commission for its plans to increase the ambition of the EU's 2030 climate goals to ensure carbon neutrality by mid-century. CATF also commends the European Commission for pursuing policy innovation on the road to net-zero emissions by mid-century. CATF is grateful for the opportunity to provide feedback on a proposed Carbon Border Adjustment Mechanism (CBAM).

CATF understands that the EU Commission is currently developing policy options for a CBAM, and would like to highlight a variety of suggested priorities:

1. The role of the ETS
2. The suggested sectoral scope
3. The role of accompanying, climate-forward innovation policies to enable industries to invest in advanced decarbonization technologies
4. International implications, and the importance to leverage the single market to drive international climate action while facilitating bilateral and multilateral dialogues on decarbonization and innovation.

CATF sees a CBAM as a potentially viable policy instrument to prevent carbon leakage, as well as opening low-carbon trade corridors. Once implemented the CBAM should be reviewed and evaluated periodically to ensure its effectiveness and usefulness, particularly as some of the literature suggest limited carbon leakage overall.

The ETS

CATF acknowledges the learnings the European Emissions Trading System (ETS) has provided for carbon markets but also emphasizes that its impact on decarbonizing industry, in part due to the free allocation of certificates, has been negligible. Hence a CBAM must be intended to replace the current free allocation of certificates under the ETS. Moreover, current pricing levels are too low to drive transformative changes of the economy, including the deployment of advanced energy technologies. While a CBAM could be a potentially useful tool to diffuse climate action and lower carbon

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leakage, it needs to be accompanied by and also enable a strengthening of the ETS. As part of the ETS reform, CATF believes that the Market Stability Reserve should be optimized to be able to address sudden drops in demand for allocations. A reformed ETS will be useful in providing policy certainty and stability, particularly with the ETS as a driver for investment in not fully commercialized advanced energy technologies. In detail, when revising the directive, the following aspects should be taken into account with regards to carbon capture:

- Cross-border CO₂ transportation for permanent storage needs to be enabled by including all options of transportation including pipelines, ships, trucks, barges, trains.
- Carbon dioxide removal, subject to accounting and lifecycle analyses, should be incentivised with regards to mid-century climate neutrality goals. Carbon capture and related infrastructure including permanent geologic storage can facilitate technological, large-scale removal of CO₂ from the atmosphere.

The ETS and Methane

As the EU looks to reform and amend the ETS, there has been some discussion of including methane in the ETS. CATF strongly discourages the Commission from doing this. Traditionally methane would be added to the “single basket” of pollutants covered by the ETS. Under a “single basket” approach, the EU must determine the global warming potential (GWP) of methane, in terms of CO₂e. This creates challenges in implementing because the Commission would be forced to make a determination of the appropriate time horizon over which the GWP is determined, and that determination has complex implications:

- A higher GWP for methane, in line with more recent scientific assessments and more consideration of near-term impacts, reduces the need for near-term CO₂ mitigation.
- Counter-intuitively, under a decarbonization policy, a higher GWP for methane can also slow down methane abatement in the near term.

Using the 20-year GWP may be appropriate in certain frameworks; however, in decarbonization programs, using a high GWP to determine CO₂-equivalency could have unintended consequences.

First, using the 20-year GWP would result in very high credit to investments to reduce methane, at the expense of investments to reduce CO₂. For example, under a market-based approach, if a polluter reduces one ton of methane emissions, which is counted as 86 tons of CO₂e (based on the 20-year GWP in AR5) rather than 34 tons of CO₂e (based on the 100-year GWP), that polluter will have effectively avoided an obligation to reduce 52 tons of CO₂ emissions. We expect that, particularly if the 20-year GWP is adopted, many polluters could seek low-cost methane emission reductions at the expense of making the CO₂ reductions needed to address climate change in the longer term.



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Using a higher GWP for methane, such as the 20-year GWP, results in a second problematic and counter-intuitive outcome: it potentially extends the timeframe over which methane pollution is eliminated. Applying the higher GWP of methane increases the total emissions (in CO₂e) in the baseline year, which can allow polluters to reduce smaller volumes of methane (which are counted or credited at a higher value of CO₂e) to comply with the overall emissions reduction obligation, especially in the initial years. In other words, using the higher GWP for methane can shrink the actual size of the methane reductions in early years. Meanwhile, using the higher GWP for methane will certainly delay actions to reduce CO₂.

Sectoral Scope

CATF suggests that a CBAM should apply to all imported energy and should be based on the verifiable GHG intensity of the energy production and delivery process. This verification of the greenhouse gas emission intensity is critical. Any CBAM would be placing either a penalty or a benefit on an energy source coming into Europe. It is imperative that a system for validating the emissions profile of various energy sources be developed. These will need to consider both direct and indirect emissions and likely will need to be tailored to each energy source. Existing certification regimes around the world for different products have been shown to have serious issues. For each system developed, it is important the process be robust and transparent for the CBAM to be seen as a successful policy mechanism.

Along these lines, CATF would like to emphasize that the CBAM should be harmonized with the EU methane strategy, and the proposed methane performance standard that would apply to all gas sold or consumed in Europe. This could result in very significant emission reductions if properly implemented and could help spread methane mitigation to many other parts of the world further increasing the impact of the action the EU takes. But as with other energy sources, certifying the methane footprint of any gas sold or consumed in the EU will require new and innovative measures such as third-party verification or other policy options to ensure compliance and would need a stringent system for monitoring for compliance, reporting of emissions, and verification of data.

CATF encourages the EU to undertake detailed impact assessments in hard-to-decarbonize sectors such as cement, steel, paper and pulp, to evaluate the potential effectiveness vis-à-vis free allocations, and trade exposure.

The need for incentives to invest in advanced energy technologies

CATF would also like to highlight the potential synergies of a CBAM and climate-forward innovation policies. The commercialization and affordability of technologies needed for the decarbonization of energy-intensive industries, such as for example



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advanced energy efficiency, carbon capture, and hydrogen, will be an effective driver for reducing emission within the EU, and in other countries. The application of such technologies will also present a form of reducing emissions with regards to a CBAM. CATF encourages the European Commission to consider and evaluate the synergies of climate-forward innovation policies and a CBAM.

In fact, should a CBAM be implemented, the European Commission would need to provide policy incentives and avenues for the affected sectors to invest in advanced decarbonization technologies to deliver actual emissions reductions. For example, while both the European Commission's Long-Term Vision for a Climate Neutral Europe, and several policy documents outline the role of carbon capture in climate action, questions remain which specific policy mechanisms beyond grants and the ETS will drive the initial scale-up of carbon capture technologies. The same holds true for the recently released hydrogen strategy.

Moreover, CATF also encourages the European Commission to evaluate and consider alternative policy mechanisms, such as carbon emissions performance standards and driving markets for zero-carbon materials through low-carbon procurement requirements.

Proliferating Climate Action

CATF welcomes a CBAM as a policy approach to proliferating and accelerating emissions reductions in other countries. The US is the EU's largest trading partner, but is currently lacking climate ambition, as well as comprehensive climate policy, risking achieving global, net-zero emissions climate goals altogether. CATF encourages an EU-US dialogue for reducing emissions of transatlantic trade, and innovation.

Respecting the principle of common but differentiated responsibilities, Least Developed Countries and Small Island Developing States should be exempted from CBAM obligations.

All revenues from the CBAM should be allocated to catalyzing and accelerating climate action, which should include investment in innovation within the EU, but also in innovation and direct emissions reductions capabilities in developing countries.

Conclusions

CATF is grateful for the opportunity to provide feedback on a proposed Carbon Border Adjustment Mechanism (CBAM). CATF sees a Carbon Border Tax Adjustment as a potentially viable policy instrument to preventing carbon leakage, as well as opening low-carbon trading corridors, with positive impacts to catalyze climate-forward innovation in the EU, and climate ambition globally. CATF is looking forward to the

Commission's policy options, and is open to discussing any suggestions in this submission in detail.



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Sincerely,

A handwritten signature in black ink that reads 'Kurt Waltzer'.

Kurt Waltzer
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