

IEP Call for Policy Proposals
September 2024

TORTUGA
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CBAM*
Improving the European Carbon Market

*Carbon Border Adjustment Mechanism

What is CBAM?

CBAM is designed to impose a **carbon price on imports of certain goods** to **match** the carbon costs incurred by EU producers under EU-ETS.

It targets six sectors: cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen.

The policy aims to:

- **Equalize the cost of carbon** between **EU-produced goods** and **imports**.
- **Reduce carbon leakage** by discouraging companies from moving production to countries with lax emission regulations.

Timeline:

- **Transition phase (2023–2025)**: Importers report emissions without purchasing certificates.
- **Full implementation from 2026**: Importers will need to buy CBAM certificates.

Why CBAM?

It has been designed to:

1. **Prevent Carbon Leakage** – the aim is to **stop companies** from **moving production to countries with lax emission regulations**.
2. **Protect EU Competitiveness** – the aim is to **level the playing field for EU producers** facing higher carbon costs, while **encouraging global producers to adopt greener practices**.

Thus, CBAM has a dual role:

1. **Protect** EU industries from **unfair competition**.
2. **Encourage** global producers to adopt **greener practices**, thus contributing to **worldwide emission reductions**.

Expected Impacts of CBAM

The report analyzes the **impact of CBAM** using a detailed economic model and key databases to understand its current state and future effects.

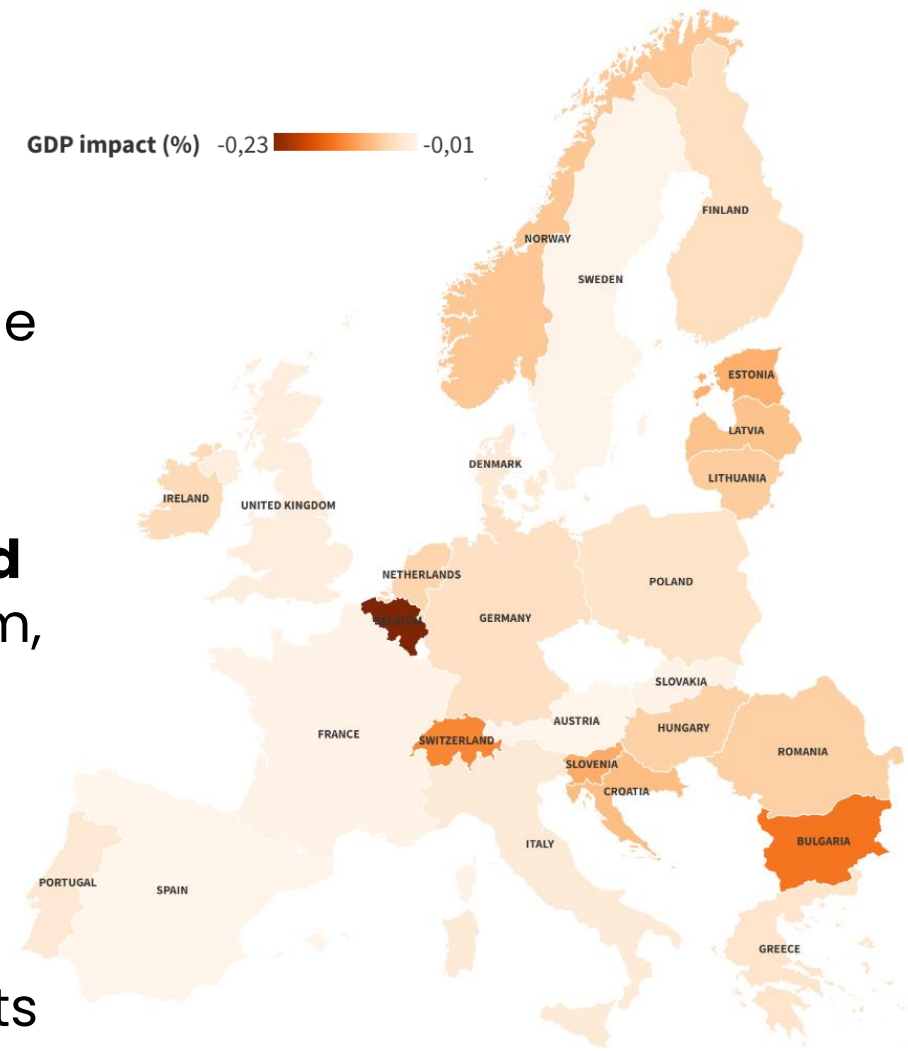
- **Methodology:** Sectoral input-output model with gravitational trade dynamics (Vandenbussche, Connell, and Simons 2022).
- **Transition Phase:** Focuses on emissions reporting to calibrate **tariffs starting in 2026**.
- **Datasets:** Utilizes EXIOBASE for multi-regional input-output data and WITS for **historical trade data**.

Expected Impact on EU GDP

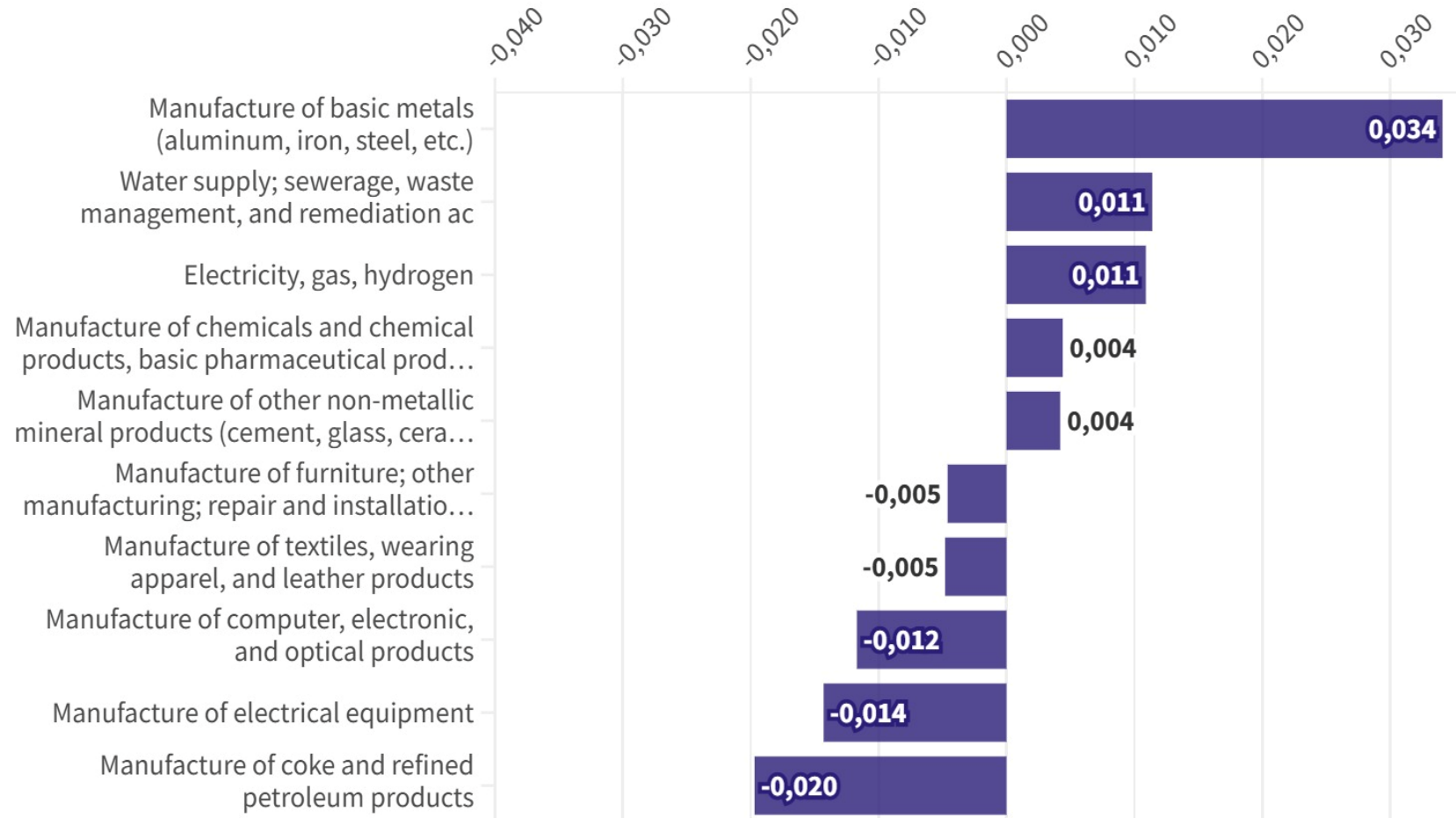
CBAM's net **impact on EU GDP is limited**, with most countries experiencing a modest decrease in GDP. Sectors covered by the policy stand to benefit, while some downstream sectors face minor challenges.

Key insights

1. Countries with **more downstream value-added activities depending on CBAM sectors** (Belgium, Switzerland) experience larger effects.
2. Small countries **with carbon-intensive manufacturing sectors** (Bulgaria, Slovenia) experience sizeable effects.
3. Major **highly differentiated economies** like Germany, France, and Italy show minimal effects (-0.046%, -0.018%, and -0.031% respectively).



Effects in Italy by sector



Negative effects on **high-tech manufacturing** (electronics, electrical equipment) and **consumer goods** (furniture, textiles, apparel, leather).

Conversely, **heavy industry sectors** targeted by CBAM, such as basic metals and non-metallic minerals (cement) face less competition from carbon-intensive imports.

Policy LAB – what should the EU do?

Engagement proposal: a *guided policy lab* to elaborate policy contributions from Bocconi students on **3 key topics** closely related to CBAM and the EU Green Deal.

Organizational details:

1. **3 Roundtables**, each discussing one key topic.
2. Students and associations select their preferred topic when signing up to the event. This ensures motivation and vertical specialization of tables.
3. Prior to the event, students receive a **policy brief** produced by Tortuga on the topic their table will be discussing. Students are encouraged to prepare initial proposals and ideas to kickstart the discussion.

Topic 1 – Leading the way on global carbon markets

EU-ETS as a Global Leader: The EU-ETS, the world's largest carbon market, serves as a model for effective carbon pricing and emissions reduction strategies.

«Club Effect»: The introduction of CBAM could create a «club effect», encouraging other countries to implement similar carbon pricing mechanisms to maintain competitiveness and avoid trade disadvantages.

Driving Global Action: By leveraging CBAM, the EU can influence global carbon markets and incentivize stricter climate policies in partner countries.

Action Points: *How can the EU use CBAM's influence to promote broader adoption of carbon pricing and enhance international climate cooperation?*

Topic 2 – Will the green transition harm EU productivity?

Short-Term Impact: The green transition, including CBAM, may raise production costs in certain sectors, potentially impacting competitiveness in the short term.

Long-Term Benefits: According to the Draghi report on EU competitiveness, the green transition presents opportunities for innovation, increased investment in clean technologies, which can ultimately enhance productivity.

Action Points: *What strategies can the EU implement to cushion short-term productivity losses and fully leverage the long-term economic benefits of the green transition?*

Topic 3 – Green Backlash: who bares the costs of the green transition?

Green Backlash in Global Politics: Growing resistance to green policies as concerns over economic impacts and job losses gain traction in global and national debates.

Social Equity & Just Transition: Ensuring that vulnerable groups and workers in high-carbon sectors are supported through upskilling, job creation, and community investment.

Optimal Use of Carbon Market Revenue: Using revenue from carbon markets to finance sustainable infrastructure, innovation, and targeted support for affected sectors and workers.

Action Points: *How can the EU address concerns and ensure the green transition is fair, inclusive, and supportive of all communities?*