

INTERNATIONAL REACTION TO

THE EU CARBON BORDER ADJUSTMENT MECHANISM



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An aerial photograph of a river delta. The water is a vibrant turquoise color, flowing from the top left towards the center. The land is covered in dense green vegetation, with some areas appearing more brownish, possibly due to dry grass or different types of plants. The overall scene is a natural, scenic view of a river system.

INTRODUCTION

THE CARBON BORDER ADJUSTMENT MECHANISM (CBAM) AIMS TO PROTECT EU INDUSTRIES AGAINST CARBON LEAKAGE. BY PUTTING A PRICE ON CARBON EMITTED DURING THE PRODUCTION OF CARBON-INTENSIVE GOODS IMPORTED INTO THE EU, IT ALSO ENCOURAGES CLEANER INDUSTRIAL PRODUCTION IN NON-EU COUNTRIES.

The CBAM will ensure that the carbon price of imported goods is equivalent to the carbon price of domestic production. The CBAM is designed to be compatible with WTO rules. The gradual introduction of the CBAM is aligned with the phase-out of free allocation under the EU Emissions Trading System (EU ETS).

The CBAM currently applies to selected goods in the following sectors: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. The EU has set itself a goal to work on extending the CBAM scope to all EU ETS sectors exposed to the risk of carbon leakage by the year 2030.

On 1 October 2023, the CBAM entered its transitional phase. In this phase, importers of CBAM goods are required to submit quarterly reports, including data on imported products and their embedded carbon emissions.

In parallel, the WTO announced that it will launch a task force on global carbon pricing that will also look into safeguards against potential unfair treatment of developing countries due to regulations on carbon pricing in international trade agreements.

This document provides an overview of the reaction of selected third countries to the design and implementation of the EU's CBAM.

USEFUL LINKS:

- [Relative EU CBAM exposure index by the World Bank](#)
- [State and Trends of Carbon Pricing 2023 by the World Bank](#)



THE CBAM WILL ENSURE THAT THE CARBON PRICE OF IMPORTED GOODS IS EQUIVALENT TO THE CARBON PRICE OF DOMESTIC PRODUCTION IN THE EU.

OVERVIEW

INTERNATIONAL EXPOSURE TO CBAM

In June 2023, the World Bank published an analysis of the international exposure to the EU CBAM. The CBAM Exposure Index compares the extent to which CBAM impacts different countries by analysing carbon emissions intensity and CBAM product exports to the EU. The index calculates the additional cost of CBAM certificates for exporters compared to the average EU producer after accounting for the share of exports to the EU market. It considers cost fluctuations

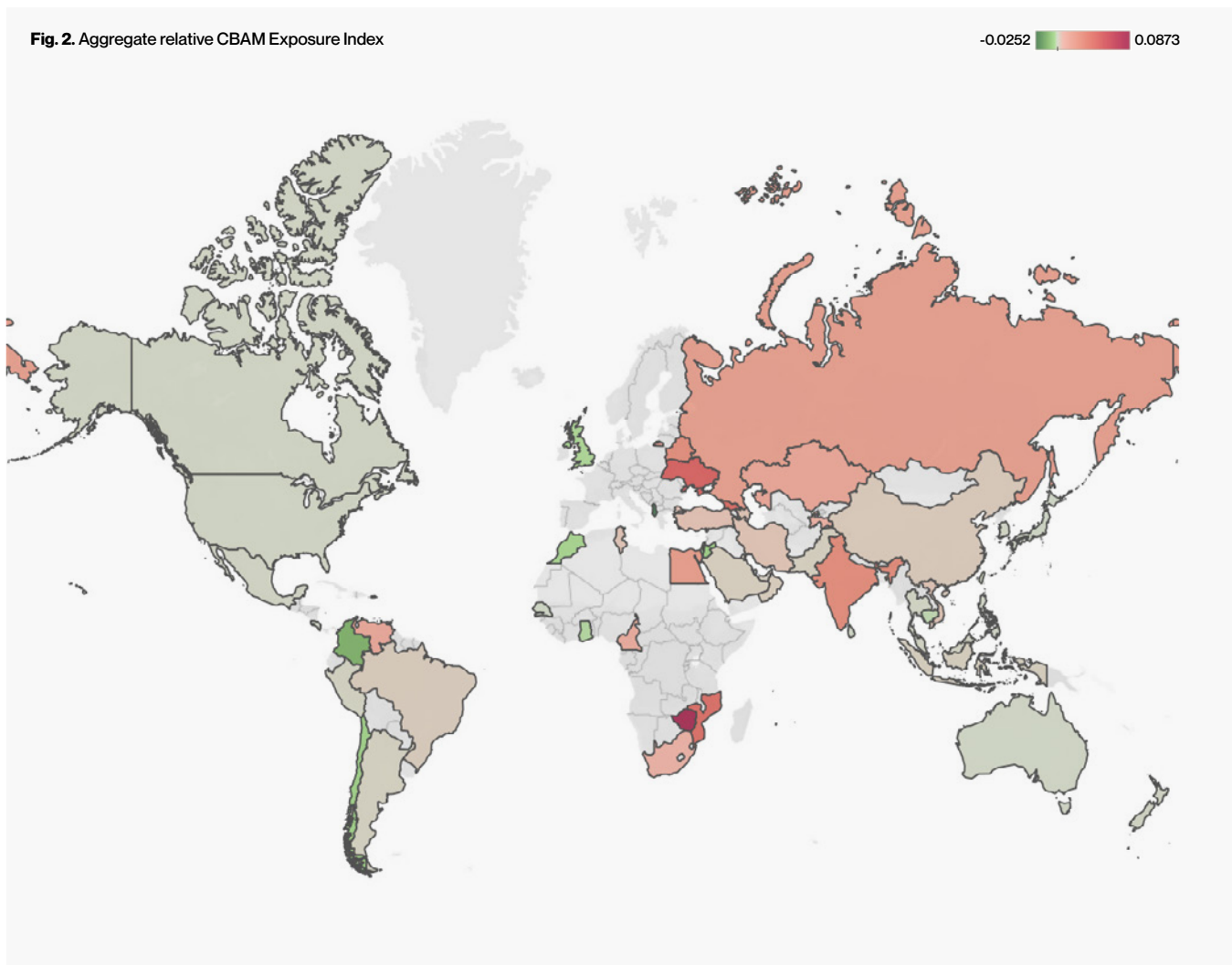
in the EU market, where EU producers also face emissions costs, allowing relatively clean exporters to gain competitiveness despite the requirement to purchase certificates!

The aggregate relative index reported below measures the trade-weighted relative exposure across all CBAM products based on: a) trade-weighted relative CO₂ emissions intensity of exports (kg CO₂eq/USD) compared to the EU average, b) exports to the EU (% of country's

exports of CBAM products to the world), and c) carbon price at \$100/ton CO₂eq².

Green indicates an increase in relative competitiveness, and red indicates a decrease.

THE CBAM EXPOSURE INDEX COMPARES THE EXTENT TO WHICH CBAM IMPACTS DIFFERENT COUNTRIES BY ANALYSING CARBON EMISSIONS INTENSITY AND CBAM PRODUCT EXPORTS TO THE EU.



INTERNATIONAL SUPPORT FOR CBAM

A recent study by Rahat Sabyrbekov and Indra Øverland assesses the countries that are more likely to be supportive of the EU's CBAM³. It does so by constructing an index along the following dimensions: a) export structure, b) national carbon policy, c) innovation capacity, d) trade agreements with the EU, and e) the carbon intensity of their economies. The study finds that potential support for CBAM varies significantly across countries and income levels. While certain nations are recognised as potential allies for the EU in adopting the mechanism, others are expected to display more indifference

or even opposition depending on their economic and policy environments⁴.

According to the study, Japan, Korea, and Singapore are the most likely supporters of CBAM among the world's major economies.

The study also identifies several potential opponents, many of whom are petrostates or have expressed dissatisfaction with the policy. They include Russia, Iran, India, the United Arab Emirates, Oman, Saudi Arabia, Kuwait, and Qatar.

The study shows significant variations in carbon intensities based on economic performance, implying that richer

countries may be more likely to support the CBAM due to lower carbon intensity and more innovation potential. Nonetheless, the analysis acknowledges certain methodological shortcomings, such as the equal weighting allocated to diverse factors, which could deviate from the actual effects these elements have on policymaking and the lack of CBAM sector-specific statistics for each country⁵.

THE STUDY FINDS THAT POTENTIAL SUPPORT FOR CBAM VARIES SIGNIFICANTLY ACROSS COUNTRIES AND INCOME LEVELS.

Fig. 3. CBAM Support Index where 100 is the most and 1 is the least supportive.

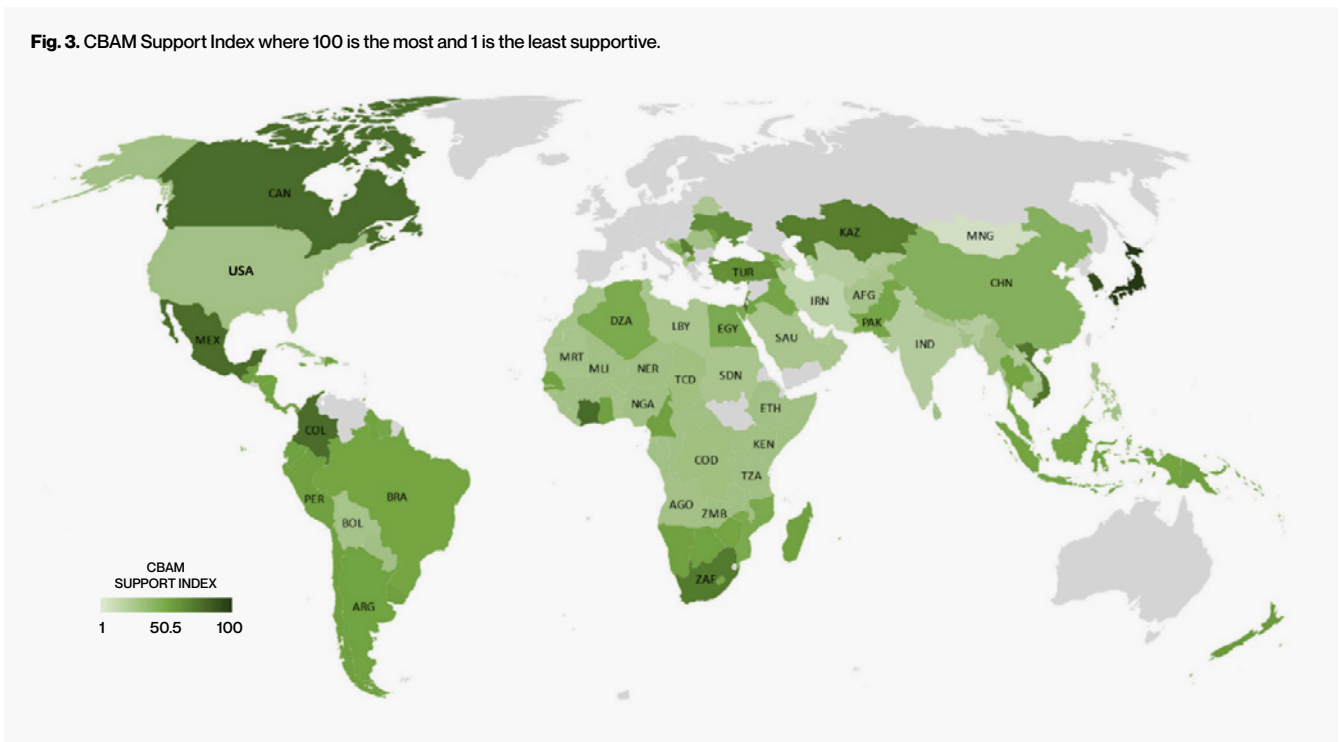
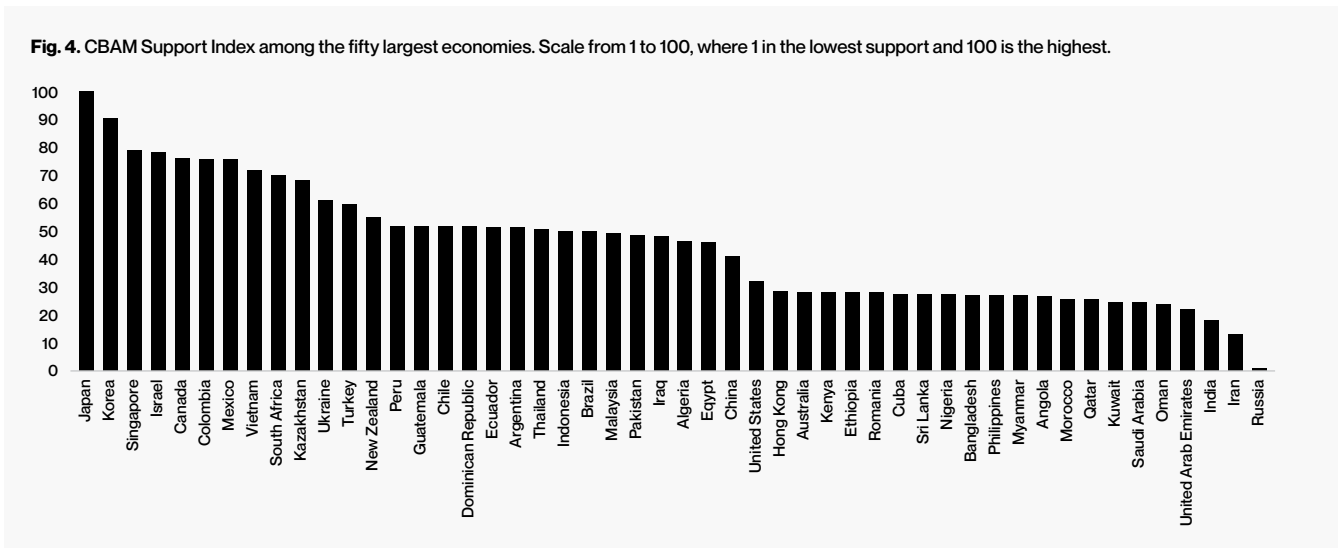


Fig. 4. CBAM Support Index among the fifty largest economies. Scale from 1 to 100, where 1 is the lowest support and 100 is the highest.



COUNTRY-LEVEL ANALYSIS



01

AUSTRALIA

POSITION

CONSIDERS INTRODUCING DOMESTIC CBAM

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁹

1,4%

MOST EXPOSED CBAM PRODUCT^{7,8}

IRON, STEEL, AND CEMENT

REACTION TO EU CBAM

Following the EU's lead, the Australian government began evaluating policy alternatives for establishing an Australian CBAM in the summer of 2023⁹. In direct reference to EU policy developments, Australia's Minister for Climate Change and Energy, Hon Chris Bowen, emphasised that reducing carbon leakage through supply chain regulation is "a crucial factor in shaping climate policy." Bowen announced that his department would conduct an assessment to examine carbon leakage risks, establish policy options, and investigate the viability of an Australian CBAM, specifically with re-

spect to steel and cement. The policy choices and viability assessment are expected to be completed by October 2024¹⁰.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

In March 2023, legislation was enacted to amend the Safeguard Mechanism, which mandates Australia's largest GHG emitters to keep their emissions below an established threshold. The reform reduces emission baselines for covered facilities and allows the issuing of credits to facilities that overachieve on their baseline¹¹.

THE AUSTRALIAN GOVERNMENT BEGAN EVALUATING POLICY ALTERNATIVES FOR ESTABLISHING AN AUSTRALIAN CBAM.



POSITION

MOST AFFECTED AMONG ALL LATIN AMERICAN COUNTRIES

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU¹²

11,5%

MOST EXPOSED CBAM PRODUCT¹³

IRON AND STEEL

REACTION TO EU CBAM

The Brazilian government has been among the most strident opponents of the EU's CBAM, defining the policy as "discriminatory" and warning it may hamper rather than help global efforts to reduce greenhouse gas emissions. In multiple opportunities, the Brazilian Government expressed concerns that calculating the carbon content of products through unilateral measures would eventually conflict with the Paris Agreement and the "principle of common, but differentiated responsibilities."¹⁴ At COP28, on behalf of the BASIC group of countries (Brazil, China, India and South Africa), Brazil requested to discuss "Concerns with unilateral trade measures related to Climate Change and their potential adverse impact on equitable and just transitions, in the context of sustainable development and efforts to eradicate poverty." However, the COP Presidency managed to avoid re-opening the agenda¹⁵.

On the other hand, some experts and studies note that as the EU depends on imports of some products and Brazil has less carbon-intensive processes when compared to international competitors that also export to the EU, the implementation of CBAM could create a competitive advantage for some Brazilian products in the short term and strengthen the country's position in the European market¹⁶.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

In December 2023, the Brazilian Chamber of Deputies approved Bill 2.148/15 (PL) to establish the Brazilian Greenhouse Gas Emissions Trading System (SBCE).¹⁷ Discussions will continue in the Senate before the final approval of the Bill, but the system aims to establish an ETS to restrict greenhouse gas emissions and exchange allowances (CBEs) and Certificates of Verified Reduction or Removal (CRVEs), which would be generated by sectors out of the system following approved methodologies. The adopted model would be a cap-and-trade, similar to the European market, but which would allow regulated entities to compensate for part of their emission obligations with offsets.¹⁸ According to the current text, the government would have up to 24 months to regulate the system after the bill's approval. The SBCE would begin with regulated entities having a year to establish reporting procedures, followed by two years of monitoring and reporting obligations. This implies that the Brazilian ETS will start its pilot operation under the cap in 2028-2029.¹⁹

Bill 2.088/2023 is also under discussion in the Senate. It aims to amend the National Policy on Climate Change, making it mandatory to comply with environmental standards compatible with those of Brazil and to make goods available on the Brazilian market.²⁰

THE IMPLEMENTATION OF CBAM COULD CREATE A COMPETITIVE ADVANTAGE FOR SOME BRAZILIAN PRODUCTS IN THE SHORT TERM AND STRENGTHEN THE COUNTRY'S POSITION IN THE EUROPEAN MARKET.



| POSITION | SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU ²¹ | MOST EXPOSED CBAM PRODUCT ²² |
|--|--|---|
| MAY ENTER INTO BILATERAL AGREEMENT WITH THE EU | 2,6% | IRON AND STEEL |

REACTION TO EU CBAM

At the Canada-EU Summit in June 2021, both sides agreed to collaborate and share views “on carbon pricing and WTO-compatible border carbon adjustments.”²³ The Canadian government announced plans to establish a border carbon adjustment regime in the 2021 Budget and undertook a public consultation in the fall of 2021²⁴. However, no further action was taken²⁵.

Some experts remark that in reaction to the EU's CBAM, Canada may choose to enter into bilateral agreements with the EU, which might help Canadian exporters by clarifying and standardising how Canada's federal carbon pricing regime (and provincial variations) would interface with the EU's CBAM²⁶.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

At the federal level, the Greenhouse Gas Pollution Pricing Act (GGPPA) establishes the Federal benchmark for carbon pricing and minimum national standards for carbon pricing across Canada. Provinces can create their equivalent systems, as the Federal benchmark prescribes, or have the federal output-based pricing system (OBPS) and carbon levy imposed. In 2021, all Canadian provinces and territories submitted proposals for the equivalency of their carbon pricing systems for the 2023-2030 period. While some chose the Federal system, most provinces opted for the “hybrid approach”, having

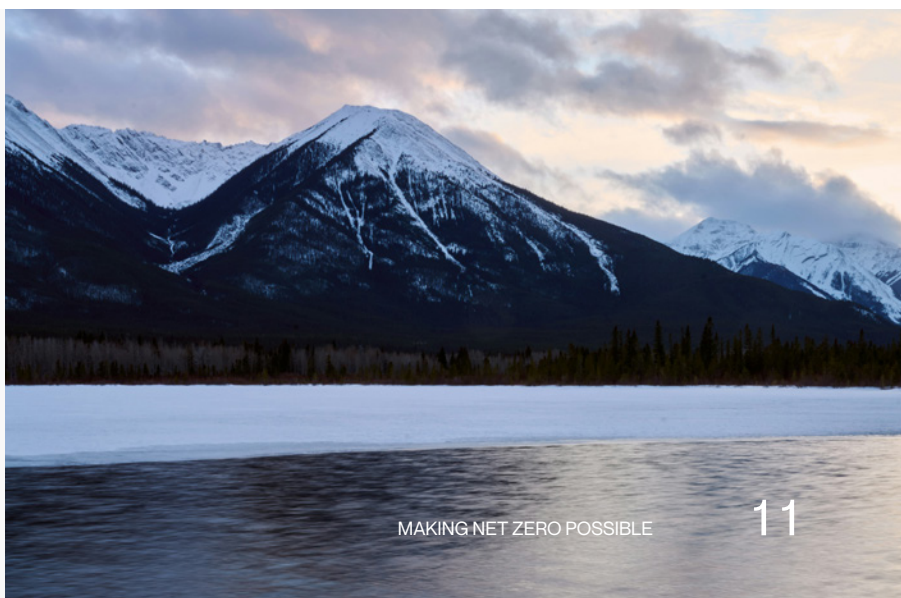
their own OBPS and the federal carbon levy, as seen in the figure below²⁷.

A key component of the GGPPA is the requirement for the price of carbon, which was established at CAD 65 (USD 48)/tCO₂e in 2023 and is set to increase by CAD 15 (USD 11) annually until reaching CAD 170 (USD 126)/tCO₂e in 2030²⁸. A second interim review, updating the federal benchmark, is set to take place in 2026.

Given that there is federal carbon pricing in Canada, the GGPPA may be recognised by the EU as the prevailing policy instrument, given that it will apply as a federal backstop if the provinces don't have regulations with equivalent effect in place²⁹.

Canada's compliance carbon pricing landscape remains unique and highly fragmented. Under the PanCanadian approach to pricing carbon pollution, the Federal Government has successfully ensured that carbon pricing exists across all Canadian jurisdictions at a similar – but not identical – level of stringency while providing provinces the flexibility to implement their own (equivalent) carbon pricing systems. Where provincial systems do not meet the federal “benchmark”, all or parts of the federal hybrid carbon pricing system (the “backstop”) are applied³⁰. This flexible yet fragmented pan-Canadian approach has resulted in a patchwork of carbon prices and system designs, including disparate approaches to addressing competitiveness and the treatment of emissions-intensive, trade-exposed (EITE) industries. This domestic asymmetry, resulting in cross-provincial competitiveness challenges, will make the implementation of BCAs especially challenging for Canada³¹.

SOME EXPERTS REMARK THAT IN REACTION TO THE EU'S CBAM, CANADA MAY CHOOSE TO ENTER INTO BILATERAL AGREEMENTS WITH THE EU.



POSITION

CHALLENGED CBAM AT WTO BUT COULD BENEFIT FROM COMPETITIVE ADVANTAGE

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU³²

8,6%

MOST EXPOSED CBAM PRODUCT³³

STEEL AND ALUMINIUM

REACTION TO EU CBAM

China has expressed concern about the negative impact of the EU's CBAM on domestic industry. The Chinese government is worried that CBAM will generate significant cost losses for China's exports, thereby weakening the competitiveness of Chinese heavy industries³⁴. According to a report by Wood Mackenzie, Chinese producers could see the cost of their steel exports rise by 49% by 2034 due to the impact of the EU's CBAM. However, in the long term, China could benefit from a competitive advantage from CBAM. Although limited in scope, the Chinese ETS is already operational, whereas many other emerging economies do not have any carbon pricing mechanisms in place³⁵.

In March 2023, China decided to bring the EU's CBAM under WTO scrutiny. At the meeting of the Committee on Trade and Environment, China submitted "A Proposal for Dedicated Multilateral Discussion on the Trade Aspects and Implications of Certain Environmental Measures", launching the discussion on the EU's CBAM objectives, impacts and implementation under the WTO framework³⁶. At COP28, China reiterated its concerns alongside the other BASIC countries, but the COP Presidency managed to avoid re-opening the agenda³⁷.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

China's national ETS, which went into effect in July 2021, currently only applies to the power sector, which accounts for 40% of China's carbon emissions³⁸. According to the latest notice document issued by the Ministry of Ecology and Environment (MEE), China plans to extend application to aluminium, steel and cement in the new round of emissions compliance period (Year 2023-2025)³⁹.

In August 2022, three Chinese government agencies released directives to speed up the creation of a national accounting and verification system for CO₂ emissions. According to the guidelines, one of the Chinese authorities' "key tasks" is to "establish and improve the carbon accounting methods for key products". The authorities identified electricity, iron and steel, cement, and aluminium, currently covered by the EU's CBAM, as key products⁴⁰.

In November 2023, five Chinese Ministries jointly issued the "Opinions on Accelerating the Establishment of a Product Carbon Footprint Management System". It is proposed that by 2025, about 50 carbon footprint accounting standards for key products will be introduced at the national level, reaching 200 by 2030. A carbon footprint background database for key industries and a national product carbon label certification system will be fully built⁴¹.

CHINA IS SPEEDING UP TO ESTABLISH NATIONAL ACCOUNTING AND VERIFICATION SYSTEMS FOR CO₂ EMISSIONS.



| POSITION | SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU ⁴² | MOST EXPOSED CBAM PRODUCT ⁴³ |
|-------------------------|--|---|
| CONSIDERS WTO CHALLENGE | 18,9% | IRON AND STEEL |

REACTION TO EU CBAM

According to a report by Wood Mackenzie, the EU's CBAM may increase import costs for Indian steel producers by 56% by 2034⁴⁴.

India views the EU's CBAM as a protectionist and discriminatory trade barrier and intends to file a complaint to the WTO. At the same time, the country would like to see exceptions for its exporters, particularly small businesses⁴⁵. The Indian government is also considering taxing exporters to the EU based on their carbon content to ensure that costs associated with the EU's CBAM remain in India. Officials are also considering putting in place an Indian CBAM targeting imports from the EU, although there are uncertainties as to whether that would stand up in the WTO⁴⁶.

At COP28, India was among the countries that asked to examine concerns with unilateral trade measures related to climate change, but the COP presidency denied the request⁴⁷.

While the EU has agreed to incorporate solutions regarding CBAM in the Free Trade Agreement (FTA) under negotiations, the final details are yet to be agreed upon. The FTA is a legally binding document, and India is seeking various forms

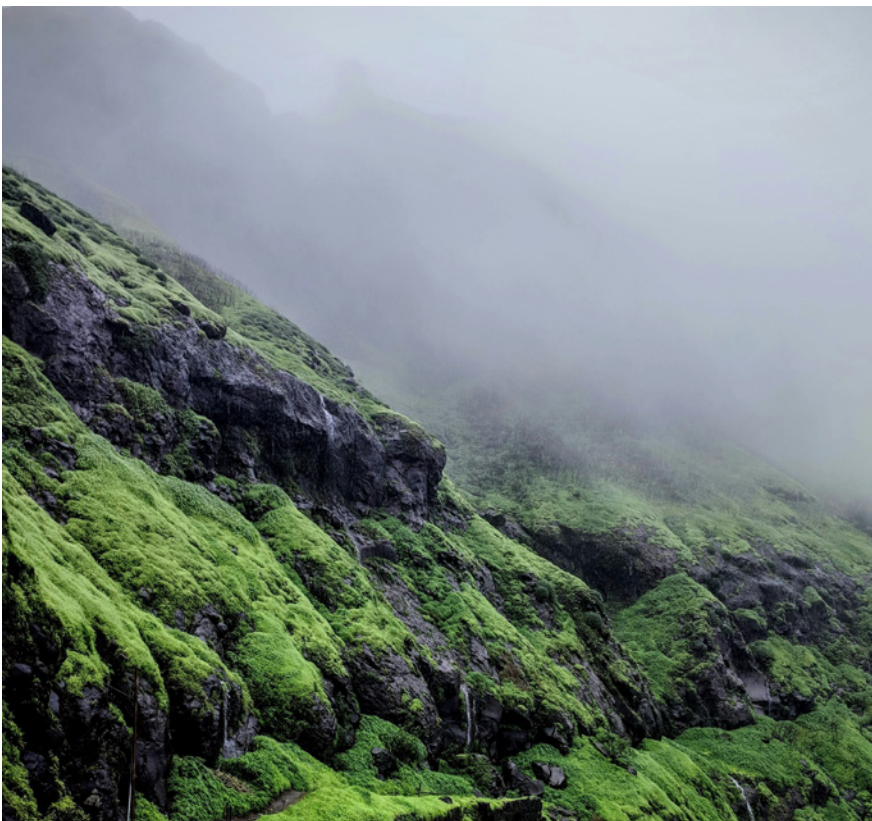
of relief, including a longer transition timeline and concessions for Micro-, Small, and Medium-sized Enterprises (MSMEs)⁴⁸.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

India does not levy explicit carbon taxes, but it employs various schemes and implicit taxation mechanisms that effectively place an implicit price on carbon. Examples include the Coal Cess, Perform Achieve Trade schemes, and Renewable Energy Certificates⁴⁹.

In 2023, India introduced the 2023 Carbon Credit Trading Scheme (CCTS), encompassing both compliance and voluntary sectors. However, while the compliance segment is scheduled to commence in 2025-2026, there is no set timeline for the launch of the voluntary carbon market. In 2024, India revamped its CCTS, allowing non-obligated entities to participate in the tradable carbon credits market. This significant revision introduces an offset mechanism, enabling these entities to register projects and obtain tradable carbon credit certificates (CCCs)⁵⁰.

INDIA DOES NOT LEVY EXPLICIT CARBON TAXES, BUT IT EMPLOYS VARIOUS SCHEMES AND IMPLICIT TAXATION MECHANISMS THAT EFFECTIVELY PLACE AN IMPLICIT PRICE ON CARBON.



POSITION

INDUSTRY CONCERNED ABOUT DISCLOSURE OF CONFIDENTIAL DATA

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁵¹

2,0%

MOST EXPOSED CBAM PRODUCT⁵²

IRON AND STEEL

REACTION TO EU CBAM

In the early months of 2023, Japanese industry groups expressed concerns about the EU's CBAM mandatory reporting obligations, stating that exporters are required to disclose confidential price and cost data. The Japanese Ministry of Economy, Trade and Industry did not echo the industry voice, indicating that the government's evaluation will be contingent on how the EU implements the CBAM⁵³. Depending on the outcome of the expansion of the scope of application being considered by the European Commission, many Japanese companies may be affected, and Japan is wary of the outcome⁵⁴.

According to a recent study⁵⁵, however, Japan is the most likely supporter of CBAM among major economies, owing to its strong innovation potential and domestic climate policies.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

In February 2022, the Japanese government announced the launch of the Green Transformation (GX) League, a baseline-and-credit system for businesses that became fully operational in April 2023. This adds to existing carbon trading systems such as the Joint Crediting Mechanism and the J-Credit scheme. Although participation in the GX League is voluntary, compliance by participants is obligatory. In February 2023, Japan's cabinet approved the basic GX plan, a 10-year roadmap that includes initial arrangements for a mandatory national ETS from 2026⁵⁶.

JAPAN IS THE MOST LIKELY SUPPORTER OF CBAM AMONG MAJOR ECONOMIES, OWING TO ITS STRONG INNOVATION POTENTIAL AND DOMESTIC CLIMATE POLICIES.



07

SOUTH AFRICA

POSITION

CALLS CBAM 'DISCRIMINATORY'

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁵⁷

16,5%

MOST EXPOSED CBAM PRODUCT^{58, 59}

IRON, STEEL, AND ALUMINIUM

REACTION TO EU'S CBAM

South Africa is concerned that the EU's CBAM will undermine "multilateral trust" and violate the WTO's rules against non-discrimination⁶⁰. At COP28, South Africa expressed concerns about unilateral trade measures related to climate change, but the COP Presidency denied the request to address the issue⁶¹.

South Africa has argued that CBAM should be designed to consider the development needs of developing countries and avoid unfair trade practices. It has also emphasised the importance of addressing climate change through international cooperation⁶².

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

In June 2019, South Africa implemented a carbon tax to cover emissions from fossil fuel combustion, industrial operations, product consumption, and fugitive emissions. However, new research indicates that it does not significantly contribute to emission reductions⁶³.

In February 2022, a Climate Change Bill was introduced in Parliament. Under the proposed legislation, the Minister responsible for Environmental Affairs, in collaboration with the Ministerial Committee on Climate Change, would have to set sectoral emission reduction targets in line with the national emission target every five years, with carbon budgets allocated to large emitters⁶⁴.

SOUTH AFRICA HAS ARGUED THAT CBAM SHOULD BE DESIGNED TO CONSIDER THE DEVELOPMENT NEEDS OF DEVELOPING COUNTRIES AND AVOID UNFAIR TRADE PRACTICES.

SOUTH AFRICA IMPLEMENTED A CARBON TAX TO COVER EMISSIONS FROM FOSSIL FUEL COMBUSTION, INDUSTRIAL OPERATIONS, PRODUCT CONSUMPTION, AND FUGITIVE EMISSIONS.



08

SOUTH KOREA

POSITION

CONSIDERS REFORMING K-ETS IN RESPONSE TO EU'S CBAM

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁶⁵

10,1%

MOST EXPOSED CBAM PRODUCT⁶⁶

IRON AND STEEL

REACTION TO EU'S CBAM

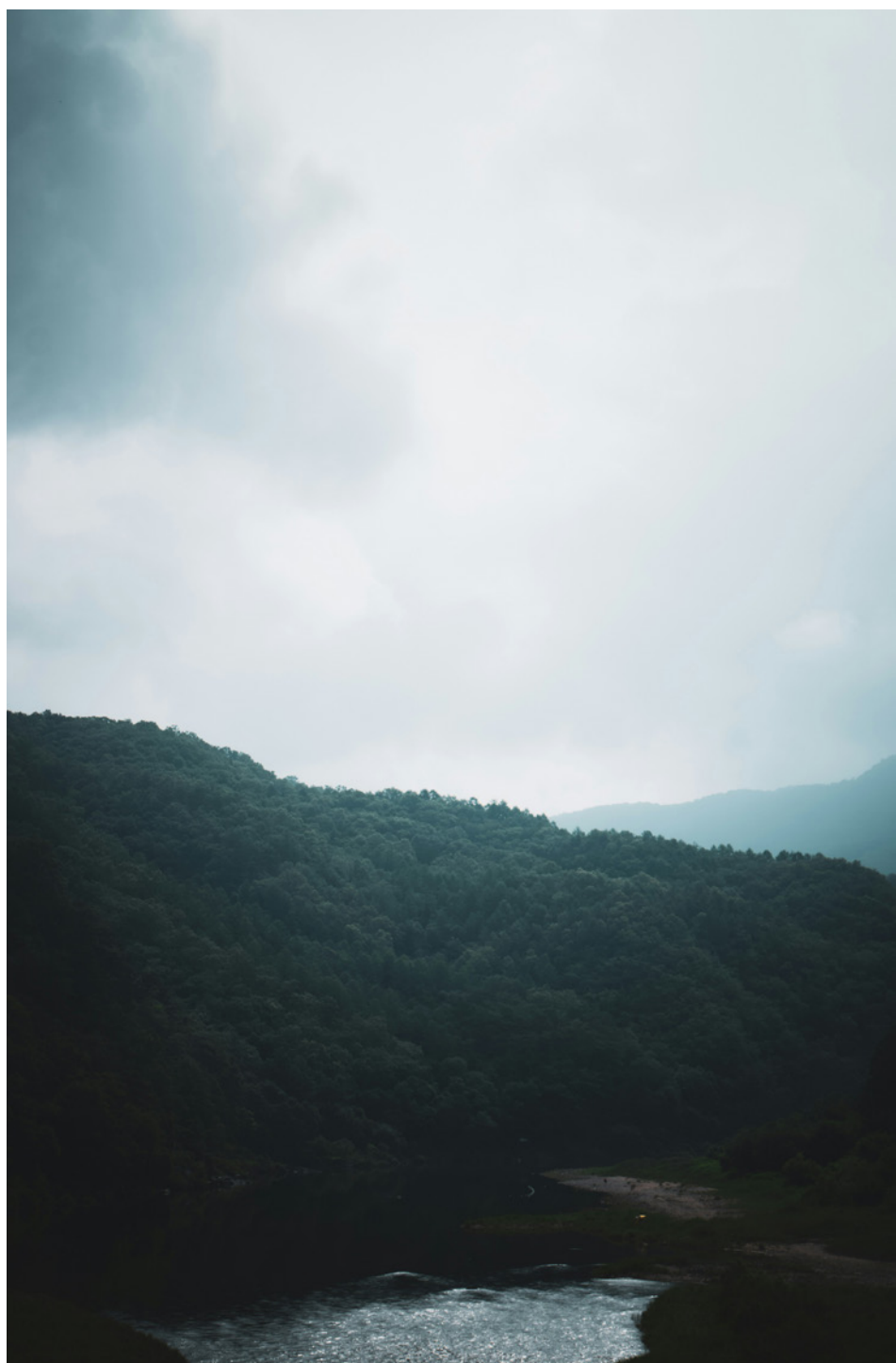
In South Korea, industry groups have expressed their concerns about the EU's CBAM, arguing that it is challenging for companies to calculate and report the data required and that there is the risk of disclosing confidential information⁶⁷.

However, according to a recent study⁶⁸, South Korea is the second most likely supporter of CBAM among major economies, owing to its strong innovation potential and domestic climate policies.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

Launched in 2015, the Korea Emission Trading Scheme (K-ETS) covers the industrial, power, buildings, waste, and domestic aviation sectors, with almost 100% free allocation. In August 2022, the South Korean Ministry of Environment announced the beginning of a major stakeholder consultation process as a precursor to implementing changes to its ETS. One of the key topics was how South Korea can meet the requirements raised by the EU's CBAM⁶⁹.

SOUTH KOREA
CONSIDERS
CHANGING ITS
DOMESTIC ETS IN
RESPONSE TO
EU'S CBAM.



09

RUSSIA

POSITION

IMPORTS INTO THE EU CURRENTLY BLOCKED BY SANCTIONS, EXCLUDING ALUMINIUM

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁷⁰

31,4%

MOST EXPOSED CBAM PRODUCT⁷¹

IRON, STEEL, AND ALUMINIUM

Russia's war in Ukraine reduced the relevance of CBAM in trade relations between the EU and Russia. EU sanctions include a ban on imports from Russia of cement, iron, and steel⁷². However, aluminium imports are not covered by EU sanctions: 9 per cent of EU aluminium imports still come

from Russia. Power imports from Russia to the EU have been halted⁷³.

Before the war in Ukraine, Russia was the largest exporter of CBAM products to the EU. If EU sanctions are lifted, the CBAM would have the greatest impact on Russia's crude exports⁷⁴.

BEFORE THE WAR IN UKRAINE, RUSSIA WAS THE LARGEST EXPORTER OF CBAM PRODUCTS TO THE EU.



POSITION

ADVANCING THE ESTABLISHMENT OF A NATIONAL ETS

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁷⁵

43,5%

MOST EXPOSED CBAM PRODUCT^{76,77}

IRON, STEEL, AND ELECTRICITY

REACTION TO THE EU CBAM

Climate change mitigation gained importance on the Turkish policy agenda as a direct result of the establishment of the EU's CBAM. At COP26, Turkey ratified the Paris Agreement and announced the design of a national emissions trading system. Ankara claimed that the "big threat" of CBAM certainly played a role in its decision⁷⁸.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

Turkey, one of the countries most affected by the EU's CBAM, has announced the launch of an ETS, which will go into effect in the second half of 2024 and closely align with the EU system. In No-

vember 2023, the government published the draft regulation for the ETS and opened it to consultation. The process is now concluded, and the law is set to be published shortly. In December 2023, Turkish government officials released some details regarding how the ETS will work, including that it will not initially be open to non-compliance players and will begin with a pilot phase for power and heavy industrial sectors with annual emissions of more than 500,000 tonnes of CO₂e⁷⁹.

The draft regulation sets out that a "primary carbon market" will be established where allowances will be distributed or sold via auction, while a "secondary spot market" will be implemented where trading among participants takes place. Allowances will be allocated through auctions or free allocation, with the amount determined annually⁸⁰.

CLIMATE CHANGE MITIGATION GAINED IMPORTANCE ON THE TURKISH POLICY AGENDA AS A DIRECT RESULT OF THE ESTABLISHMENT OF THE EU'S CBAM.



POSITION

RUSSIAN AGGRESSION DEPRIORITISED CLIMATE POLICY, INTRODUCTION OF ETS IS POSTPONED

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁸¹

37,1%

MOST EXPOSED CBAM PRODUCT⁸²

IRON AND STEEL

REACTION TO THE EU CBAM

As announced in January 2024 by the Minister of Environmental Protection and Natural Resources, Ruslan Strilets, Ukraine plans to launch a national ETS in pilot mode in 2025⁸³. In October 2023, Strilets told national media that a domestic carbon market would seek to match the ambition of the EU. However, the official cast doubts on Ukraine's ability to meet its ambitious deadline due to the Russian invasion⁸⁴.

The EU's CBAM has a force majeure clause that allows the EU to make exemptions "where an unforeseeable, exceptional and unprovoked event has occurred that is outside the control of one or more third countries." While the Russian invasion of Ukraine would intuitively seem to qualify, Brussels hasn't given any concrete signals that Kyiv will be exempted⁸⁵.

Ukraine applied for EU membership in February 2022 and was granted EU candidate status in June 2022. In December 2023, EU leaders decided to open accession negotiations⁸⁶. If Ukraine were to join the EU, it would also join the EU ETS and eventually be exempted from CBAM⁸⁷. During the transition, Ukrainian exporters of CBAM products would likely have to buy CBAM compliance

units only if differences between the stringency and level of Ukrainian carbon pricing were deemed insufficient⁸⁸.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

In accordance with the EU-Ukraine Association Agreement, which entered into force in 2017, Ukraine has been preparing to establish a national emissions trading system. The country developed the national monitoring, reporting and verification (MRV) system as a solid foundation for the upcoming ETS. Since 2021, regulated installations must follow the MRV procedures outlined in the framework law on MRV. By the end of March 2022, covered installations were intended to submit their first monitoring reports for 2021, but this requirement was temporarily suspended due to the Russian aggression. Draft instruments for cap setting and allowance allocation were created⁸⁹.

In October 2023, Ukraine's environment minister communicated that the country must adopt a law on a national ETS as early as 2024, with the aim of introducing it in 2025, to avoid any negative impact on Ukrainian exports linked to the EU's CBAM⁹⁰.

UKRAINE'S ENVIRONMENT MINISTER COMMUNICATED THAT THE COUNTRY MUST ADOPT A LAW ON A NATIONAL ETS AS EARLY AS 2024, WITH THE AIM OF INTRODUCING IT IN 2025, TO AVOID ANY NEGATIVE IMPACT ON UKRAINIAN EXPORTS LINKED TO THE EU'S CBAM.



POSITION

UK'S CBAM TO BE LAUNCHED
IN 2027

SHARE OF COUNTRY'S EXPORT OF CBAM
PRODUCTS THAT GOES TO THE EU⁹¹

68,9%

MOST EXPOSED CBAM
PRODUCT⁹²

IRON, STEEL, AND
ELECTRICITY

REACTION TO THE EU CBAM &
DOMESTIC CBAM

In December 2023, the UK government announced that a UK CBAM will be implemented by 2027⁹³. The UK CBAM will mirror the EU mechanism, with room for potential collaboration with Brussels on the establishment of the measure⁹⁴. The UK CBAM will cover carbon-intensive imported goods from the following sectors: aluminium, cement, ceramics, fertilisers, glass, hydrogen, and iron and steel⁹⁵. In March 2024, the UK government launched a consultation on how it should apply the new carbon import levy⁹⁶.

DOMESTIC CARBON PRICE AND
CAP-AND-TRADE POLICIES

A UK Emissions Trading Scheme (UK ETS) replaced the UK's participation in the EU ETS on 1 January 2021. Verified emissions from stationary UK ETS operators currently account for around one-quarter of the country's territorial GHG emissions. The first phase of the UK ETS runs until 2030, and the system will be reviewed in 2028. The UK government remains open to the possibility of integrating the UK ETS with other systems if it benefits both parties⁹⁷.

THE UK
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POSITION

THE US ADMINISTRATION FOCUSES ON GSA AGREEMENT

SHARE OF COUNTRY'S EXPORT OF CBAM PRODUCTS THAT GOES TO THE EU⁹⁸

9,7%

MOST EXPOSED CBAM PRODUCT^{99,100}

IRON, STEEL, ALUMINIUM, AND FERTILISERS

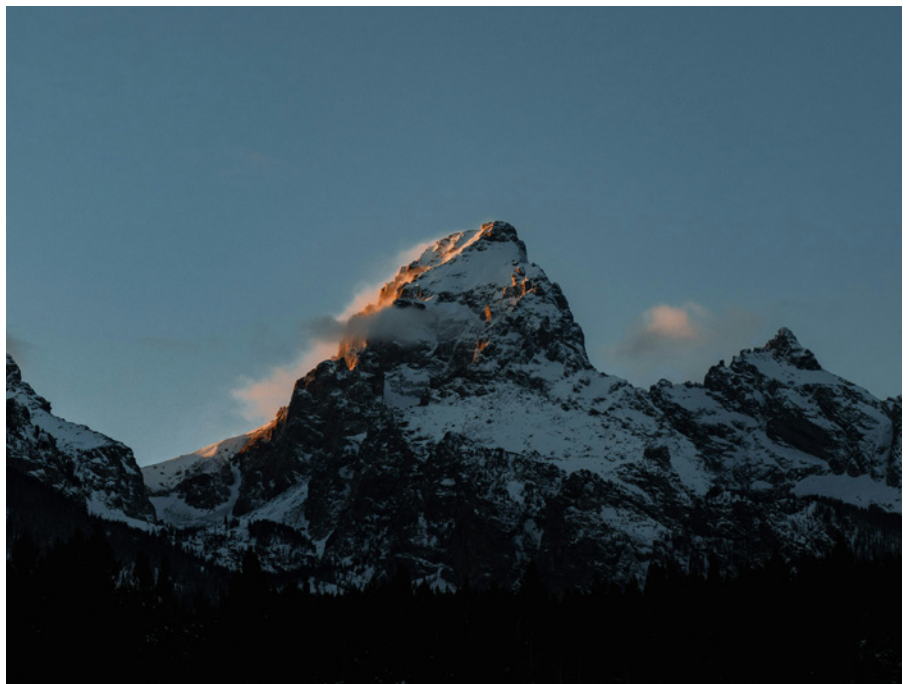
REACTION TO THE EU CBAM & DOMESTIC CBAM

Initially, the US expressed concerns about the possible implications of the EU's CBAM for its economy, relationships and trade, and suggested that a tax adjustment should be used as a "last resort". In the US Senate, Democrats initiated talks over a "polluter import fee" akin to the EU's CBAM and proposed the FAIR Transition and Competition Act, which would place a tariff on imports of aluminium, cement, iron, steel, gas, petroleum and coal starting in 2024⁰¹. These initiatives were not enacted.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

The US does not have an explicit carbon pricing mechanism in place. Since late 2021, the EU and the US have been negotiating the Global Arrangement on Sustainable Steel and Aluminium (GSA), a "carbon-based sectoral arrangement" to address issues related to those sectors' carbon intensity and global excess capacity¹⁰². Countries that join the agreement must make the necessary adjustments to decarbonise their steel and aluminium industries and limit market access for non-participating countries that fail to meet low carbon standards. The ultimate purpose of the agreement is to address Chinese overcapacity and the export of Chinese industrial products. In October 2023, the US and the EU extended the deadline to conclude the negotiations to the end of 2023¹⁰³. However, as the two powers are locked in a stalemate, the next deadline has been set for after the November 2024 election in the US⁰⁴.

THE US DOES NOT EXPORT A SIGNIFICANT AMOUNT OF CBAM-COVERED GOODS TO THE EU. THUS, IT IS UNLIKELY THAT CBAM WILL HAVE A SIGNIFICANT IMPACT ON US INDUSTRY¹⁰⁵.



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