EU negotiators aim to reach an agreement during late-night negotiations on Monday (12 December) on a new levy that would put a price on carbon-intensive goods entering the EU.
The so-called carbon border adjustment mechanism was proposed by the European Commission in 2021 to shield European industry from cheaper, more carbon-intensive imports.
“The European Union will be the first trade area in the world to put a carbon price on its imports,” environment committee chair Pascal Canfin told EURACTIV.
“The decisive trialogue will take place on Monday. And I think we have a good chance of landing,” he added.
The lead negotiator for the European Parliament, Mohammed Chahim, also told EURACTIV that both he and his counterparts representing the 27 EU countries want to reach an agreement before the end of the year.
“I think there’s a willingness from both sides to close the file this year. I think that willingness will be of course tested when we look at the flexibility that both sides have, but when you find a compromise on very sensitive issues, it’s very normal to wait until the very last moment to see where you can improve,” he explained.
But there is a lot to do in the final round of negotiations. While there is agreement on the governance of the new levy, the core elements are yet to be decided. These include what imports should be covered by the measure and how to protect exports from external competition.

What imports to include

One thing negotiators will need to decide on Monday is the scope of products covered by the new levy. In its proposal, the European Commission suggested it should cover iron and steel, cement, fertilisers and electricity generation.
EU countries want to stick with this list, but the European Parliament wants to add imports of hydrogen and certain plastics as well as indirect emissions from the production of the energy used in the manufacturing process.
The Commission’s proposal covers 55% of Europe’s industrial emissions while parliamentary negotiators want to extend this to cover 60-65% of emissions, explained Canfin.
According to The Left negotiator Malin Björk, “It is important to have as many emissions as possible covered by this new instrument, and these sectors and categories are important sources of emission.”
Hydrogen could be relatively easy to add while the extension to plastics could be more complex.

However, it would be good to include them given the carbon-intensity of plastics, Agnese Ruggiero from the NGO Carbon Market Watch told EURACTIV.

Meanwhile, industry groups like AEGIS Europe, which brings together more than 20 European manufacturing associations, warn against expanding the scope of the levy without a proper impact assessment and consultation.

There must be “deep impact assessments and open consultations with every single industry that may be added to the product scope of CBAM” before they are added, the group wrote in a letter to EU institution leaders at the beginning of December.

Compensating exporters

Another point of contention is whether to compensate European exports to protect them from foreign competitors with cheaper production costs.

European exports are currently protected by free permits to pollute under the EU carbon market. The levy will replace these and, instead, charge carbon-intensive imports entering the EU.

But this only protects goods sold on the European market and industry groups are arguing that the failure to protect exports will lead to more production moving out of the EU – known as carbon leakage.

“The CBAM only responds partially to carbon leakage because the CBAM currently only captures the risk of leakage in relation to carbon competition in the Union market,” said Marie-Sophie Dibling, a partner at the international law firm King & Spalding LLP.

“It does not cover competition on export markets and the European industry exports a significant part of their production on export markets,” she added.

The argument to support exports has been bolstered by recent economic and geopolitical turmoil, which has already seen EU industry put at a disadvantage due to high energy prices and support schemes like the US Inflationary Reduction Act.

The European Commission, however, is reluctant to address the issue, citing a potential violation of international trade rules. It is suggesting using the Innovation Fund to help companies affected, but this is not popular with EU countries.

Meanwhile, the European Parliament wants to grant free allowances to exports that have invested in decarbonisation, but is making little headway.

In a letter to the European Commission, the chair of the industry and energy committee Cristian-Silviu Busoi expressed his concern about the “outright rejection” to even discuss the European Parliament’s position on exports.

“The European Commission has not provided a detailed analysis of its legal reasoning and, even more, legal experts agree there is no WTO case-law which has settled the issue," he wrote, calling on the EU executive to engage with negotiators "in good faith" and to support an approach to protect exports.

Meanwhile Ruggiero told EURACTIV that the overall impact on exports was never calculated as huge, adding that free allowances will still be allocated until at least 2030, Euractiv writes.