

European Parliament event on CBAM highlights WTO compatibility of free allowances and export adjustments

Brussels, 9 February 2022 – AEGIS Europe welcomes the arguments presented yesterday at the event *Carbon Border Adjustment Mechanism: EU's climate ambition, carbon leakage and WTO rules compliance*, organised by the EP Forum Fair Competition & International Trade.

MEP Iuliu Winkler, co-chair of the EP Forum and vice-chair of the INTA Committee in the European Parliament, opened the event by saying: *"We must not only listen to stakeholders, but also understand their concerns and incorporate their proposals. European competitiveness and jobs must be protected, and the socio-economic impact of the FF55 legislative proposals must be duly considered."*

Benjamin Denis, Senior Policy Adviser with IndustriALL European Trade Union, representing over 7 million workers in 38 European countries, addressed the thorny issue of how the envisaged CBAM and ETS reform should support the efforts to decarbonise European industries while contributing to a just transition for workers.

Marie-Sophie Dibling, Hervé Jouanjean and Bernard O'Connor from the law firms [King & Spalding](#) and [O'Connor and Company](#) presented the legal arguments of WTO consistency of an EU ETS system incorporating a (i) CBAM to address carbon leakage on imports, (ii) an export adjustment mechanism to address carbon leakage through the loss of carbon controlled exports and (iii) the continuation of free allowances.

Maintaining ETS free allowances and CBAM does not amount to double protection, since the two measures will be synchronised to be complementary without overlaps. This was echoed by the European Commission recently in a U.S. countervailing duty investigation on imports of EU steel products, in which the Commission argued that free allocation of ETS allowances does not constitute a subsidy (i.e., a specific financial contribution that provides a benefit).

"There is an imminent risk of carbon leakage in relation to EU exports since EU low-carbon products will be replaced on export markets by high-carbon goods from competing origins with low climate ambitions, which undermines the EU's climate goals," the international trade lawyers said. Two WTO compatible solutions were proposed: extending free allowances to EU production destined for exports (*de facto* export adjustments) and/or granting refund/credit for allowance obligations on exports (*de jure* export adjustments).

To ensure WTO compatibility, the export adjustments must be an integrated but independent component of the EU ETS and must apply to EU products exported to third countries with lower climate ambitions. Export adjustments must be kept in place until third countries align their climate policies to the EU's.

AEGIS Europe supports the EU's climate neutrality objectives and recognises that only a well-designed and thoroughly tested CBAM could help reach those objectives for the sectors for which it could be an effective solution. However, to avoid further carbon leakage and promote low-carbon EU production, AEGIS Europe calls on the EU to develop stronger anti-circumvention tools, to carefully test the measure and implement export adjustments while maintaining free allowances for a sufficient transition period.

Boosting the production of low-carbon EU products and reducing our dependence on high carbon imports from third countries would significantly reduce global emissions, preserve European jobs and strengthen the EU's strategic autonomy.

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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.