WECOOP
EU – Central Asia cooperation on Water – Environment – Climate Change
Funded by the European Union


Photo by Farkhat Kabdykairov

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1. INTRODUCTION

European Union – Central Asia Water, Environment and Climate Change Cooperation (WECOOP)

The EU renewed the project **"European Union – Central Asia Water, Environment and Climate Change Cooperation (WECOOP)"** in October 2019 to run for three years. The project will continue strengthening the policy dialogue on sustainable development between the CA partner countries and to facilitate their cooperation with the EU on environment and climate change. Specifically, the project efforts will be focused on improving and rationalising policies and enhancing the capacities of national ministries and government agencies working in relevant fields.

The WECOOP project aims to enhance environment, climate change and water policies in Central Asia through **approximation to EU standards** and **to promote green investments** in relevant sectors with the aim of contributing to measurable reductions in man-made pollution, including CO_2 emissions.

Priority areas for consultations and cooperation include **environmental governance, circular economy** and **sustainable consumption and production, climate change adaptation and mitigation,** and **water resources management.**

The WECOOP News Bulletin regularly provides brief information on the recent developments in EU policies and legislation, as well as on new relevant reports and studies published by the European Environment Agency, OECD or other specialized agencies.

The WECOOP News Bulletin Special issues are released to inform on a specific topic or event of current interest and importance.

The present special issue is focused on the new 'Fit for 55' package – delivering the EU's 2030 climate target on the way to climate neutrality. Special attention is being paid to the Carbon Border Adjustment Mechanism (CBAM) which is of utmost importance for the CA countries.

Detailed information on the WECOOP project is available at the project website https://wecoop.eu.

2. EU POLICIES AND LEGISLATION

2.1 'FIT FOR 55' PACKAGE – DELIVERING THE EU'S 2030 CLIMATE TARGET ON THE WAY TO CLIMATE NEUTRALITY

On 14 July 2021, the European Commission adopted a package of legislative and conceptual proposals "Fit for 55" – delivering the EU's 2030 climate target on the way to climate neutrality to make the EU's climate, energy, land use, transport and taxation policies fit for reducing net greenhouse gas emissions by at least 55 % by 2030, compared to 1990 levels. Achieving these emission reductions in the next decade is crucial to Europe becoming the world's first climate-neutral continent by 2050 and making the European Green Deal a reality. With these proposals, the Commission is presenting the legislative tools to deliver on the targets agreed in the European Climate Law and fundamentally transform the EU economy and society for a fair, green and prosperous future.

The Fit for 55 package includes the following items:

- **Communication: 'Fit for 55' – delivering the EU's 2030 climate target on the way to climate neutrality** (umbrella document presenting framework for the whole Fit for 55 package)
- **Revision of the Regulation on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry**
- **Effort Sharing Regulation**
- **Amendment to the Renewable Energy Directive to implement the ambition of the new 2030 climate target**
- **Proposal for a Directive on energy efficiency (recast)**
- **Revision of the EU Emission Trading System for Aviation**
- **ReFuelEU Aviation – sustainable aviation fuels**
- **FuelEU Maritime – green European maritime space**
- **Revision of the Directive on deployment of the alternative fuels infrastructure**
- **Strategic rollout plan to support rapid deployment of alternative fuels infrastructure**
- **Amendment of the Regulation setting CO_2 emission standards for cars and vans**
- **Carbon border adjustment mechanism**
- **Revision of the Energy Tax Directive**
- **Revision of the EU Emission Trading System**
- **Notification on the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)**
- **Revision of the Market Stability Reserve**
- **Social Climate Fund**
- **Communication: New EU Forest Strategy for 2030**

The Fit for 55 package is designed in the basic spirit of the EU: efforts are shared between Member States in the most cost effective way, acknowledging differences among Member States, and support is given to those most in need, to ensure that the transition reaches everybody in a beneficial way.

The package of proposals has been carefully crafted to create the right balance of policy measures and revenues generated to design and drive a just and transformational change across the EU economy. Changing the weight of each tool inevitably has knock-on effects on several others, and removing any of the proposed measures requires a tuning up of proposals in other areas. To make the EU fit for 55 and reduce in time our emissions by at least 55 %, the EU needs all these tools and this balance.

All documents listed above can be found at the link https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en

FIT FOR 55 PACKAGE – A COMPREHENSIVE AND INTERCONNECTED SET OF PROPOSALS

Fit for 55 package will enable the necessary acceleration of greenhouse gas emission reductions in the next decade. The proposals combine: application of emissions trading to new sectors and a tightening of the existing EU Emissions Trading System (EU ETS); increased use of renewable energy; greater energy efficiency; a faster roll-out of low emission transport modes and the infrastructure and fuels to support them; an alignment of taxation policies with the European Green Deal objectives; measures to prevent carbon leakage; and tools to preserve and grow our natural carbon sinks.

- The EU ETS puts a price on carbon and lowers the cap on emissions from certain economic sectors every year. It has successfully brought down emissions from power generation and energy-intensive industries by 42.8 % in the past 16 years. Today the European Commission is proposing **to lower the overall emission cap even further and increase its annual rate of reduction**. The Commission is also proposing **to phase out free emission allowances for aviation** and align with the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and **to include shipping emissions for the first time in the EU ETS**. To address the lack of emissions reductions in road transport and buildings, **a separate new ETS is set up for fuel distribution for road transport and buildings**. The Commission also proposes **to increase the size of the Innovation and Modernisation Funds.**

- To complement the substantial spending on climate in the EU budget, **Member States should spend the entirety of their emissions trading revenues on climate and energy-related projects**. **A dedicated part of the revenues from the new system for road transport and buildings should address the**

possible social impact on vulnerable households, micro-enterprises and transport users.

- The Effort Sharing Regulation assigns **strengthened emissions reduction targets to each Member State for buildings, road and domestic maritime transport, agriculture, waste and small industries.** Recognising the different starting points and capacities of each Member State, **these targets are based on their GDP per capita**, with adjustments made to take cost efficiency into account.

- Member States also share responsibility for removing carbon from the atmosphere, so the Regulation on Land Use, Forestry and Agriculture sets **an overall EU target for carbon removals by natural sinks, equivalent to 310 million tonnes of CO_2 emissions by 2030**. National targets will require Member States to care for and expand their carbon sinks to meet this target. **By 2035, the EU should aim to reach climate neutrality in the land use, forestry and agriculture sectors, including also agricultural non-CO_2 emissions, such as those from fertiliser use and livestock**. **The EU Forest Strategy aims to improve the quality, quantity and resilience of EU forests.** It supports foresters and the forest-based bioeconomy while keeping harvesting and biomass use sustainable, preserving biodiversity, and setting out a plan to plant three billion trees across Europe by 2030.

- Energy production and use accounts for 75 % of EU emissions, so accelerating the transition to a greener energy system is crucial. The Renewable Energy Directive will set **an increased target to produce 40 % of the EU energy from renewable sources by 2030**. All Member States will contribute to this goal, and specific targets are proposed for renewable energy use in transport, heating and cooling, buildings and industry. To meet both our climate and environmental goals, **sustainability criteria for the use of bioenergy** are strengthened and Member States must design any support schemes for bioenergy in a way that respects **the cascading principle of uses** for woody biomass[1].

- To reduce overall energy use, cut emissions and tackle energy poverty, the Energy Efficiency Directive will set **a more ambitious binding annual target for reducing energy use at EU level**. It will guide how national contributions are established and almost double the annual energy saving obligation for Member States. **The public sector will be required to renovate 3 % of its buildings each year to** drive the renovation wave, create jobs and bring down energy use and costs to the taxpayer.

- A combination of measures is required to tackle rising emissions in road transport to complement emissions trading. **Stronger CO_2 emissions standards for cars and vans** will **accelerate the transition to zero-emission mobility by requiring average emissions of new cars to come down by 55 % from 2030 and 100 % from 2035 compared to the 2021 levels**. As a result, **all new cars registered as of 2035 will be zero-emission.** To ensure that drivers are able to charge or fuel their vehicles at a reliable network across Europe, the revised Alternative Fuels Infrastructure Regulation will require Member States **to expand charging** capacity in line with zero-emission car sales, and **to install charging and fuelling points at regular intervals on major highways: every 60 kilometres for electric charging and every 150 kilometres for hydrogen refuelling.**

- Aviation and maritime fuels cause significant pollution and also require dedicated action to complement emissions trading. The Alternative Fuels Infrastructure Regulation requires that aircraft and ships have **access to clean electricity supply in major ports and airports**. **The ReFuelEU Aviation Initiative** will oblige fuel suppliers to blend increasing levels of sustainable aviation fuels in jet fuel taken on-board at EU airports, including synthetic low carbon fuels, known as e-fuels[2]. Similarly, **the FuelEU Maritime Initiative** will stimulate the uptake of sustainable maritime fuels and zero-emission technologies by setting a **maximum limit on the greenhouse gas content of energy used by ships** calling at European ports.

- The tax system for energy products must safeguard and improve the Single Market and support the green transition by setting the right incentives. A revision of the Energy Taxation Directive proposes **to align the taxation of energy products with EU energy and climate policies, promoting clean technologies and removing outdated exemptions and reduced rates that currently encourage the use of fossil fuels**. The new rules aim at reducing the harmful effects of energy tax competition, helping secure revenues for Member States from green taxes, which are less detrimental to growth than taxes on labour.

- Finally, **a new Carbon Border Adjustment Mechanism (CBAM) will put a carbon price on imports of a targeted selection of products to ensure that ambitious climate action in Europe does not lead to 'carbon leakage'.** This will ensure that European emission reductions contribute to a global emissions decline, instead of pushing carbon-intensive production outside Europe. **It also aims to encourage industry outside the EU and its international partners to take steps in the same direction.**

These proposals are all connected and complementary. The EU needs this balanced package, and the revenues it will generate to ensure a transition which makes Europe fair, green and competitive, sharing responsibility evenly across different sectors and Member States, and providing additional support where appropriate.

[1] Cascading use of biomass resources, such as wood and agricultural products, means an efficient use of these resources from the point of view of natural resource, material and land consumption.

[2] Electrofuels or e-fuels (synthetic fuels) are an emerging class of carbon-neutral drop-in replacement fuels that are made by storing electrical energy from renewable sources in the chemical bonds of liquid or gas fuels.

FIT FOR 55 PACKAGE – A SOCIALLY FAIR TRANSITION

While in the medium- to long-term, the benefits of EU climate policies clearly outweigh the costs of this transition, climate policies risk putting extra pressure on vulnerable households, micro-enterprises and transport users in the short run. The design of the policies in today's package therefore fairly spreads the costs of tackling and adapting to climate change.

In addition, carbon pricing instruments raise revenues that can be reinvested to spur innovation, economic growth, and investments in clean technologies. **A new Social Climate Fund is proposed to provide dedicated funding to Member States to help citizens finance investments in energy efficiency, new heating and cooling systems, and cleaner mobility.** The Social Climate Fund would be financed by the EU budget, using an amount equivalent to 25 % of the expected revenues of emissions trading for building and road transport fuels. It will provide EUR 72.2 billion of funding to Member States for the period 2025-2032, based on a targeted amendment to the multiannual financial framework. With a proposal to draw on matching Member State funding, the Fund would mobilise EUR 144.4 billion for a socially fair transition.

The benefits of acting now to protect people and the planet are clear: cleaner air, cooler and greener towns and cities, healthier citizens, lower energy use and bills, European jobs, technologies and industrial opportunities, more space for nature, and a healthier planet to hand over to future generations. The challenge of Europe's green transition is to make sure the benefits and opportunities that come with it are available to all, as quickly and as fairly as possible. By using the different policy tools available at EU level, we can make sure that the pace of change is sufficient, but not overly disruptive.

2.2 CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism COM (2021) 564 final

Link (English): https://ec.europa.eu/info/sites/default/files/carbon_border_adjustment_mechanism_0.pdf

Remarks by Mr Paolo Gentiloni, European Commissioner for Economy:
"CBAM is a demonstration of the potential leading role of the EU at global level. The rationale is to address the risk of carbon leakage, which can undermine the EU's efforts when production is moved elsewhere to avoid EU carbon pricing.

Many EU businesses are already subject to the EU's extremely successful flagship Emissions Trading System (ETS). But as long as industrial installations outside the EU are not subject to similarly ambitious measures, these efforts can lose their effect. That's why the EU needs the new CBAM: an environmental policy tool that will equalise the price of carbon between domestic products and imported goods for certain sectors.

The CBAM has been designed to mirror the already existing ETS, to ensure a fair and equal treatment for products made in the EU and imports from elsewhere, and to allow for a careful, predictable and proportionate transition for businesses and authorities. Like the ETS, the CBAM will be based on certificates whose prices correspond to the embedded emissions in imported goods.

If it can be shown that a carbon price has been paid for the embedded emissions in those imported goods, that amount will be removed from the importer's bill.

By addressing carbon leakage in this way, companies elsewhere will be incentivised to 'green' their production processes. And the CBAM will also encourage foreign governments to introduce greener policies for industry.

For the transitional period, which will last from 2023-2025, CBAM will apply to the iron and steel, cement, fertiliser, aluminium and electricity sectors. In this phase, importers will only have to report emissions embedded in their goods, without paying a financial adjustment. This will give time to prepare for the final system to be put in place which will enter into force in 2026, coinciding with the entry into force of the reinforced Emissions Trading System. Importers will need to buy certificates that can be offset against embedded emissions. The cost of certificates will be based on weekly ETS prices.

The CBAM is an environmental policy tool, not a tariff tool. It is in line and compliant with international trading rules. It will apply to products, not countries, based on their actual carbon content, independently of their country of origin. And it has been fully calibrated with the Emissions Trading System so that as free allowances are phased out under the ETS, CBAM is phased in for the sectors it covers.

The design the EU has chosen will gradually bring the CBAM into effect and this will allow the industrial sectors involved to have time to adapt and to provide maximum certainty for business."

CBAM: QUESTIONS AND ANSWERS

Why is the European Commission proposing a Carbon Border Adjustment Mechanism?

The EU is at the forefront of international efforts to fight climate change. The European Green Deal sets out a clear path towards realising the EU's ambitious target of a 55 % reduction in carbon emissions compared to the 1990 levels by 2030, and to become a climate-neutral continent by 2050.

The July 2021 package in support of the EU's climate targets is an integral part of the EU strategy to achieve this, and will further seal the EU's reputation as a global climate leader. As part of these efforts, the Carbon Border Adjustment Mechanism (CBAM) is a climate measure that should prevent the risk of carbon leakage and support the EU's increased ambition on climate mitigation, while ensuring WTO compatibility.

Climate change is a global problem that requires global solutions. As the EU raises its own climate ambition while less stringent environmental and climate policies prevail in non-EU countries, there is a strong risk of so-called 'carbon leakage' – i.e. companies based in the EU could move carbon-intensive production abroad to take advantage of lax standards, or EU products could be replaced by more carbon-intensive imports. Such carbon leakage can shift emissions outside of Europe and therefore seriously undermine EU and global climate efforts. The CBAM will equalise the price of carbon between domestic products and imports and ensure that the EU's climate objectives are not undermined by production relocating to countries with less ambitious policies.

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What is the Carbon Border Adjustment Mechanism?

Designed in compliance with World Trade Organization (WTO) rules and other international obligations of the EU, the CBAM system will work as follows: EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. Conversely, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer. The CBAM will help reduce the risk of carbon leakage by encouraging producers in non-EU countries to green their production processes.

CBAMs are already in place in some regions around the world, such as California, where an adjustment is applied to certain imports of electricity. A number of countries such as Canada and Japan are planning similar initiatives. In addition, the International Monetary Fund and the OECD have recently carried out work to study how such measures could support international efforts to reduce greenhouse gas emissions.

To provide businesses and other countries with legal certainty and stability, the CBAM will be phased in gradually and will initially apply only to a selected number of goods at high risk of carbon leakage: iron and steel, cement, fertiliser, aluminium and electricity generation. A reporting system will apply as from 2023 for those products with the objective of facilitating a smooth roll out and to facilitate dialogue with third countries, and importers will start paying a financial adjustment in 2026.

Finally, as a potential EU own resource, revenues from CBAM will contribute to the EU's budget, as laid out in the December 2020 Interinstitutional Agreement on budget and own resources.

Isn't carbon leakage already addressed by the Emissions Trading System (EU ETS)?

The EU ETS is the world's first international emissions trading scheme and the EU's flagship policy to combat climate change. It sets a cap on the amount of greenhouse gas emissions that can be released from industrial installations in certain sectors. Allowances must be bought on the ETS trading market, though a certain number of free allowances is distributed to prevent carbon leakage. That system has been effective in addressing the risk of leakage but it also dampens the incentive to invest in greener production at home and abroad. The CBAM will progressively become an alternative to this. Under the Commission's new proposal for a revised ETS, however, the number of free allowances for all sectors will decline over time so that the ETS can have maximum impact in fulfilling ambitious climate goals of the EU. Furthermore, for the CBAM sectors, the free allowances will gradually be phased out as from 2026.

To complement the ETS, the CBAM will be based on a system of certificates to cover the embedded emissions in products being subsequently imported into the EU. The CBAM departs from the ETS in some limited areas, however, in particular since it is not a ‘cap and trade' system. Instead, the CBAM certificates mirrors the ETS price.

To ensure a level playing field between EU and non-EU businesses, and once the full CBAM regime becomes operational in 2026, the system will adjust to reflect the revised EU ETS, in particular when it comes to the reduction of available free allowances in the sectors covered by the CBAM. This means that the CBAM will only begin to apply to the products covered gradually and in direct proportion to the reduction of free allowances allocated under the ETS for those sectors. Put simply, until they are completely phased out in 2035, the CBAM will apply only to the proportion of emissions that does not benefit from free allowances under the EU ETS, thus ensuring that importers are treated in an even-handed way compared to EU producers.

How will the CBAM work in practice?

The CBAM will mirror the ETS in the sense that the system is based on the purchase of certificates by importers. The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in EUR/tonne of CO_2 emitted. Importers of the goods will have to, either individually or through a representative, register with national authorities where they can also buy CBAM certificates.

National authorities will authorise registration of declarants in the

CBAM system, as well as reviewing and verifying declarations. They will also be responsible for selling CBAM certificates to importers. In order to import goods covered under the CBAM into the EU, they must declare by 31 May each year the quantity of goods and the embedded emissions in those goods imported into the EU in the preceding year. At the same time, they must surrender the CBAM certificates they have purchased in advance from the authorities.

By ensuring importers pay the same carbon price as domestic producers under the EU ETS, CBAM will ensure equal treatment for products made in the EU and imports from elsewhere and avoid carbon leakage.

What will happen in the transitional phase?

Under the Commission's proposal, importers will have to report emissions embedded in their goods without paying a financial adjustment in a transitional phase starting in 2023 and finishing at the end of 2025, giving time for the final system to be put in place.

This transitional phase, combined with the gradual phasing in of CBAM over time, will allow for a careful, predictable and proportionate transition for EU and non-EU businesses as well as authorities. Once the definitive system becomes fully operational in 2026, EU importers will have to declare annually the quantity of goods and the amount of embedded emissions in the total goods they imported into the EU in the preceding year, and surrender the corresponding amount of CBAM certificates.

Which sectors will the new mechanism cover and why were they chosen?

The CBAM will initially apply to imports of the following goods: **cement, iron and steel, aluminium, fertilisers, electricity.**

These sectors have a high risk of carbon leakage and high carbon emissions. The administrative feasibility of covering the sectors in the CBAM from the start was also taken into account.

The CBAM will apply to direct emissions of greenhouse gases emitted during the production process of the products covered. By the end of the transition period, the Commission will evaluate how the CBAM is working and whether to extend its scope to more products and services – including down the value chain, and whether to cover so-called 'indirect' emissions (i.e. carbon emissions from the electricity used to produce the good).

How can EU importers ensure that they get the information they need from their non-EU exporters to be able to use the new system correctly?

The information on embedded emissions for goods subject to CBAM should be communicated to importers registered in the EU by their non-EU producers. In cases where this information is not available as the goods are being imported, EU importers will be able to use default values (even once the definitive system has kicked in) on CO_2 emissions for each product to determine the number of certificates they need to purchase. Importers will nevertheless be able to demonstrate actual emissions during a reconciliation procedure, and surrender the appropriate number of CBAM certificates accordingly.

Who will fall under the scope of the CBAM?

In principle, imports of goods from all non-EU countries will be covered by the CBAM. That said, certain third countries who participate in the ETS or have an emission trading system linked to the Union's will be excluded from the mechanism. This is the case for members of the European Economic Area and Switzerland.

CBAM will be applied to electricity generated in and imported from countries that wish to integrate their electricity markets with the EU until such a point that those electricity markets are fully integrated. At that point, and under strict conditions linked to their implementation of certain obligations and commitments, these countries could be exempted from the mechanism. If so, the EU will revisit any exemptions granted in 2030, at which point those partners should have put in place the decarbonisation measures they have committed to, and an emissions trading system equivalent to the EU's.

Whom has the European Commission consulted on the proposed CBAM and how will the Commission engage with third countries?

In preparing this proposal, the Commission consulted stakeholders widely, both through an open public consultation and more targeted consultations. In addition, the Commission engaged in extensive bilateral consultations with public authorities in EU and non-EU countries, business associations, individual companies and NGOs. Targeted consultations were also undertaken with senior managers and associations from the basic materials sectors, manufacturers, NGOs and policymakers.

Dialogue with third countries will continue in multilateral fora and bilateral relations. As CBAM aims to encourage cleaner production processes, the EU also stands ready to work with low- and middle-income countries towards the decarbonisation of their manufacturing industries. The EU will also support less developed countries with necessary technical assistance.

To provide businesses and other countries with legal certainty and stability, the CBAM will be phased in gradually and will initially apply only to a selected number of goods at high risk of carbon leakage.

3. CONTACTS

European Union
92 Avenue Reine Astrid
1310 La Hulpe, Belgium
Phone: +32 2 655 22 30

Central Asia
Office 15, 5 Dostyk street
Z05H9M1 Nur-Sultan, Kazakhstan
Phone: +7701 206 6760

info@wecoop.eu
www.wecoop.eu

@wecoopproject

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