Institute for Natural Monopolies Research (IPEM)

CBAM: now it's official. Possible effects for Russia

July 26th, 2021

The current state of play of CBAM

- **2020** – creation of CBAM is announced
- **May 2021** – IPEM's report «Carbon border adjustment mechanism in the EU: risks of discrimination for Russian exporters»
- **June 2021** – a leaked draft of the EU's CBAM regulation
- **July 14th, 2021** – legislative proposal for CBAM by the European Commission

Russia is the most vulnerable country due to CBAM introduction

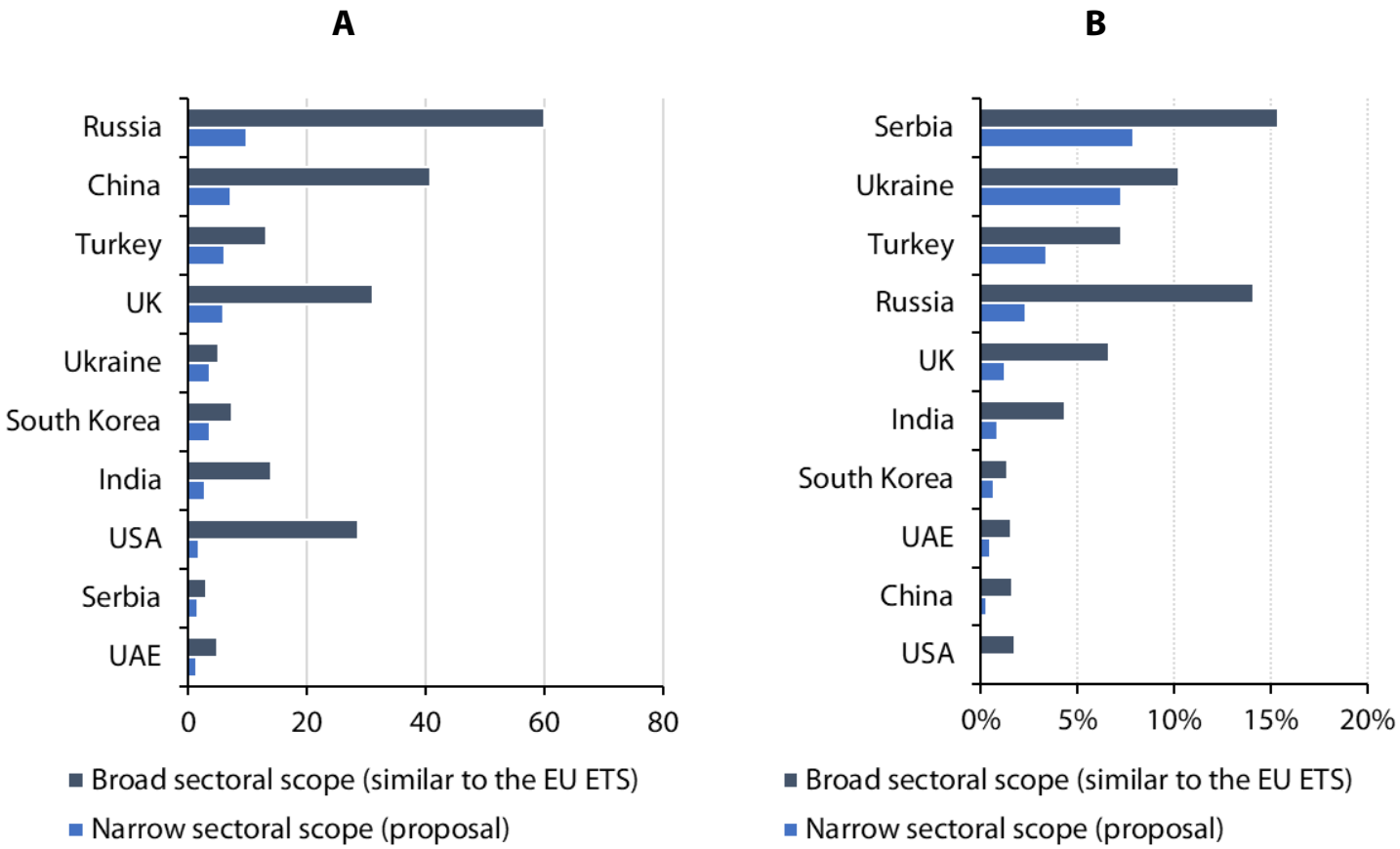
- The risk of CBAM extension to **4 countries that belong to the EEA and are members of the EU ETS** (Norway, Iceland, Switzerland and Liechtenstein) **is high**
- Further assessments are given for EU-27 + 4 countries

Russia ranks first in terms of the value of vulnerable exports to the EU (+ 4 countries)

- **$ 10 billion** (according to the proposal)
- **$ 60 billion** (similar to the EU ETS + mineral fertilizers)

Russia ranks second-fourth in terms of the share of vulnerable exports in country's total exports (among the largest exporters)

- **2.3%** (according to the proposal)
- **14.1%** (similar to the EU ETS + mineral fertilizers)



The volume of exports to the EU exposed to CBAM depending on sectoral scope
A) in absolute terms, B) in relative terms (share of total exports)

Note – Based on data from the Federal Customs Service and International Trade Centre

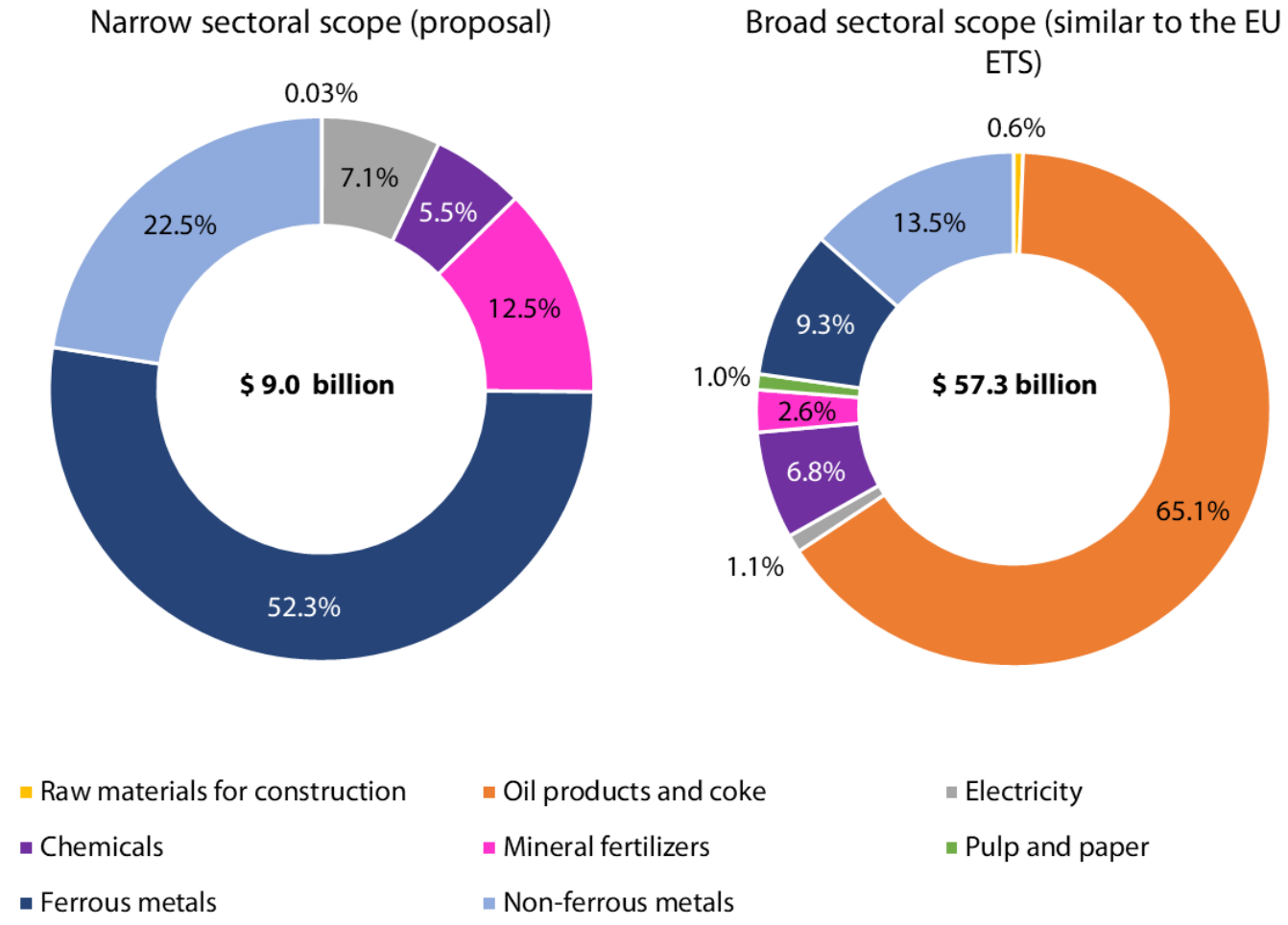
CBAM: the exposed industries

In the initial phase CBAM will cover only a small range of sectors:

- **ferrous metallurgy**,
- non-ferrous metallurgy (aluminium),
- chemical industry (nitrogen compounds) and production of nitrogen fertilizers,
- electricity generation.

In the future the sectoral scope of CBAM may be extended:

- **oil refining,**
- other sub-sectors of metallurgy and chemical industry,
- production of coke and raw materials for construction.



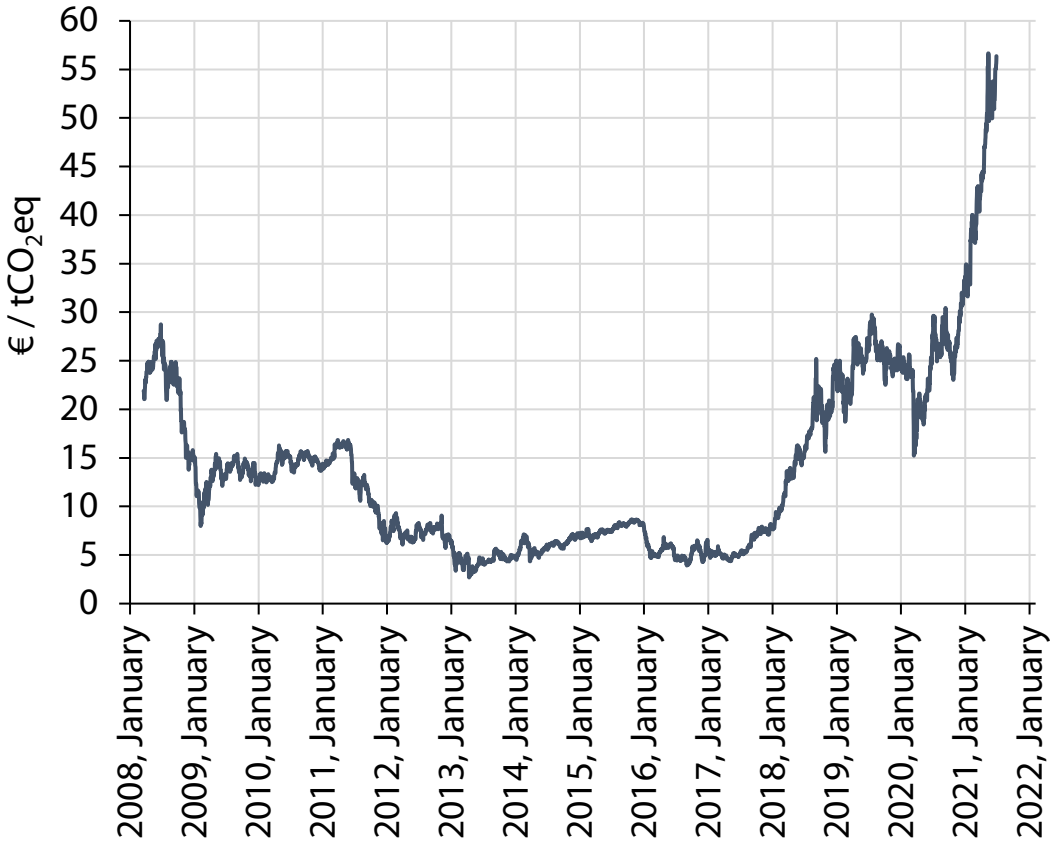
Russia's exports to the EU by sectors deemed to be exposed to CBAM depending on sectoral scope

Note:

1) *Based on data from the Federal Customs Service and International Trade Centre*
2) *Data for EU-27*

CBAM: details

Design elements	Description	Explanatory note
Emissions scope	**Direct** (scope 1) (for both simple and complex goods) and **indirect** non-energy emissions (scope 3) (for complex goods)	The European Commission will adopt *delegated acts* to determine the list of raw materials and semi-finished goods which will be covered in calculations of Scope 3 emissions
Determination of embodied carbon	Several ways (in descending order of priority): 1) the actual embedded emissions of goods produced in a given installation, 2) the average emission intensity of each exporting country and for each of the goods, 3) the average emission intensity of the 10% worst performing EU installations	
The payment rate	Rate will mirror the EU ETS (weekly average prices)	CBAM rate will depend on the EU ETS dynamics
Verification	Any person accredited pursuant to Implementing Regulation (EU) № 2018/2067 or by a national accreditation body	Additional costs for verification are expected
Free allocation under the EU ETS	Free allocation will be retained in the coming years, but the obligation to surrender CBAM certificates will be adjusted to reflect the extent to which EU ETS allowances are allocated free of charge	The European Commission will adopt *delegated acts* to set out the calculation methodology
Crediting for policies	Allowed	Crediting climate-related regulatory policies (namely carbon offsets) may not be allowed. The European Commission will adopt *delegated acts* to set out the methodology



Carbon price in the EU ETS in 2008–2021

Based on data from International Carbon Action Partnership and Ember-climate

The methodology of calculating losses of the Russian industries

The assessment of **CBAM payments of Russian exporters'** :

- calculations only for **a narrow sectoral scope**
- **the payment rate of** \$60 / tCO_2eq
- **actual embedded emissions of goods** (based on data from Rosstat and the Russian national inventory of GHG emissions)
- taking into **Scope 1 emissions** + **Scope 3 emissions** only for selected supply chains (steel and aluminium products, nitrogen fertilizers and compounds)
- **alternative effects aren't taken into account** (loss of market share in the EU)
- **payment reduction** due to retained free allocation under the EU ETS **isn't taken into account**

Furthermore, indirect effects are partially taken into account (**lower electricity and heat demand** due to production decline):

- lower production of metal ores, fossil fuels etc. isn't taken into account

Quantitative assessment of CBAM's effects on the Russian economy

	CBAM's direct effects Additional costs for Russian exporters, $ million			Exports, $ million	Additional costs-to-exports ratio
Product groups	**Scope 1**	**Scope 3**	**Total**		
Electricity	305.8	-	305.8	632.8	48%
Ferrous metals	314.1	955.9	1270.0	4805.7	26%
Non-ferrous metals	159.6	145.7	305.3	2868.1	11%
Nitrogen compounds	349.4	0.1	349.5	495.9	70%
Nitrogen fertilizers	1.7	64.7	66.5	664.5	10%
Concrete	2.3	-	2.3	2.6	87%
Total	**1132.9**	**1166.4**	**2299.3**	**9469.6**	**24%**

Note: total exports is lower then the above stated value of $ 10 billion as the calculations don't take into account mixed fertilizers containing nitrogen components.

- **Direct** effects ($ 2.3 billion)
- **Indirect** effects ($ 222 million)
- **Cumulative (direct and indirect) effects on the Russian economy are $ 2.5 billion**
- **Increase in the price of products** on average by 24% (concrete – almost a twofold increase)
- Taking into account **Scope 3 emissions** may lead to a tenfold increase in CBAM payments (moreover, there are difficulties in defining boundaries of technological chains under consideration)

How to address the discrimination of Russian exporters?

- **To participate in the international discussions at all stages of CBAM development** and focus the EU's attention on the feasibility of **implementing a less discriminatory CBAM design for Russian exporters**:
  - taking into account Scope 3 emissions only for those raw materials that are covered by CBAM itself,
  - crediting climate-related regulatory policies of exporting countries (namely carbon offsets) when calculating the carbon footprint of goods.
- **To advocate that WTO rules shouldn't be changed** to accommodate the implementation of CBAM.
- **To develop internal regulatory framework** to allow producers to reduce their carbon footprint:
  - development of national system of calculating company-level, installation-level and certain stage of technological process-level carbon footprint,
  - promotion of voluntary compensatory projects (carbon offsets),
  - encouraging restructuring and optimization of organizational structure of big holding companies by spinning off most efficient productions.
- **In the future (when CBAM will cover Scope 2 emissions) – to reduce the carbon footprint of electricity**:
  - development of mechanisms to minimize the carbon footprint of consumed electricity and heat (direct power purchase agreements, green certificates),
  - support of «green» and «low carbon» power generation (primarily hydro and nuclear power plants and highly efficient combined cycle gas turbines in thermal power plants).