

# A New Dawn for Carbon Pricing

The way forward for carbon border adjustments

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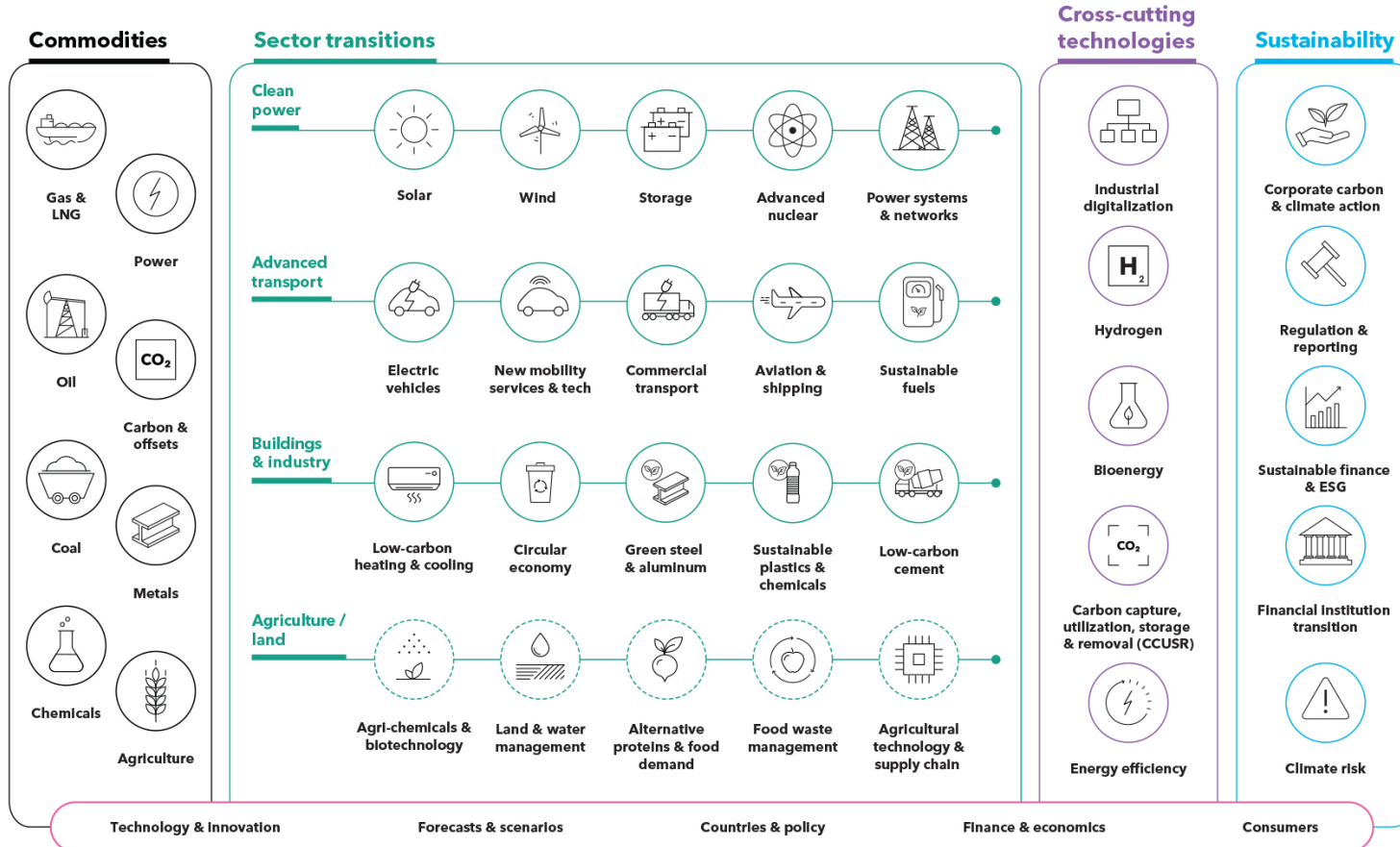
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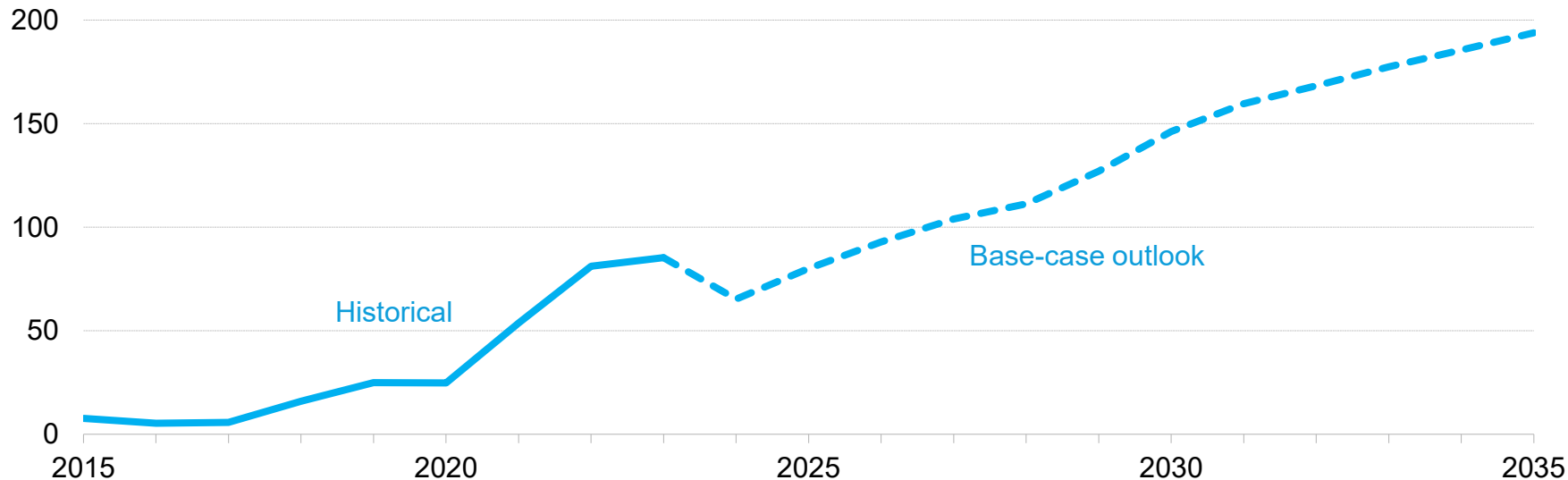
Strategies for a cleaner, more competitive future



# Carbon prices in the bloc could rise to almost €200 per ton by 2035

## EU emissions allowance price

€ per metric ton of CO2 equivalent (nominal)

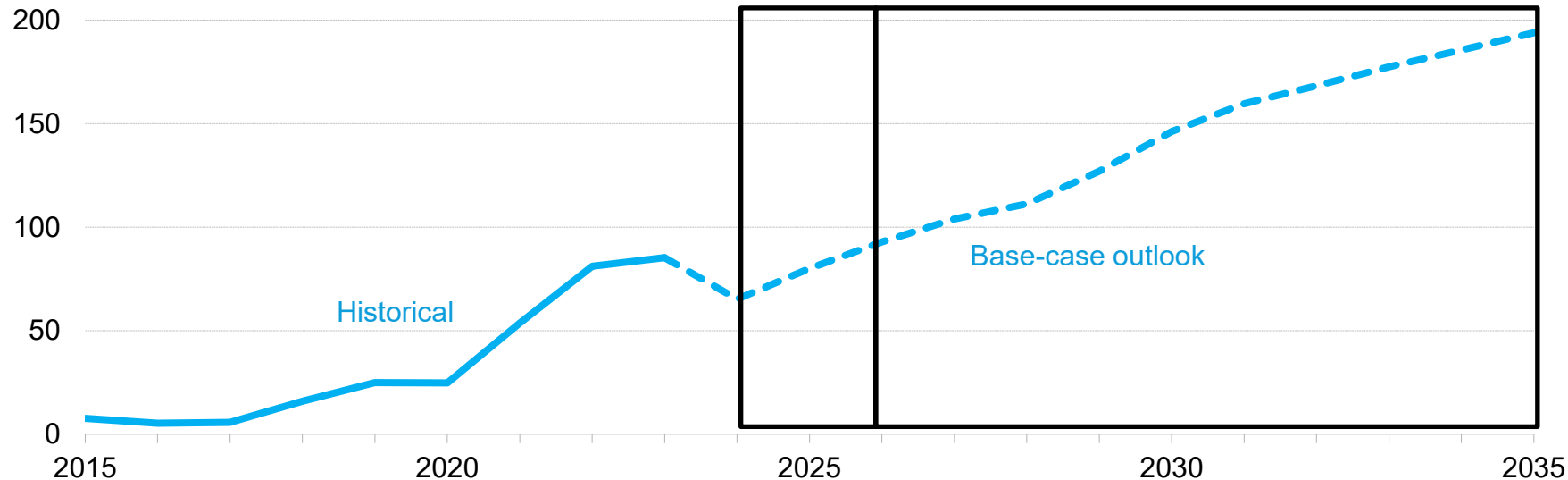


Source: BloombergNEF, ICE.

# Carbon border pricing is coming soon

## EU emissions allowance price

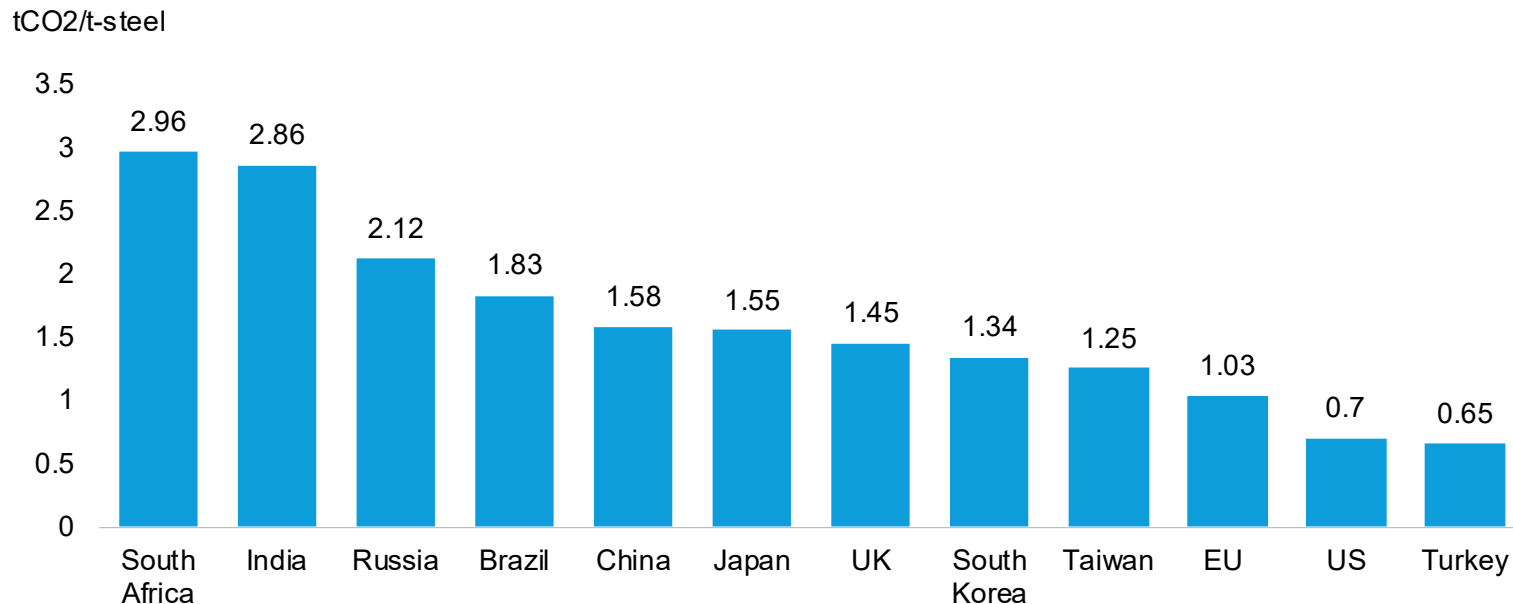
€ per metric ton of CO2 equivalent (nominal)



Source: BloombergNEF, ICE.

# Calculating carbon tariffs looks simple when you take national averages

Emission intensity of iron and steel sector by market in 2022, direct Scope 1 emissions

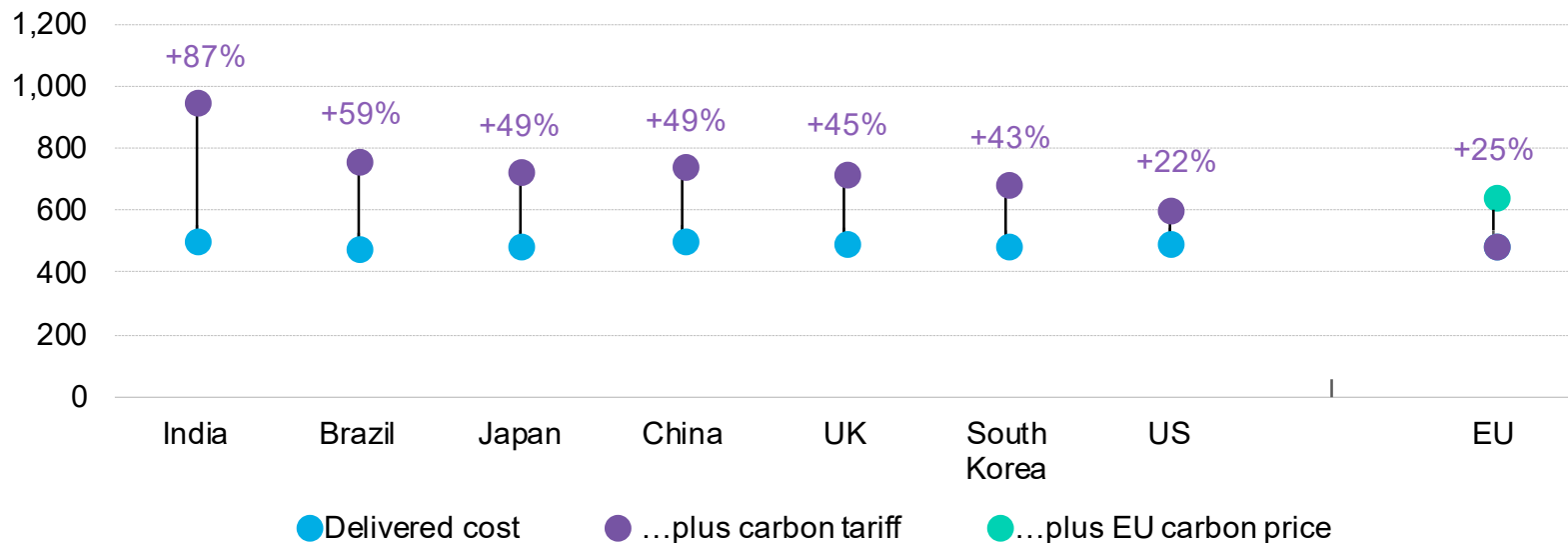


Source: BloombergNEF, European Commission. Note: Only includes direct Scope 1 emissions.

# Preliminary calculations redraw the competitive map for commodities like steel

## Carbon tariff on EU steel imports by country of origin in 2034

€/t-steel (real 2023)

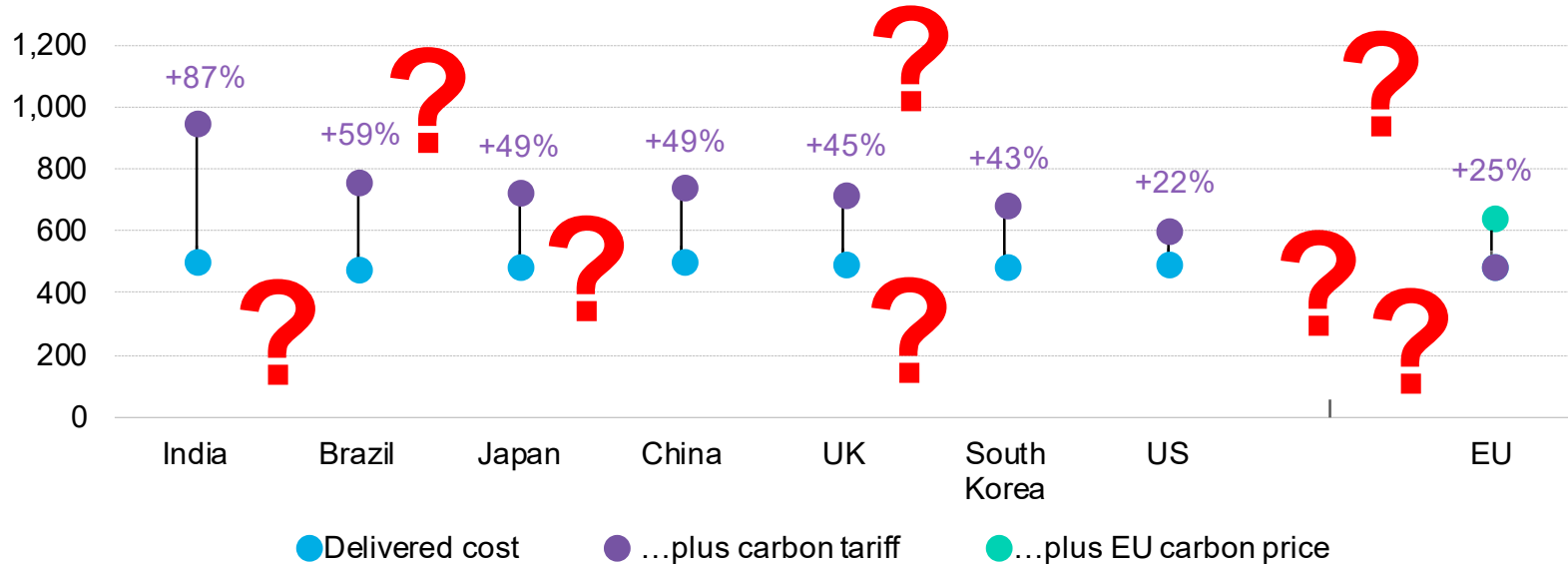


Source: BloombergNEF. Note: Emissions and production costs estimated for basic oxygen furnace crude steel for 2022 and 2030 respectively. Does not deduct carbon costs paid in countries of origin. EU applies zero transport costs to German production cost estimates. Mainland China referred to as China.

# Are things really that straightforward?

## Carbon tariff on EU steel imports by country of origin in 2034

€/t-steel (real 2023)



Source: BloombergNEF. Note: Emissions and production costs estimated for basic oxygen furnace crude steel for 2022 and 2030 respectively. Does not deduct carbon costs paid in countries of origin. EU applies zero transport costs to German production cost estimates. Mainland China referred to as China.



# Facility emissions vary within countries



Source: BloombergNEF, European Commission. Note: Steel plants shown by commissioning date.

# China has the most diverse fleet



Source: BloombergNEF, European Commission. Note: Steel plants shown by commissioning date.

An aerial photograph of a steel mill yard. The yard is filled with large stacks of steel rebar and coils of steel. The stacks are arranged in rows, and the ground is paved. In the background, there are industrial structures and a crane. The text "China only exports a tiny share of the steel it makes" is overlaid in the top left corner.

China only exports a tiny share of the steel it makes

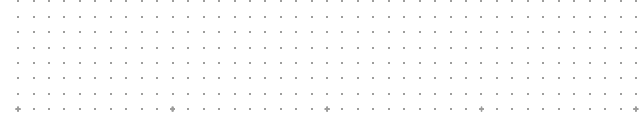
Source: Bloomberg

# This throws the whole calculus into question

$$\text{CBAM} = \text{embodied emissions} \times (\text{effective EU carbon price} - \text{effective overseas carbon price})$$

Source: BloombergNEF. Note: Effective refers to carbon prices after accounting for free allocation or other compensation mechanisms.

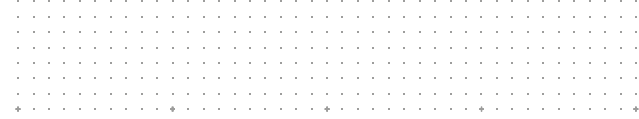
# Solutions?



Likely: EU will track **circumvention** and impose countermeasures

Unlikely: proposals to use **company-wide** emissions

# Relative carbon prices are key



$$\text{CBAM} = \text{embodied emissions} \times (\text{effective EU carbon price} - \text{effective overseas carbon price})$$

Source: BloombergNEF. Note: Effective refers to carbon prices after accounting for free allocation or other compensation mechanisms.

# Tariffs are lower when goods have already been subject to a carbon price

Carbon tariff applied to EU steel imports minus CO2 price paid in country of origin, 2034

€/t-steel (real 2023)



Source: BloombergNEF. Note: Emissions and production costs estimated for basic oxygen furnace crude steel for 2022 and 2030 respectively. Does not deduct carbon costs paid in countries of origin. EU applies zero transport costs to German production cost estimates.

# Europe is convincing others to price carbon at home



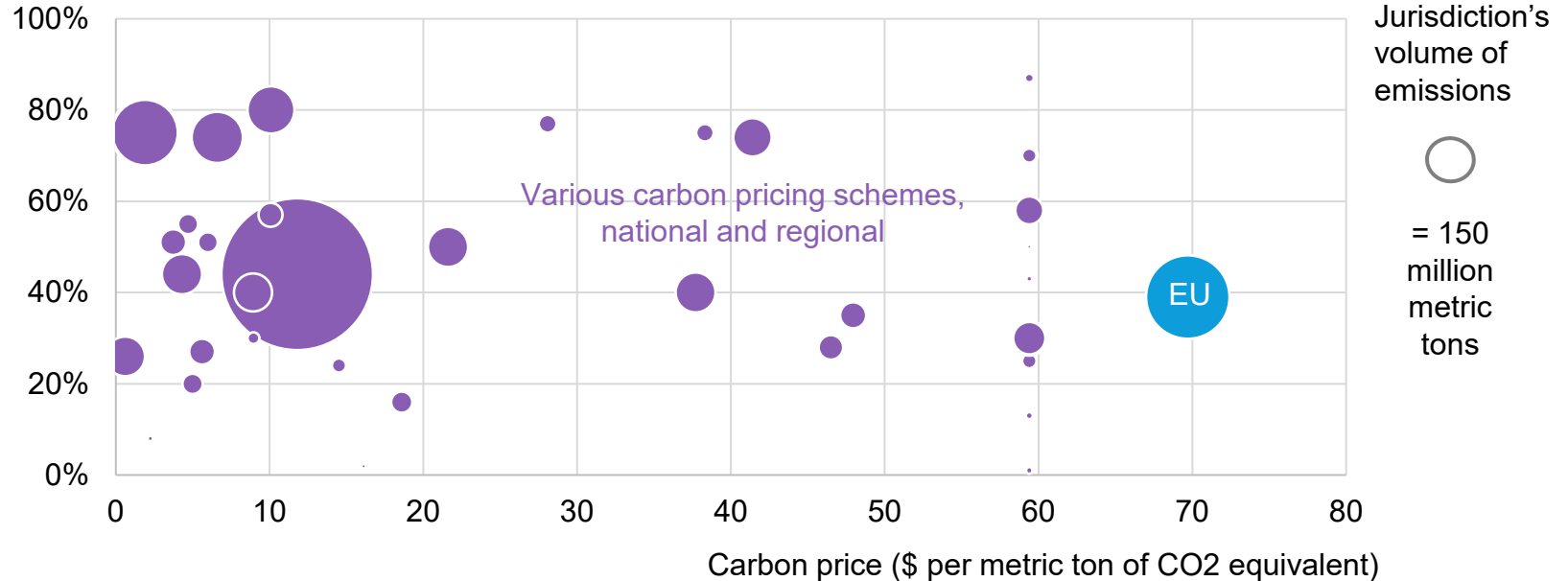
Source: Bloomberg



# But because EU leads on pricing...

## Carbon-pricing programs by price and share of emissions covered

Share of market emissions covered

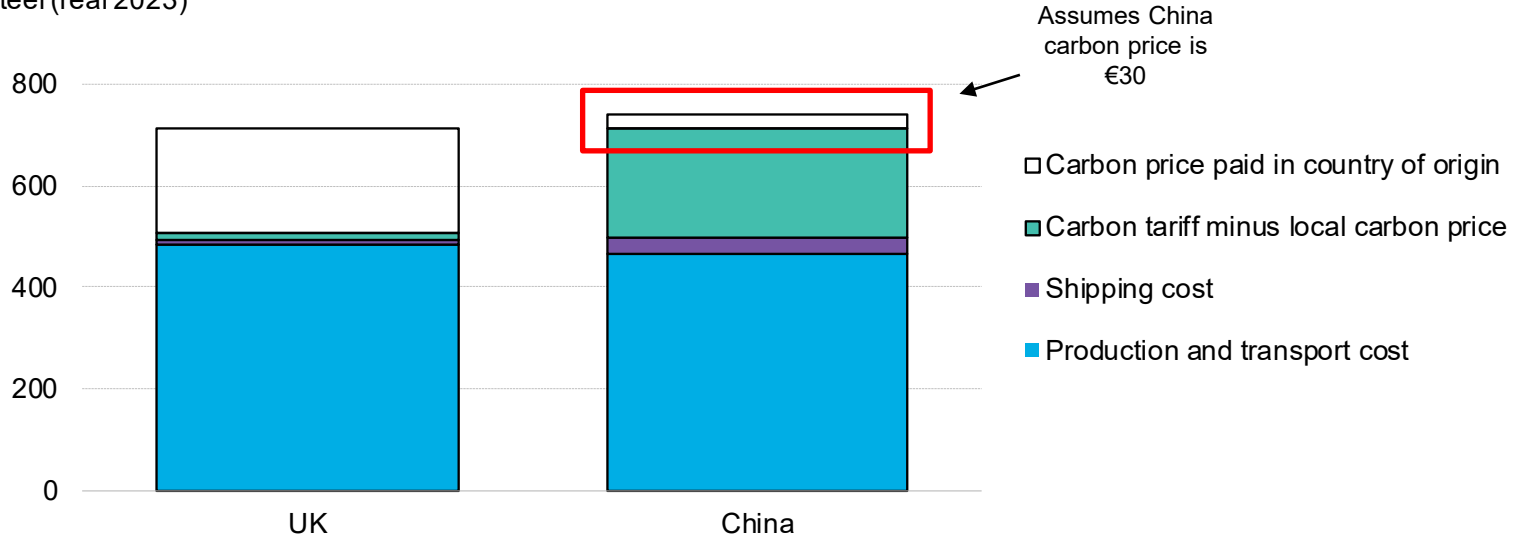


Source: BloombergNEF, ICE. Note: Figure includes operational international and national carbon taxes and markets, including state-level measures in China, Canada and the US. Where available, tax rates are for current year. EU Emission Trading System prices are average over six months to May 24, 2024.

# ... emerging economies might struggle to make a dent

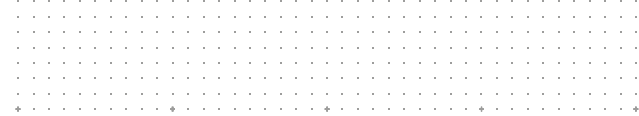
Carbon tariff applied to EU steel imports minus CO2 price paid in country of origin, 2034

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Source: BloombergNEF. Note: Emissions and production costs estimated for basic oxygen furnace crude steel for 2022 and 2030 respectively. Does not deduct carbon costs paid in countries of origin. EU applies zero transport costs to German production cost estimates.

# Solutions?



Likely: **financial support** for decarbonizing industry in poorer countries

Unlikely: accounting for **developmental status** when crediting carbon pricing

# Copycat schemes: harmonization or fragmentation?

## New UK levy to level carbon pricing

The UK is to implement a new import carbon pricing mechanism by 2027 to support the decarbonisation drive.

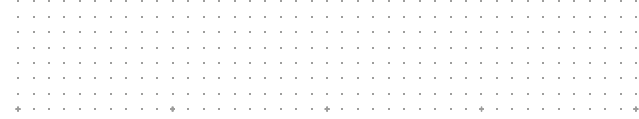
## Australia's Carbon Leakage Review

## Exploring Border Carbon Adjustments for Canada

### **A BILL**

To amend the Internal Revenue Code of 1986 to impose a fee on certain products imported into the United States based on the pollution intensity associated with the production of such products, and for other purposes.

# Solutions?



Likely: lining up **methodologies** on how to measure emissions

Unlikely: global coordination on **crediting** carbon pricing

The image shows two large oil tankers sailing on a body of water. The tanker on the left is red and black, while the one on the right is green and black. In the background, a long bridge with multiple arches spans across the water. The sky is hazy, and the water is dark blue with some whitecaps in the foreground.

# A new chapter for the energy transition begins

*Source: Bloomberg*

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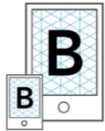
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