

## Position paper – I-REC Standard Foundation

### **We need a Carbon Border Adjustment Mechanism that supports the use of renewables globally**

Protecting European industry from carbon leakage while pushing for more renewable energy and carbon pricing in Europe's trading partners is exactly the kind of parallel strategy that European Climate policy needs. However, as currently proposed, the CBAM threatens the goal of encouraging local renewable energy use. If a CBAM adherent product's embedded emissions were calculated based on national averages or sector standards, the CBAM would end up treating producers the same regardless of their efforts to reduce their climate impact by using onsite or offsite renewable energy as a production input. Indeed, producers of goods covered by the CBAM would pay twice. Once for the renewable energy they contract to purchase and a second time for emissions based on national averages or sector standards for which they are not accountable due to their explicit procurement of renewable energy. This will undermine the motivation for producers outside of the EU to proactively use, and invest in, renewable energy.

The best way to encourage these commodity producers to purchase more renewable energy, or low-carbon technologies, is to require them to substantiate their products' actual embedded emissions based on contractually defined emission rights – such as energy attribute certificates (EACs). Making use of these internationally recognized and implemented certification standards will allow for clarity as to the use of renewable electricity, CCUS, renewable gases, and other decarbonizing technologies.

The issuance, ownership, and cancellation of tradable EACs provide proof of the emissions related to a given product. The protocols and infrastructure for allowing consumers to claim the use of renewable energy already exist in the EU—as defined in the REDII—in the US and in many other countries in the world. These tools can be used to verify the amount of carbon in a volume of products imported into Europe at any given time, and as a basis to understand the total embedded emissions in each product that falls under CBAM.

Treating commodity producers the same by using national or sector averages, irrespective of their efforts to reduce the emissions related to their production processes, reduces the incentive to invest in low-carbon technologies in their home countries. In addition, it entails exporting this investment from local low-carbon technologies to the European market in the form of mandatory CBAM certificates. In this way the payment for CBAM certificates constitutes an opportunity cost that could have been invested locally in low-carbon solutions like renewable electricity. This would weaken the ongoing transition to carbon-free commodity production and the development of low-carbon technologies. It would also increase global CO<sub>2</sub> emissions by reducing the demand, and revenue, for locally produced renewables and low-carbon technologies – the opposite of the goal of CBAM and the European Green Deal.

To promote the use of low-carbon technologies and renewable energy by the EU's trading partners, the CBAM should directly reference the surrender of EAC or similar contractual instruments as a part of the calculation method for embedded emissions and the Commission should be tasked with taking this into account in their calculation methodologies. This could either be done through amending paragraphs 2, 6, 7, and 18 as well as several annexes, or through the insertion of the following text as a new paragraph:

*The Commission is empowered to adopt implementing acts in order to set out requirements and procedures for producers to use contractually defined emission rights, adherent to international certification standards, as part of their calculation of embedded emissions in products.*