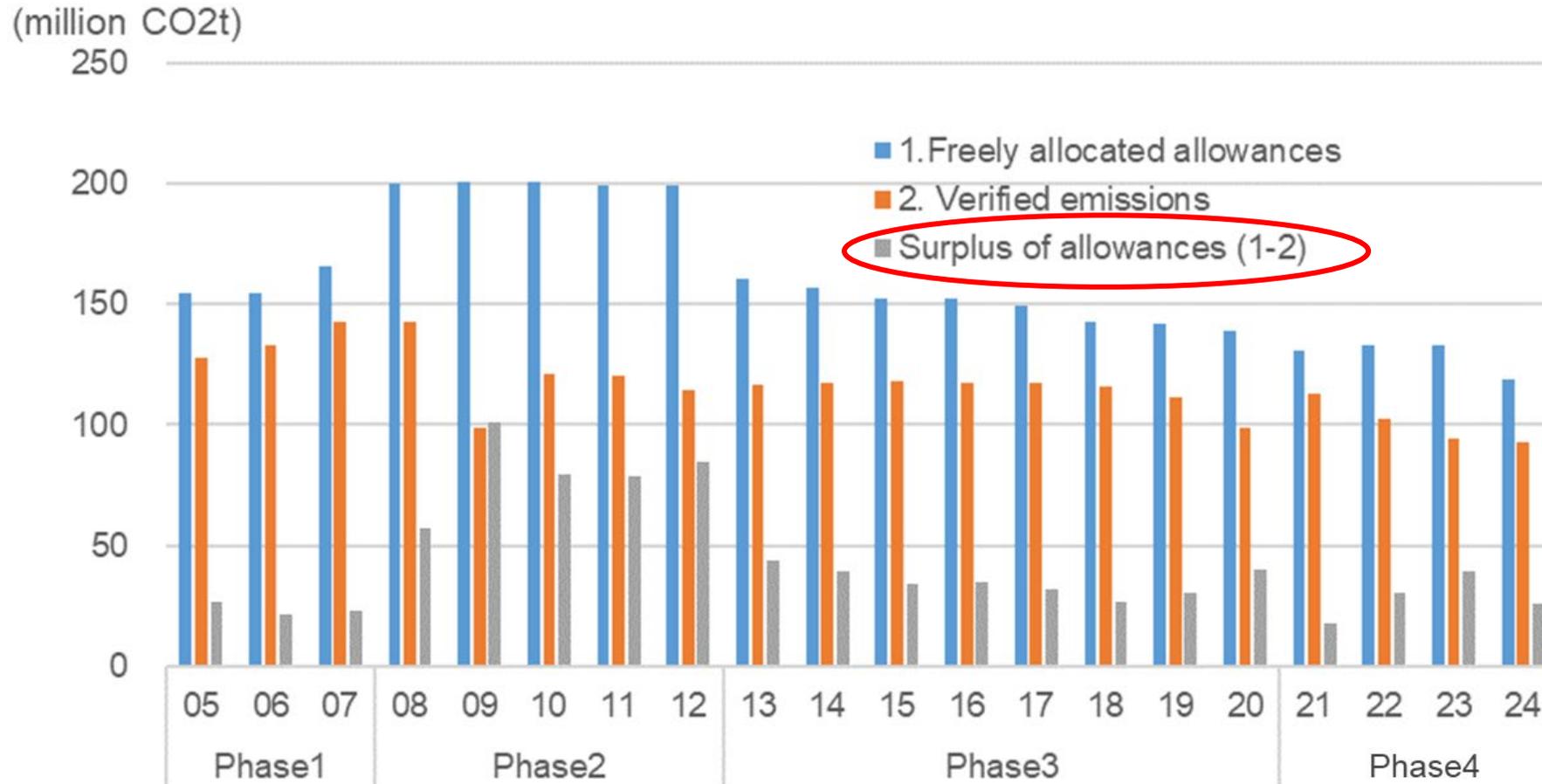


EU Carbon Pricing(CP) Policy: Case Study

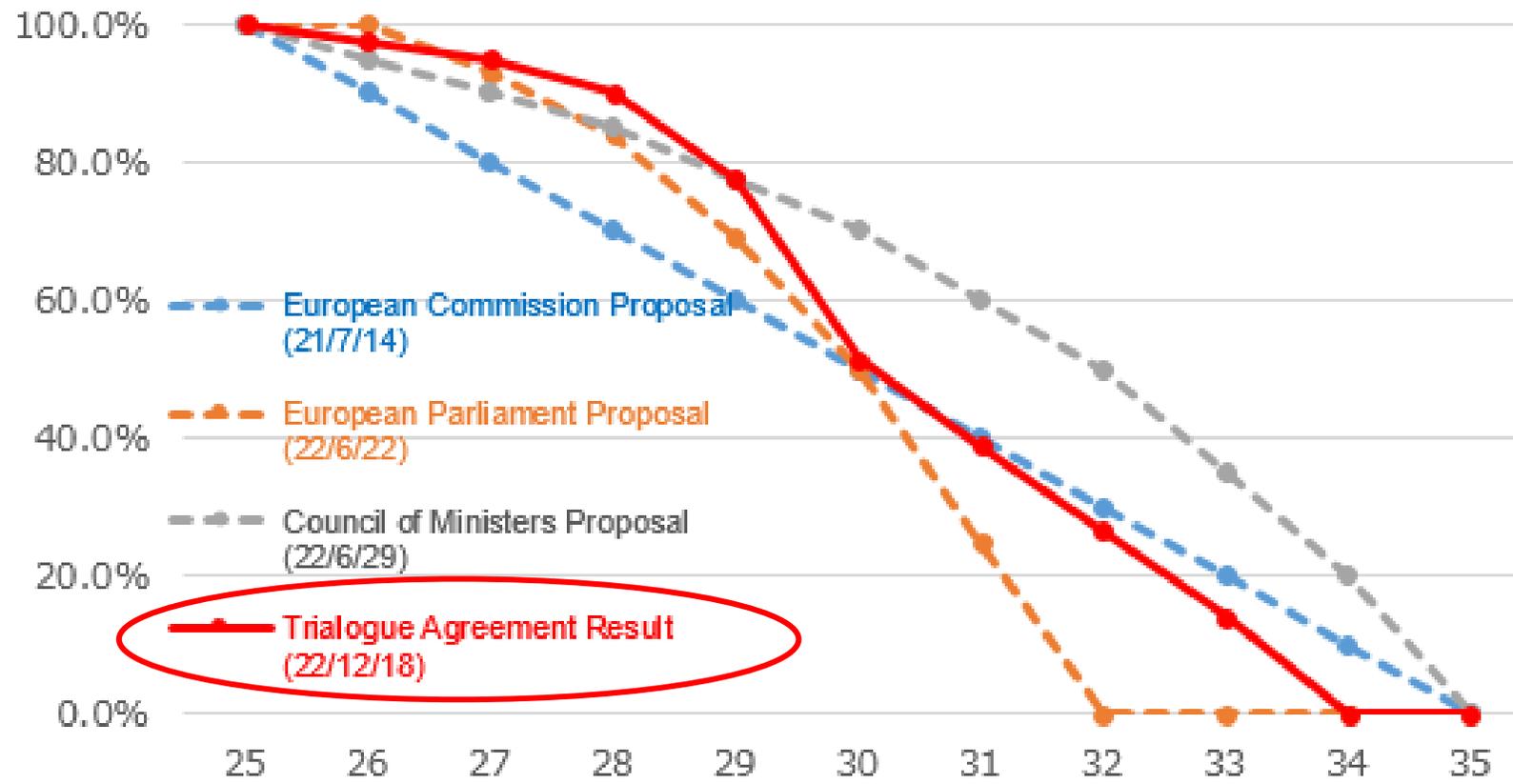
- Since the launch of the EU ETS in 2005, emission allowances have been allocated **free of charge** to hard-to-abate (HtA) industries (mitigating the CP burden).



Source: European Environment Agency (EEA) <https://www.eea.europa.eu/data-and-maps/dashboards/emissions-trading-viewer-1>

EU Carbon Pricing(CP) Policy: Reducing Free Allocation

- Since the launch of the EU ETS in 2005, emission allowances have been allocated free of charge to hard-to-abate (HtA) industries (mitigating the CP burden).
- From 2026, free allocation will be reduced → **Actual “carbon pricing” begins.**



EU Carbon Pricing(CP) Policy: Compensations

- Since the launch of the EU ETS in 2005, emission allowances have been allocated free of charge to hard-to-abate (HtA) industries (mitigating the CP burden).
- From 2026, free allocation will be reduced → actual “carbon pricing” begins.
- **Two carbon leakage risks**
 - 1) Import substitution: replaced by high-CFP imports with no CP burden.
 - 2) Loss of export opportunities: CP reduces the international competitiveness of EU-made products.
- **CBAM as a countermeasure** :*Explicit aim: preventing an increase in CO₂ emissions*
Implicit aim: supporting EU industry?
 - Imposing carbon price on imports equivalent to the domestic burden (claiming as an “environmental measure”, not an import restriction).
 - ...However, it does not address export competitiveness; criticized by industry as “one-sided.”
- **Securing Export competitiveness: Proposal for a Temporarily Decarbonization Fund (TDF) (Dec 2025)**
 - Set aside 25% of government CBAM revenues into the TDF.
 - Pay “support” in 2028–2029 based on realized export opportunity losses in 2026–2027 (de-facto CP rebate?).
 - From 2028 onward, review the ETS design (including the free allocation phase-out schedule) in light of observed outcomes.

EU Carbon Pricing(CP) Policy: Opportunity Loss

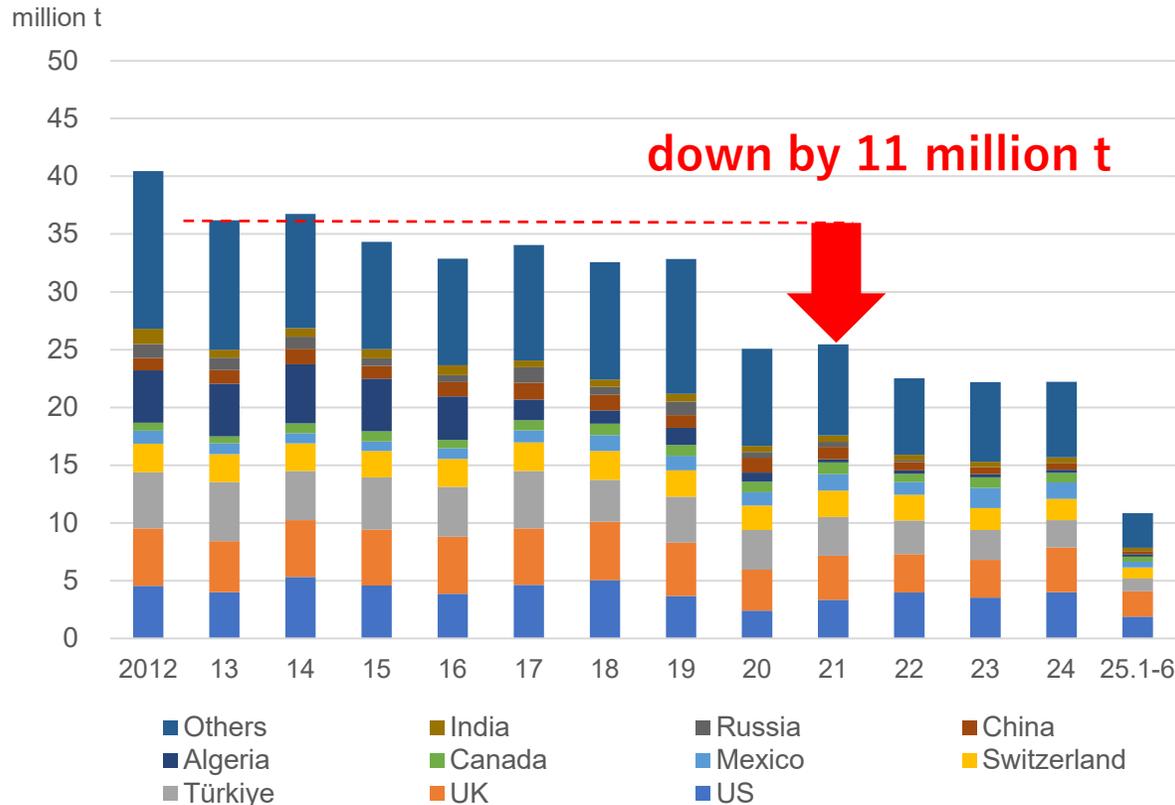


Figure 1. Trend in EU steel **exports** to non-EU countries

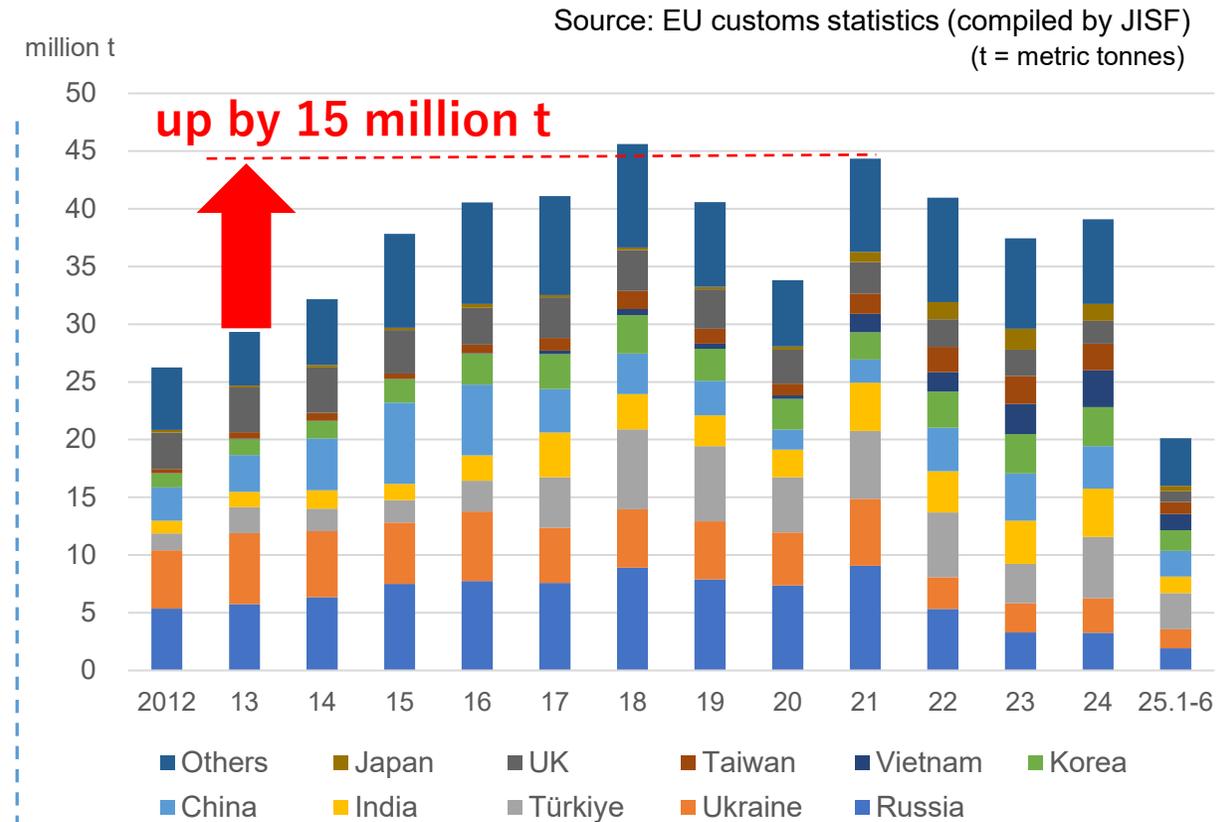


Figure 2. Trend in EU steel **imports** to non-EU countries

- ETS Phase 3 (2013–2021, 8 years): exports –11 million t; imports +15 million t.
- Crude steel output stayed roughly flat at ~150 million t → **the EU domestic market expanded; an additional ~26 million t were met via lower exports and higher imports.**

EU Carbon Pricing(CP) Policy: Lessons

- Since the launch of the EU ETS in 2005, emission allowances have been allocated free of charge to hard-to-abate (HtA) industries (mitigating the CP burden).
- From 2026, free allocation will be reduced → full-scale carbon pricing begins.
- Two carbon leakage risks
 - 1) Import substitution: replaced by high-CFP imports with no CP burden.
 - 2) Loss of export opportunities: CP reduces the international competitiveness of EU-made products.
- CBAM as a countermeasure (stated aim: preventing an increase in CO₂ emissions / possible aim: supporting EU industry?)
 - Impose a carbon price on imports equivalent to the domestic burden (positioned as an environmental measure, not an import restriction).
 - ... However, it does not address export competitiveness; criticized by industry as “one-sided.”
- Export competitiveness countermeasure: Proposal for a Temporarily Decarbonization Fund (TDF) (Dec 2025)
 - Set aside 25% of government CBAM revenues into the TDF.
 - Pay support in 2028–2029 based on realized export opportunity losses in 2026–2027 (de facto CP rebate?).
 - From 2028 onward, review the ETS design (including the free allocation phase-out schedule) in light of observed outcomes

What is really happening

- Even if domestic demand expands, it does not lead to opportunities to expand production (production restrained within the free-allocation cap?).
- Farmers’ protests over concerns that CBAM will raise the price of imported fertilizers
→ discussions on excluding fertilizers from CBAM (continue free allocation?).

Fundamental issues

- Could the CP costs be passed through across the entire supply chain for covered products within the EU?
- Is the CP-driven internal/external price gap sustainable?

EU Carbon Pricing(CP) Policy: Questions

- *Could the EU market accept “green inflation” caused by actual carbon pricing?*
- *Could the EU ETS become a carbon pricing scheme that supports economic growth?*

What can GX-ETS learn from EU-ETS?