

Carbon Border Adjustment Mechanism

FuelsEurope supports the EU's goal of climate neutrality by 2050, recognising this will require breakthrough technologies, significant investments, and an enabling policy framework. Europe's refining sector has begun an industrial transformation in support of the EU's climate targets. To ensure the sector remains globally competitive during this transformation, FuelsEurope supports effective measures that preserve a global level playing field. FuelsEurope prefers a global CO₂ market across the global economy based on a uniform carbon price. Until the time that a global carbon price emerges, any revision of the ETS aimed at aligning it with the EU's 2030 emissions reduction target should avoid negatively impacting the international competitiveness of the EU refining industry as that would result in increasing emissions globally. It is vital to strengthen the existing carbon leakage protection measures where the EU ambition is further unilaterally increased.

Consistent with the above premise, we welcome the efforts of the European Commission to adopt a proposal for a Carbon Border Adjustment Mechanism that would aim at reducing the risk of carbon leakage and, subject to conditions detailed below, we could positively consider refining products to be included in its scope.

Any such mechanism should be designed such that it improves the effectiveness of policies aimed at addressing climate change globally and protect the competitiveness of the EU industry in the context of the new EU climate targets. Such mechanism must be thoroughly impact assessed to ensure that it would provide better or at least equal carbon leakage protection than the existing regulatory framework.

In that respect, FuelsEurope welcomes the combination with free allocation of allowances under the EU ETS as formulated under the article 31.1 of the proposal since it ensures that one tonne of CO₂ will only be protected once. However, we do not support the phasing out of free allocation implemented by applying a reduction factor as from 1 January 2026 (see proposal for a directive amending the ETS directive, article 10.a.1a). We recommend that this phasing out comes into play only a few years after the CBAM is phased in and only after a thorough impact assessment has demonstrated its effectiveness and the absence of any deterioration of the competitiveness of the EU industry.

In designing a CBAM to protect the competitiveness of the EU industry against competitors from regions with lower climate ambitions, not only imports but also both EU manufactured products exported outside the EU as well as products along the value chains need to be carefully considered. We regret that the current proposal does not address the competitiveness of the EU industry and urge the EU Commission to cover this with a concrete proposal as soon as possible and, at the latest, in the review forecasted under article 30 of the proposal.

Moreover, FuelsEurope invites the EU policy makers to introduce a review clause, implying a compensation mechanism related provision, in the event that the EU industry would face unintended consequences resulting from the implementation of the CBAM measures.

Regarding the coverage of emissions, we take note that the CBAM should initially only apply to direct emissions resulting from the production of imported goods. However, carbon leakage protection associated with indirect emissions is very important, and we therefore welcome the Commission proposal to assess the possibilities to further extend the scope of embedded emissions to indirect emissions. In that respect, FuelsEurope recommends that the effectiveness of a CBAM covering indirect emissions is thoroughly assessed before considering the deletion of the indirect cost compensation mechanism.

We emphasise the importance that the EU refining sector (one of the most trade-intensive and carbon leakage-exposed sector) is thoroughly impact assessed by the European Commission and consulted when considering to further extending the scope of the CBAM to refining products. In particular, we take note of the decision to not initially include any refining products as the Commission deemed it is not possible to unambiguously assign GHG emissions to individual output products at this point. At the same time, it should be noted that the relevant benchmark in the EU ETS does not directly relate to specific products, but to the refinery overall output.

In that respect, FuelsEurope supports the development of a methodology to determine the carbon emitted during the manufacture of refining products that ensures a high level of fairness when comparing the carbon intensity of products made in EU and in non-EU regions. This methodology should be unambiguous, verifiable, simple and effective including for commingled products and fully consistent with the refined products benchmark methodology currently used under the ETS directive. We believe it is possible to develop such a methodology and we are ready to contribute with our expertise to its development.

In conclusion, FuelsEurope wants to stress that refining products should become a candidate for inclusion under a CBAM if the following conditions are met:

- It does not deteriorate the global competitiveness of the EU refining sector and protects the EU domestic market as well as EU exports from carbon leakage through the inclusion of an effective export mechanism;
- It should be covering all of the imposed direct carbon costs minus whatever will be left of the free allocation as well as indirect costs, provided it is a fair and effective alternative to the existing indirect cost compensation mechanism;
- A fair methodology to calculate the embedded emissions by product is established after an in-depth consultation.

FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 41 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

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