

CLIMATE CHANGE

Chinese exporters face EU carbon tax hit

Eric Ng

eric.mpng@scmp.com

The European Union's move to implement the world's first tax on carbon-intensive imports from 2026 could badly hit Chinese steel and aluminium makers, according to Goldman Sachs.

The 27-nation bloc is tightening the screws on imported steel, aluminium, cement, hydrogen, fertiliser and electricity with higher greenhouse gas emissions to level the playing field for domestic producers.

The tariff on steel under the EU Carbon Border Adjustment Mechanism (CBAM) would be 6 per cent in the first year, before rising to as much as 21 per cent in 2034, Goldman analysts estimated.

While the levy is seen as a protectionist move by China and India, it forms part of an EU policy to reach net-zero carbon emissions by 2050.

The CBAM aimed to level the playing field for EU producers of carbon-intensive goods as free emission allowances issued under the EU's Emissions Trading Scheme (ETS) were gradually

phased out, Goldman analysts said in a report on Monday.

"By subjecting certain imported goods to a carbon price equivalent to requirements for domestic EU production, the EU intends to mitigate any competitive disadvantage to imports from nations without carbon pricing mechanisms," they said.

The levy for Chinese aluminium exporters may start at 3 per cent before rising to 7 per cent in 2034. This could triple if the EU chose to also impose duties on smelters' indirect emissions in the future, the analysts said.

In the first year of the tax regime, steel and aluminium exporters will only be charged on excess emissions above the EU benchmark. By 2034, they will be

taxed on the entire emissions they generate.

The exact import duty is not yet certain since it will be offset by any carbon tax China imposes on its own emission-intensive sectors by 2026, and the levy will vary according to the EU's prevailing ETS carbon price.

Baoshan Iron & Steel, Citic Pacific Special Steel and Nanshan Aluminium were among exporters with the greatest potential revenue covered by the EU's carbon tax mechanism, the analysts said.

Goldman's estimates were based on an EU carbon price of US\$70 per tonne of emissions in 2026.

Beijing only imposes a mandatory carbon emission permit trading obligation on electricity generators. Those exceeding the emission baseline have to buy quotas from less polluting emitters, which is a form of carbon tax.

The regime might be extended to aluminium, cement, and aviation by next year, and to steel, chemicals, paper, and glass by 2030, the Beijing Institute of Technology's Centre for Energy and Environmental Policy Research said last month.

21%

The estimated import tariff on steel under the EU Carbon Border Adjustment Mechanism in 2034, according to Goldman Sachs