

The potential impact of the EU-CBAM on the Austrian economy

As part of the European Commission's Fit for 55 initiative, the European Emissions Trading System (EU ETS) is to be revised by adding a Carbon Border Adjustment Mechanism (CBAM). Among other things, the CBAM is intended to provide alternative protection against carbon leakage. Currently, the danger of carbon leakage has been addressed by the allocation of free allowances. With the introduction of a CBAM, the free allocation is to be successively reduced to zero in a transitional period between 2026 and 2035. For EU producers of the goods under consideration (currently iron and steel, aluminum, fertilizers, cement), the additional expenses for emission certificates will result in an additional burden posing competitive disadvantages (e.g. for exports to third countries). It can be assumed that these costs will also have an impact on downstream value chains via price effects, which could put additional sectors of European industry under pressure.

On behalf of the Industry Division of the Austrian Federal Economic Chamber, the Institute for Industrial Research carried out an assessment of the potential costs that Austrian industry could face if free allowances were to be reduced between 2026 and 2035, and which sectors would be particularly affected, both directly and downstream.

Higher prices for fertilizers, cement, steel, iron and aluminum are to be expected as a consequence of the reduction and removal of free allowances. This not only results in a direct cost burden for the primarily affected goods, but also an indirect additional burden for downstream goods via price pass-through. Due to several factors, e.g. geopolitical and uncertain economic developments such as postponed investments because of sharply rising energy prices, assumptions on the development of emissions and the ETS-price cannot be adequately projected. Therefore, emissions within the years 2026 to 2035 are held constant on the level of 2019; whereas in return, a constant certificate price of 90 euros per ton of CO₂ is applied.

Due to the removal of free allocation, additional allowances for emissions totaling 12.1 million metric tons would be required in 2035, which, at an allowance price of EUR 90 per metric ton, would result in additional direct costs of EUR 1.1 billion for the CBAM goods concerned. Thereby induced price increases for directly affected goods, subsequently lead to cost-push effects downstream. The highest indirect effects would be attributable to the goods metals and semi-finished products thereof (4.7%), glass, ceramics, processed stones and earths (4.0%) and chemical products (0.9%). Other goods with high cost-push effects include metal products, buildings, underground and building constructions, as well as machinery, transport equipment and food products. In total, the additional indirect costs would amount to EUR 529.4 million in 2035; in total, the direct and indirect additional costs would amount to EUR 1.62 billion. Between 2026 and 2035, up to EUR 8.9 billion additional direct and indirect costs could be incurred in Austrian economy.

Potential additional direct and indirect costs within the years 2026 to 2035

at an EU-ETS price of EUR 90 p.t. CO ₂	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total (2026 to 2035)
<i>Reduction of free allowances</i>	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%	
direct costs of free allowances reduction (in EUR million)	108.7	217.5	326.2	435.0	543.7	652.5	761.2	869.9	978.7	1,087.4	5,980.8
Indirect costs of cost-push effects on intermediate inputs (in EUR million)	52.9	105.9	158.8	211.7	264.7	317.6	370.6	423.5	476.4	529.4	2,911.5
Total additional costs (in EUR million)	161.7	323.4	485.0	646.7	808.4	970.1	1,131.8	1,293.4	1,455.1	1,616.8	8,892.3

Source: IWI (2022) on the basis of Input-Output-Tables 2018, Statistik Austria

The removal of free allowances could lead to a loss of production due to decreasing exports resulting from a deteriorated competitive situation. As a consequence of economic linkages, upstream industries would also be indirectly affected by potential production losses in CBAM sectors. For example, a hypothetical loss of 10% in the production of iron, steel and aluminum would put up to EUR 989.9 million of value added and 11,000 jobs in Austria at risk.