

Center for Strategic and International Studies

TRANSCRIPT

Online Event

**“Advancing Global Climate Action: A Conversation with
MEP Mohammed Chahim”**

DATE

Thursday, March 3, 2022 at 4:00 p.m. ET

FEATURING

Mohammed Chahim

Member, European Parliament

CSIS EXPERTS

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Transcript By

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Joseph Majkut: Good afternoon and welcome to CSIS livestream. For those joining us from other parts of the world or watching an archived video, good evening, good morning. For those joining us live today, if you have a question during our conversation I remind you now that you can use the Q&A box below the video to submit a question, and I'll receive them here during our conversation.

My name is Joseph Majkut. I'm the director of our Energy Security and Climate Change Program here at CSIS.

And I'm very happy to be hosting an honored guest today. Mohammed Chahim is a member of European Parliament representing the social democrats from the Netherlands. Like me, he's a former scientist. And importantly, he is on a rapid rise through the European Parliament and taking several leadership roles as the EU develops not only the Green Deal, but he has served as rapporteur for the development of the European carbon border adjustment mechanism. And we'll be talking about a lot of those things today.

Mr. Chahim, welcome to CSIS.

Mohammed Chahim: Thanks for having me.

Dr. Majkut: Before we dive into the wonky policy things, given the date and the events of the past couple weeks, I feel I have to ask, what are you and your colleagues thinking about at the moment? Russia has invaded the Ukraine. We've seen a really strong and relatively coordinated political response. The EU has started to think about how this is going to affect energy strategy going forward. Is there anything you can give our audience, an update in terms of what the thinking is today and where you think it may go?

Dr. Chahim: I think, first of all, I mean, the situation in Ukraine is horrible. And we hope that we can solve that as fast as possible. I mean, there's no reason to have this attack on innocent people and an innocent country. I think Putin has to respect the sovereignty of Ukraine. But what it did do is, of course, we want to be way less depending on gas coming from Putin. And I think – I hope that it will cause acceleration to our decarbonization plans and to our strategic autonomy when it comes to the energy in the EU.

Dr. Majkut: And I know that these things can be tough to forecast, but how much do you think that this is going to affect the EU's sort of decadal climate plans? You know, we've got the Fit for '55 Plan, I believe it's called, which gives – which was going to use the carbon pricing system, which we're going to talk about in a minute, as well as other devices to secure pretty steep emissions reductions over the course of this coming decade. Do you think that these

things are going to sit in tension, this response and diversification away from the Russian energy supply? Or do you think that they're going to be pretty aligned?

Dr. Chahim: I mean, what we've seen is – I mean, two – I think two flavors in the EU. One that says that, I mean, inflation is being caused by the high carbon price. I think partly that's correct, but it's not the biggest issue when it comes to inflation and the high consumer prices. Because we see that the high gas price is basically the biggest problem. And that's not something you can create a policy against on the short term. But it does make us aware, and I think more and more people are seeing this, that we need to fasten our transition. We need to not wait for the next crisis, and the next triplage of gas prices.

We need to make sure we invest in decarbonization and spend in sustainable energy and, most importantly, in strategic autonomy. These are the debates that we're having today. And, yes, it's not a solution for tomorrow, but maybe the day after. And we are making serious efforts to solve the gas reserves that we have – to fill the gas reserves within the EU to make sure that we make it next winter and preferably also the winter after that. And, hopefully, that gives us enough time to invest in alternatives like green hydrogen, like PV panels, solar energy, and wind. We have the ideas. We have the investments. I think this will help Europe forward not only having a higher energy security but also decreasing costs, because at the end of the day, we don't want people to choose between heat or eat.

Dr. Majkut: Now, your day-to-day business has brought you to Washington.

Dr. Chahim: Yes.

Dr. Majkut: You're working on developing climate policies that are going to work for the EU. You're thinking about border adjustment. What's your message to Washington while you're here and how have your conversations been going?

Dr. Chahim: I would say there are three messages that I have.

One, to make people aware that we are going forward. It's not a theoretical idea. We will finalize legislation before the end of the year and I think, let's say, somewhere before 2030 there will be a full CBAM on all sectors in the EU and this will have an effect on almost all our trade partners. And foremost we are working on – we are seeing it as a climate measure, because while phasing in CBAM we are phasing out our free allowances, basically, the free rights that producers get to pollute. We want to make sure that the polluter pays principle is on every, let's say, CO₂ atom that producers emit. I think this is a very important message.

Second is to make sure that we see opportunities to work together. I think it would be very good if the U.S. would introduce their own carbon border adjustment even though they don't have an explicit carbon price. I think it's doable if you, for example, define, in the correct way, benchmarks per product, and everyone who's producing more or emitting more emissions than that benchmark could be corrected at the border. This would be very helpful for all, also our CBAM mechanism.

And third, and I think in order to get there we should work together to create an international carbon accounting standard because, I mean, this would also help towards, let's say, a global price on carbon. If we could also agree on how you calculate the carbon content we could, I mean, get rid of greenwashing due to only selecting or only looking at parts of the production process or the value chain. I think these are a very important one.

I think the fourth message that I have is we are not exempting anyone – anyone – and this is very important because we are also not exempting our own producers. It's not just a CBAM measure. As I said, we also get rid of free allowances. So our producers will be paying more CO2 taxes domestically, and I think we also are not exempting, for example, least developed countries. What we do and what we try to do is use as much of the revenues that we will collect through CBAM to help least developed countries to decarbonize. That's our way to show that this money that we're collecting is – it will be kept in the spirit of decarbonization of the world.

Dr. Majkut: There's so much in that answer I think we can eat up the next 22 minutes, sir. (Laughter.) Let's start, like, just – you know, we have a, principally, U.S.-based audience. Forgive many of us, including myself, are not familiar with the intricacies of the EU parliamentary system and how laws are made, and maybe you have the same level of unfamiliarity with the U.S. Senate. I don't know.

You mentioned that you think there will be legislation by the end of the year.

Dr. Chahim: Yes.

Dr. Majkut: Can you just walk us through what the procedure looks like from here –

Dr. Chahim: Yes.

Dr. Majkut: – and where the ideas that you forwarded kind of place the conversation?

Dr. Chahim: Yes. I'll try to use the synonyms of American politics.

Dr. Majkut: That'd be great. Thank you.

Dr. Chahim: So let's say our executive government branch is the European Commission. They proposed a carbon border adjustment mechanism – a law proposal. Now it's up to the two other branches of government – the European Council and the European parliament. We, together, hold legislative power 50/50. So now it's our time to propose our own adjustments.

I mean, we are writing amendments towards that proposal to give our position. I think we – it started with my report that I presented in December, and now we are in the process of parliament to find compromises. I think we will end that with – in one or two months and there will be a vote in May. And then we will have a plenary session in July where we finalize the position of parliament. The European Council does that parallel to us. And then starting I think September we will have as we call trialogues, where the two let's say branches of government with legislative power sit together and try to find an agreement under the supervision of the European Commission. And I think that we will need a couple of months to find a compromise, so that by the beginning of next year – so 1/1/2023 – the legislation will become active.

And how it looks like now, maybe I can elaborate a bit on that. There will be a transitional period of a couple of years – maybe two, maybe three – where we basically implement CBAM, including all the administration, all the technicalities, but there will not be a bill at the end. So we collect data, we have the procedures through customs, but there will not be a taxation or, let's say, the payment of the certificates at the border. So there will not be a correction, but we will have data. In that period we'll also try to assess as much as possible what the mechanism would be, for example, to extend it to other sectors and go further downstream.

And then there will be an – I mean, after two or three years, we will really start collecting the certificates. And they will be closely linked to the emission trading system value CO2 price within the EU, which means – and then the moment we introduce it we will also start to phase out gradually the free allowances, such that at some point – we think the latest will be 2030 – there will be no free allowances anymore. So everyone in the EU, every producer that's emitting has to pay a price for the emissions that he pollutes. There's no free lunch anymore. There's no free allowances.

Dr. Majkut: Reading your report, I will – I will say I think it's like you've made some fairly hardcore proposals over what the Commission proposed early on: more sectors; faster timelines; you know, a faster phaseout of the – of the free allowance system, which was the thing that the EU ETS was conceived with. What explains the urgency?

Dr. Chahim: I mean, let's take last Monday. The IPCC presented a report basically saying that 1.5 degrees is out of reach. You know, my biggest problem is with

politicians is that we all want a change but nobody wants to change. And I take my work very serious. I didn't sign the climate law to then this next move I do is break it. I take laws serious.

So what I do is look at the whole package that we have, all legislation that is in line to make sure we hit or meet the Paris agreement. We see where we can accelerate, because the law is very clear, the European climate law: decarbonization of 55 percent by 2030 and climate neutral at the latest 2050 – at the latest. Every day we can achieve climate neutrality earlier is a good day for all of us.

And then specifically on CBAM, it's the only measure we have – the only measure we have to make sure that producers outside the EU oblige to our principles when it comes to climate. If you want to sell your product in the second-largest consumer market in the world, you may – you're welcome. We will welcome you, but you have to pay for your pollution. That's the only condition we will have. Or improve your technology, make sure it's decarbonized; you're also welcome there.

We are forcing this also on our consumers, on our producers, so it's only fair to level the playing field for production outside the EU. This the only way we can make sure carbon leakage is not of effect, because it doesn't matter at all if our producers start polluting in third countries outside the EU and then export their pollution to the EU.

We're much more aware than we were in the past that it's not only about production emissions; it's also about consumption emissions. And we are responsible for a big share of emissions produced outside the EU. We take that responsibility. We will correct at the border and we will ask everyone: Please, invest in decarbonization like we do so that 1.5 (degrees) is again within reach.

Dr. Majkut:

There are a couple things when one is designing a CBAM, or a carbon border adjustment, that are choices that have to be made on a policy level that have political implications. One of the ones that you've talked about is keeping credits for importers of good or exporters to the EU contained to places that have explicit carbon prices, as opposed to regulatory standards, or production standards, or, you know, regulations like we might have here in the United States. Why is that important?

And, secondly, what's the – what's the boundary of an official carbon price? Two examples you might answer to. One would be a subnational price, like we have a carbon price in California or in the RGGI states here in the United States, or a voluntary marketplace.

Dr. Chahim: Very good questions. First of all, I want to tell all my American friends that are watching that we also have non-pricing measures. I've been talking to many senators and members of the House. And I want to get rid of this maybe unclarity. We have a lot of non-pricing measures. If I look at the Fit for '55 package, there are three categories where we can place these 15 laws. Pricing or taxation measures, we have the emission trading system, the CBAM, European tax – energy taxation directive. We have goals that we set for our member states in terms of the share renewable energy, the houses that they need to make near-zero emission buildings, the emissions of, for example cars. How clean should your transport be in a country? And we have standards. For example, what is renewable energy? What is the maximum emission a car can have, or a van can have?

This is – it's a full package. It's not only we have CBAM and ETS and we don't do anything else. We set product requirements, norms, very clearly. So if I tell my American friends that we are going to calculate implicit carbon price, then of course our producers will also say, but, Mohammed, I also have to deal with regulation. So what's the starting point? Will that be Kyoto? Will that be 1990? Will that be 2005? What type of measures we do we include and which not? It's basically become – it will become a mess. It's not oranges and apples. It's oranges and bananas or maybe pineapples. It will be too complicated.

And we need to understand fairly – we need to have a simple system that could lead to some kind of global CO2 tax. So we need to understand, OK, how do you calculate the carbon content, which is, I think, fairly important to do. And second, if you have non-pricing measures, it's very important to have them. You know how you will be – how we will make sure – how you will benefit from non-pricing measures? If they become effective, you are basically producing with less carbon. Less carbon means less CBAM certificates.

So that's the way – that's the difference. And if you are very secure about the way you produce, that in the U.S. and the EU we have one of the, I think, most carbon-efficient or energy-efficient companies in the world. I don't believe that you should then be afraid of the correction at the border. And it goes both ways, of course, if the U.S. implements their own style of carbon border adjustment.

The second question was about?

Dr. Majkut: What's the boundary of a – of a direct carbon price?

Dr. Chahim: Yeah. Yeah. So we are very explicit. Every explicit carbon price will be deducted from CBAM. If it's in – I know California has explicit carbon prices. They even have a CBAM for electricity. There are these other states that have

that. We are treating people fair. What we say is, what we ask our producers to pay we will subtract whatever you had to pay in your own country and we will ask you to pay the difference. If you pay more, then, of course, we do not give you any correction at the border if you pay more. (Laughter.)

Dr. Majkut: Yeah, that's up to your carbon price to –

Dr. Chahim: Yeah, that's up to your own carbon price. You can maybe ask our producers to pay more, but we have a cap-and-trade system. It works very eloquently. We exactly know where we need to be in 2030 and where we need to be in 2050. And we have a linear reduction factor that forces by law that we hit those targets. And then we have just a demand and supply market. And the price increases significantly in the last weeks, I can tell you, but also has dropped a bit in the last –

Dr. Majkut: Yeah, in the last two days, right.

Dr. Chahim: Exactly. So it's a market instrument. And I think people that love free trade should also love market instruments. It's the market that solves our carbon problem. And I think it's a fair system.

Dr. Majkut: You left out the idea that a firm might participate in a voluntary carbon market, maybe through Article 6, or maybe just assess a carbon price on itself. Is that in range? Or do we need to look at carbon prices from the state?

Dr. Chahim: I mean, it depends on who they then pay this money to, eh? I mean, if you can say I have applied a carbon price but, I mean, who checked? (Laughter.) Who paid? I mean, to who? I mean, we have to understand that it should go to some, I think, government body. That should be fair, because else I will set up my own foundation called U.S. Carbon Foundation and collect my own CO2 tax, so that the Europeans will look away. I mean, that's not fair. I mean, it has to be – I mean, what I would love, as we do in the EU, is use those revenues to further decarbonize. That's what we do.

We revenues from ETS go to innovation fund, help decarbonize with innovation – with investments in decarbonization technologies, in modernization, to make sure that countries that, for example, are heavily dependent on fossil fuels or regions, that they get the extra economic help to diversify, change their economy, invest in other to create jobs. I mean, this is also very important. And that's also, I think, why we have this pricing mechanism or tax mechanism, to help decarbonize. There's no reason – it's not that we want them to pay the fee. We prefer them not to pay the fee. That means that they have invested in decarbonization.

Dr. Majkut: Yes, if it works correctly it's a self-eliminating tax, yeah?

Dr. Chahim: But this is how we approach CBAM as well. We would love CBAM never to become effective, which means that either every country has their own CBAM or they have decarbonized. So we see this as a temporary measure – a temporary measure that is very good for the world, because it's the only instrument to force producers outside your own country, where they do not have to be – uphold on the legislation that you develop, that they – that they perform under the same standards.

Dr. Majkut: Excellent. I remind our guests joining from the livestream that if you've got a question, I can receive them here. I'm going to open up the floodgate here in a moment. But, Mr. Chahim, one last from me. Privilege for me, actually. You and I are both fallen scientists. You mentioned carbon accounting as being a critical component of border adjustment. And carbon accounting's probably one of the places where countries like the U.S. are going to best be able to work with Europe in the next couple years. What are the key components of carbon accounting that you think are important, relying either on your experience as an MEP or as an analyst? And secondly, how do you think about applying carbon accounting throughout different levels of the value chain, right? From primary goods to higher-level manufactured goods?

Dr. Chahim: Yeah. So remember that for CBAM we look usually at bulk products. We don't look at – at this stage, I don't – I mean, it's very complicated to follow, let's say, final products and the way they are – all their components, where they're from, they enter and exit the country, come back. It's a complicated, complicated analysis. If one's done a study on consumption-based emissions, I mean, to follow the supply chain, it's very complex. That's why we start with the bulk products and some of the products like very close to the upstream, but not too far.

I mean, so for us it's – we have a methodology in the EU. We have a methodology. So as long as there's no agreement, we apply the methodology to our producers and we will ask our independent verifiers – that could be private companies also in the U.S. – whenever someone wants to export to the EU, then they will assess them the way that we assess our own companies. It's equal. There's no discrimination.

I mean, it makes sense to at least agree on what part of the value chain you take into consideration. I think that's very important, because the moment you – I mean, you have to be as honest as possible. I mean, we're talking about carbon and we're all affected by that worldwide. I mean, it doesn't make any sense. I mean, I always compare I try to lose some weight, sometimes more successful than others. If I only put one foot on a scale and then think that I lost weight, I mean, I could fool myself, but that's far away from reality. We shouldn't do that with carbon as well. We should do based on a scientific analysis, based on a scientific community decide what we count for that specific product, because our main goal is to decarbonize. We

all signed the Paris agreement. That would be very important. And how we exactly do that based on – I mean, there could be a difference between different products, but I'm open to listen to the scientific community together with our advisors, our policy advisors in government. They also have a lot of knowledge. I mean, you also have a lot of institutes here in the U.S. that are very knowledgeable how to do that.

If we can agree – the EU and the U.S., maybe with Canada and some other countries – this would set a standard worldwide, and this is something we really need.

Dr. Majkut: Is that worldwide standard-setting one of the reasons why earlier you said the U.S. should consider a border adjustment even with the lack of a national carbon price?

Dr. Chahim: I think that would help. I think that would help. And what we see is that already countries have adjusted their own plans because they see – they don't want to wait for the EU to implement this legislation. They see that will – they will be affected by it. So they're smart. They're adjusting. They're accelerating their decarbonization plans because they want to continue making use of the European market.

And again, they're welcome. I'm pro-trade. They're welcome. But please respect our laws, respect our way of producing, and also decarbonize your own products. And if not, we will correct at the border.

Dr. Majkut: Your report very clearly states that the border adjustment as designed and conceived should not be protectionist.

Dr. Chahim: Yes.

Dr. Majkut: But it will affect trade flows.

Dr. Chahim: Definitely, yeah.

Dr. Majkut: How do you think – how do you think about those affects? How do you think about ameliorating them, either with – I mean, Russia would be a key example, a huge trading partner for the EU often delivering high-emissions goods; less-developed countries; the United States. What are the considerations that you think need to be taken into account so as not to cause diplomatic problems down the line?

Dr. Chahim: So, again, we take climate change serious. And I think the polluter pays principle should be implemented as soon as possible. What we do is we will try to get rid of a lot of the indirect and direct fossil fuel subsidies. People should know how much billions of U.S. dollars yearly go to the fossil fuel

industry. I hope that that money diversifies so that we can start invest in clean tech, because there are beautiful countries all over the world that are ready to scale up and to take over some of the roles that fossil fuels are now taking in transport, in heat, et cetera. I see a lot of young very interesting entrepreneurs developing electric vehicles, electric planes, ways to insulate houses. I mean, I don't think – there are so many bright people in the world, we should help them. This is very important, yeah?

And so, again, it's a polluter pays principle. And we will make sure that the pollution – pipeline pollution in the EU will get taxed because we don't want – we want to decarbonize. And we have a clear plan with legislation. It's not a pledge; it's legislation. It's a climate law with many other legislation to make sure that we hit those targets.

So is it then not fair to say to others that don't have the same plans to either make the plans and follow our plans and pledges – path and pledges, or we will just correct at the border? What do you think will happen with the exports of EU companies if we do not – do not correct this carbon border adjustment mechanism? They will – for some sectors, their cost could increase by 25 percent. I mean, how can they export? It's impossible. Are we giving them a rebate? No, we don't. But I mean, it is fair to say, in order to make sure there's a level playing field so that they can invest in decarbonization, that we make sure that at the border it's corrected for the other.

Dr. Majkut: We've, unfortunately, run up against our time window.

Dr. Chahim: (Laughs.) Sorry.

Dr. Majkut: I've got so many more questions.

Dr. Chahim: (Laughs.)

Dr. Majkut: I hope that the next time you're in Washington you'll consider visiting us again.

Dr. Chahim: I would love to.

Dr. Majkut: I will offer my admiration for your work. It must be a very exciting time. Thank you for your efforts and thank you for joining us today at CSIS.

Dr. Chahim: Thank you for inviting me and it was a pleasure to be here.

Dr. Majkut: To our guests, thank you kindly for your time for viewing this session today. I encourage you to check out all the stuff we have available on these issues

and more on the CSIS website, and we look forward to seeing you again digitally and increasingly in person. Thank you and we are signing off.