Impact of EU CBAM on Russia – Russia and Global Green Transition report

World Bank

December 2021

Sectors to watch for Russia

Russia is relatively exposed to the EU in most Emissions Intensive and Trade Exposed (EITE) sectors. Key sectors to watch among those likely to be covered by CBAM are **petroleum products, metals processing, and chemicals and fertilizers**.

	Potentially covered sectors	Value of Russia's exports to EU (US$ million, 2018-2019 average, WITS)	Share of Russia's total annual export value that goes to the EU	Share of sectoral exports which go to the EU
	Electricity	599	0.14%	70%
	Cement, lime and plaster	106	0.02%	34%
→	Iron, Steel and ferro-alloys	6,252	1.42%	28%
→	Refined petroleum products	44,532	10.14%	58%
→	Chemicals, fertilizers, related	7,217	1.64%	34%
	Pulp and paper	687	0.16%	16%
→	Non-ferrous metals incl. copper	7,811	1.78%	42%
	Glass and Ceramics	261	0.06%	36%
At risk?	**Crude oil**	**65,109**	**14.83%**	**50%**
At risk?	**Coal and Gas**	**7,991**	**1.82%**	**27%**

Source: WITS data

Policy scenarios – baseline and CBAM (1)

SCENARIOS

1. *Reference Scenario with no CBAM*: 'Business-as-usual' scenario with no CBAM and no country-level policy response (i.e., existing climate policy only).
   - NDC level of ambition for all countries

2. *With CBAM*: EU adopts CBAMs in two phases in 2023 and 2025; exporters pay the forecast EU ETS price after factoring in free allocation
   a) only covering scope 1 emissions
   b) covering scope 1 and 2 emissions
   c) EU expands CBAM to fossil fuels
   d) USA also adopts CBAM
   e) Other ECA countries introduces a carbon price consistent with EU levels.

Phase 1: 2023		Phase 2: 2025	
Sectors	GTAP match	Sectors	GTAP match
Steel	Ferrous metals (i_s)	Coking coal	Petroleum, coal product (p_c)
Cement	Non-metallic minerals (nmm)	Asphalt bitumen	Other extraction (oxt)
Electricity	Electricity (ely)	Petroleum products	Petroleum, coal product (p_c)
Fertilizer	Chemical products (chm)	Iron Ores	Other extraction (oxt)
Chemicals	Chemical products (chm)	Aluminium	Metals nec (nfm)
		Glass	Non-metallic minerals (nmm)
		Non-ferrous metals (lead, tin, zinc)	Metals nec (NFM)

Policy scenarios – baseline and CBAM (2)

SCENARIOS

3. <u>CBAM and policy responses from countries</u>: Russia introduces carbon price, starting from zero to reaching EU level in 2030;

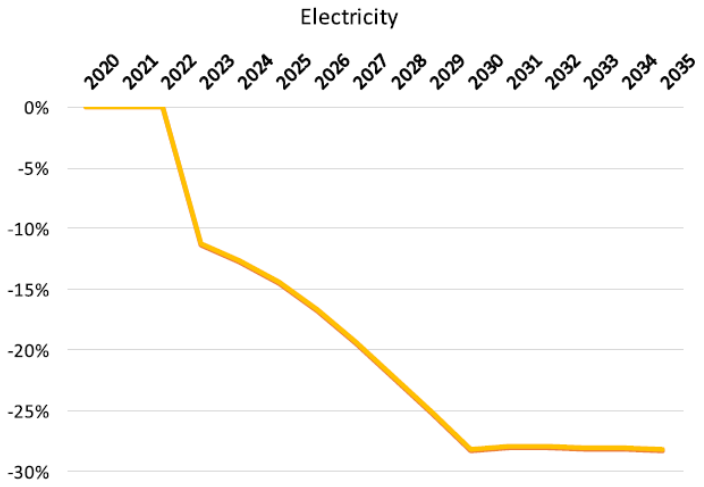
a) revenues are recycled to households
b) revenues are recycled to investments

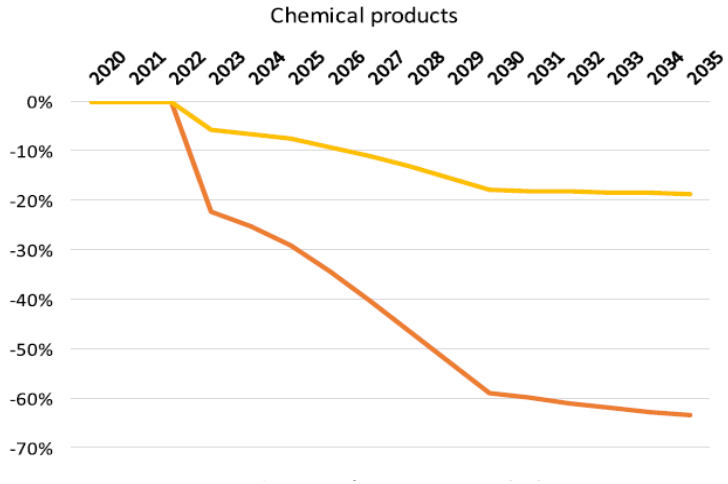
Modelling results for Russia

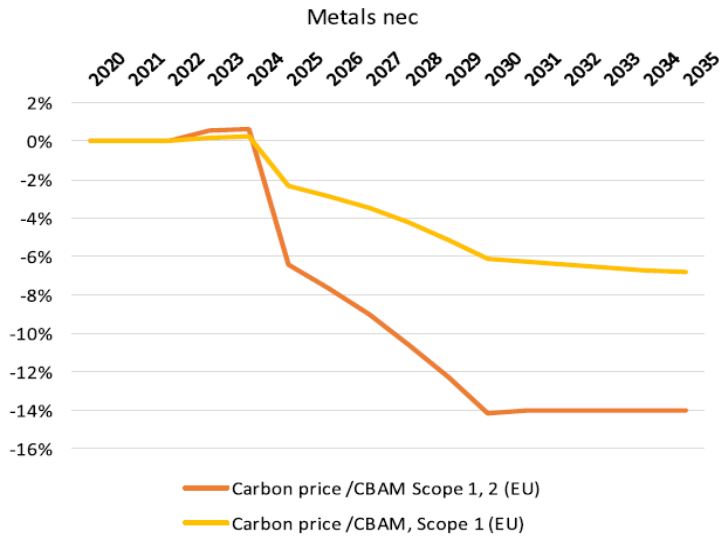
CBAM exports to EU decline significantly; chemicals, minerals products and refined petroleum are the most affected sectors

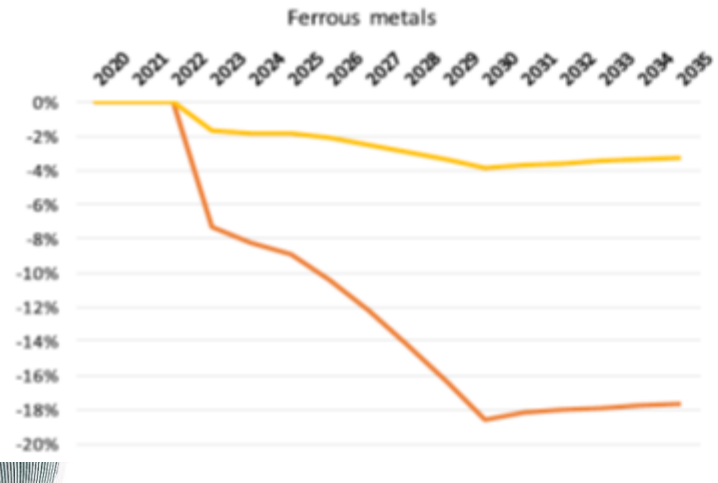
Exports to EU

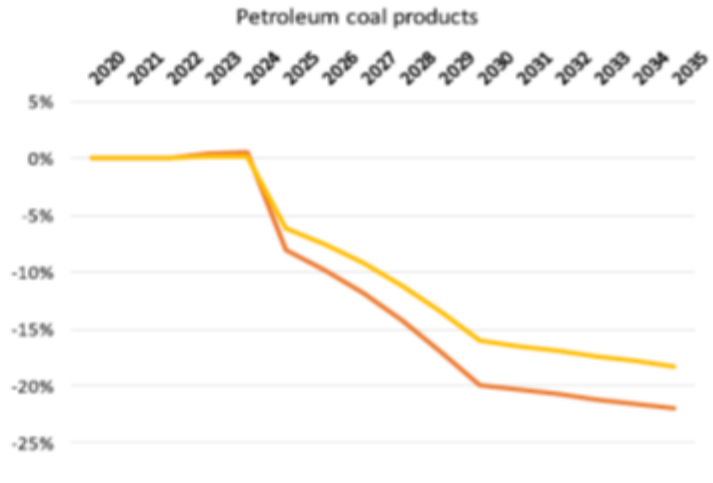
% change from no-CBAM reference scenario





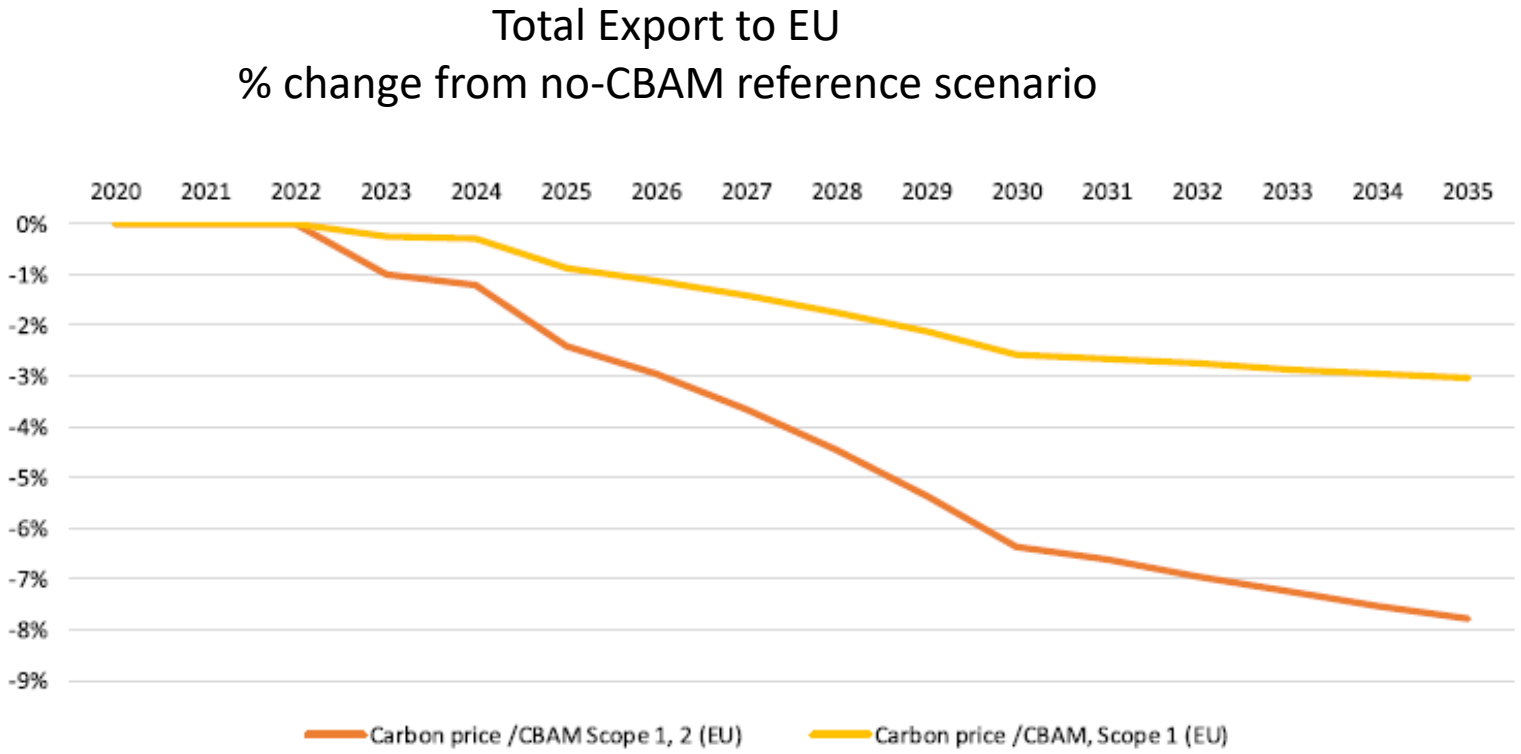






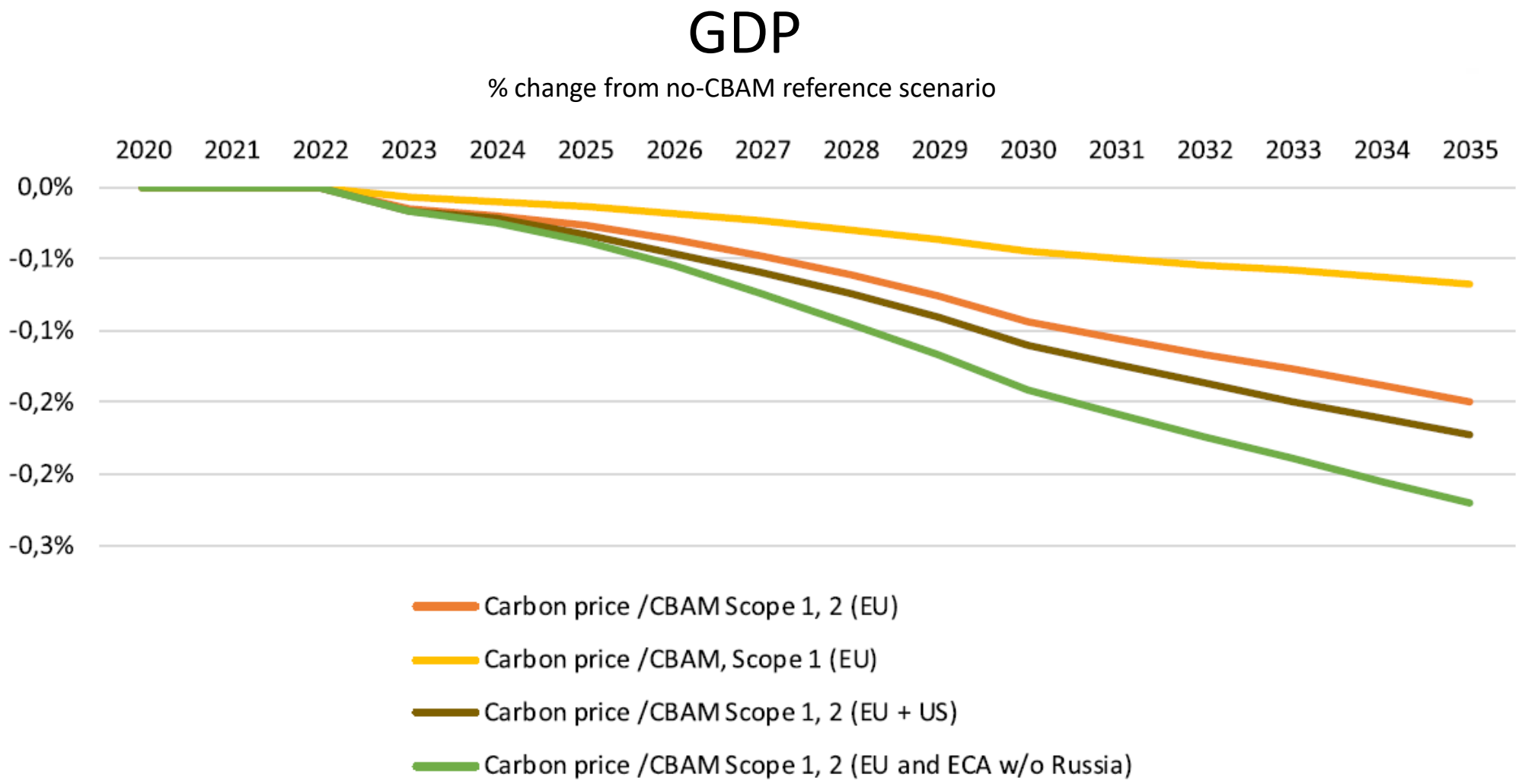
- Chemicals are hit most
- Losses in other sectors also significant with 15-20%

Decline in CBAM commodity exports on total exports is significant



- Total exports of Russia declines significantly, especially if scope 2 is covered
- The decline when the EU carbon price increase slows down, however damage is permanent if no action is taken

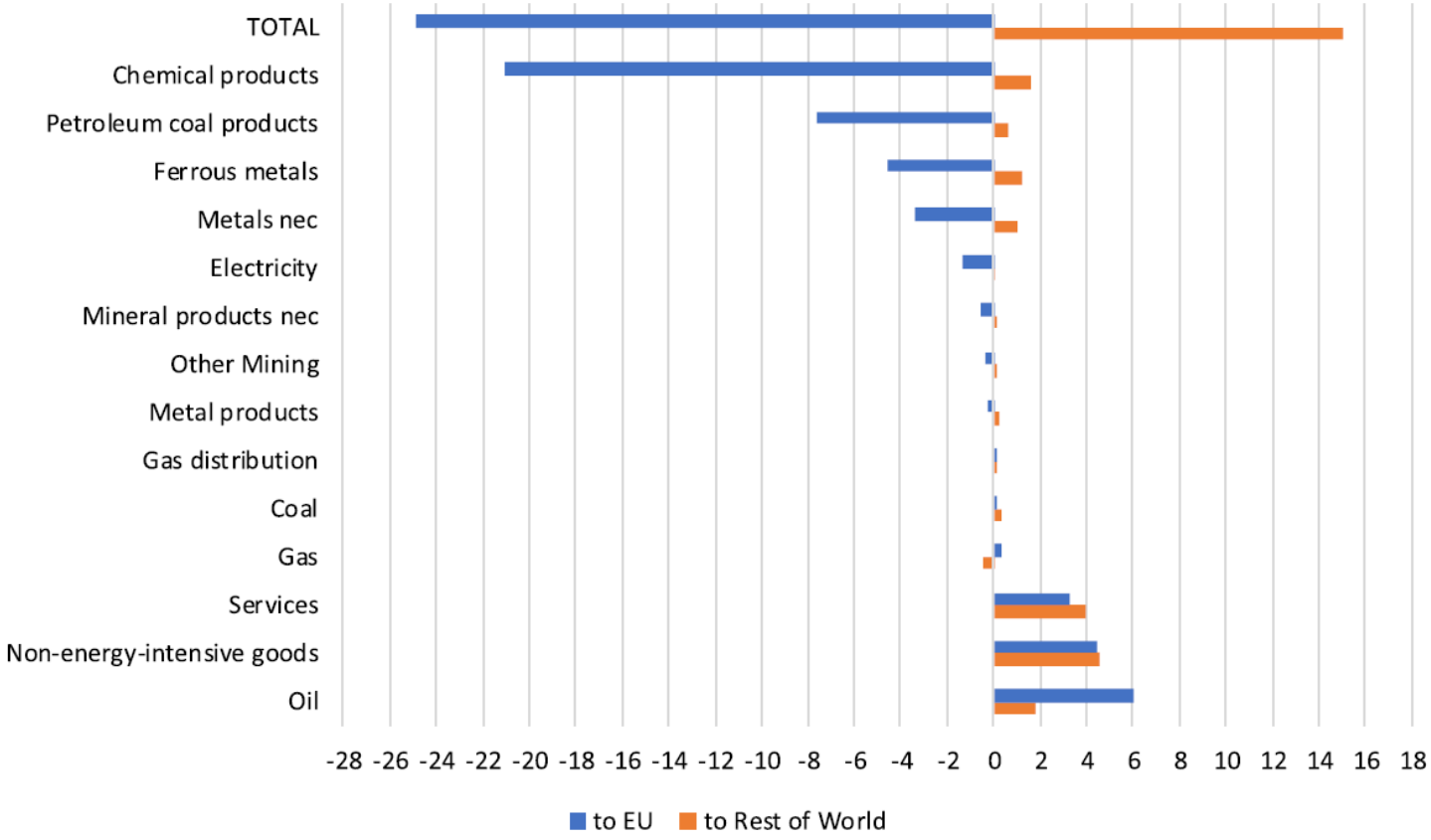
Macroeconomic impact of CBAM is small; increases with scope and coverage



There is a significant trade diversion; Russian exports to non-EU countries increase significantly

Total Exports to EU, CBAM Scope 1 & 2 Scenario

% change from no-CBAM reference scenario; 2035



- Russian oil exports to EU might increase as a result of CBAM
- Since EU will import less of CBAM commodities, they will need to produce them domestically
- As CBAM commodities are energy intensive, EU will export more oil and gas

Climate action helps recovering exports in CBAM sectors; and might further increase them with right revenue recycling

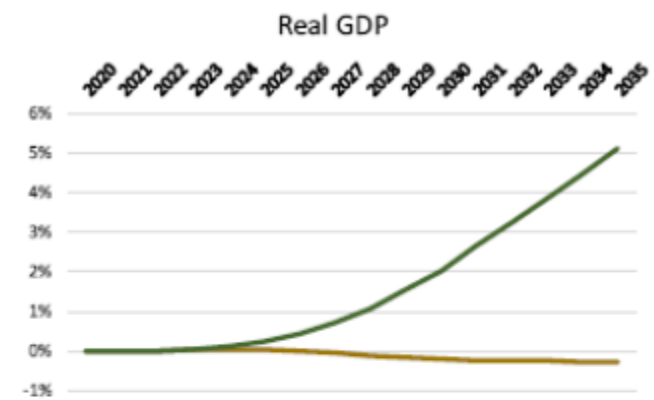
Exports of CBAM commodities;

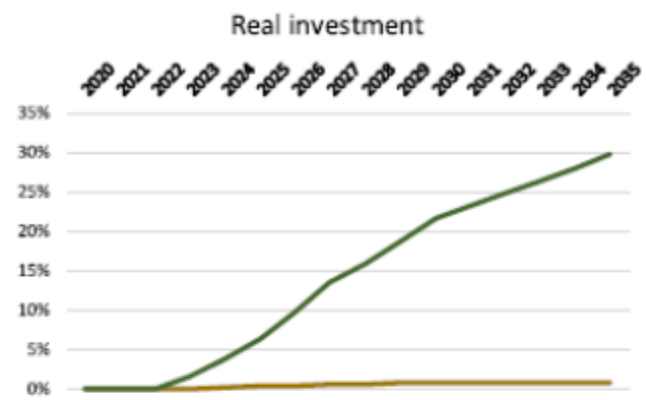
% change from no-CBAM reference scenario

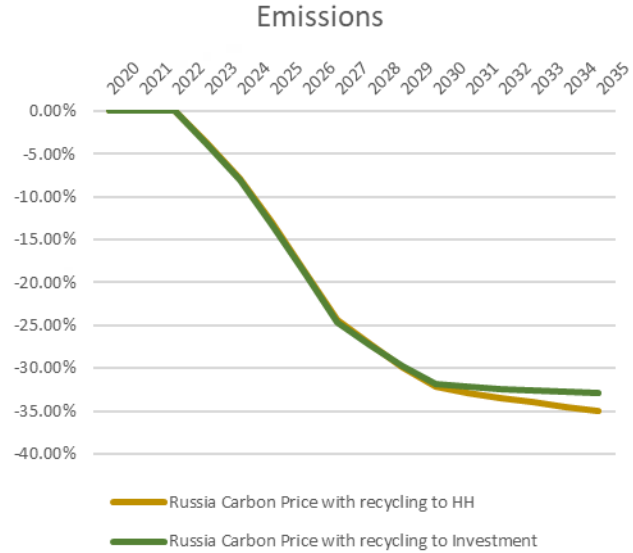
- Climate action recovers exports in all sectors but Chemicals
- Chemicals recover significantly but still 30% below

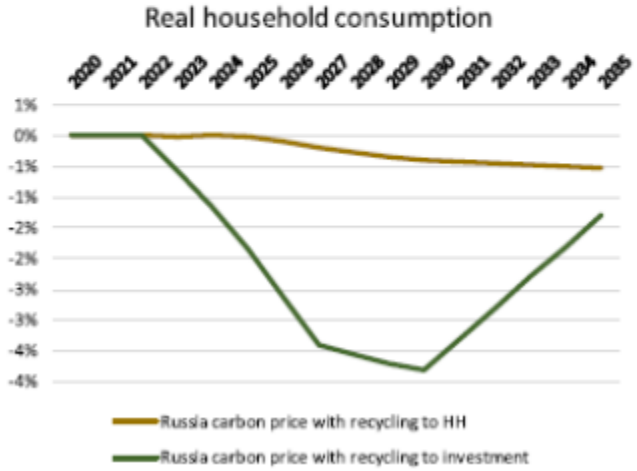
Climate action does not cause significant losses in growth; and can boost GDP if revenues can be transformed to investment with significant emission reductions

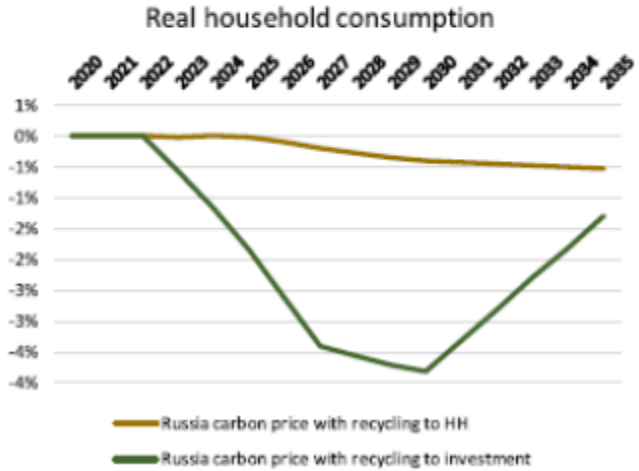
All figures: % change from no-CBAM reference scenario











- Trade-off between growth and welfare: Transition needs to be managed carefully!