

Ecopreneur.eu position on the Carbon Border Adjustment Mechanism (CBAM)

Brussels, 28 October 2020 – filed as input to the Public Consultation on the Carbon Border Adjustment - <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12228-Carbon-Border-Adjustment-Mechanism>

On 16 September, von der Leyen reconfirmed in her *State of the Union* address [1] the ambition to achieve additional carbon emission reductions by 2030, including the intention to work on a Carbon Border Adjustment Mechanism (CBAM). After years of incremental and insufficient change, the EU finally seems to walk the talk to raise Europe's and our partners' climate ambition.

Ecopreneur.eu, the European Sustainable Business Federation, **welcomes this high priority given to the climate** by both the Parliament and the President of the European Commission Ursula von der Leyen. It reflects the growing concern of European citizens [1-4] for the impacts our economic system has [5, 6], both on the climate and the living environment. With one of the highest per capita energy consumption (91 GJ/year), the EU is responsible for 10% of worldwide GHG emissions. However, the EU is also one of the largest CO₂ importers in the world and the total carbon footprint caused by Europeans is more than 8 % of global emissions [7, 8]. The important place of the EU in the world economy is the reason why any decarbonisation started in the EU will also affect our trading partners worldwide.

After setting the long-term target to reduce greenhouse gas emissions to net-zero by 2050 as part of the European Green Deal (EGD) last December, and by 55% in 2030 more recently, the European Commission is now fully engaged to translate the EU's climate ambition into more specific legislation. In March, upon the presentation of the European Climate Law, the EC Vice-President Frans Timmermans said “...*the European Climate Law is also a message to our international partners that this is the year to raise global ambition together, in the pursuit of our shared Paris Agreement goals...it gives direction to our green growth strategy and guarantees that the transition will be gradual and fair*” [2]. In October, the European Parliament even voted to increase the EU's Greenhouse Gas (GHG) emission reduction target to 60% in 2030, as compared to 1990, although the European Commission sticks to 55% on grounds of realism [3, 9].

The EC is currently considering three different options to implement a CBAM: A carbon tax on imports, the extension of EU Emission Trading System (ETS) to imports, and an import carbon customs duty. By June 2021, the EC will publish its opinion after currently consulting with stakeholders and working on impact assessments this policy will have.

Ecopreneur.eu advocates rapid introduction of the CBAM as a complementary measure to the EU Climate Law, and as part of further strong EU climate policies. Increasingly higher carbon prices are necessary to kickstart low-carbon circular models from now until 2050. Ecopreneur.eu represents about 3,000 companies, mostly SMEs, many of which are manufacturers, and strongly in favour of a CBAM. The CBAM complements policy asks Ecopreneur.eu advocated for the past years [10] and has the following advantages:

- By creating a level playing field on the EU market for all producers, it will **put an end to unfair competition to EU producers from the imports of carbon-intensive products** produced in countries outside the EU that slip behind with their Paris Agreement goals. This unfair competition is hampering the market growth of sustainable companies across the EU in all sectors facing international competition. This is why Ecopreneur.eu is of the opinion that the **embedded carbon content** in goods produced abroad and imported into the EU are accounted for in the CBAM. Also, this is why the CBAM should not focus on any sector but **cover all sectors**.
- Similarly, by creating a level playing field for EU producers exporting carbon intensive products outside of the EU, it is crucial to **prevent carbon leakage**. If production is transferred from the EU to other countries with lower ambition for emission reduction, or when EU products are replaced by more carbon-intensive imports, it will not only harm the industrial base in Europe but there will also be no reduction in emissions globally.[11] Up until now carbon leakage due to e.g. the EU ETS was measured to be low, but only because of the low prices for carbon in the current EU ETS of around 10 Euro/tons. It cannot be assumed that carbon leakage will only grow linear to the future increase in carbon price [12]. Therefore, a CBAM is necessary to avoid carbon leakage.
- It will **enable a strong EU market for low-carbon circular products and services**. Together with other policies, this is needed to ensure all the investments into low-carbon technology foreseen under the EGD and Circular Economy Action Plan (CEAP) will yield a **Return on Investment (ROI)**. With no ROI, the circular economy risks to stay in niche markets that are not scaled up to mass markets, investments under EGD and CEAP will fail; money will be lost; jobs will not be created and climate change will continue at the present rate [13];
- **Enable full accounting** in the EU and beyond of **damaging carbon emissions** in products via systems such as a revamped EU ETS and life cycle assessments (LCAs);
- Enable the EU to realise and **maintain an increasingly high carbon price**;
- Speed up the **deployment of zero-carbon technologies** in line with the vision laid down in the EGD by unlocking investment at scale in the 2020s;

Some other industry stakeholders have argued against a CBAM. However, Ecopreneur.eu thinks that the benefits of a CBAM by far outweigh the risks, which can be managed:

- The impact of a CBAM on international trade is as yet unclear. While it is true that some countries might opt to use trade retaliation measures, a CBAM is expressly allowed under Art II(2) of the WTO GATT agreement. There are some rules to be followed, however, it is the view of many experts that it will be possible to design a policy instrument fully compliant to international trade rules [14-17]. To avert the possibility of any trade war, it is important to negotiate the introduction of a CBAM with our trading partners. In this context, Ecopreneur.eu recommends to **re-invest the funds raised by the policy from countries exporting to the EU in those same countries** into measures reducing their carbon emissions. Exemptions for least developed countries are

unwanted to avoid re-routes. They should receive ample EU support to reduce their carbon emissions from the CBAM revenues. Exemptions for countries with adequate measures should reduce red tape.

- A full accounting of carbon content inside and Europe would be optimal but is difficult to achieve and to manage centrally. While in EU standards for LCAs can be more easily implemented, this is not the same for production abroad. The auditing of production methods abroad cannot be managed in Europe alone. To prevent the issuing of papers stating a carbon footprint below the actual one, to justify an importer's claims for an exemption or low CBAM tariff, **regular, random, on-site, unannounced verification by independent third parties** is required. The producer abroad should then prove his production methods are compliant with European standards for low-carbon production - with the possibility for **high EU fines** or other penalties for the producer in case of transgressions.
- Some argue that the CBAM fails to give an incentive to lower carbon emissions in the EU. Ecopreneur.eu disagrees because, first, that is not the primary goal of the measure, and second, the CBAM will give a **large indirect incentive** by creating a level playing field for low-carbon products at the EU market.
- Some argue that international standards are preferable because they avoid trade issues and can reach the same objectives. Ecopreneur.eu strongly disagrees because **the standardisation process is dominated by high-carbon multinationals** in a slow, unambitious process.
- **A slight additional administrative burden is acceptable but should be minimised** as much as possible, **especially for SMEs**. To this end, Ecopreneur.eu advocates to let all companies perform a **mandatory gate-to-gate Life Cycle Analysis (LCA)** to identify both positive and negative social and environmental impacts along their value chain, integrating it as well in risk management systems. A gate-to-gate impact assessment by each company of their own energy and resource use and their impacts should be both feasible and cost-effective, also for SMEs, although special attention may be needed for the smallest ones. Their combination would yield extremely valuable information for full-chain footprint estimates, including the carbon footprint as input for the CBAM, and an enabler for circular procurement and design. In contrast, full-chain LCAs/PEFs are in general too expensive for SMEs.

With respect to the various options considered to realise the CBAM, Ecopreneur.eu advocates to implement the **simplest** option that can be legally realised without risking a veto in the European Council, preferably by extending the **EU ETS**.

A fixed carbon tax (e.g. excise or VAT type) at consumption level on a selection of imported products whose production is in sectors that are at risk of carbon leakage, **would be undesirable**. It would form a disincentive for low-carbon innovation in those products. This option can only work if the carbon customs duty would be varied at the individual product level, so that an innovative, low-carbon solution from this product group could pay a lower duty.

In addition to the options presented, the Carbon Border Adjustment Mechanism could also be implemented in **Extended Producer Responsibility (EPR)** schemes by adding a fee to imported products which depends on the carbon emissions. This could help to tackle waste-intensive product groups already regulated at the EU level such as packaging, cars, electronics and batteries, because they also score high on embedded carbon emissions but are not covered by the EU ETS or existing taxation. To ensure international acceptability and foster the reduction of global carbon emissions, the EU should then require that the raised funds be dedicated by the Producer Responsibility Organisations (PORs) that run the EPR schemes to help the importers to reduce their carbon emissions. However, this option should **only** be considered **if all attempts to implement the presented, simpler options fail**.

In conclusion, the CBAM is an important tool to enable rapid implementation of the EGD and the CEAP, and to protect European companies against unfair competition while our community pushes full decarbonisation forward. The EU has to double its investments into renewable energy production until 2050 [7]. It is important to start this transformation during the current investment cycle, using the funds of the post-COVID recovery measures. The EU has a large share of international trade and this can be used for climate diplomacy. Not taking this opportunity to build on our current leadership in energy transition and sustainability, will jeopardise the success of the EGD and the CEAP, diminish export chances and prosperity in the future.

ABOUT ECOPRENEUR.EU

Ecopreneur.eu sets a course toward sustainable economic policies on the European level to support the economic and societal transformation across Europe and beyond. Ecopreneur.eu aims at opening solidified structures and brings sustainable matters to European policy makers. Ecopreneur is a non-profit non-governmental organization that is quickly growing and now holds seven associations from different countries of the European Union. Together they represent over 3,000 green businesses, mostly SMEs.

Contact information

For more information please contact Arthur ten Wolde, Executive Director of Ecopreneur.eu at tenwolde@ecopreneur.eu, +31 6 1319 6238

Sources

[1] https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655

[2] https://ec.europa.eu/commission/presscorner/detail/en/IP_20_335

[3] <https://www.europarl.europa.eu/news/en/press-room/20200907IPR86512/eu-climate-law-meps-want-to-increase-emission-reductions-target-to-60-by-2030>

[4] https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_330

[5] <https://www.theguardian.com/environment/2020/sep/15/every-global-target-to-stem-destruction-of-nature-by-2020-missed-un-report-aoe>

[6] <https://www.theguardian.com/environment/2020/sep/10/humans-exploiting-and-destroying-nature-on-unprecedented-scale-report-aoe>

- [7] https://www.pbl.nl/sites/default/files/downloads/pbl-2020-trends-in-global-co2-and-total-greenhouse-gas-emissions-2019-report_4068.pdf
- [8] <https://www.carbonbrief.org/mapped-worlds-largest-co2-importers-exporters>
- [9] <https://nos.nl/artikel/2352072-timmermans-wil-geen-scherpere-klimaatdoelen-we-gaan-al-heel-ver.html>
- [10] https://ecopreneur.eu/wp-content/uploads/2020/06/2020-05-28-Ecopreneur_eu-message-to-the-German-Presidency-EN.pdf
- [11] <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12228-Carbon-Border-Adjustment-Mechanism>
- [12] <https://www.ifw-kiel.de/de/experten/ifw/gabriel-felbermayr/kyoto-and-carbon-leakage-an-empirical-analysis-of-the-carbon-content-of-bilateral-trade-12282/>
- [13] <https://www.energy-transitions.org/wp-content/uploads/2020/09/Making-Mission-Possible-Full-Report.pdf>
- [14] <https://www.climateadvisers.com/wp-content/uploads/2017/07/2013-07-Changing-Climate-for-Carbon-Taxes.pdf>
- [15] <https://www.bruegel.org/2019/08/border-carbon-tariffs-giving-up-on-trade-to-save-the-climate/>
- [16] https://www.wto.org/english/forums_e/public_forum17_e/public_forum17_e.htm
- [17] <https://www.youtube.com/watch?v=eqRDqETuMCs> Video: 1:14:01 / 1:54:36