

POSITION PAPER

Brussels, 10 August 2020

Orgalim position on a possible Carbon Border Adjustment Mechanism - CBAM

Executive summary

Orgalim supports the EU's climate ambition and the goal of carbon neutrality by 2050. To be successful for Europe's industry, we are advocating for a level playing field. To that extent, we agree with the rationale behind potential carbon border adjustment measures. The main objective of a carbon border adjustment should be to fight climate change by avoiding carbon leakage while at the same time taking into account the competitiveness of carbon-lean industries. Therefore, such measures should also avoid carbon leakage from the EU to third countries. Also, it must not result in non-EU companies redirecting their exports, so that carbon-friendly production increases in the EU while carbon-intensive production is moved outside the EU; this would lead to no overall carbon reductions globally.

Even though we support the rationale, we question the workability of a possible Carbon Border Adjustment Mechanism (CBAM) for our sectors. There are, for example, many concerns about the high bureaucratic impact of the implementation and its costs, as it is very difficult to measure the carbon footprint of an imported complex product, taking into account both the carbon footprint of the final product and its components.

Orgalim looks forward to continuing the dialogue with the European Commission on how to fight climate change by avoiding carbon leakage. However, Orgalim believes that the CBAM might not be the best option to achieve these goals.

Introduction

The European Commission is taking the first steps towards analysing the potential impact of a Carbon Border Adjustment Mechanism (CBAM). Following the publication of the Communication on the European Green Deal on 11 December 2019¹, the Commission released a roadmap in March 2020², providing further details regarding such a mechanism.

¹ European Commission Communication "European Green Deal" https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf

² European Commission Roadmap <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12228-Carbon-Border-Adjustment-Mechanism?cookies=disabled>

Orgalim represents Europe's technology industries: companies that innovate at the crossroads of digital and physical technology. Our industries develop and manufacture the products, systems and services that enable a prosperous and sustainable future. Ranging from large globally active corporations to regionally anchored small and medium-sized enterprises, the companies we represent directly employ 11.5 million people across Europe and generate an annual turnover of over €2,100 billion. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.

The Commission Roadmap states that if different levels of climate ambition continue to exist globally while the EU increases its climate ambition, the Commission will propose in 2021 a carbon offsetting scheme for selected sectors to reduce the risk of carbon leakage. As outlined in our recent submission to the 2030 climate target plan consultation, we support the Commission in looking into the options at this stage, but suggest first considering global solutions. We also want to highlight that, whilst we support the rationale, we have many questions regarding its impact and workability.

Moreover, the Emission Trading System³ (ETS) scheme will be revised in 2021 in relation to Europe's 2050 climate ambitions. The CBAM should not be a complex alternative to already existing instruments such as the ETS. A combination of several regulatory tools might be needed to achieve the twin goals of maintaining free and open rules-based trade while attaining climate goals.

Please find below the key Orgalim recommendations to the Commission regarding the design of such a CBAM:

1. Trade is key for EU competitiveness

Europe's technology industries are strongly export-oriented and depend on international trade for their success, representing over a third of the EU's manufactured exports. With trade supporting 36 million jobs, the EU must help companies to maintain leadership in the global competitiveness race by leading the global response to protectionism.

Free trade must first and foremost ensure Europe's long-term competitiveness. The new Recovery Plan of the Commission, released on 27 May 2020⁴, suggests using a carbon border tax as a further source of income for the Commission. The risk exists that such a carbon tax or import duty might bring it into conflict with the WTO rules. Retaliation measures of partner countries could, as a result, lead to significant disadvantages to Europe's technology industries and should be avoided. Furthermore, the CBAM should not harm existing Free Trade Agreements and customs unions (such as the EU-Turkey Customs Union).

We also want to draw attention to the special economic situation we are currently faced with. It is crucial that companies have the freedom to trade with our third country counterparts as this will help the recovery in the European Union.

The CBAM should, therefore, be designed in a non-protectionist way and respect the WTO rules, ensuring markets are, and remain, open for our industries.

2. A multilateral approach for the EU green agenda: coherence between EU trade and climate policies

The EU should further expand and accelerate its efforts to cooperate with key trading partners at a multilateral and bilateral level to avoid the creation of new tariffs and non-tariff barriers while working to reduce existing barriers. At the same time, EU climate and trade policy should go hand in hand, and trade policy must be consistent with Europe's climate ambition.

Orgalim supports a multilateral approach to the CBAM. In particular, article 6 of the Paris Agreement aims to promote an integrated, holistic and balanced approach that will help governments in implementing their National Determined Contributions through voluntary international cooperation. This cooperation mechanism, if properly designed, should make it easier to achieve CO₂ reduction targets.

³ https://ec.europa.eu/clima/policies/ets_en

⁴ Commission Communication "Europe's moment: Repair and Prepare for the Next Generation" <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590732521013&uri=COM:2020:456:FIN>

In practice, the Paris Agreement gives the signatories the freedom to decide on the best means to achieve their CO₂ goals. In this respect, we believe that adopting a CBAM is not the right instrument for the EU to achieve the CO₂ climate ambitions.

3. The cost of a Carbon Border Adjustment Mechanism for complex goods: call for impact assessment

Our industries produce complex goods running across entire supply chains. Europe's technology industries are downstream users of products that could be covered by a future mechanism, such as steel and aluminium. This could have a negative impact on the broader industry, but also on European consumers by increasing the prices of products.

We want to highlight the impact on our industries' competitiveness with regard to our exports, and the need to compete within the European market with potentially cheaper imports.

First, when introducing a mechanism for selected sectors such as raw materials (steel and aluminium), it is of the utmost importance to examine and to take into account the sectors with a high export rate such as Europe's technology industries. As the price of raw materials – whether made at a higher price within the EU or imported with a price increase due to CO₂ – is likely to rise within the EU, the price of complex products made within the EU will also rise. The burden would then be passed on to companies producing complex products to be exported. Orgalim believes therefore that there is a significant risk that the problem will be passed on further in the supply chain, so that downstream users that are not currently at the forefront of carbon leakage could be pushed out of Europe.

Second, if a Carbon Border Adjustment Mechanism is introduced only for raw materials it would have no effect on complex goods produced outside of the EU. This could result in an increase in the price of goods produced in Europe, making these less favourable compared to imported goods. It may also encourage third countries to export less raw materials to the EU where the price is higher, instead of using these materials to create complex products more cheaply than production industries within the EU. EU companies could also be encouraged to shift their production outside the EU for cost reasons. Therefore, Orgalim is concerned that added value might leave the EU.

Therefore, we call on the Commission to work on a proper and comprehensive Commission impact assessment prior to its implementation, taking into account the wider impact on complex goods. Orgalim stands ready to contribute to this debate.

Orgalim looks forward to continuing the dialogue with the Commission. For all the above-mentioned reasons, we believe that such a mechanism might not be the best option.

Advisers responsible:

Toma Mikalauskaitė, Adviser, Energy; Silvia Selandari, Adviser, Legal and Trade

E-mails: toma.mikalauskaite@orgalim.eu, silvia.selandari@orgalim.eu