



Brussels, 29th October 2020

To:

Ursula von der Leyen, President of the European Commission

CC:

Frans Timmermans, Executive Vice-President in charge of the European Green Deal

Valdis Dombrovskis, Executive Vice-President, An Economy that Works for People

Paolo Gentiloni, Commissioner for the Economy

Thierry Breton, Commissioner for the Internal Market

Kadri Simson, Commissioner for Energy

Re: Carbon Border Adjustment Mechanism: why it should be combined with existing carbon leakage measures – views from the European industry

Dear President,

We are contacting you on behalf of our respective industries, to express our views on the forthcoming proposals on an EU Carbon Border Adjustment Mechanism (CBAM).

The EU Green Deal is a landmark for the EU leadership in the international fight to climate change, and the recent Commission proposals on Climate Law and 2030 targets represent major milestones in this direction.

Considering the international context, differences in levels of climate ambition worldwide are likely to persist in the foreseeable future. The Green Deal underlines that the risk of carbon leakage can materialise in different forms, *“either because production is transferred from the EU to other countries with lower ambition for emission reduction, or because EU products are replaced by more carbon-intensive imports”*. Fostering a global level playing field on carbon is indeed indispensable to realise Europe’s climate ambition and create the enabling framework our industries need to deliver low-carbon investments. The development of a CBAM can play a pivotal role to incentivise the EU’s partners to increase their climate ambition.

The European Commission has repeatedly stated in recent documents that a CBAM would be *“an alternative”* to the existing carbon leakage measures.

However, it is in our view indispensable that a CBAM is designed, on the contrary, as an instrument that co-exists with current carbon leakage measures, and set at a level that is effective against the risks of higher climate ambition. Higher climate ambition requires strengthened carbon leakage measures. A combination between CBAM and the existing carbon leakage measures (which should

not be reduced) is the best way to deliver on Europe's carbon neutrality ambitions and keep a strong industrial base in Europe.

Firstly, a combination of existing carbon leakage measures and CBAM is fully justified and present distinct advantages:

- **It would limit the impact of CBAM on European value chains and facilitate the EU's economic recovery.** A replacement of the existing carbon leakage measures by a CBAM would have a disruptive impact on the competitiveness of EU producers of basic materials exposed to the full carbon costs and in addition significantly increase the price of products and materials covered by CBAM, with a significant impact on key European value chains (e.g. increase of the price of key components used in the car industry, agricultural sectors, construction, renewable energy equipment).
- **It would ease trade tensions surrounding the implementation of a CBAM.** A carbon border measure implemented as a complementary instrument would also reduce the direct impact on trade flows and would mitigate trade tensions as it would provide a longer transition for negotiations with international partners to align climate ambition.

Besides, having CBAM being designed as an "alternative" to carbon leakage measures presents significant shortcomings:

- **Replacing existing carbon leakage measures by a CBAM would fail to provide correct investment signals.** The industry has taken the current EU ETS Directive and the carbon leakage measures as a basis for long-term investment decisions, including for investments needed to decarbonise the sector in the coming years. Applying full auctioning as soon as a CBAM is implemented would lead to enormous value destruction, since it would expose the whole EU production to the full carbon costs in the decisive period where breakthrough technologies are being developed and upscaled. It would replace a financially-predictable scheme – on the basis of which investments are delivered – by an uncertain scheme, hampering investments.
- **Removing the existing carbon leakage measures in favour of CBAM would significantly hurt the EU's exports.** As long as it is uncertain whether a CBAM may address the issue of EU exports in third countries, a CBAM with full auctioning for EU producers would burden them with the full carbon costs, thereby undermining their ability to access export markets which for many European industries remain important.
- **The suggestion to replace existing carbon leakage measures by a CBAM would create unsustainable risks for the sectors covered.** In this respect, the replacement of the existing carbon leakage measures by an untested mechanism that could subsequently be modified or even withdrawn in case of trade disputes would create considerable uncertainty and risks for investments in the EU.

Secondly, it is perfectly possible to devise a complementary CBAM that is WTO compatible and fair to trading partners, while being effective against carbon leakage.

Free allocation remains one of the EU's key measures to fight carbon leakage as it addresses the risk of relocation of companies outside the EU, but it is partial and digressive. In the coming years, energy-intensive industries will already be faced with a gradual reduction of their free allowances, through the application of stricter rules and benchmarks under EU ETS Phase IV. As a consequence, EU producers will have a continuously increasing deficit of CO₂ allowances per annum and an increasing annual CO₂ cost, despite free allowances.

The EU ETS as it currently stands does not address the second part of carbon leakage, namely the imports of products into Europe without a carbon cost attached to them, thus not only creating a competition distortion with EU players but also failing to address global CO2 emissions.

A combination of free allowances and the introduction of a carbon border mechanism is fully justified when considering these twin objectives. A CBAM, if well designed and calculated, can be introduced while factoring in the actual carbon costs faced by EU producers and avoid any form of “double protection”. Such mechanism would be fair, as long as it takes into account that EU producers are exposed not only to the direct and indirect compliance carbon costs, but also the abatement costs that are necessary to invest in the low carbon technologies required to achieve the emissions targets. In addition, one should also take into account the fact that EU producers are subject to the carbon costs for their entire production, while importers would be subject only for the quantities exported to the EU. Put in simple terms, the key objective of a CBAM should be that EU producers and non-EU producers compete on the same CO2 costs basis on the European single market.

In conclusion, our industries believe that a CBAM is a natural and logical addition to the system of existing carbon leakage measures and should be set at a level that is effective against the risk of higher unilateral climate ambition. We strongly support the continuation of existing carbon leakage measures as a way to assist industry decarbonization efforts, to protect the competitiveness of EU exports and industrial value chains, and to avoid pushing the risk of carbon leakage further down the European industry.

We thank you for your consideration and remain at your disposal should you have any question.


CEO, CEMBUREAU


Director General, EUROFER


Director General, Fertilizers Europe

