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## **MTK'S POSITION TO THE Inception Impact Assessment on the Carbon Border Adjustment Mechanism**

The Central Union of Agricultural Producers and Forest Owners (MTK) is an interest organisation representing farmers, forest owners and rural entrepreneurs in Finland. MTK has over 316 000 members in local agricultural producers' organisations and regional forest management associations. All of the occupations and businesses of our members are based on renewable natural resources and their utilisation in a sustainable and economical way. Regional activities and lobbying are carried out by 14 provincial MTK unions and 62 forest management associations.

In principle the CBAM could be an excellent measure to avoid carbon leakage in all sectors. It is of the utmost relevance in emission-intensive sectors, such as steel, aluminium or cement industries, in which the ETS system is already in place.

Carbon is not the only thing what should be followed. However, water use, biodiversity, deforestation and animal welfare, resource efficiency, use of fossil fuels etc. also need attention. Basically, all additional production requirements should be estimated and corrected by a compensating adjustment mechanism.

Our goal is to limit global warming to 1.5°C. Any weakening of the EU's current border protection for agricultural or forestry products could dramatically undermine efforts to this goal. Due to the urgent nature of climate action, a chapter on the application of climate measures with the possibility to sanctions must be included in all free trade agreements.

The future does not lie in decreasing productivity and shifting production as well as climate impacts (carbon leakage and water scarcity) to third countries with lower standards. We have to make sure that the consumption of food and non-food products (bio-based fuels, chemicals and materials) complies with all the Sustainable Development Goals including trade policy.

Before having a new carbon pricing system, the EU should, if necessary, suspend tariff preferences when non-compliance with the provisions of the agreement on sustainable development upsets the balance of competitive conditions for European producers. Secondly there is a possibility in the antidumping legislation to have tariffs also because of environmental requirements.

Carbon pricing mechanisms in agriculture and forestry should be based on the carbon farming framework envisaged by the Commission and be compliant with the CAP. Within this scope, the carbon dioxide that farmers remove (negative emissions) would also be recognised in traded goods according to their production method. This carbon farming framework must neither contradict the Emission Trading Scheme nor the Effort Sharing Regulation. The special role of agriculture in climate action, as laid out in the Paris Agreement, must be recognised.

Carbon border adjustments on agricultural goods must be based on the Life-Cycle Assessment (LCA) principles, including carbon sequestration. If agricultural and forestry products fall within the scope of the CBAM, principles should be elaborated with farmers and forest owners.

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While no WTO member has established a similar mechanism, there is a number of technical, legal and political questions.

- The CBAM must be compatible with the WTO and other international trade commitments.
- It must minimise administrative burdens where possible and not have any adverse effects on the environment or climate
- A carbon marketplace or crediting schemes should be part of the incentivising toolbox to deliver on climate objectives. The CAP with a diminished EU-budget as it is proposed will not produce results if the private sector is not properly involved. The climate investments are long-term and should be economically competitive and attractive.
- The CBAM should be thoroughly assessed and carefully thought through along the entire food chain. It remains unclear how the calculation of emissions in agriculture and forestry could be carried out (e.g. there are currently no precedents that specifically address the issue of inputs that are entirely used up in the production process).

The Commission to undertake a thorough impact assessment along the entire value chain prior to initiating any CBAM.

- The flat-rate calculation methods do not work, because they are based on theoretical assumptions and do not reflect actual emissions. A reference level for an accepted amount of N<sub>2</sub>O and CH<sub>4</sub> emissions must be set. It is not zero for surely.
- The tax on agricultural imports from unsustainable land use (i.e. deforested land) should be prohibitively high. Today, similar schemes are available for the biofuel certification.
- A huge amount of information will be required in order to establish a fair and uniform calculation system.
- The scheme would rely on bilateral cooperation with EU trading partners to share information on the CO<sub>2</sub> content of the traded goods and the partner countries have properly implemented schemes for that.

From MTK's point of view there are too many open questions to build up a successful CBAM system, which could be used EU-wide and does not lead to costly red tape at the EU borders. If we are willing to use the CBAM in EU level, good starting point to test the system could be sectors like steel, aluminium, cement or electricity.