

Carbon Border Adjustment Mechanism (CBAM)

Inception Impact Assessment by the European Commission

WKÖ Statement

The Austrian Federal Economic Chamber (Wirtschaftskammer Österreich, WKÖ)¹ supports the goal of the European Climate Policy to attain climate neutrality by 2050. Given the massive negative repercussions of the current COVID-19 pandemic on the European population, business and industry, all relevant considerations, measures and instruments - including preparations for a possible Carbon Border Adjustment Mechanism (CBAM) - must focus primarily and unequivocally on providing the best possible support to companies to achieve the necessary recovery and the transformation towards a low-carbon economy and must strictly avoid unilateral steps to tighten up European framework conditions in ways that could weaken our companies' international competitiveness.

Stricter EU greenhouse gas reduction goals will, in any event, lead to even higher costs for European enterprises. At present, it is completely unclear how leeway and prospects for investments to drive the recovery and safeguard the future of company sites are supposed to exist in light of this development and without an international level playing field. However, these investments are a fundamental prerequisite for the dynamic innovation and growth that policymakers and all of us are hoping the European economy will soon be able to exhibit again.

WKÖ therefore suggests the following ranking of priorities in further considerations regarding a CBAM:

- The main goal for the EU must be to create a level playing field pursuant to standardized carbon pricing at international level. This goal always has to be top of mind in the preparations for a CBAM.
- As long as the requirements for a level playing field are not in place, it is absolutely mandatory to retain comprehensive and complete protection against carbon leakage (direct and indirect) within the EU Emissions Trading System (EU ETS) at least until the end of phase four in 2030 and to expand that protection if need be.
- In parallel with and supplementary to these efforts plausibility checks, considerations and preparations can be initiated in individual ETS sectors on the possible implementation of a temporary CBAM.
- Absolutely imperative prerequisites for this step are comprehensive impact assessments in the individual sectors, with due account taken of the possible repercussions that a CBAM could have on the entire value chain and on the competitiveness of the individual sectors, which varies widely in some cases.

¹ <https://www.wko.at/service/Austrian-Economic-Chambers.html> (English version)

- A CBAM must not endanger an effective common EU trade policy, towards its trading partners, within ongoing and future EU trade agreements or EU efforts within the framework of the World Trade Organization (WTO) and other international conferences or organizations. In any case, steps have to be taken to ensure that a future CBAM is designed to be WTO-compliant.
- The entire process must proceed in close consultation with the affected sectors and include considerations about the type and amount of financial cost compensation in line with validated and internationally applicable reference values as well as effective and transparent monitoring, verification and reporting.

Questions and concerns regarding a CBAM

- There is a real danger that the introduction and administration of a CBAM would pose an overwhelming additional administrative, personnel and financial burden on internationally active companies in the EU. This would run counter to the many years of EU efforts to promote international trade relations and to support companies, especially small and medium-sized enterprises (SMEs), in conducting international trade. A CBAM must not become a bureaucratic monster that saddles EU companies with extensive obligations to furnish documentation and evidence, etc. in cross-border deliveries within the EU as well as in global value chains.
- Before a possible introduction of a CBAM for selected, highly exposed sectors, a comprehensive impact assessment has to be conducted for each sector individually to determine possible legal, trade and economic policy repercussions. An impact assessment of this kind must also address the interconnections within the value chains in each sector and evaluate the effects of a CBAM on them. The results of this impact assessment will determine whether the introduction of a CBAM is necessary and if so, how it can be implemented in a proportionate, carefully targeted, and practical way.
- The introduction of a CBAM in the EU could result in our trade partners imposing countermeasures and sanctions in the form of restrictions on European exports to their markets. Countermeasures and sanctions would have far-reaching negative repercussions on business, trade and employment in the EU and must therefore be avoided on any account.
- Building up and maintaining global value chains and trade flows for internationally trading enterprises is a medium to long-term process and highly intensive in terms of time and resources. Global value chains must not be endangered by a CBAM.
- In the discussion thus far, important preparations have been lacking: the possible repercussions of a CBAM on the trade relations of the EU with its partner countries, strategies of the EU to prevent sanctions and retaliatory measures as well as strategies in the event that third countries impose sanctions. Studies and impact assessments on these matters must be conducted and must be submitted and discussed as quickly as possible, in any case prior to the presentation of a Commission proposal.

Policy recommendations and practical demands

It is vital that the European Commission follows the principles below in the interest of Europe's competitiveness:

- 1) The EU and its Member States must make intensive efforts to achieve internationally standardized carbon pricing.
- 2) The existing carbon leakage regulations for direct and indirect carbon costs have to be further improved and expanded. A CBAM must also take into account indirect carbon costs from imported goods. These costs impose massive additional cost burdens in electricity-intensive sectors of the EU ETS. As long as this inclusion of indirect carbon costs is not assured, compensation of indirect carbon costs under the EU ETS State Aid Guidelines must be fully retained and also implemented in Austria, or further harmonized across the EU.
- 3) The actual provisions of a CBAM must take into account the obligations of the EU within the WTO and towards its partners in trade agreements. If the EU in general lowers or eliminates tariffs on goods within the WTO and its trade agreements, it is difficult to argue that the tariffs should be raised on several of these goods or that market access should be restricted. Likewise, a CBAM and autonomous EU tariff suspensions or tariff quotas have to be reconciled in a way that does not hamper trade flows in an unintentional way. Simultaneously applying a CBAM and trade defense instruments (anti-dumping, anti-subsidy, safeguard measures) on imported goods might also show adverse economic effects. The geopolitical and strategic goals of EU trade policy are to export EU values and standards worldwide through treaty-based cooperation and to take on an increasingly significant role in setting the rules for international business and trade. These goals must not be endangered by introducing unilateral trade restrictions of a CBAM kind.
- 4) If the EU Member States agree on a necessary and proportionate CBAM that can be practically implemented, the EU must in any case intensify and make more concrete its efforts of clarification, acceptance and alliance building towards its trade partners and in the scope of international agreements and organizations. The global challenge of climate change requires that ambitious climate protection measures be not limited to Europe. Striving for international agreements and actions is in any case preferable to an autonomous EU measure such as a CBAM. This assertion is backed by various studies that largely favour international instruments for agreeing climate goals to autonomous measures by individual international players (refer to [Sapir](#), [Horn/Sapir](#)).
- 5) There is a lack of studies, analyses and statistics on the repercussions of a CBAM on the European economy and international trade flows in goods, services or investments. It is striking that the Inception Impact Assessment neither mentions studies, analyses and statistics nor names them as a vital part of future impact assessment. However, from the standpoint of the business community, they are a precondition for a serious discussion of a CBAM. Knowledge about possible repercussions of a CBAM on the trade relations of the EU with its partner countries is lacking, as are strategies of the EU to prevent sanctions and retaliatory measures as well as strategies in the event that third countries impose sanctions. By contrast, the consultation paper of the European Commission expressly announced a study “on the measure as well as other on-going studies notably on the energy markets and on the EU ETS”. Studies on all named topics (repercussions on business and trade relations, on the energy markets and the EU ETS) must be presented as quickly as possible, so that they can be incorporated in the preparations for a Commission proposal regarding a CBAM.
- 6) The carbon pricing structure underlying a CBAM and thus the calculation of any import tariff has to be strictly oriented to the principles of non-discrimination, necessity, proportionality, scientific character, and transparency. This structure

will be crucial for the evaluation of conformity with valid obligations of the EU and its Member States within the WTO or other international agreements and for evaluation on the part of the affected trade partner countries.

- 7) The funds collected through a CBAM must flow to business as well as research and development for new climate protection measures in the EU, especially the development and upscaling of industrial low-carbon technologies.
- 8) The introduction of a CBAM must not impose unrealistic or unilaterally onerous goals for companies in the EU.
- 9) In determining new goals, provisions must be made for corresponding flexibilities, e.g. in the form of temporary exceptions, transitional periods, support measures, etc.
- 10) A CBAM must not undermine or incompletely replace existing carbon leakage measures, in particular free allocation of allowances in the scope of the EU ETS and compensation of indirect carbon costs in the scope of the ETS State Aid Guidelines.
- 11) Retention of free allocation within the EU ETS as part of carbon leakage protection: The coexistence of existing carbon leakage measures does not lead to an impermissible double regulation to the extent that the carbon leakage regulation permits free allocation of carbon certificates in the scope of the EU ETS (EUAs) only in connection with attaining the benchmark, and further is degressive in nature due to the annual reduction factor of 1.74% (or 2.2% for 2021-2030).
- 12) A CBAM must not lead to any shortage of or increased prices for raw materials not available in the EU in sufficient quantities or quality. Moreover, a CBAM must not lead to any disproportionate disadvantages in the further processing of imported raw and primary materials and intermediate and semi-finished products and in the use of energy sources in relation to the use of equivalent products manufactured in the EU. Otherwise, the global market competitiveness of a large part of European industry would be seriously weakened instead of being strengthened.
- 13) From the outset, a CBAM should be limited to a certain period of time undergoing current evaluation as well as final reporting.

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