

## **Carbon border adjustments (CBA) are the wrong way to support the transformation of industry**

The CBA proposed by the Commission do not help to support the transformation of the industry towards achieving the EU climate goals. The risks and burdens that come with CBAs outweigh by far the opportunities. Moreover, the effectiveness of CBA is questionable.

A unilateral introduction of CBA bears the risk of the EU's trading partners responding with tough countermeasures. This would mean major burdens on EU industry with its global value chains and, in particular, on the export-oriented chemical industry.

There is a range of options for CBA – from selective to comprehensive. In VCI's view CBA have to meet certain criteria: They should be workable, easy to implement without much bureaucracy, effective, not impair the EU's export interests, be compatible with the rules of the WTO and the Paris Agreement, and they must not cause burdens on industry or distort competition. It is highly unlikely that these criteria can be fulfilled at once. For this reason, CBA should not be introduced.

- From the most limited (climate tariffs for individual products) to the most comprehensive case (a CO<sub>2</sub> border tax for all products with export refunding) there will be an immense need for information and a complex/bureaucratic design of the mechanism. The CO<sub>2</sub> content of products has to be determined adequately, both inside the EU and for products imported into the EU. This involves much cost and work especially for the chemical industry. Globally agreed allocation rules for combined production would be needed. Sensitive information would need to be disclosed.
- A mechanism of "climate tariffs" for a small number of products would protect suppliers in these markets – while there would be strains on downstream sectors in the EU and on exports at all value stages. It follows from the above that only a comprehensive CBA mechanism with export refunds should be desirable for the EU which would be highly bureaucratic.
- Any limited CBA approach would inevitably result in distortions in competition to the detriment of the sectors not involved.

Also, it is questionable whether CBA can really bring about the pursued protection for CO<sub>2</sub>-intensive sectors. CBA are likely to have legal diversion effects (trade, allocation of renewable energy) of foreign competitors. Moreover, CBA are highly vulnerable to abuse, as there is no sound global certification system.

CBA must not replace existing instruments to prevent carbon leakage (free allocation, indirect cost compensation). These must be maintained and expanded even if CBA should be introduced – because only these instruments protect competitiveness for exporters.

The VCI is also highly sceptical that a WTO-compatible design of CBA can be achieved. Taking into account the provisions of the Paris Agreement would render the shaping of CBA even more complicated and reduces its effectiveness.

Instead of CBA, the EU should work on a global approach to climate protection (e.g. globally harmonised emission trading or other pricing systems for CO<sub>2</sub>) and give substantial support to the transformation of industry:

- Effective climate protection can be achieved only at global level. Therefore, the EU should intensify its efforts towards a global system. A first step could be a global introduction of a CO<sub>2</sub> pricing system, starting at G20-level.
- Transformation of chemical industry cannot succeed behind protectionist fences but needs strong political impulses. This includes the availability of huge volumes of electricity from renewable sources at competitive prices (<https://bit.ly/2WV8oGm>) as well as more private and public funding for R&D and investment.

A comprehensive and thorough impact assessment is needed to find out how ambitious climate protection of the EU can be reconciled with a successful transformation of the chemical industry and the integration of the EU in the global economy. Alternative instruments to CBA need to be examined.