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## **CARBON BORDER ADJUSTMENT MECHANISM**

*This document gives the reactions from the Finnish Technology Industries – which accounts over 50 % of the Finnish exports - to the European Commission's inception impact assessment (IIA) on carbon border adjustment mechanisms. Given the expected potential higher climate ambition for 2030, we recognize that additional and improved carbon leakage provisions may be needed. However, we believe that alternative measures to the proposed CBAM-options in the IIA may have to be investigated and considered by the Commission in its upcoming impact assessment. We give our own list of required features of the possible CBAM.*

EU's long-term objective is to reach climate neutrality by 2050. European Commission in its Green Deal states "should differences in level of ambition worldwide persist, as the EU increases its Climate ambition, the Commission will propose a carbon border adjustment mechanism for selected sectors to reduce the risk of carbon leakage". The Paris Agreement on climate includes a mechanism, where countries can increase their nationally determined contributions of reducing their GHG emissions. The next stock-taking meeting takes place in 2023.

*Technology Industries of Finland considers that it is crucially important that EU climate policy has a long term view with clear targets so that the European industries will be able to plan and execute their respective investments across years 2020-2050. The right moment for setting the intermediate targets, such as 2040 target, would be the COP stock-taking meeting on 2023, not at the COP23 in Glasgow. At the same time the EU could consider, if it is necessary to adopt any new measures against carbon leakage, like carbon border adjustment mechanisms, to reinforce the already existing carbon leakage measures (e.g. ETS free allowances and compensation for indirect emissions trading costs).*

If, however, adopting carbon border adjustment mechanism, or alike, were deemed necessary, they must be in line with the rules of international trade and the rules of World Trade Organisation.

The sectors that would be covered by the border adjustment mechanism should be limited to those that are currently regulated under the ETS as they are deemed to be exposed to the risk of carbon leakage e.g. steel and other energy intensive products.

The adjustment must be designed so that it only sets the carbon price for imported products at the same level as the corresponding products have in the EU, because of the ETS. Imported products shall not be discriminated and no protectionism shall occur.

Importers of the relevant products shall be obliged to certify the carbon emissions or product environmental footprint of the product, taking into account both the direct and indirect GHG-emissions of the production. This certification must be verified by an independent third party, e.g. accredited inspection company.

The adjustment mechanism shall create a level playing field inside EU-market, but not outside. This is why it is necessary to maintain the existing rules for carbon leakage, free allowances and compensation of indirect costs, for European export companies. These measures must continue until up to 2030.

Indirect costs are not compensated in all Member States. Furthermore, the level of compensation varies from country to country. This creates distortions in the EU single market that cannot be tolerated. In the connection of carbon border adjustment mechanism there should be a separate fund that collects the adjustment fees. This fund should be used to pay the compensation to products exported out from the EU-countries. The compensation should be the same for exports from all Member States and be based on the average EU wholesale electricity market marginal generation i.e. coal condensing power, carbon price pass through. The fund would establish a harmonised mechanism for the EU and shall rectify the distortions caused by different compensations of indirect costs in different Member States. Furthermore, there would be no need to use taxpayers' money to pay the compensation.

### **Conclusions and recommendation:**

As a conclusion the Technology Industries of Finland wants to emphasize that all of the proposed options by the Inception Impact Assessment on Carbon Border Adjustment Mechanism have some advantages, but also some significant disadvantages. As our contribution to the development of the potential CBAM, the Finnish Technology Industries would like to offer its view on the basic mandatory principles to be incorporated to the possible system:

- 1) It is necessary that the system provides strong international incentives to decarbonise manufacturing conditions also in third countries, but in the first place the EU CBA should provide a level playing field with third country producers which are not subject to the same environmental constraints.
- 2) Any CBA regime must be based on the actual carbon footprint of imported products. In other words, a product with a high carbon footprint must be taxed higher than a similar product with a lower carbon footprint.
- 3) A carbon border adjustment mechanism must not replace any existing EU policy measures until the CBA is fully tested and developed:
  - An effective EU trade policy, including existing ordinary import duties and trade defense measures (anti-dumping, anti-subsidy and safeguards);
  - Existing EU carbon leakage measures, i.e. ETS free allowances, until a CBA mechanism is fully in place and seen to be effective;
  - Currently applied EU indirect cost compensation, to the extent the CBA mechanism does not effectively cover the entire supply chain, including energy inputs;
  - EU regulatory relief foreseen in the State Aid Guidelines on Energy and Environment (EEAG).
- 4) While the avoidance of additional administrative burdens is important, an effective CBA mechanism requires a legitimate and robust monitoring, reporting and verification (MRV) system for collecting and disclosing the direct and indirect emissions of the affected products. The effectiveness of the mechanism will depend on the details of its design and its ability to adapt in the face of absorption and source shifting.
- 5) Throughout the process of putting in place a comprehensive CBA mechanism, transparency and close dialogue with trading partners will be important.

- 5) To be coherent with the objective of the CBA, and the EU climate policy objectives in general, funds raised from the CBA should be used primarily to encourage investments in carbon-reducing technologies using e.g. the Innovation Funds.

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