



PEPSICO'S INPUT TO THE EUROPEAN COMMISSION INCEPTION IMPACT ASSESSMENT ON THE CARBON BORDER ADJUSTMENT MECHANISM

31 March 2020

PepsiCo welcomes the opportunity to provide input to the Inception Impact Assessment on the Carbon Border Adjustment Mechanism.

One of the world's leading food and beverage companies with a strong footprint in the EU, PepsiCo strongly supports the European Commission's Green Deal and wishes to play a key role in helping Europe achieve its climate neutrality by 2050. Implementing solutions to address climate change is important to the future of our company, customers, consumers and our shared world; we believe a well-defined carbon border adjustment mechanism could strengthen the world's efforts to reduce climate change.

We have a strong interest in reducing our greenhouse gas (GHG) emissions given the risks we believe climate change presents to our business and the communities where we operate. At PepsiCo, we have a goal to reduce our absolute GHG emissions across our value chain by at least 20% by 2030.

Our value chain emissions focus areas are agriculture, packaging, and third-party transportation and distribution given that these activities are our largest emissions drivers. Given the reach of our business and our brands, PepsiCo recognises the important role we can, and must, play in engaging and mobilising our supply chain to transition to climate neutrality.

In the spirit of providing constructive input, this note lists several elements we hope will be considered as and when any carbon border adjustment mechanism is developed.

1. A LEVEL PLAYING FIELD FOR EUROPEAN BUSINESS

PepsiCo supports the introduction of a carbon border adjustment (CBA) mechanism to address carbon leakage that may occur through imports. We believe a well-designed and evidence-based CBA mechanism could level the economic playing field, ensure the competitiveness of European based companies that are more carbon-efficient than competitors abroad, and encourage low-carbon economic production within Europe and its trading partners.

The CBA mechanism needs to identify carbon leakage risks not only for existing production facilities and operations within the European market but also with respect to new capacity expansion and economic growth, therefore preserving Europe's attractiveness for both domestic and foreign investment.

2. STRENGTHEN EUROPE'S GLOBAL ROLE IN CLIMATE ACTION

Europe's climate neutrality goal confirms the leading role Europe is playing on climate action. The introduction of a CBA mechanism would be a strong tool for the EU to strengthen its global leadership role

and encourage trading partners towards higher and aligned climate ambitions. A CBA could, for example, boost innovation into less carbon-intensive and more sustainable products within and outside the EU.

3. CBA AS PART OF THE BROADER TRADE SYSTEM

PepsiCo believes the CBA mechanism should be fully aligned to existing WTO guidelines to avoid potential obstruction of global trade. As CBAs develop over time, the European Commission may need to consider the establishment of a Carbon Custom Union with trading partners that have similar carbon reduction ambitions, encouraging those economies to harmonise their carbon pricing policies and therefore obviating the need for CBAs between them, allowing for frictionless trade internally and a common CBA externally.

The CBA should also be complemented by bilateral trade measures with EU trading partners that support the EU climate neutrality goal. In particular, PepsiCo believes that bilateral trade agreements with third countries should have measures to encourage less carbon-intensive products before applying a CBA mechanism.

Broader alignment with the existing trade system should factor in the way the CBA mechanism would apply to countries that already have a carbon policy in place, and therefore find a balance between securing equal treatment to all trading partners according to WTO guidelines, while also avoiding double taxation of products.

4. DESIGNING A TRANSPARENT AND FEASIBLE CBA MECHANISM

PepsiCo supports the effort led by the Commission to fully assess the potential impact the CBA mechanism would have on the European economy, environment and society. A CBA mechanism is a necessity to deliver on any ambitious climate policy but we are aware of the difficulties in combining such mechanism with the existing cap and trade scheme, which focuses on facilities as opposed to goods, thus presenting significant complexity in matching EU carbon pricing to the carbon intensity of imported goods. The European Commission will also need to present a transparent mechanism with respect to the basis for calculation, measurement of emissions, revenues, penalties for non-compliance and other critical design issues.

The CBA mechanism should be designed in a transparent, science-based and collaborative way while also maintaining confidential business information through supportive regulations.

We ask that when defining the sectors that would be impacted by the CBA mechanism, the Commission prioritises alignment between those covered by the ETS within the EU and those that will be covered externally so to ensure a fair and competitive level playing field and a uniform carbon pricing.