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Comments on the Carbon Border Adjustment Mechanism Initiative

Forest industry plays a significant role in mitigating climate change and reaching European Green Deal objectives. The industry offers climate friendly products for European and global markets, also substituting more fossil intensive alternatives. Reaching i.a. climate objectives requires the safeguarding of EU industries' competitiveness and legislative predictability and stability.

Finnish Forest Industries Federation (FFIF) supports the goal of reducing carbon emissions globally and preventing carbon leakage. In our view, the EU should primarily improve and reinforce its existing carbon leakage system that addresses the issue at EU level.

Initially, we are concerned about a possible Carbon Border Adjustment Measure (CBAM) and its negative impacts. Our position is based on an analysis, the results of which highlight:

- the (technical) difficulty of realizing the measure;
- the negative effects it would have on international cooperation and trade;
- the negative effects it would have on EU business' competitiveness (e.g. increased cost of imported inputs, having also an effect on export competitiveness);
- the expected inefficiency of the measure as to emission reductions; and
- the risk of removal of the current carbon leakage measures.

Realizing CBAM WTO-consistently would be a challenge. CBAM is a new issue that is not directly governed by WTO agreements and it has not been addressed in dispute settlement. Even with most careful preparation the measure would likely be challenged by trading partners. In a worse case scenario, partners would simply, without a dispute process, deem the measure an illegal trade barrier.

If a CBAM were realized, there could be discussion on the need and the possible removal of current carbon leakage measures. The question would arise whether CBAM and the current measures could co-exist and whether this would result in discriminatory treatment and be WTO-inconsistent. Having partners view EU measures or activity illegal or as protectionism would lead to retaliation or similar unilateral action on their part. Thus the measure and choices made could further deteriorate international cooperation, increase compliance cost and reduce competitiveness, and increase the risk of trade wars.

For now it is not known whether a CBAM will be proposed and if so, what type of measure it would be. With the information available currently, we



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understand that the possible measure would first apply to a limited number of sectors and that its scope could later be broadened. At the very least, forest industry should not be among the first sectors to which the measure would apply. Even so, there is no assurance whatsoever that our exports would not be hit hard by our partners reactions.

We find it indispensable that each sector is carefully consulted and their views taken into account both if a measure is being prepared and more urgently if a sector is considered for inclusion in the scope of the measure's application.

European forest industry exports more than it imports. The opportunities to export and spread European solutions should not be impaired.