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Fertilizers Europe's comments to Carbon Border Adjustment Measures inception impact assessment

Fertilizers Europe welcomes the possibility to share its general views on Carbon Border Adjustment Measures (CBAM) and looks forward to presenting its more detailed feedback during the upcoming public consultation.

Our main points are the following:

- 1) Fertilizers Europe wants the fertilizer sector to be evaluated in the CBAM impact assessment study.
- 2) Fertilizers Europe fundamentally promotes a model whereby the actual carbon intensity of imported products is subject to costs equal to those borne by EU producers (i.e. ETS costs).
- 3) Fertilizers Europe wants the present principles of ETS to continue: CBAM should be implemented simply in addition to and without interfering with the current ETS free allocation. The adjustment could be based on the difference between the product benchmark set in EU ETS and the carbon intensity of imported products, thus allowing any foreign exporter to prove that they are greener than the standard rate, and then benefit from individual rates.
- 4) Any CBAM needs to include equivalent measures for EU-based exporters.

The following comments provide more detailed views on the main points above.

The European Commission's adoption of a carefully studied approach is welcome and necessary especially given the complex and potentially conflicted economic, environmental, trade and diplomatic nature of the subject.

It is vital to have profound economic historical and future EU carbon cost analysis. When EU carbon charges are set on course from EUR 25 to EUR 50 in the future and even higher thereafter to EUR 100 plus, it is imperative that "equal treatment" of applied climate costs on fertilizer manufacturing costs is introduced. Unequal treatment will result in carbon leakage.

The global fertilizer industry is a worldwide commodity trading sector and therefore highly competitive and trade intensive (trade intensity indicator: 31.8%). Equally, the close supply relationship of the fertilizer industry with agriculture is a determinant factor in food quality and food security of supply. 50% of the global population depends on fertilizer use for their nutritious food supply. The presence of a robust domestic fertilizer industry to timely provide high quality nutrients to local farming is of paramount socio-economic and thus political importance. The consequent preservation of such an EU-industry in a viable and level playing field towards the global competition, both on the European and export markets, is beneficial to all stakeholders. A necessity to preserve the future of an EU sector, especially when that European fertilizer industry has evolved into a global leader on sustainability developments.

The EU fertilizer sector has drastically reduced (more than 90%) its N₂O emissions, as important greenhouse gas during the last ten years and the sector is close to the practical current technology limits of energy efficiency in ammonia production. Whilst ammonia production, as inevitable precursor for nitrogen fertilizer, is still very fossil fuel intensive, very low carbon ammonia is technically in reach and in the long term has the potential to become a crucial element in decarbonizing the shipping and energy sectors alongside the production of low carbon fertilizers and low carbon food production systems. However, this transition inevitably requires access to low-carbon and competitively priced energy and feedstock, infrastructure, legislation, innovation and support schemes. And given the huge capital intensity, such decarbonisation investments require economic justification in both domestic and foreign markets.

In order to be able to contribute to climate-neutrality and a prospering EU industry by 2050, carbon leakage should be avoided. Current protection measures under EU ETS are not enough to limit our sector's genuine exposure. Since 2014, the EU fertilizer sector has no surplus and is a net buyer of free allowances. Investments in ammonia/fertilizer capacities are happening mostly outside of the EU. Imported fertilizers with a higher carbon footprint have increasingly substituted domestic EU product, resulting in an import penetration increasing from 20% to 30% of EU consumption over the last decade and a net increase of GHG emissions globally. Therefore, we support the idea of applying Carbon Border Adjustment Mechanism as a principle.

CBAM should be implemented simply in addition and without interfering with the current ETS free allocation. The adjustment could be based on the difference between the product benchmark set in EU ETS and the actual carbon intensity of imported products. Also, the system should impose a standard adjustment rate to imports but also allow any foreign exporter to prove that they are greener than the standard rate, and then benefit from individual rates. It should also include equivalent measures for EU-based exporters. With these elements, a WTO-compatible CBAM design could be (relatively) easy for simple products such as fertilizers and ammonia.

All in all, there are multiple parameters, conditions and modalities which deserve a thorough closer look before deciding on the future of such a socio-economically important EU manufacturing industry.

Therefore, fertilizers and ammonia should be evaluated in the CBAM impact assessment study.

About Fertilizers Europe

Fertilizers Europe represents the interests of the majority of mineral fertilizer manufacturers in the European Union. The association's membership comprises 16 fertilizer manufacturers from countries across the Union and eight national fertilizer associations. The association communicates with a wide variety of stakeholders, institutions, European and national policy-makers and members of the general public who seek information on fertilizer products and application technology, and topics relating to today's agricultural, environmental and economic challenges.