EN(20)2015:1 – DA/RJA/va Brussels, 31th March 2020

COPA AND COGECA REPLY TO THE Inception Impact Assessment on the Carbon Border Adjustment Mechanism

Introduction

Copa and Cogeca represent 22 million farmers and their family members as well as 22,000 cooperatives that are dedicated to providing 446 million EU citizens with safe, nutritious, high-quality and affordable food every day. European farmers, forest owners and their cooperatives are the first to feel the impact of climate change. Therefore, there are no climate change deniers in the European farming community. We are committed to implementing the Paris Agreement and support it as an essential part of the European and international political agenda. A global approach is needed to prevent carbon leakage and to lower emissions, while at the same time to meet rising demand for food. The agricultural and forestry sectors are indispensable partners to achieving the goals of the Paris Agreement.

The European agricultural and agri-food sector represents 44 million jobs, 3.5% of European GDP and almost one third of the European Union's positive trade balance, i.e. €21.5 billion. While 44 million jobs are linked to agri-food chain activities, around six million jobs are directly linked to agri-food chain exports. We estimate that 30% of the raw materials (mainly rare commodities) processed in the EU are of non-EU origin, which demonstrates the close ties between the European and the international market. This highlights the importance of including primary and processing sectors when mapping out a trade strategy for the European Union.

Carbon border adjustment mechanism (CBAM)

The CBAM in principle could work as a measure to avoid carbon leakage in all sectors. It is of the utmost relevance in emission-intensive sectors in which the ETS system is already in place. Additional production requirements have to be corrected by a compensating adjustment mechanism.

Our aim is to strengthen the current EU border protection for agricultural products. Any weakening of the EU's current border protection for agricultural products could dramatically undermine efforts to reduce emissions, particularly in the livestock sector, and could well prevent a net global reduction in emissions. Due to the urgent nature of climate action, a chapter on the application of climate measures must be included in all free trade agreements.

The future does not lie in decreasing productivity and shifting production as well as climate impacts (carbon leakage and water scarcity) to third countries with lower standards. We have to make sure that the consumption of food and non-food products (bio-based fuels, chemicals and materials) complies with all the Sustainable Development Goals including trade policy.

The EU should, if necessary, suspend tariff preferences when non-compliance with the provisions of the agreement on sustainable development upsets the balance of competitive conditions for European producers.

Copa - Cogeca | European Farmers European Agri-Cooperatives
61, Rue de Trèves | B - 1040 Brussels | www.copa-cogeca.eu
EU Transparency Register Number | Copa 44856881231-49 | Cogeca 09586631237-74

Carbon pricing mechanisms in agriculture and forestry should be based on the carbon farming framework envisaged by the Commission and be compliant with the CAP. Within this scope, the carbon dioxide that farmers remove (negative emissions) would also be recognised in traded goods according to their production method. This carbon farming framework must neither contradict the Emission Trading Scheme nor the Effort Sharing Regulation. The special role of agriculture in climate action, as laid out in the Paris Agreement, has to be recognised.

In addition to climate measures like the CBAM, the Commission should bear in mind that other issues such as biodiversity, deforestation and animal welfare also need attention as far as sustainable production in general is concerned. Carbon border adjustments on agricultural goods must be based on the Life-Cycle Assessment (LCA) principles, including carbon sequestration. If agricultural and forestry products fall within the scope of the CBAM, principles should be elaborated in close cooperation with farmers and forest owners.

At this stage, no WTO member has established a similar mechanism, which therefore raises a number of technical, legal and political questions.

- The CBAM must be compatible with the WTO and other international trade commitments.
- It must minimise administrative burdens where possible (e.g. avoid double taxation or no taxation), and not have any adverse effects on the environment or climate. It is assumed that monitoring and reporting systems need to be in place. This is in order to understand whether the CBAM should be applied to a product or whether to provide a reduction or exclusion to a specific trade partner proven to have similar climate policies to the EU. In addition, the carbon pricing calculation of a specific product may evolve with technological advances.
- A carbon market place or crediting schemes should be part of the incentivising toolbox to deliver on climate objectives. Greater ambition with a diminished CAP budget will not produce results if the private sector is not properly involved. Farmers need stability and trust in order to make long-term investments to remain competitive and attractive.
- The CBAM should be thoroughly assessed and carefully thought through along the entire food chain. This is because it may also have an impact on the level playing field for EU production (e.g. imports of soya to feed EU poultry vs imports of poultrymeat from poultry fed with soya from third countries). It remains unclear how the calculation of emissions in agriculture and forestry could be carried out (e.g. there are currently no precedents that specifically address the issue of inputs that are entirely used up in the production process). Therefore, it would be mandatory for the Commission to undertake a thorough impact assessment along the entire value chain prior to initiating any CBAM.
    - The European Commission must reject flat-rate calculation methods, which are based on theoretical assumptions and do not reflect actual emissions. A reference level for an accepted amount of N2O and CH4 emissions must be set. It cannot be zero. This could be done by defining a standard greenhouse gas (GHG) content/GHG reference level for EU agricultural products. This should be calculated and the difference in GHG content should be priced for imports. A certain reference level of GHG emissions must be “duty free”.
    - The tax on agricultural imports from unsustainable land use (i.e. deforested land) should be prohibitively high. Certification and third party auditing could be used for compliance checks on imports. (Similar to the biofuel certification schemes today).

- A lot information on all possible products and production processes, both in the EU and in trading partner countries, will be required in order to establish a fair and uniform calculation system.
- The scheme would rely on bilateral cooperation with EU trading partners to share information on the CO2 content of the traded goods. In light of this, it would be a prerequisite for the scheme to be properly implemented in the partner countries.
- There are a number of administrative/practical questions, such as the identification of the EU staff to be tasked with handling the complex assessments of CO2 content in imported goods when these reach the EU border from abroad. In a similar vein, a successful CBAM hinges on the existence of a well-designed, EU-wide customs system that does not lead to costly waiting times for importers at the EU borders.