Cefic welcomes the Commission's focus on ensuring industry competitiveness for a climate-friendly transition

- The chemical industry's initial thoughts on possible EU Border Adjustment Measures –

Cefic welcomes the Commission's focus on ensuring industry competitiveness for a climate-friendly transition, namely to become climate-neutral by 2050 while ensuring that European companies can globally compete on a level-playing field.

Cefic remains a strong supporter of free and fair trade. In light of increasing EU climate ambitions, Cefic welcomes the recognition of EU policy makers of the need to protect against carbon leakage and safeguard the competitiveness of domestic industries. The best way to level the playing field is to ensure that other countries raise their climate ambition. As long as that is not the case specific carbon leakage measures remain necessary.

Under the EU Emissions Trading System (ETS) EU industries are facing a declining cap on emissions towards 2030, coupled with a price to pay if emitting beyond a certain benchmark level, the aim being to drive domestic industries towards a decreasing GHG emissions path. However, imports into the EU are not subject to ETS and therefore will increasingly gain competitive advantage, if producers in third countries benefit from lower or no domestic carbon costs. Under the current ETS system, the free allocation of emission rights at benchmark levels seeks to safeguard the competitiveness of industry and avoiding carbon leakage. However, the more asymmetric emission targets and policy measures become, the more critical it will be to effectively level the playing field for EU industry through strengthened carbon leakage provisions. In order make Europe an attractive investment location for chemicals, such measures need to be part of a comprehensive industry policy.

The increased EU ambition of leading the global fight against climate change is now putting new emphasis on "Border Adjustment Measures" (BAMs) or "Carbon Border Tax" as possible instruments to avoid carbon leakage; however, at this stage there is no specific proposal on how such measures could be structured other than that these measures would apply to imports into the EU. Product scope and target countries remain undefined for the moment. Cefic advocates for a comprehensive industrial policy strategy that enables industry to competitively transform to a low carbon economy. This strategy must embed an in-depth reflection on carbon pricing policies in general and on all possible policy options that would help mitigate carbon leakage and incentivize emissions reduction globally. An EU trade strategy strengthening the international rules-based system and fair competition should be part and parcel of that as well.

The upcoming Commission impact assessment should therefore look at all carbon pricing policies and carbon leakage prevention options including direct and indirect carbon costs and consider several scenarios. The different options and resulting costs, including the impact of no action, should be carefully considered for their ability to set the right incentives towards competitive low carbon manufacturing in and outside of the EU. The impact assessment should include chemical products and cover the possible impact on chemical subsectors and downstream industries, taking into account that chemicals are widely used across many international value chains. In order to deliver the required benefits for the chemical industry, the following key principles should apply:

1. Export competitiveness must be ensured

The European chemical industry is an export champion. It currently exports around 30% of its production outside Europe, making the EU the biggest chemicals exporting region in the world with a €45bn trade surplus for chemical products. Any new system should reinforce Europe's strength in the EU chemicals industry as well as its downstream value chains.

2. WTO compatibility must be ensured

Any system must be WTO compatible and therefore consider the non-discriminatory, differentiation and "likeness" principles of the WTO as well as possible allowed exceptions under Article XX. Furthermore, any system should be in line with and support the Paris Agreement.

3. Promote international dialogue to avoid trade conflicts

The EU will remain open to and depend upon international free and fair trade and will have to engage in dialogue with its trading partners in order to avoid trade conflicts affecting non-concerned sectors. This dialogue in the context of the Paris Agreement or bilateral trade agreements could also promote the setting up of a global carbon pricing mechanism. Using trade agreements in this regard could be an option, as long as provisions incentivise trading partners to adopt ambitious climate objectives or obligations.

4. Use revenues completely to support low carbon manufacturing and investment

Revenues resulting from new measures should be entirely used to level the global playing field between competing industries[1] as well as for low carbon investment and industrial manufacturing transformation.

5. Current carbon leakage safeguard must not be compromised

The ETS, with its free allocation principle and established framework until 2030, is an appropriate climate tool for mitigating domestic GHG emissions of the EU industry. However, the shrinking free allocation until 2030 will increase the exposure to competition from third countries that do not face similar, increased CO_2 costs, thus un-levelling the playing field. Any future measures therefore would need to be complementary to the ETS free allocation system, so as to effectively cover carbon leakage risks at least in a comparable or better manner as the current free allocation system in the EU ETS, including the compensation of indirect emissions costs. Any system should ensure reliable and predictable conditions essential for technology-neutral investment decisions.

6. Cost and complexity must be minimised, while the framework must be robust

Any chosen option should not unnecessarily increase compliance costs or add administrative burden for the EU chemical industry as well as authorities. Still, robust monitoring, reporting and verification will need to be established ensuring legal certainty and equal treatment of international competitors.

Concluding remarks

While contributing to this consultation we are very aware we are experiencing unprecedented times, with events none of us have lived through before. Cefic endeavours to maintain a high standard in our responses to public consultations. While we are confident that this contribution adequately reflects

[1] Taxation on import side should mean compensation on export side: For sectors exporting goods from Europe to other regions, EU carbon costs that not incurred in competing regions would have to be compensated.

our views at the current time, we recognise that public and private sector responses to the crisis and its aftermath, both in the EU and globally, have the potential to significantly affect industry's operating conditions. When investing in the future, industry, governments and institutions will also have to continue to ensure investments align with the policy targets of a climate-neutral Europe. We look to the European Commission to undertake the appropriate assessments and to include these wider considerations in the future framework that will be developed, with the objective of ensuring the EU's post-crisis attractiveness as a place for investing in the industrial transformation required to achieve the objectives of the EU Green Deal.