



Ministry of Finance
Tax and Customs Department

Swedish comments on the inception impact assessment of a carbon border adjustment mechanism

The Swedish Government appreciates the opportunity to provide comments on the design of a carbon border adjustment mechanism (CBAM), within the framework of the inception impact assessment. The issue of a CBAM is complex and closely linked to several different policy areas. It is therefore essential with transparency and an open dialogue with Member States and other relevant stakeholders as well as engaging broadly with relevant expert bodies throughout the further design process of the relevant measures.

The Swedish Government supports the long-term objective of climate neutrality in the EU and its Member States by 2050 and believes that the EU's 2030 climate target should be increased to at least 55 % and be in line with the 1.5-degree objective of the Paris agreement. These measures are a prerequisite to maintain the EU's global leadership in the fight against climate change and to seize the economic benefits of the transition.

While increasing the EU climate ambition, it is essential that the risk of carbon leakage is properly addressed. Sweden has high climate ambitions and is in favour of eventually phasing out the free allocation in the EU ETS as well as the compensation scheme for increases in electricity prices indirectly resulting from costs due to the EU ETS. As a possibly more effective alternative to current measures that serve to safeguard against leakage, a properly designed CBAM can enable the EU to keep its leading role in fighting climate change in a global context lacking equivalent climate action from other major economies. The impact assessment should analyse carefully how a phasing-out of the current carbon-leakage measures could be synchronized with an introduction of a CBAM.

The Swedish Government therefore welcomes a thorough analysis of the legal and practical feasibility of introducing such a CBAM as an effective tool to avoid carbon leakage. The analysis needs, among other things, to consider implications on trade and competitiveness, including compatibility with WTO rules. Such an analysis will provide guidance to which type of policy measures that are best suited when designing a CBAM.

The Swedish Government agrees with the Commission that the main objective of a CBAM needs to be fighting climate change by avoiding carbon leakage. Sweden has a long tradition of advocating the necessity of a well-functioning global free trade.

The need for a CBAM can only remain as long as differences in levels of climate ambition between EU and third countries persist. The Swedish Government would thus like to underline the importance of analysing the effect of a CBAM on the incentives of third countries to reduce their emissions via for example national carbon taxes.

Sweden welcomes that the Commission's Communication on the European Green Deal underlines the need for the EU policy response to the climate challenges to be bold and comprehensive. A CBAM is likely to be closely interlinked with other EU measures. In particular, this relates to a revision of the EU Emissions Trading Scheme. The Swedish Government would thus like to stress the importance of presenting proposals for different pieces of such legislation in a comprehensive package where the coordination between different measures is essential. As the fight against climate change also is a core element in the envisaged revision of the Energy Taxation Directive (ETD), this proposal may also need to be taken into account in the broader picture of creating a well-functioning and effective set of EU measures in the EU area. The Swedish Government is separately submitting comments on the inception impact assessment of the revision of the ETD.

In this context, it is important that the process is transparent and that a close dialogue will be held with the EU's trading partners. The current situation, where the use of trade defense instruments has escalated during recent years, is sensitive. In order to avoid any possible countermeasures from third countries, it is important that the mechanism is compatible with WTO regulations and that the design and assessment process is carried out in an open, transparent, predictable and fair manner.

The evaluation of carbon content and pricing of products is complex. Defining products within the CBAM too broadly and measuring carbon contents and pricing on a highly aggregated level can be perceived as unfair, while a greater level of detail will come at a higher administrative cost. Closely linked to the administrative burden is the issue of transparency in calculations of carbon content of imported products and how to ensure reasonable control systems for imported goods. Striking a balance between detail and reasonable administrative burden for companies as well as relevant public bodies will be important. Conformity with WTO rules must serve as guiding principle to ensure that the CBAM is designed and perceived as a legitimate measure to combat climate change. As the European economy decarbonizes, many industries will switch from fossil fuels to electricity. It is therefore important that the Commission also investigates to what extent and how indirect emissions – so called scope 2 emissions – can be included in a CBAM.

If the CBAM is proposed to be designed as the tax measure, the Swedish Government wants to emphasize that it does not support a move to qualified majority voting for tax matters. It is important that the Member States' competence in the tax area is respected, as well as the national parliaments' role in decisions on tax matters. Unanimous agreement in decision-making regarding taxes within the EU is a prerequisite for the Swedish Government's and the Swedish Parliament's influence and competence in tax matters.

As regards the sectoral scope, the Swedish Government supports the Commission's initiative to assess a CBAM for selected sectors only. The sectoral scope should be limited to sectors facing the greatest risk of carbon leakage. In addition, avoiding complexity in design and administration of a CBAM is also important to consider when deciding on the scope of such measures. For these reasons the Commission is encouraged to above all consider basic materials such as steel, cement and aluminium. If a CBAM would be introduced on for example these materials, the effects of such a scheme on more complex exported and imported products in the downstream value chain, such as cars and precast concrete walling units, need to be analysed.

Compared to the EU and world average, Sweden has already a low-carbon-energy system and an energy-efficient industry. This implies that Swedish

exports already can contribute to exports with a low carbon footprint and therefore to reduced greenhouse gas emissions. In addition, Sweden's intention is to become the first fossil-free welfare state and Sweden's national climate policy objective is to achieve net-zero greenhouse gas emissions by 2045 at the latest. This has contributed to the fact that the Swedish steel industry has already committed to develop the world's first fossil-free steel-making technology replacing coking coal with hydrogen as reduction agent¹ and that the Swedish cement industry plans to achieve carbon neutrality by 2030². These industries can reduce emissions not only in the EU but also in third countries. The Swedish Government thus encourages the Commission to closely analyse how a CBAM could affect export to third countries. Such an analysis should consider in particular the effects on emissions from promoting clean EU exports to third markets. If a CBAM increases the risk of exporting companies being moved to jurisdictions with more emission-intensive production methods, the possibility of introducing measures to safeguard the environmental benefits from clean production exported to third countries, must be considered. The legal basis for such possible measures should also be analysed in detail.

Decarbonising industry is expected to increase the demand for electricity, e.g. hydrogen needed for fossil-free steel making is produced by a very electricity intensive process. Therefore, care must be taken in designing a CBAM so that the ongoing electrification and decarbonisation of industry is not jeopardised.

In conclusion, the Swedish Government welcomes a thorough analysis of the practical and legal feasibility of introducing a CBAM as an effective tool to avoid carbon leakage. In order to avoid increasing emissions, the possibility to introduce measures to limit the risk of carbon leakage from EU's exports to third country markets needs to be properly addressed. Finally, the Swedish Government encourages the Commission to seek further consultation with Member States and other relevant stakeholders as well as the WTO in an open, transparent, predictable and fair manner during the continued design and introduction phases.

¹ <http://www.hybritdevelopment.com/>

² <https://group.vattenfall.com/what-we-do/roadmap-to-fossil-freedom/industry-decarbonisation/cementa>