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Solvay welcomes a carbon border adjustment mechanism if in addition to the ETS carbon leakage measures

Key points

- We support a carbon border adjustment mechanism as an additional complement to ETS carbon leakage measures in order to safeguard EU chemical industry competitiveness
- ETS carbon leakage measures must be kept for ensuring a successful transition to a low carbon EU industry
- The competitiveness of both EU chemicals exports and downstream activities must be ensured

1. Solvay welcomes the EU Commission's intent in its European Green Deal Communication to safeguard the competitiveness of EU industries

The EU, as proposed by the Commission President and endorsed by the EU Council, wants to become the first continent carbon neutral in 2050 which involves a deep turnaround of all the sectors of the EU economy. New climate constraints will nevertheless mean a more severe greenhouse gas emissions (GHGs) reduction path with an increased risk of carbon leakage as underlined by the Commission.

In this respect, Solvay welcomes the explicit recognition of the need to safeguard the international competitiveness of EU industries in light of asymmetric increasing climate ambitions in EU compared to the rest of the world. However, considering the recent Communication of the EU Green Deal, we believe that an impact assessment is needed on the different options envisaged to create a carbon border adjustment mechanism that would fulfil this objective.

2. A carbon border adjustment mechanism must be an additional complement to ETS for chemicals and their value chains, not an alternative

The EU Emissions Trading System (ETS) has been reinvigorated for the next period 2021-2030 with tighter mechanisms leading to fewer emissions and a stronger market price although with a reduced support to international competitiveness through shrinking free allocations. Considering those shrinking allocations, driven notably by lowered benchmarks, we will no longer be able to rely only on them to face the rising asymmetric situation for emissions costs between domestic production and manufacturing outside EU.

As the objective is to safeguard EU competitiveness, a carbon border adjustment mechanism should come as an additional complement to the ETS carbon leakage measures for chemicals and their value chains.

Unfortunately and somewhat confusingly, the Green Deal is only considering such a carbon border mechanism as an „alternative“ to the ETS carbon leakage measures (see European Green Deal 11.12.2019 COM(2019) 640 final- page 5 para 4) which would then weaken the industry competitiveness. Chemicals are intricated in complex value chains with multiple stages each exposed to international competition and for which weighting carbon content is beyond feasibility. Removing the existing ETS carbon leakage measures would increase the chemicals costs as well as the value chain costs at stages for which a carbon border adjustment mechanism is also not feasible. This mechanism, if introduced as an "alternative" to ETS, would thereby fail to safeguard the international competitiveness of chemicals and its whole EU value chain.

3. Imported emissions should be captured in Europe’s efforts to mitigate GHG

Under ETS, we are facing a decreasing cap of emissions coupled with a price to pay if emitting GHGs beyond a certain theoretical benchmark level, the aim being to drive down our emissions. Imports are nevertheless not submitted to ETS and therefore are gaining an increasing competitive advantage particularly when facing lower or even non-existent domestic price for their emissions.

Therefore a carbon border adjustment mechanism, if introduced as a complement to the ETS carbon leakage measures, would then become a welcome tool to safeguard competitiveness for the part above benchmark that the current ETS carbon leakage measures are not providing.
Such a mechanism, as described just here above, would also help motivating third countries to implement similar ambitious climate policy as in the EU. Policy makers must indeed ensure to level the playing field with other economies that do not comply nor pay for their emissions the way the EU does.

4. EU exports competitiveness must be ensured

As for the whole European chemical industry, Solvay relies also on its exports to keep production in the EU. In this regard, keeping the ETS free allocations based on genuine benchmarks are vital in particular to safeguard the production of soda ash in Europe. Any new additional carbon border mechanism and/or ETS measures should therefore safeguard or even improve our ability to compete at export.