



Designing a Carbon Border Adjustment Mechanism that works for the EU

AEGIS Europe is an industry alliance of more than 20 European trade associations committed to manufacturing in the EU on a truly level playing field ensured by rules-based free and fair international trade. Our members account for more than €500 billion in annual turnover, as well as for millions of jobs across the EU.

We support the European Union's goal to fight climate change and make Europe the most sustainable economy globally. To achieve those goals, it is essential to put in place policies that accompany the Union's manufacturing industry along its decarbonisation journey and keep EU manufacturing value chains globally competitive.

In view of the EU's enhanced climate ambition, the risk of carbon and investment leakage¹, which is already a reality, is likely to increase. Therefore a CBAM must help establish a level playing field vis-à-vis imports and increase EU industries' competitiveness. Decarbonisation policies will need to be adapted along a stepwise approach to avoid the collapse of production systems and social cohesion throughout the EU.

Keeping in mind the need for coherency with the overall policy goals, we ask stakeholders/European Institutions to consider the points expressed below in designing a proposal for any CBAM:

- **For sectors where CBAM applies, all imports** should be subject to a CBAM equally regardless of source, whatever the trade or economic designation of those sources. Allowing for exceptions would not be coherent with the EU's green objectives and it would simply complicate administration as well as increase opportunities for circumvention
- **Carbon footprint of imports** must be measured adequately. A CBAM must not only consider the carbon footprint of imports but also reflect the overall carbon footprint of making those or similar products in the places where the essential manufacturing steps take place. The verification of the carbon footprint of imported products should be based on independent third-party verification
- **Linkage with third countries** should not be considered unless there are equivalent costs/limitations, proven monitoring, reporting and verification systems under EU supervision, and no substantial subsidies covering carbon costs in third countries
- **Exports:** ensure competitiveness is not harmed by the introduction of a CBAM. The possibility to grant a rebate to EU exporters should be explored under the CBAM
- **Free allowances and indirect costs compensation** must remain, especially in a context of fast rising CO₂ allowance price, to avoid abrupt modifications of the legal framework, as well as to minimize the impact on downstream partners in the value chains. In the alternative, a CBAM would not address the carbon leakage related to the ETS costs of exports
- **Level playing field measures** are essential for sectors where a CBAM would not be effective against the risk of carbon leakage or for sectors it would not apply. It is essential to ensure the

¹ The risk of relocation of manufacturing and investment for reasons of costs related to climate policies.

equal treatment of all products placed on the EU market with regard to the costs and limitations of decarbonisation measures

- **Downstream carbon leakage** must be avoided. If the CBA is applied to upstream sectors and free allocation is removed abruptly, there is a real risk of carbon leakage for EU industries which are operating downstream from the sectors to which the CBAM would apply, when those sectors are also exposed to global competition and cannot pass on carbon costs without the risk of losing market share. Moreover in a transitive context toward climate neutrality, CBAM would have to apply to the whole production of GHG emissions (indirect and direct emission) from upstream sector (raw materials) to the downstream sector (semi and final products).
- **Sanctions** must be timely and effective to preserve the integrity of the CBAM in case of any non-cooperation (even partial) by importers or third country producers, which includes the submission of untimely, incomplete, false or misleading emission footprint declarations, or the lack of full cooperation with on-site verification visits at the places where essential manufacturing steps occur
- Additional **administration** is inevitable in relation to an effective CBAM, but clear EU-level rules, including an importer pre-notification requirement, can foster efficiency
- In addition, **the CBAM design must adequately address the following risks:**
 - **Substitution** between primary inputs and semi-finished goods
 - **Resource shuffling** through allocating low carbon production only to the EU with no or negative effect on the overall CO2 emissions
 - **Transshipment strategies** if the possibility for exempted countries is included
 - Avoidance based on **slight modification of the product**

AEGIS Europe's full contribution to EU Commission's consultation on CBAM can be found here: <http://www.aegiseurope.eu/news/aegis-europe-response-to-the-european-commission-public-consultation-on-the-carbon-border-adjustment>

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