POSITION PAPER

Extension of the Carbon Border Adjustment Mechanism (CBAM) and an export mechanism

Technology Industries of Sweden

Summary

– The EU must keep its ambitious emission reduction targets for reasons of European competitiveness and resilience as well as global climate protection.

– The ETS is a climate policy instrument. The related Carbon Border Adjustment Mechanism (CBAM) is also a climate policy instrument designed to prevent carbon leakage and negative competitive implications on EU companies.

– CBAM is currently causing heavy administrative costs on European technology industries that produce complex products based on hundreds of components made of different materials in different value chains. Hence, this cost problem must be solved.

– The scope of application of CBAM should be expanded to specific sectors selectively, subject to assessment of the ETS/CBAM impact on industry costs, competitiveness, and risk of carbon leakage.

Background

Technology Industries of Sweden represents the Swedish manufacturing industry, covering more than 4,500 member companies. As Sweden's largest export industry association, Technology Industries of Sweden is a significant end-user of raw materials covered by ETS and CBAM, such as steel, aluminium, cement and electricity.

CBAM aims to and can be a solution that supports the EU's climate objectives and gives incentives to countries that have not yet introduced carbon pricing to do so.

CBAM extension

In general Technology Industries of Sweden supports the EUs climate ambitions including the ETS and therefore considers CBAM necessary as a climate policy instrument intended to prevent carbon leakage and negative competitive implications on EU companies. However, an extension of the scope needs to take a step-by-step approach in dialogue with the industry to secure that solid reporting tools and all relevant CBAM data are available. Companies are currently struggling with CBAM-related reporting, data availability, and administrative burdens. The current situation implies that any changes to the scope of CBAM should only be made based on thorough impact assessments and dialogue with the industries concerned. Practically workable mechanisms need to be developed for any potential sector specific scope extension.

Technology Industries of Sweden wants to see an extension to specific so-called 'downstream products' and 'finished goods' that have a particular risk of carbon leakage, to ensure European competitiveness in these sectors does not deteriorate as an effect of carbon pricing starting with ETS/CBAM. This risk is different depending on the type of product, its value, trade pattern and its material composition. If some downstream products/finished goods are not included in CBAM, while the raw materials that the product is composed of are covered by the ETS and by CBAM, these instruments give an incentive to companies to move manufacturing of downstream and finished goods out of Europe. The reasoning is that products not covered by CBAM can be produced outside Europe and then be exported to Europe without incurring the CBAM or ETS costs.

For ETS and CBAM to work without giving a negative competitive situation for the EU based manufacturing industry, more product categories must be included in the scheme. From the perspective of steel and metal users in the EU, a major concern is that processing, component and finished goods manufacturing would shift outside the EU, undermining investments, jobs, and the European knowledge base. The same applies to companies whose main market is outside the EU and to whom the internal market represents only a minority market. The increased cost through ETS and CBAM creates a risk to move production out of the EU. For such companies, to be able to compete in the global markets, it would be more logical to produce outside of the EU with lower cost and serve the internal market with imports to the EU. This would be the case especially if an export solution is not available for complex goods containing a large share of steel and aluminium.

With regards to an extension of CBAM to downstream products and finished goods, this should be focused on specific categories that currently experience intense competition from competitors outside Europe. Some obvious finished goods categories are vehicles, heat pumps, power cables and household appliances or home appliances like washing machines etc. Household appliances have a high content of steel and aluminium in combination with high trade intensity, relatively low product value and low profit margins. This means the financial exposure risk is more significant compared to other product categories. Power cables equally have a very high content of aluminium which means high financial exposure risk and high risk of carbon leakage. Power cables are also defined as an NZIA strategic sector that is crucial to

Europe's critical infrastructure.

When modifying the CBAM regulation, it is essential that the calculation of the carbon footprint of materials and products is based on a harmonised life-cycle assessment (LCA) methodology that among other things consider the fuels used to produce the product. Of course, a solid impact assessment must be done, just as reasonable standards for reporting and data collection need to be implemented before a possible extension can be made. The large complexity of global value chains in large parts of the manufacturing industry must also be taken into consideration.

The revenues from CBAM must be channelled back to European industry for investments in low-carbon solutions.

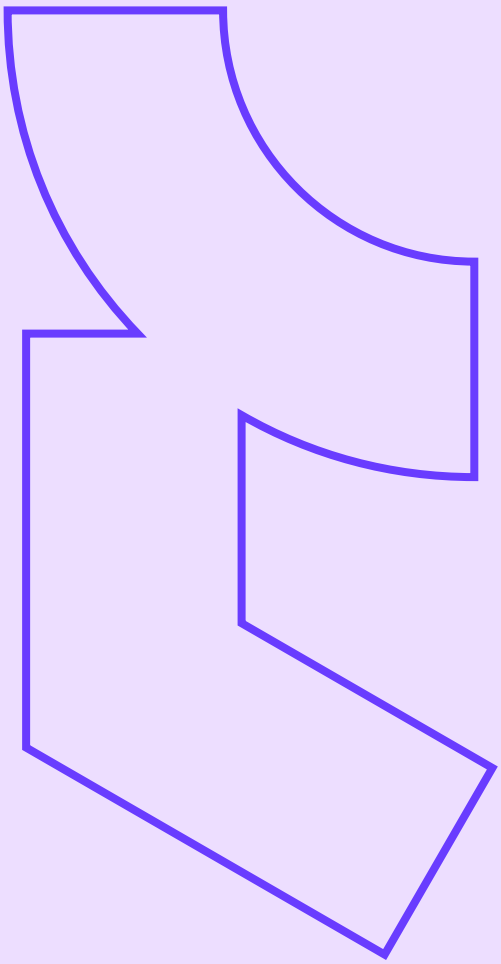
Reduce the administrative complexity of CBAM

Technology Industries of Sweden welcomed the CBAM Omnibus proposal, especially the shift to an increased threshold value of 50 ton per year. However, this change is not sufficient to reduce the administrative burden. We therefore propose to exclude all shipment of CBAM goods under 1 ton per supplier, per year. This change can reduce the administrative burden by approximately 80 percent and still cover 95 percent of the CO2 emissions.

In addition, companies' inequalities in access to data must be understood and addressed. Some importers are unable to get accurate data since the producer on the other side of the world does not compile such information. Lack of data could mean that CBAM-products might get stuck in customs procedures with large risks for manufacturing companies. Until the data availability and quality of the data is good, it must be possible to use both default values and verified values without being punished by higher costs for having to use default values. This is vital for the competitiveness of European companies. Default values should be possible to use for raw material imports and to import of finished goods and downstream goods.

Implement an export mechanism

Phasing in CBAM and phasing out ETS free CO2 allowances will increase CO2 costs and thus increase production costs for European manufacturers. CBAM aims to ensure the same price increase that corresponds to the increased costs in the European market for ETS CO2 pricing, while prices in markets outside the EU will not see the same price increase. European manufacturers exporting to countries outside the EU will thus become less competitive in these markets due to their increased costs when producing in the EU. The EU must hence introduce an export mechanism to strengthen the position of European export industry in global markets. This export mechanism should cover all downstream sectors that will be affected by higher raw material cost either from ETS or from CBAM. It is important that this measure is designed to create a level playing field on international markets and implemented as soon as possible.



Technology Industries of Sweden's 4,500 member companies account for one-third of Sweden's exports and over one million jobs. Our mission is to strengthen our members' competitiveness and drive sustainable development forward. Together with companies across the country, we shape the future of the technology sector – because we are Sweden's technology industry.

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