

FuelsEurope position paper on the Carbon Border Adjustment Mechanism

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FuelsEurope supports the EU's goal of climate neutrality by 2050, recognising this will require breakthrough technologies and an enabling policy framework. To ensure Europe's refining industry can remain globally competitive whilst transforming to a lower carbon society, we support effective measures that accommodate a level playing field. Like most leading economists, FuelsEurope prefers a global CO₂ market across the whole economy based on a uniform carbon price. Nevertheless, until consistency on worldwide carbon pricing and ambition can be achieved, we welcome the European Commission initiative to examine proposals for WTO compatible mechanisms that would reduce the risk of carbon and investment leakage as the EU increases its climate ambition in light of the European Green Deal. However, any such mechanisms cannot be a comprehensive alternative to measures that currently address the risk of carbon leakage if it only applies to imports.

Any mechanism should be designed such that it:

- Improves the effectiveness of policies aimed at addressing climate change in the EU and globally.
- Does not deteriorate the competitiveness of the EU industrial sectors, both in the domestic EU market and globally.
- Is compatible with relevant international trade agreements, e.g. WTO rules.

In designing a Carbon Border Adjustment Mechanism against the potential deterioration of the competitiveness of the EU industry against competitors from regions with lower climate ambitions, not only imports but also both EU manufactured products exported outside the EU as well as products along the upstream and downstream value and supply chains will have to be carefully considered. FuelsEurope encourages the European Commission not to limit the scope of its study to "transfer of production outside the EU" but also to anticipate any "transfer of investment outside the EU". With respect to identifying sectors that are at a significant risk of carbon leakage, it is of utmost importance that both upcoming EU ETS and Carbon Border Adjustment Mechanism impact assessments are conducted in parallel, with a high level of involvement of the sectors that are considered exposed according to the carbon leakage list¹. **We emphasise the importance of thoroughly impact assessing the EU refining sector as a part of the studies undertaken by the Commission** ahead of any proposed design for any mechanisms.

Design of the Carbon Border Adjustment Mechanism to help meet additional objectives whilst addressing both carbon leakage and competitiveness

FuelsEurope share the expectations regarding the **environmental benefits** that a Carbon Border Adjustment Mechanism could induce in incentivising non-EU producers to reduce the carbon intensity of the imported products. However, any mechanism should primarily be designed such that it supports the effectiveness of policies aimed at fighting climate change both in the EU and globally. In particular, we believe that a Carbon Border Adjustment Mechanism should be designed to improve the effectiveness of the EU ETS by

¹ C(2019) 930 final

complementing the current measures tackling the risk of carbon leakage, at least during a transition period in view of ensuring its effectiveness and WTO compatibility.

Design options of the Carbon Border Adjustment Mechanism

FuelsEurope believes any of the four options proposed by the European Commission in its recent public consultation² might prove to be highly relevant in addressing the main objectives. However, several design elements will require specific considerations for the mechanism's effectiveness in addressing the risk of carbon leakage in particular, especially if it only applies to imports.

Coverage of emissions

Any design suggested by the European Commission should consider the current and future internal EU carbon cost resulting from both direct and indirect emissions. FuelsEurope supports that the coverage should at first focus on products from activities covered by the EU ETS that are highly exposed to carbon leakage.

Sectors subject to a Carbon Border Adjustment Mechanism

We emphasise the importance that the EU refining sector (one of the most carbon leakage exposed sectors) is thoroughly impact assessed by the European Commission before any decision on the design of a Carbon Border Adjustment Mechanism is proposed. FuelsEurope cannot position itself a priori without knowing more about the design of the adjustment mechanisms proposed.

Carbon content of imported products

In order to ensure a truly level playing field, the methodology for calculating the carbon content of imported products should require information from all importers consistent with the data used to calculate the carbon intensity of products made in the EU only. By applying the same methodology to calculate the CO₂ intensity of any EU produced or imported products, a level playing field can effectively be ensured, recognising the increased administrative burden and challenges of verification and accreditation this may cause.

International context

FuelsEurope invites the EU as a major trade partner to play an active role in advocating for a new set of international trade rules that accommodate the fight against climate change and the risks of carbon leakage.

FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 40 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

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² <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12228-Carbon-Border-Adjustment-Mechanism>