

SUBJECT CBAM position paper
TO ICTA SSHE Committee
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Introduction

In the face of climate change, the EU has taken effective measures, including its flagship emission trading scheme. It has recently introduced the European Carbon Border Adjustment Mechanism (CBAM, [here](#)) to bring new sectors under the trading scheme, while trying to prevent carbon leakage. While ICTA wholeheartedly supports its objective, we strongly doubt whether CBAM is the right instrument.

In this position paper, ICTA will explain its concerns and propose next steps to be taken.

CBAM background

Over the last years, the EU has been raising its climate ambition, but other countries has taken less far reaching measures to reduce emissions. That is why the European Commission (EC) proposed CBAM as part of its long-term climate policy package. CBAM essentially introduces a tax for certain carbon-intensive products that are imported into the EU. The idea is that after this tax, these products no longer have a risk of carbon leakage. As a result, today's freely allocated carbon emission allowances can be phased out for producers of these products. CBAM intends to replicate existing methodologies from the emission trading scheme where possible. When actual emissions cannot be adequately determined, embedded emissions shall be determined by reference to default values expressed in ton of CO₂eq per ton of CBAM good produced.

In December 2022 the EU Member States and the EU Parliament came to a provisional political agreement on CBAM. The agreed text sets the transitional period from 1 October 2023 to 31 December 2025, with full implementation from 1 January 2026. During the transitional period, importers of the selected products must submit quarterly reports that detail the imported quantity, the actual total embedded emissions, and any carbon price paid in the country of origin. From 1 January 2026 onwards, importers of CBAM goods must purchase CO₂ certificates equivalent to the CO₂ emitted during the production of the imported goods.

Initially, CBAM will incorporate cement, iron and steel, aluminum, fertilizers, electricity and hydrogen. But from 2026 onwards EU policy makers will review if other sectors should be included under CBAM as well. Already the European Parliament has expresses support for bringing organic chemicals, ammonia and plastics under CBAM.

Concerns

CBAM is a highly complex regulation

ICTA believes CBAM is too complex, especially if chemicals would start to fall under its scope. Determining the carbon footprint of products that are produced and traded within the chemical value chain is difficult and prone to errors. One chemical plant may produce many different products, making it challenging to determine the carbon intensity of individual products. Production processes vary across the world and even relatively simple chemical intermediate products (such as plastics) may be produced in different places from materials from all over the world. As such, it will be challenging to establish reliable and standardized methodologies; a one-size-fits-all approach is unlikely to fit anyone.

Aside from the methodological complexity, CBAM also introduces a high degree of administrative complexity. It will be resource-intensive for businesses to monitor, verify and report on carbon content of imports accurately. The administrative complexity also introduces a risk of an uneven playing field and even fraud. We have seen this in other highly administratively complex areas, such as the biofuel blending obligation, where compliant companies have had to deal with unfair 'cowboy' competition.

CBAM might hinder international trade

ICTA is also concerned that CBAM might hinder international trade. Imposing carbon costs on imports creates an uneven playing field for EU industry that competes internationally using imported materials. Upon import industry would have to pay the CBAM tax, but their exported product has to compete on a world market with producers that have not paid a carbon tax. Research has shown that many midstream

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and downstream chemical products have a significant risk of indirect carbon leakage if their chemical precursors are also covered under CBAM, even if the products themselves are covered under CBAM.¹ This issue might in theory be solved by providing export rebates, but this would further add to the complexity of the regulation.

Despite EU's efforts, trading partners may perceive it as protectionist or discriminatory, even triggering retaliatory measures. Indeed, China and India have already voiced their critique at WHO. Furthermore, CBAM may disproportionately affect developing countries which have less capacity to measure and reduce their emissions. Imposing carbon costs on their exports could limit their access to global markets and hamper their economic growth.

Next steps

ICTA is a strong supporter of free and fair trade. Chemical value chains deliver the building blocks for modern society. They enable advances in healthcare, conservation of foodstuffs and indeed enable the green transition. Given the concerns listed above, ICTA sees risks in extending CBAM to chemical products. Instead, efforts to improve global cooperation on fighting climate change should be intensified. Unilateral measures like CBAM should not impede the development of coordinated global solutions to address climate change. These joint efforts could focus on stimulating the adoption of cleaner technologies, energy efficiency improvements, and sustainable practices.

If the Commission decides to move forward with CBAM and considers extending its scope, ICTA calls on the Commission to conduct thorough impact assessments that cover all possible impacts on downstream industries, taking into account that chemicals are widely used across many international value chains.

¹ Long Lam, Tatiana Cuervo Blanco and Nora Cheikh, 'Study on the inclusion of the chemical sector in CBAM,' Trinomics, Rotterdam, 28 November 2022, [pdf \(overheid.nl\)](#).

This raises another point of concern for ICTA, which is the timeline and the scope of CBAM. Up until now it remains clear which specific chemicals are going to be part of CBAM. However, if the planning of the European Commission will be used, (certain parts of) the chemical sector will have to implement CBAM in 2026. The lack of detail on the scope of CBAM when it comes to the chemical distribution worries ICTA, as this mechanism has extremely large and far-reaching consequences for our members.

Instead of including an entire group of organic chemicals, polymers or plastics, an alternative is to include specific chemical value chains where the positive impact of CBAM to reduce carbon leakage risks is optimized.