

The European glass sector's views on a Carbon Border Adjustment Mechanism (CBAM)

Position paper

June 2021

With the objective of being the first carbon neutral region by 2050, the European Union is on the verge to adopt its climate law while a legislative package to accelerate the transition of all its sectors by 2030 should be presented soon (i.e. “fit for 55%” package). Next to this revised domestic ambition, the European Commission has announced its intention to incentivise efforts to reduce industrial emissions’ worldwide with the introduction of a carbon border adjustment mechanism (CBAM) in Europe. **To Glass Alliance Europe, the fight against climate change must be global and it is positive that the European Union is considering options to encourage global efforts.**

At this stage, with the mechanism still to be presented by the European Commission, it is premature for the glass sector to position itself in favor or against its inclusion in a CBAM. Although the glass industry is probably not amongst the energy intensive sectors considered for the first phase, it could potentially be included later if the European Commission decides to extend the mechanism to more sectors. Glass Alliance Europe has therefore given thoughts to several critical factors for the development of a CBAM and wishes to share them in this paper.

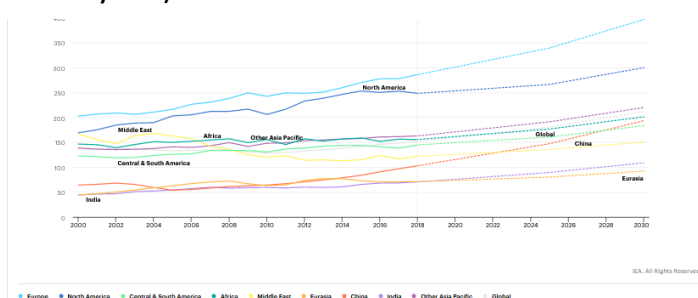
To Glass Alliance Europe, the following critical factors to the development of a CBAM should be taken into consideration:

- **The CBAM should include a solution for exports and it should co-exist with the current system of free allocation.**
- **Equivalent levels of control should be set between domestic and non-EU operators.**
- **No loopholes for opportunistic trade flows should be left.**
- **The revenues expected from the CBAM should be allocated to climate policy purposes only.**

1. CBAM should be complemented by specific mechanisms to preserve the EU sectors’ competitiveness

To date, the EU ETS focused on domestic emissions only, while the question as to trigger comparable

Figure 1: Industry energy productivity by region (IEA tracking industry 2020)



emission reductions worldwide was left to diplomacy with mitigated success. As illustrated by recent IEA (2020) and IPCC (2018) reports, the EU industry is the global leader in manufacturing efficiency while developing economies are lagging behind in projections and are expected to continue on this pathway.

Therefore, by addressing the global dimension, a well-designed CBAM could be the missing part in the EU action against climate change. However, it should not be the spare part and replace dialogue with trade partners and carbon leakage protection for its industrial operators.

Should a CBAM be introduced, it should include a solution for exports and it should co-exist with the current system of free allocation. In the absence of a rebate for exports, a standalone CBAM limited to EU imports combined with full auctioning would jeopardise the competitiveness of EU producers in export markets even more. For countries with climate measures in place, the export measure applying to the EU operator should be adapted to reflect an equivalent carbon cost between the EU and the country of destination for the exported goods.

2. Need for equivalent control on domestic and non-EU operators: monitoring, reporting and verification

Under the EU ETS, EU operators must comply with annual monitoring, reporting and verification. These requirements include the submission of an emission report with data verified by an EU accredited verifier before surrendering the equivalent number of allowances. Shall a CBAM be introduced, **the same level of control should apply to non-EU operators importing products covered by the CBAM to the EU.**

Ideally, emissions should be calculated and reported at installation level, as it is the case for EU operators. Defining the exact carbon content of imported products is critical to the success of the CBAM. Both **direct and indirect emissions should be accounted plus emissions resulting from the transport of the goods up to the EU border.**

Should the legislator wish to propose the introduction of benchmarks (at the relevant statistical level; i.e. NACE or Prodcom), these should be set per product and country of origin. To avoid the import of high embedded CO₂ products to the EU, the **imported product benchmarks per country of origin should be set at adequate levels so to incentivize non-EU operators to present emissions' reports verified by an EU accredited verifier.**

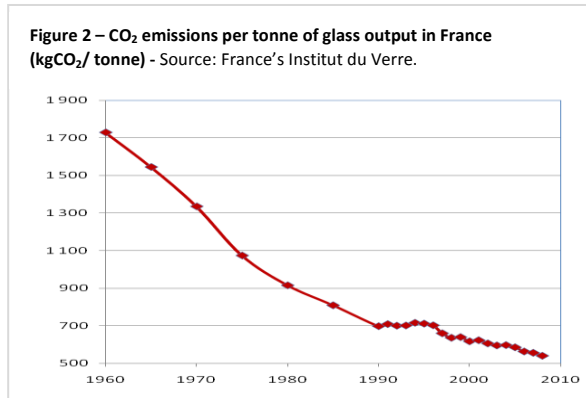
3. Adequate coverage of countries of origin, products and their value-chains

It stands clear that a CBAM must **not breach WTO rules. Whilst recognising this, the CBAM should not allow for exemption to any country where no equivalent CO₂ measures/carbon costs are in place.** The CBAM should be an instrument to drive climate mitigation efforts worldwide and should leave no room for transshipment strategies.

Adjustments to the carbon costs applying to imported goods under the CBAM should only be possible provided carbon costs in countries of origin are verified (being partial or full if equivalent) under the European Union supervision. Full exemption to CBAM should only be granted to regions in the world where CO₂ measures are in place which impose the same CO₂ costs to local industries than the one faced by EU industry. Should the CO₂ costs be lower than in the EU, a partial CBAM should still apply to compensate the differential.

The CBAM should not apply to primary material only, but cover the entire value-chain. If the costs generated by the new mechanism apply to primary materials only, there is a danger to witness a shift in imports from the primary materials to (semi)finished products, as a way to escape the new CBAM. Therefore, any CBAM should be sufficiently versatile for an adequate coverage of the different value-chains and thus avoid loopholes.

4. Use of CBAM revenues for climate purposes



The glass industry has considerably decreased its emissions per output in the last 50 years (i.e. a reduction of 69% of CO₂ per tonne of melted glass). However, one can observe that additional reductions since 1990 are achieved at a slower pace because marginal progress becomes more difficult. The industry has identified a number of R&D domains to investigate how to further reduce its emissions¹. Most of these industrial options will require unprecedented financial efforts from both the private and public sectors in the coming

decades.

Glass Alliance Europe calls on the EU legislator to allocate the revenues expected from the CBAM to climate policy purposes only. In particular, the new revenues should be used to support the development² and deployment of new technologies, required infrastructures, and to support CAPEX and OPEX costs reductions in key enabling low-CO₂ processes.

About Glass Alliance Europe - EU Transparency Register N° 74505036439-88

Europe is the world leader in glass making. The glass industry comprises more than 500 plants providing 500,000 direct and indirect jobs. Glass is a unique and inert material made from abundant natural resources and fully recyclable. It is a key contributor to the EU objectives of a low-carbon, energy efficient and circular economy, and a key enabling material for essential supply chains, such as the pharmaceutical and health sector, the food and drink industry, buildings and construction, automotive, luxury goods and perfumes, electronics, etc.

For more information <http://www.glassallianceeurope.eu/>



¹ Glass Alliance Europe, The European glass sector contribution to a climate neutral economy v.2, May 2021 https://www.glassallianceeurope.eu/images/cont/2021-05-05-gae-position-paper-on-decarbonisation-v2_file.pdf

² Designing and building a pilot or demonstration plant at scale is one of the biggest challenges for most of the low-CO₂ options. Large capital will be required while high technology risks related to low TRLs remain. Therefore, the role of the public sector to participate in the risk taking will be crucial.