



EFBWW position paper on the EU Emissions Trading System and Carbon Border Adjustment Mechanism

This position paper on CBAM and EU ETS highlights some key considerations such as the need for additional sectors to be included in CBAM to avoid market distortions. The CBAM should also include costs associated with indirect emissions and apply to all stages of the supply chain and not only to the finished product. The revenues generated by CBAM should be used to unlock key breakthrough technologies in the sectors covered and the mechanism must be based on verified emissions from importers. On the other hand, we consider that exports should be similarly addressed to ensure a level playing field.

Background

The EFBWW fully supports the goals of reduction of greenhouse gas emissions laid down in the European Green Deal along with the Paris Agreement and welcomes the European ambitions to achieve climate neutrality by 2050. The European Council of December 2020 endorsed the European Commission proposal for shifting the headline target from at least -40% to at least -55 % (compared to 1990 levels). The EFBWW insists however that the green transition must also be inclusive: no worker shall be left behind ! This is not just a slogan but must be a crucial pillar to deliver a social and just transition. Therefore the EFBWW and its members underline the importance of balancing an ambitious policy for the climate as the European Green Deal with an ambitious industrial policy guaranteeing a strong industrial base in Europe.

Today, buildings account for 40% of the energy consumed and for about 40% of CO₂ emissions. Decreasing and decarbonising the energy consumption to heat, cool and use buildings are crucial for the transition to a climate-neutral Europe by 2050 at the latest. Since most of the buildings that we will occupy in 2050 are already built, the main challenge is to renovate these 210 million existing buildings. The annual renovation rate of the building stock varies from 0.4% to 1.2% in the Member States. This rate will need at least to double to reach the EU's energy efficiency and climate objectives.

According to EUROSTAT data, EU cement imports from non-EU countries have increased by 160% over the past

five years (2016-2020), and by 25% in 2020 alone – with significant spikes in the countries which are exposed to international trade routes. Alternative business models are urgently needed, especially where clinker, the most CO₂-intensive part of cement, is produced outside the European Union and imported for milling in Europe with the consequent loss of jobs. We are already witnessing an exacerbation of these trends. They can only lead to a significant increase in CO₂ emissions globally, in addition to the closure of factories in Europe, which is already happening today.

The European cement industry is exposed to carbon leakage both at the EU's land borders and ports. Clinker production by the non-ETS countries will become increasingly competitive if these countries will not incur the same level of CO₂ costs. In this context, producing locally in the EU and paying the CO₂ related cost will be less competitive than importing from non-ETS offshore locations with the additional cost of transporting the product to the EU. Such an impact will be felt across entire Europe with a specific emphasis on some EU's land borders regions. As a matter of fact, these regions are more exposed to clinker and cement trade, due to their location.

Therefore, a CBAM is indispensable to ensure that EU and non-EU suppliers compete on the same CO₂ cost basis. In the absence of a level playing field, it is likely that the EU industry will continue to be at a competitive disadvantage, resulting in increased market shares of less CO₂-efficient cements and risks of factory closures, with consequent social and labour implications, across the EU.

Key considerations:

- **Additional sectors should be included in CBAM to avoid market distortions**

Scope includes only: iron and steel, cement, aluminium, fertilizers, refineries, electricity. EFBWW thinks that it is however important that as many sectors as possible are included – the principle should be that the carbon border mechanism will be applicable in the widest sense and should not seek to differentiate between sectors. If a mechanism is limited to only a few sectors or sub-sectors, it will inevitably create distortions of competition on the EU internal market. These market distortions would have a significant impact on downstream markets such as the construction sector. We therefore believe that a carbon border mechanism should apply to all the sectors covered by the EU ETS.

- **The CBAM should also include costs associated with indirect emissions**

Indirect emissions should be included in the CBAM, and due consideration should be given to road and maritime transport emissions. They involve a significant increase in costs, not only for imports from third countries but particularly fuel transportation. The draft Regulation does not include indirect emissions, which would only be subject to a future assessment. On the contrary, including indirect emissions in a CBAM is crucial to create a level-playing field, as these will be even become more important as energy-intensive industries decarbonise their production processes. The European cement industry's indirect costs, which are already significant, will indeed rise in the future as key decarbonisation technologies are introduced. For instance, the installation of Carbon Capture technology leads to a significantly higher electricity demand on a given cement plant. It is therefore crucial that indirect emissions are included in the Commission proposals, to ensure a full level playing field between EU and non-EU suppliers and further facilitate the decarbonisation of the European industry.

- **CBAM revenues should support the decarbonisation of energy-intensive industries**

The draft ETS Directive suggests that the free allocation no longer provided to the CBAM sectors will be auctioned and that the revenues will accrue to the Innovation Fund, where *“special attention should be given to projects in CBAM sectors”*. **The revenues generated by CBAM should be used to unlock key breakthrough technologies in the sectors covered and will also be used to support the decarbonisation of the energy-intensive sectors covered by this instrument.** A specific role to accelerate innovation and to support just transition should be envisaged.

- **Free allowances**

According to the Commission CBAM will only apply to the proportion of emissions that do not benefit from free allowances under the EU ETS. CBAM in its 1st phase between 2023 and 2026 will only collect information on actual emissions. As from 2026, CBAM will be implemented and will reflect real emissions in third countries and the revised EU ETS - especially on the reduction of available free allowances. We believe that **free allowances could continue under certain conditions and until stricter rules will apply as from 2026 when CBAM will be in place.** The EFBWW believes that the continuation of free allowances should be furthermore conditional on the commitment of the cement industry to maintain quality jobs and integrated cement production facilities in the EU, upskill and reskill cement workers and the investment in green technologies.

- **CBAM and its scope**

The CBAM should envisage binding plans to invest in decarbonising European industrial installations and keeping the related jobs. There are 35,000 direct jobs in the cement sector with around 100,000 indirect jobs, both in cement and concrete. These jobs are quality jobs that need to be protected and maintained. Due to the new ways of manufacturing processes, energy efficiency standards, use alternative fuels at the plants, new professions will arise. More investment in training and reskilling of workers will be required. Because of the greening and digitalisation of the cement industry, there will be a need for the new professions.

- **A carbon border mechanism must be based on verified emissions from importers**

By 31 May of each year importers will have to submit a CBAM declaration to the competent authority detailing, in relation to the previous calendar year, the total quantity of each type of goods imported, the total embedded emissions as well as the number of CBAM certificates corresponding to the total embedded emissions in imported goods. **CBAM should strongly incentivise importers to use verified emissions – like EU installations under the EU ETS rules.**

We welcome the Commission’s ambition to ensure that *“imported products are subject to a regulatory system that applies carbon costs equivalent to the ones that otherwise would have been borne under the EU ETS”* (recital 13). However, the text must be strengthened to ensure that such level playing field is effectively enforced. It is crucial that the calculation of *‘embedded emissions’* of imported goods, defined in Annex 3, closely matches the methods used in the EU ETS. The principles laid out in Annex V of the current ETS Directive should be applied in order to ensure the reliability, credibility and accuracy of monitoring systems and reported data; as laid down in the same Annex V, verifiers need to be independent of the operator and carry out their activities in a sound, objective and professional manner.

For any mechanism to be successful and fair, it is important that it is based on actual and verified emissions. This is particularly crucial in the case of cement, where various types of cement with different carbon intensity can be produced. Third country producers would use an EU-accredited certification body to determine the CO₂ content of their product.

- **Exports should be similarly addressed to ensure the level playing field**

The CBAM does not refer to the exports of carbon leakage products from Europe to third countries.

- **Resource shuffling to avoid carbon costs in either the home or the export market**

It would risk undermining the environmental effectiveness of the mechanism. Resource shuffling is the possible allocation or attribution of less carbon intensive materials production outside of the EU towards exports to the EU. As a result of such resource shuffling, EU production could be replaced by additional imports, which would lead to increased overall production and emissions outside of the EU to meet demand (carbon leakage).

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