BEE
German Renewable Energy Federation

BEE Position

on Carbon border adjustment mechanism (CBAM)

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Political context and conclusions

The German Renewable Energy Federation (BEE) welcomes the Green Deal initiative as a pivotal step for Europe to achieve its 2030 and 2050 climate and energy targets and rebuild its role as global climate action leader. We also support the COM proposal to reduce GHG emissions by at least 55 percent by 2030, bearing in mind that the European Parliament, NGOs and may scientists support a higher target. Renewable energies will be a key instrument in delivering on sustainable economic growth, future oriented jobs and on Europe's long-term climate ambitions. In order to achieve an ambitious greenhouse gas reduction target of at least 55 percent by 2030 compared to 1990, an equally ambitious increase in the targets for the share of renewable energies in gross final energy consumption and energy efficiency are necessary. These higher targets need to be facilitated by effective and enabling policies and a strong governance and regular monitoring.

To preserve a world worth living in it is necessary to reduce CO2 emissions. Therefore BEE is a strong and active supporter of CO2 pricing as a key policy tool to achieve global emissions reduction targets. We also agree on the need to address possible carbon leakage from the European Union, as well as supporting European business competing in the global market by creating a level playing field across different national jurisdictions as long as there is no globally standardized CO2 pricing and trading system.

As part of the European Green Deal the European Commission now plans to establish a Carbon Border Adjustment Mechanism (CBAM) for CO_2 emissions related to imported products. Such a mechanism could complement or be an alternative to the measures in the EU's Emissions Trading System (free allocation of certificates and compensation of the national electricity price) that currently address the risk of carbon leakage The details of such a mechanism still need to be defined and agreed in detail. The Commission plans to publish a Communication in the first half of 2021 with detailed proposals.

The introduction of such a mechanism would also affect the renewable energy industry and its supply chains at different aspects. COM must ensure the CBAM does not impact the competitiveness of renewable energies as compared to fossil energy sources, because renewable technologies as such already contribute massively to CO_2-reductions and thus to the European climate ambition. Furthermore, it is key to guarantee that such a mechanism does not hinder a successful European energy transition by increasing the costs of components of renewable energy technologies and the successful investments of European Renewable Energy companies in the Non-EU-markets.

With this position paper BEE intends to contribute to developing a CBAM, which mitigates carbon leakage, where it affects the competitiveness of European business and industry on their way towards climate neutrality by 2050.

Important aspects to consider

We welcome that the commission intends to involve relevant stakeholders through a consultation process on the design and implementation of CBAM and the potential mix of different instruments. However, we want to point out that due to the lack of partly very essential details and information regarding planned design or implementation rules, the models which the Commission plans to propose cannot yet be sufficiently assessed. Instead, much is left to open interpretation from our point of view, which significantly complicates the assessment.

From a BEE point of view, there are several aspects affecting the renewable energy sector that should be considered by the Commission. Regardless of which mechanism the Commission will propose, the question arises which criteria and benchmarks can be applied to determine the CO_2-footprint of a product or manufacturing process. Furthermore, all relevant value-added steps would have to be integrated into such a system. In order to determine and record the CO_2-footprint, a new control and investigation system would be needed that does not allow any manipulation (e.g. through false certificates). At the same time, such a procedure must be absolutely unbureaucratic. It is difficult to imagine how such a globally new infrastructure for recording and monitoring the CO_2-footprint of products and/or processes could be set up. Bureaucratic hurdles in particular on both the state and corporate side play an important role, leads to unsureness, less invests and higher costs. We emphasize that it is very important that companies that import or use components for technologies that contribute to a reduction of CO_2-emissions or are active in non-EU-markets are not included to a carbon border adjustment.

Furthermore, the introduction of border adjustment measures bears the considerable risk that the EU's trading partners will react with countermeasures, which could result in a relevant rebound endangering the EU’s policy objectives. These would impose considerable burdens, especially on the internationally closely intertwined manufacturers. In addition, the export strategies of competitive regions could change in order to maintain their competitiveness, so that, from a global perspective, there would be no increase in climate protection and the goal of avoiding carbon leakage would thus not be achieved. This is directly linked to the compatibility with existing international trade law. Carbon pricing, depending on its design, could come into conflict with international trade law, if it treats the imports of producers differently depending on their country of origin and thus violates the most-favoured nation principle of the WTO.

Finally, there are concerns related to the overall compatibility of CBAM within national taxation and regulatory and policy frameworks and with European regulations (e.g. ETS). It is important to understand how CBAM could be embedded in existing regulatory frameworks and how businesses would be affected in order to develop a CBAM that actually delivers on the targets of the European Green Deal.

From a BEE perspective border adjustment measures would have to meet certain criteria: They should be practicable, unbureaucratic to implement and effective, should not be at the expense of the EU's economic relations, should be compatible with the rules of the WTO and the Paris Agreement and should not prevent a level playing field for renewable energies by increasing the costs of components of renewable energy technologies All components of technologies linked to the reduction of CO2 imported ore used must be excluded from a carbon border adjustment. All these aspects must be considered for the upcoming proposal from the Commission.

Concrete challenges in the different value chains

It is key to ensure that, in practice, the CBAM does not slow down the deployment of renewable energies on the EU market, e.g. by increasing the costs of system components or processed products.

This for example applies to several aspects in the value chains of wind energy systems. When CBAMs are applied to raw materials only, importers of the steel plates used to make towers, the electrical steels used in transformers, motors and generators, and the composite materials used in blades would be required to pay. In the case of more complex products such as wind turbine rotor blades which contain a range of materials that vary from manufacturer to manufacturer the implementation of CBAM would become much more difficult. The application of CBA to materials used for manufacturing of blades, but not to the finished blades themselves, could result in the offshoring of blade manufacturing to third countries or increased use of third country blade suppliers.

These difficulties also apply to technologies based on solar energy. In the case of PV and solarthermal systems, we must ensure that CBAM does not increase the import costs of important components such as aluminium frames, solar glass, cells, wafers, modules, inverters, storage systems or polysilicon since there is as result of the politics of the COM and the member states no industrial production meeting the needs of the European market. Also in non-EU-markets European companies are reliant to an unlimited access of international produced components to receive their competitiveness. At the same time, the import of photovoltaic or solar thermal modules or any other solar components and other products as inverters, storage systems must not be hindered too in order to reach the steep increase in PV and solar installations needed to fulfil the EU climate goals the activities of the European solar industry on the international markets.

Especially for the energy-intensive steps of the renewable energy value chain that are regulated under the EU ETS, legal coherence must be ensured without compromising the current level of carbon leakage protection provided by free allocation and indirect cost compensation. In this case we suggest moving towards additional policies, such as PPAs with renewable energies to decarbonize the energy-intensive industry.

An impact of a CBAM on the price of CO_2 allowances would affect the EU's wholesale electricity market, and this in turn could have a significant indirect effect on the cost of renewable electricity. Any form of CBAM should therefore include an option for renewable energy technologies to offset or compensate the CO_2-saving potential of renewable energy technologies against possibly rising prices.

CBAM must not impede energy transition

The EU discussion on anti-carbon leakage measures must not be allowed to distract from the broader objective of putting energy-intensive industry onto a pathway towards climate neutrality by 2050. To decarbonise energy-intensive industries, the EU needs a package of policies and measures. These measures will need to support the first commercial-scale sites using climate-neutral technology like renewable energies, create an enabling state aid framework and facilitate investment in key infrastructure and feedstocks such as green Hydrogen.

The power sector in Europe is already affected by carbon leakage as fossil fuel-based electricity is imported to the EU-ETS region mainly from Russian, Ukraine, the Western Balkans and Morocco. Unlike domestically produced electricity, this imported electricity is not subject to carbon pricing which leads to markets distortions and undermines the effectiveness of the EU ETS to decarbonize the power sector. The envisaged CBAM should address this market distortion.

EU fossil-based power generators pay a carbon price, which puts them at a relative disadvantage to electricity imported from jurisdictions where generators do not pay such a price. EU electricity markets can be distorted by imports of cheap, fossil-generated power from third countries. This has recently been the case in Spain, where imports of coal-generated electricity from Morocco have caused distortions on the Spanish electricity market, with negative impacts for Spanish renewable generators. Carbon leakage in the electricity sector should be combatted. A CBA mechanism could be easier to design for the power sector than for others because some methodologies already exist to estimate the carbon content of electricity. In this case CBA would appear to be reasonably and unbureaucratically designed.

As German umbrella association for the renewable energy sector, the German Renewable Energy Federation (BEE) bundles the interests of 45 specialised associations and companies. We connect the wind, bio, solar, geothermal and hydropower sector with each other. That way, we represent 30,000 individual members, among them more than 5,000 companies, 316,000 jobs and more than 3 million power plant operators.

Our goal: 100 percent renewable energy in electricity, heating and transportation.

Contact:
German Renewable Energy Federation (BEE)
Invalidenstraße 91
10115 Berlin

Rainer Hinrichs-Rahlwes
Board Member and Spokesperson European and International Affairs
+49 30 42084094
rainer.hinrichs@bee-ev.de

Lars Oppermann
Policy Advisor
+49 30 275817021
lars.oppermann@bee-ev.de