

TOWARDS LOW CARBON TRADE: IS THE ASEAN READY?

THE EU CBAM AND IMPACT ON ASEAN TRADE

PRESENTED BY: AARON COSBEY, ITC EXPERT



Overview:

- CBAM: A broad view
- Context: Increasing concern for carbon in traded goods
- Impact of CBAM on ASEAN exporters
- Potential policy responses

CBAM: A Broad View

- A border measure, designed to make it such that foreign producers of certain goods face the same carbon costs that are faced by EU producers.
- Objective is to prevent the EU's climate policies from resulting in **leakage**: a decrease in market share for EU producers and a shift of GHG emissions from the EU to foreign jurisdictions.

CONTEXT: INCREASING CONCERN FOR CARBON IN TRADED GOODS

Climate-related trade measures:

- Driven by governments committed to reducing national emissions, concerned about leakage; transmitted through border measures
- Driven by consumers looking to reduce their carbon footprints; transmitted through private sector buyers' demands
- Trending to more significance over the last few years, no sign of stopping

Climate-Related Trade Measures

Measure	Effect	Status
EU Regulation on Deforestation-Free Products	For covered agricultural goods, import is conditional on due diligence attesting to nil or negligible chance they were produced on deforested or degraded lands.	In law as of spring 2023.
EU Biofuel Regulations	Biofuel feedstock from countries at high risk of indirect land use change are not counted toward mandatory renewable fuel targets in the Renewable Energy Directive.	In law.
EU CBAM	Forces importers to purchase allowances for the embodied carbon in covered foreign-produced goods.	In law as of spring 2023.
Other BCA regimes	Would apply carbon prices at the border equivalent to those applied domestically, based on embedded carbon in goods.	Consultations complete in Canada, ongoing in UK. Uncertain in the US, Japan.
EU Methane Regulation	Requires that oil & gas produced in the EU should significantly reduce upstream methane emissions; the same requirements would apply to imports.	Parliamentary plenary vote soon; will probably include imports in the coverage. Then must be negotiated with Council.
UK Provisions on Forest Risk Commodities	Ban on the import of forest risk commodities (to be determined) unless laws of host country were followed.	In law (Environment Act 2021, Schedule 17), but details to be decided by Secretary of State.
US Clean Fuel Standards	Mandates reductions in carbon intensity of gasoline and diesel, applied to imports as well as domestic production.	In law in three states: Washington, Oregon and California. Unlikely at the national level.
EU-US Global Aluminum and Steel Arrangement	Will restrict imports of high-GHG intensity steel and aluminum to the US and EU.	Commitment to finalize details of agreement by end of 2023, but no clarity on what those will look like.
US Green Procurement	Promotes the purchase of low-embedded-carbon construction materials in public projects.	Enacted in 2021 Executive Order, funded under the IRA. Plans to expand scope of materials covered.
EU-Mercosur Association Agreement	Would have liberalized roughly €45 billion of goods exports from Mercosur to the EU.	Stalled, in large part because of civil society concerns about the embodied carbon in beef imports from Brazil.
Climate club	Unclear - many variations. Some current proposals involve club application of BCA to goods from non-club members.	Uncertain. G7 Declaration in 2022 vows to create such a club, but it is not clear the Japanese Presidency has a desire to follow through.
Canada Clean Fuel Standard	Mandates reductions in carbon intensity of gasoline and diesel, applied to imports as well as domestic production.	In law as of 2022.
US FOREST Act of 2021	Restricts covered commodities from entering the US if they are deemed to be the products of illegal deforestation in the country of origin.	Proposed, but unlikely to pass - stalled in Senate Finance Committee.



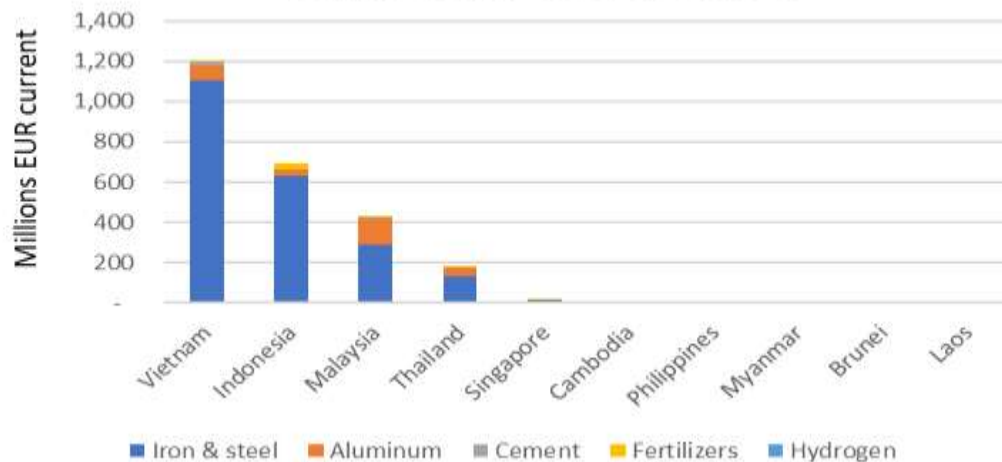
Climate-Related Trade Measures: Non-EU CBAM

- **Canada:** Convened consultations on what a BCA might look like in Canada. Consultations complete as of 2022; no formal response yet from the Ministries involved.
- **UK:** Consultations on BCA for the UK convened and ongoing.
- **Japan:** 2021 Green Growth Strategy commits to considering BCA in Japan; no further public updates
- **US:** coming legislation to be proposed with a border carbon price; not clear what form this will take.

APPLICATION OF CBAM: HOW WILL IT IMPACT ASEAN EXPORTERS?

Impact on ASEAN Exporters

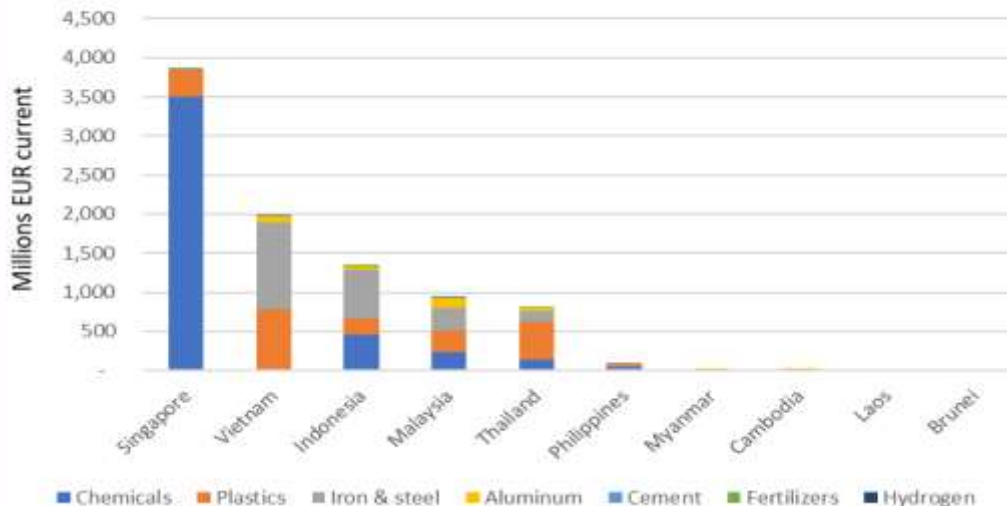
ASEAN CBAM-Covered Exports



The figures in the graphs are based on total exports. Actual impacts will be some fraction of those totals.

Actual impacts will vary depending on GHG intensity of production relative to the EU.

ASEAN Potential CBAM-Covered Exports



Also note that impacts will vary depending on regime design. The 2026 review may recommend including plastics and chemicals as pictured in the bottom figure.

Note: CBAM also covers electricity imports. But since ASEAN does not export electricity to the EU, it is not shown here.



Impacts on ASEAN exporters

Trends

- Impacts will also depend on how many countries adopt such schemes.
- Initial impacts at a national level are not major. Covered trade in CBAM products as a percentage of GDP in 2022:
 - Vietnam: 0.9%
 - Indonesia: 0.17%
 - Malaysia: 0.35%
 - Thailand: 0.97%
- However, at the sectoral and firm levels, there may be significant impacts.



PREPARING FOR THE CBAM: POLICY RESPONSES

Exporting country policy options (1/2)

1) Compiling statistics on national sectoral emissions and transmitting to the EU

Important to avoid ASEAN products being subject to punitive second-default assumptions - if the EU database is not extended to include ASEAN default values

2) Lobbying the EU to support exporters' costs of certifying data

Potential use of revenues from CBAM.

3) Lobbying the EU to build exporters' capacity to comply with CBAM

Support to improve the government and private sector's carbon accounting measures, foster national accredited verifiers, and conduct information exchange/workshop sessions.

4) Build exporters' capacity for internal carbon accounting

To meet regulatory requirements of CBAM and potentially other buyer requirements

5) Establish regional accredited verifiers

Makes verification less costly for ASEAN exporters



Exporting country policy options (2/2)

6) Conduit of information for exporters

Gather and disseminate information on requirements and likely developments in the CBAM

7) Lobbying in the WTO and elsewhere for coordination among countries considering CBAM

To enable foreign producers to face similar requirements across varying regimes.

8) Ramping up existing support for industrial transformation in energy-intensive, trade-exposed sectors

Thereby making them less vulnerable to border carbon adjustments and other such requirements in the global green markets

9) Putting in place national carbon pricing

To retain funds that would otherwise be transmitted to the EU; and domestically in order to support industrial transformation.

10) Lowering the GHG-intensity of the electricity grid in the country

In anticipation of when CBAM and other such instruments would cover indirect emissions.





TRADE IMPACT
FOR GOOD

**For more information:
itctradepolicy@intracen.org**

