Norsk Industri

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**Carbon Border Adjustment Mechanism (CBAM) position paper**

The Federation of Norwegian Industries supports the introduction of CBAM in the EU and Norway. It is in the interest of both Norway and the EU that CBAM functions as intended, providing companies competing globally with effective protection against carbon leakage and contributing to increased profitability for production with a low carbon footprint. Although introducing a carbon border adjustment mechanism is a step in the right direction, the current design of CBAM has weaknesses that could both erode the climate effect of the regulations and threaten the competitiveness of European industry. These weaknesses must be addressed in order for CBAM to become an effective protection against carbon leakage.

We will highlight the following areas for improvement in the CBAM-framework:

**A level playing field for CBAM goods exported from the EU/EEA:**

Phasing in CBAM and phasing out free allowances will increase CO2 costs and thus increase production costs for European manufacturers. CBAM aims to ensure a price increase that corresponds to the increased costs in the European market, while prices in markets outside the EU will not see the same price increase. European and Norwegian manufacturers exporting to countries outside the EU will thus become less competitive in these markets due to the increased costs.

For example, mineral fertilizers have a high degree of export outside the EU. Export-oriented mineral fertilizer plants export between 20% and 60% of production outside the EU. Norwegian plants have an even higher export share outside the EU. Exports play an important economic and environmental role for mineral fertilizer production, not only because of the total share of production that is exported, but also because of the seasonality of agriculture. To ensure the competitiveness of mineral fertilizer production, it is therefore very important to put in place a solution for CO2 costs in exports.

To maintain and strengthen European competitiveness in international markets, a scheme must therefore be introduced that compensates for the increased production costs of exports to countries outside the EU. It is very positive that the Commission announced in July that there is a plan to introduce a new measure to address the risk of carbon leakage for EU-produced goods. It is important that this measure is implemented as soon as possible.



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**Expansion of the scope of CBAM:**

*Materials that compete with current CBAM products should be included in CBAM:*

Expanding scope of CBAM to other products can be considered when the existing CBAM framework has been improved and is documented to provide solid carbon leakage protection, a robust and comprehensive solution for CBAM sectors' exports and to truly establish a real level playing field.

Aluminium competes with other materials in a number of markets. For example, both aluminium and copper can be used in heat exchangers and electrical wiring. However, copper is not included in CBAM. Because CBAM results in a higher price for aluminium, but not for copper, the relative competitiveness of aluminium will be weakened.

Other materials that should be considered for expansion include nickel and cobolt. When expanding to new materials, important downstream products should be correspondingly included to avoid carbon leakage. For nickel and cobolt, this would be a.o. batteries and special steel.

Ammonia is a low-emission fuel for shipping, but other low-emission fuels that compete with ammonia are not included in CBAM. This applies in particular to methanol. Methanol and other hydrogen derivatives should therefore be included in CBAM to ensure the most level playing field for imported low-emission fuels.

*Including scrap-based aluminium imports in CBAM:*

Current regulations allow for scrap remelted into aluminium products to be imported without paying CBAM. Scrap originating from aluminium with a high CO2 footprint can thus be imported into Europe without a CBAM cost. This allows imported scrap with a high carbon footprint to outcompete European metal with a low carbon footprint and could have very negative effects on aluminium recycling in the EU. The most effective solution is to include all scrap-based aluminium imports in CBAM and assign a default value equivalent to primary aluminium to the scrap content ("precursor").

*Include more product categories:*

As the regulations currently stand, many downstream metal products can be imported without being covered by CBAM. This provides incentives to move further processing out of Europe and then sell finished products back, without CBAM costs. For CBAM to work, more product categories must be included in the scheme.

Within aluminium specifically, the inclusion of automotive products should be prioritised. Products with a high aluminium value in relation to the final price and which are highly commercial (less degree of value added/degree of differentiation) should also be included.

For example, aluminium products within the following categories should be included:
• Cars (e.g. wheels, body panels);
• Packaging (e.g. cans, food packaging);
• Electrical (e.g. cables);
• Construction (e.g. window frames, architectural solutions)

**Indirect emissions in CBAM:**

*Indirect emissions should be based on a location-based method:*

CBAM products from industries that do not currently have compensation for indirect CO2 costs will be subject to CBAM on indirect emissions, and the methodology for this is imminent. In general, the methodology should be based on calculating indirect emissions based on the average CO2 intensity of the power mix of the country where the product is produced, based on globally recognized data for the electricity mix. Such a methodology can incentivize third countries to decarbonize their power sector, while ensuring uniform and accurate data. If it is permitted to use power purchase agreements (PPAs) to calculate indirect emissions, as the CBAM methodology now assumes, producers in third countries will be able to document no indirect emissions even from countries with power mixes where the reality is a high carbon footprint.

*CBAM on indirect emissions should not replace indirect carbon cost compensation:*

Regardless of the methodology, CBAM on indirect emissions should not replace the current scheme with indirect carbon cost compensation. In the Norwegian and European power markets, power prices are affected by the price of CO2 allowances, and European power consumers therefore have indirect CO2 costs in their power consumption. At the same time, competitors from countries outside the EU have no or very low such costs, because power markets outside the EU are little affected by CO2 prices. If indirect emissions are included in CBAM, European and Norwegian production will have significantly higher CO2 costs because of the CO2 price effect in the power price than producers outside Europe. The CO2 price effect on the power price could remain significant also through the 2030s, even with an increased share of renewables. Indirect carbon cost compensation should therefore not be replaced by CBAM on indirect emissions until the EU's power mix is decarbonised.