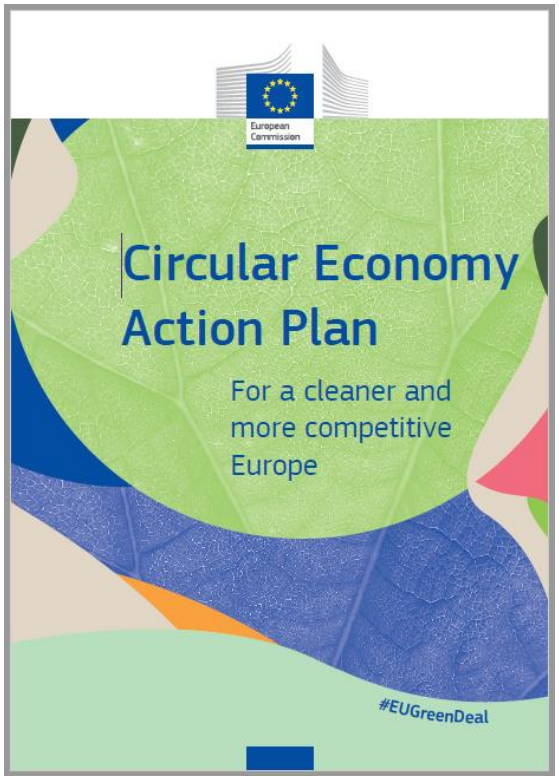
Product standards – alternative(s) to CBAM?

EU CBAM Webinar
presented by Zsolt Lengyel

Content

- Circular Economy Action Plan (March 2020)

  - ✓ How product sustainability principles will guide broader policy and legislative developments in the future?
  - ✓ Carbon leakage & CBAM from a broader & product standard perspectives



Circular Economy -> sustainable products (1)

- While up to 80% of products' environmental impacts are determined at the design phase (1), the **linear pattern of "take-make-use dispose" does not provide producers with sufficient incentives to make their products more circular;**
- the single market provides a critical mass enabling the EU to set global standards in product sustainability and to influence product design and value chain management worldwide:
- **EU initiatives and legislation already address to a certain extent sustainability aspects of products, either on a mandatory or voluntary basis**; such as
  - ❖ Ecodesign Directive successfully regulates energy eff
    and some circularity features of energy-related product
  - ❖ the EU Ecolabel;
  - ❖ EU green public procurement (GPP) criteria

Circular Economy -> sustainable products (2)

- There is **no comprehensive set of requirements** to ensure that all products placed on the EU market become increasingly sustainable and stand the test of circularity (*on sustainability -> EU Taxonomy Regulation 2020/852*);
- In order to **make products fit for a climate-neutral, resource-efficient and circular economy**, reduce waste and ensure that the performance of front-runners in sustainability progressively becomes the norm, the Commission will propose ***a sustainable product policy legislative initiative;***
- The **core of this legislative** initiative will be to widen the Ecodesign Directive beyond energy-related products so as to **make the Ecodesign framework applicable to the broadest possible range of products and make it deliver on circularity.**

Circular Economy -> sustainable products (3)

- As part of this legislative initiative, and, where appropriate, through complementary legislative proposals, the Commission will consider establishing **sustainability principles** and other appropriate ways to regulate – among others – following aspects:
  - improving product **durability, reusability, upgradability and reparability**, addressing the presence of **hazardous chemicals** in products, and increasing their **energy and resource efficiency**;
  - reducing **carbon and environmental footprints**;
  - restricting **single-use** and countering **premature obsolescence**;
  - rewarding products based on their **different sustainability performance**, including by linking high performance levels to incentives.
- **Priority will be given to addressing product groups identified in the context of the value chains featuring in this Action Plan, such as electronics, ICT and textiles** but also **furniture** and **high impact intermediary products** such as steel, cement and chemicals. Further product groups will be identified based on their environmental impact and circularity potential.

CBAM from a product standard perspective* (1)

- **EU climate policy implications** – wouldn't it slow down the implementation of ambitious climate policy while the complexities of a CBAM are worked out?

- **Determination of benchmarks and scope:** If the CBAM adopts the ETS approach of sector benchmarks to determine the average carbon content of products, it effectively assumes that the most carbon-efficient production takes place within the EU and EEA-EFTA area. To mitigate against this assumption, the EU CBAM would need to provide rebates to foreign producers that can prove their production is more efficient than the EU benchmark.

- **Effectiveness to address carbon leakage**: ex-post studies concludes that there is little evidence of carbon leakage at the aggregate and carbon-intensive sector level though the existence of carbon leakage is not disproven . In ex-amte modles at the aggregate level, there is some evidence of carbon leakage. However, when a CBAM is introduced to the models, its effectiveness at reducing carbon leakage is limited as indirect carbon leakage persists through energy prices. (Zachmann, G., & McWilliams, B. (2020). A European carbon border tax: Much pain, little gain. Policy Contributions, Bruegel, 5, 19.)

* Based on "Making trade work for EU climate policy: Carbon border adjustment or product standards" Eline Blot, Marianne Kettunen, Céline Charveriat , IEEP (May 2020)

CBAM from a product standard perspective* (2)

- **Political complexity** – International criticism of a CBAM is that it is just **a disguised protectionist measure**, implying that its main objective is to protect domestic producers from competitive imports (Mehling et al., 2019). Moreover, veiled protectionism paired with the accusations of regulatory overreach **leaves the EU open to retaliation from trade partners** that do not see eye-to-eye when it comes to climate policy Also, the Commission must consider **if a CBAM is compatible with the spirit of the Paris Agreement**. The CBAM indirectly extends the EU's climate policy beyond its own borders, potentially conflicting with the principle of "common but differentiated responsibilities" as enshrined in the UNFCCC treaty and Paris Agreement (Davidson Ladly, 2012).

- **Risk of disincentivising progress in third countries** – it risks **disincentivising promising firms making headway on low-carbon production**. For example, if the CBAM is based on the average production method in a given country's sector, and that average is worse than the EU's average in the concerned sector, then the few promising firms in that sector would be penalised by the CBAM. To account for this, the EU would need to **allow individual firms to prove they are more efficient than the average in their country**, however, this may increase complexity as individual requests can create a backlog.

CBAM from a product standard perspective* (3)

Advantages can be identified that the EU has in implementing product standards:

- **Non-discriminatory**: One of the EU's greatest foreign policy tools is access to the Single Market. As such, **a product standard covers all goods sold on the Single market** and any producer who wants access must conform to the rules in place.
- **Comprehensive**: Product standards also speak to the EU's goal of being a frontrunner when it comes to climate policy. As stated in the European Green Deal (European Commission, 2019), the EU is experienced when it comes to "green" regulation, and it can be a trusted leader, setting standards that could end up being (partially) adopted by other countries. Moreover, a product standard can be comprehensive in nature. As opposed to the CBAM, which only covers the emissions from the production of raw materials, **product standards can be designed to regulate the environmental impact resulting from both the manufacturing as well as the use of the product**. Also, the standards can be designed to incentivise low-carbon production as well as ease and advance the transition to a circular economy.
- **Compatible with wider EU environmental policy**: The European Green Deal puts forward a policy target to set **minimum requirements to prevent environmentally harmful products** from being placed on the EU market, with the EU Circular Economy Action Plan (CEAP) mapping out a clear pathway for sustainable product policy to support the implementation of this target.

Follow-up questions?

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