

## The Carbon Border Adjustment Mechanism needs careful design to preserve Europe's industries and value chains

The European flat glass sector takes as its role to produce the materials essential for renovating Europe's buildings, for supporting the clean mobility transition and for increasing the share of renewable solar energy in Europe. While already providing net carbon-avoidance products, the flat glass sector is looking into ways to massively scale up its contributions to the EU's climate neutrality objective, including by exploring novel ways to lower its industrial emissions.

With increased objectives in terms of CO<sub>2</sub> emission reduction and a European industry faced with both high energy and carbon / EUAs costs, levels of investments to deliver the EU 2030 CO<sub>2</sub> emissions objectives are largely increased while competitors outside the EU are not necessarily subject to the same environmental and CO<sub>2</sub> emission reduction standards. While free allocation under the EU Emissions Trading Scheme (EU ETS) is meant to correct such asymmetries and to ensure a level-playing field with third country competitors, the European Commission is now proposing to gradually replace free allocation by a Carbon Border Adjustment Mechanism (CBAM) for certain sectors.

**Glass for Europe, the trade association of Europe's flat glass sector**, whose upstream manufacturing activities are subject to the EU ETS and to the risk of carbon leakage, would like to point out what are the critical factors for the development of a CBAM, based on our industry's reality:

- New sectors like **flat glass manufacturing should not be introduced into the CBAM** before the impacts on these sectors have been carefully assessed.
- The CBAM must **preserve complex EU-based value chains** by avoiding loopholes and possibilities for circumvention.
- The mechanism must indistinctively **apply to all imported products regardless of their country of origin**, without discrimination.
- Reciprocity at global level should be addressed through **a solution for EU exports**.
- The CBAM must **mirror the EU ETS rules on annual monitoring, reporting and verification requirements** with data verified by an EU accredited verifier, as well as on emission coverage and calculation to encourage third country producers to reduce CO<sub>2</sub> emissions.
- The system must allow for **a smooth transition for the European industry**.

*Glass for Europe is the trade association for Europe's flat glass sector. Flat glass is the material that goes into a variety of end products, primarily in windows and facades for buildings, windscreens and windows for automotive and transport as well as solar energy equipment, furniture and appliances. Glass for Europe brings together multinational firms and thousands of SMEs across Europe, to represent the entire building glass value chain. It is composed of flat glass manufacturers, AGC Glass Europe, Guardian, NSG-Group and Saint-Gobain Glass Industry, and works in association with national partners gathering thousands of building glass processors and transformers all over Europe.*



## Policy recommendations on the CBAM

The effectiveness of a CBAM will ultimately be conditioned by the versatility of the system and international trade partners' buy-in. World Trade Organisation compatibility is a pre-requisite and, in addition, it must be ensured that a CBAM will not generate trade retaliations.

### 1. No premature introduction of flat glass manufacture under a CBAM

Flat glass is a complex sector covered by two different NACE codes covering quite different activities<sup>1</sup>. It also belongs to complex value chains, e.g. construction, automotive, solar-energy, electronics, which have very different characteristics and trade patterns. It has not been selected by the European Commission for the initial CBAM phase and it has therefore not been studied in the framework of the assessment of potential impacts of this new mechanism. It would be premature to introduce flat glass in a CBAM before carefully evaluating the measure and their possible impacts.

Flat glass is however subject to the EU ETS Directive, which is undergoing a revision. It is important for the new EU ETS rules to be carefully adjusted - please refer to [Glass for Europe's position paper on the EU ETS Directive revision](#).

- ▶ **Annex I:** The flat glass sector should not be included in a CBAM at this stage.
- ▶ **Article 30 paragraph 2:** The possibilities to extend the CBAM scope beyond the sectors selected by the European Commission can be envisaged at the end of the transition period. Before any proposal to extend the CBAM scope is formulated, its impacts on selected industries and value chains must be carefully analysed.

### 2. A CBAM preserving complex EU-based value chains

If the costs generated by the new mechanism apply to primary materials only, there is a serious risk of provoking a shift in imports from the primary materials to (semi-)finished and higher value-added products, as a way to escape the new CBAM. This unintended consequence would be detrimental to both the upstream production and the downstream transformation activities and would cause a major threat to entire European value chains. Therefore, any CBAM needs to be sufficiently versatile for an adequate coverage of the different value chains and must avoid loopholes.

- ▶ **Article 2 paragraph 6:** A simple procedure needs to be set up to adjust the CBAM coverage, especially along value chains, in a speedy manner if needed. It requires adequate monitoring and an active dialogue with the European industrial sectors.
- ▶ **Article 27 paragraph 2:** More generally, the proposed definition of circumvention is too narrow and limited to slight product modifications only. The proposal needs to better define and address circumvention risks (including, in addition to manoeuvres along the value chain, resource shuffling, transshipment strategies or costs absorption).

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<sup>1</sup> NACE code 23.11 for the upstream glass melting activities and NACE code 23.12 for glass processing and transformation. While glass melting is an energy-intensive process carried by a handful of companies in 60 European sites, glass processing and transformation is not an energy-intensive activity. This activity is carried by over 1000 companies, mostly SMEs, all over Europe.





### 3. A CBAM without discrimination regarding the origin of imported goods

Glass for Europe welcomes the proposal insofar as the mechanism would indistinctively apply to all imported products regardless of their country of origin. Any country exemption would risk jeopardizing the mechanism and reducing its effectiveness vis-à-vis the environmental goal hence the importance of maintaining a uniform rule for all third countries, without discrimination and regardless of bilateral trade agreements.

- ▶ **Article 2 paragraph 3 and paragraph 9, and Annex II:** Glass for Europe recommends against the possibility for any country exemptions.
- ▶ **Article 2 paragraph 4:** Following the same logic, the CBAM should not allow for preferential rules of origin, as foreseen in the European Commission's proposal.
- ▶ **Article 2 paragraph 5:** In case of ETS linkage, it should be ensured that both systems provide equivalent measures in terms of coverage, requirements and protection, to be thoroughly assessed in order to avoid any distortion.
- ▶ **Article 7 paragraph 6:** In any case, the embedded emissions calculation under the CBAM needs to mirror as much as possible the EU ETS in order to ensure a level playing field.

### 4. A CBAM foreseeing provisions for EU exports

Reciprocity at global level should also be addressed. Under the proposed CBAM, there is a risk of asymmetry between EU manufacturers bearing carbon costs for the entirety of their production and foreign manufacturers facing only additional costs for their exports to the EU. This would result in a hampered access to export markets for the European industry. It is therefore crucial to include provisions for EU exports in the mechanism.

- ▶ **Article 30:** Glass for Europe suggests including in the CBAM monitoring the impact on exports from EU producers, with an increased attention during the initial testing period. The extension of the CBAM scope will need to include adequate measures to cover exports.

### 5. A CBAM mirroring the level of control under the EU ETS

Under the EU ETS, EU operators must comply with annual monitoring, reporting and verification requirements with data verified by an EU accredited verifier. Under the CBAM, the same level of control needs to apply so the declarations by EU importers so that their truthfulness can be verified.

- ▶ **Article 8, Article 18 and Annex V:** Glass for Europe recommends that monitoring, reporting and verification obligations under the CBAM mirror those under the EU ETS.
- ▶ **Article 7 and Annex III:** Emissions should be calculated and reported at installation level. Both direct and indirect (i.e. emissions generated upstream by electricity producers) emissions should be covered.
- ▶ **Annex III:** Regarding benchmarks, they should be product-specific and based on reliable data, thus mirroring the EU ETS. Where default values need to be used for imports, the penalty should represent a sufficient incentive for third country producers to reduce CO<sub>2</sub> emissions, bearing in mind the CO<sub>2</sub> linear reduction trajectory imposed on industry in the EU ETS system.



## 6. A CBAM ensuring a smooth transition

Last but not least, the new system must allow for a smooth transition for the European energy-intensive industry, both in the initial phase and in the extension of the mechanisms. In this regard, the co-existence of free allowances and CBAM needs to be preserved for a period of transition to alleviate any competitiveness shock on EU industrial sectors. If the CBAM is tied with a reduction of free allocation to those covered sectors, a reallocation of allowances thus made available could be envisaged to avoid the application of a Cross Sectoral Correction Factor (CSCF) under the EU ETS regime for protecting industries against the risk of carbon leakage.

- ▶ **Recital 11:** Should free allocation for CBAM sectors be reduced after a transition period, Glass for Europe recommends making use of those allowances to keep a sufficient level of protection against the risk of carbon leakage under the EU ETS.

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