



Trade War: The EU's unholy obsession with Carbon Border Adjustment Mechanism (CBAM)

Change Partnership is a not-for-profit thought-leadership and mission-orientated organisation seeking to solve the politics of the climate crisis.

We **do not support** a carbon border adjustment mechanism on the basis that it:

- i) does not 'protect' the EU economy,
- ii) is not in the interest of consumers and wider society, and
- iii) it does not create the positive political conditions and framework needed to build a global consensus to tackle the climate crisis.

The following aspects must be taken into consideration in the impact assessment and any subsequent policy design:

1. **Politics:** Protectionist measures tend to sour political discourse, trust and confidence in delivering the end goal of decarbonisation to stay below 1.5 degrees. For example, Narendra Modi, Indian Prime Minister, stated "*there should be no place for unilateral steps that become economic barriers for others*" at the opening of COP21 where agreement was reached on a new global climate architecture.¹ The US Commerce Secretary Wilbur Ross warned "*Depending on what form the carbon tax takes, we will react to it*"² whilst He Jiankun from Tsinghua University, a delegate for the Chinese government, stated "*Currently adopting this type of cross-border measure could influence the friendly atmosphere of cooperation in the process of confronting climate change.*"³

The EU impact assessment must outline border measures advance trust, cooperation and international efforts to accelerate climate action.

2. **A credible threat?** The EU introduced a carbon border measure for all international air travel arriving and departing from the EU in 2009. Significant global political pressure from the US, China and India crushed this measure. President Obama approved the Thune Bill which prohibited US airlines from complying with the EU ETS Aviation legislation. China and India also did the same with their airlines. China then

¹ Wall Street Journal, "Narendra Modi's Speech at COP21 in Full". 1 December, 2015.

² Financial Times, "US threatens retaliation against EU over carbon tax". 26 January, 2020.

³ Euronews, "Europe's 'carbon border tax' could hurt climate negotiations, according to China adviser". 4 December, 2019.

threatened to delay and possibly cancel its order for 55 Airbus planes, which ultimately forced the French government to seek a delay to in the enforcement of EU legislation.

There is no indication that the EU is in a stronger position to fend off these countries as well as Brazil, Russia and others, and this time on three sectors. Failure would render the whole exercise worthless, damage the EU's credibility and isolate it at a time when it must drive global cooperation to tackle the climate crisis.

- 3. Asymmetrical retaliation:** China delaying and threatening to cancel Airbus orders was an example of direct retaliation confined to the same sector. Most trade war retaliation is asymmetrical. For example, China stopped purchasing US agricultural products namely soybeans, the most valuable American crop export, in response to US tariffs on Chinese steel imports. This hammered the \$9.1 billion yearly export market but the plight of farmers cost the US economy \$28 billion for just two years of compensation.⁴ Furthermore, the steel tariffs are expected to cost US dairy famers \$12.8 billion by 2023.⁵

The EU's impact assessment will have to calculate the potential economic impact of retaliatory measures across the EU economy.

- 4. Competition concerns:** Cement and steel, two of the sectors expected to benefit from a CBAM have a long history of anti-trust and price fixing in the EU. This has done considerable harm to the functioning of the Internal Market, public policy and citizens considerable harm. If a few companies can control access to the EU or national markets it implies that they are not truly exposed to domestic or international competition undermining the case for border measures in the first place.

Importantly, the EU ETS 2007 impact assessment concluded that "...market concentration in the cement industry is rather high and prone to collusion and formation of cartels" whilst the 2019 ETS reform was concluded whist DG Competition was investigating a cartel structure in Holcim cement.

Examples of cartels include:

- i) The '**Cembureau Agreement**' comprised 42 European cement producers and associations from 14 different Member States who prevented shipment to markets to fix prices;⁶
- ii) The '**Hardcore cartel**' in Germany which operated from the 1990s to 2002;⁷
- iii) The '**Thyssenkrupp, Voestalpine, Vossloh and Moravia Steel**' cartel which fixed high prices for Deutsche Bahn, the German railway for over a decade;⁸
- iv) The '**Club Europe**' steel cartel which ran from 1984 to 2002 and was present in

⁴ Reuters, "U.S. farmers suffer 'body blow' as China slams door on farm purchases". 5 August, 2019.

⁵ BBC, "What US farmers make of Trump's trade deal". 17 January, 2020.

⁶ Judgement of the Court of First Instances, Joined cases: S T-25/95, T-26/95, T-30/95 TO T-32/95, T-34/95 TO T-39/95, T-42/95 TO T-46/95, T-48/95, T-So/95 TO T-6S/95, T-68/95 TO T-71/95, T-87/95, T-88/95, T-103/95 AND T-104/95, 15 March 2000, p.519, 18.

⁷ Cartel Damage Claims, Cement Cartels, 2014.

⁸ DW, "ThyssenKrupp settles with Deutsche Bahn over rail cartel damages". 20 November 2013.

every Member State.⁹

The EU's impact assessment must re-examine the competitiveness of these sectors taking into account their oligopolist and even monopsony market structures before any recommendation is made for protectionism which could jeopardise the whole EU economy.

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⁹ Sherman and Sterling 'Cartel Digest'. See <https://www.carteldigest.com/cartel-detail-page.cfm?itemID=53>
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