

## Public consultation on the inception impact assessment by the European Commission on a possible border adjustment mechanism

### COMMENTS BY AFEP (FRENCH ASSOCIATION OF LARGE COMPANIES)

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AFEP, the French Association of Large Companies, welcomes the initiative of the European Commission to launch an inception impact assessment on a possible carbon border adjustment mechanism.

Since 2019, AFEP has been strongly advocating for the EU to take concrete actions to tackle carbon leakage and related competitiveness gaps at the expense of EU-based industries.

In this context, exploratory work on a carbon border adjustment mechanism within the “Green Deal” and the EU industrial policy strategy is a positive signal towards the making of operational instruments at EU level. It is key to address this critical issue if the EU wants to maintain a strong industrial basis while providing further incentives to the non-EU industry to catch up with EU ambitious targets at the core of the Green Deal (moving to climate neutrality by 2050).

When it comes to the operational features of such instrument AFEP recommends that the IAA on the intended BCA should:

- Investigate whether a border carbon adjustment mechanism could be designed in such way that its implementation could reconcile the objective of the EU further contributing to the worldwide carbon emission reduction with a cut of EU emissions by 50 %/55 % in 2030 compared to 1990 and climate neutrality by 2050 and the resorption of competitiveness gaps impacting the EU industry.

In this respect, the issue of competitiveness should be granted an equal footing with the objective of a potentially standing alone additional effort of the EU in reducing its carbon emissions at the scale required to effectively mitigate climate change.

This should lead to verify if, in case it is limited to specific sectors, a border carbon could be designed in such way that it does not trigger cross-sectoral distortions, especially downstream the supply chain.

The analysis of costs impacting competitiveness should also take into account the issue of indirect emissions related to imported products and examine whether a border carbon adjustment can be combined with ETS scheme and pre-existing tools to address carbon leakage with free allowances and compensation for indirect carbon emissions.

- Examine, as already mentioned in the IIA notice, whether this mechanism can be engineered in such way that, regardless whether it qualifies as a tax under the EU treaties, it is assumed to be compliant with WTO requirements for unilateral measures imposed on imported products and other obligations deriving from international law, including the Paris Agreement.

Large French companies suggest that this legal review comes along with anticipative scenarios on possible retaliatory measures by major trading partners, even outside the WTO dispute settlement framework, so that the IIA can deliver a full picture on the climatic and economic impact of such an instrument.

- Take into account the significant economic turmoil resulting from the Covid 19 sanitary crisis/ oil market fluctuations and its impact on carbon pricing regulatory framework, and especially on the functioning of the ETS market

Large French companies recommend that inception works factor in the current important disturbances that are likely to modify in depth the economic and carbon emission landscape in which the BCA proposal has been initiated. It is worth considering whether the BCA or any other tax-based instrument would act in this context (contribute to fuel the recession to come or on the opposite shelter the EU industry from further carbon-based dumping practices by third countries).

- Conduct, as envisaged in the IIA notice, an initial comparative analysis of alternative and/or complementary instruments that could help achieving the double objective of EU reducing its emissions by 50/55% in 2030 compared to 1990 and climate neutrality by 2050 and of improved competitiveness for the EU industry.

Large French companies suggest that the European Commission includes in this review an array of relevant instruments such as domestic measures, but also tools mutually agreed in bilateral or plurilateral agreements and paves the way for a science-based analysis. This would ensure that the future complete impact assessment result in an objective comparison between policy options, with a systemic cost/benefit balance for each of them in terms of climate and economic impacts. Such comparative assessment is even more needed in the event alternative tools would better perform in the current economic turmoil.

- As it is currently carrying out a similar modelling exercise along with its member companies and other partners, AFEP stands ready to engage a fruitful dialogue with the European Commission and other stakeholders on comparing outputs to move forward in the design of the BCA or any other/additional instrument considered as relevant.

## About AFEP

Since 1982, AFEP brings together large companies operating in France. The Association, based in Paris and Brussels, aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is AFEP's core priority. Afep has around 113 members. More than 8 million people are employed by AFEP companies and their annual combined turnover amounts to €2,600 billion.

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