



Leveraging new environmental trade standards for export competitiveness

CBAM and the evolution of Viet Nam-EU Trade

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Greenhouse Gas Emissions and relationship to the ETS and EUAs



The main sector for GHG emissions from now until 2030 will be the energy sector (accounting for 60-70% of total GHG emissions).

The Industrial Processes and Product Use (IPPU) sector will rise to the second position starting in 2025. Since 2005, the Land Use, Land-Use Change, and Forestry (LULUCF) sector has become a net GHG sink (emitting less GHG than it absorbs).

The European Union Emissions Trading System (EU ETS) is based on the principle being that the **polluter pays** in relation to GHG emissions.

EU ETS is a **carbon emission trading scheme**, started in 2005, to lower greenhouse gas emissions in the EU. It limits emissions of specified pollutants over an area and allows companies to trade emissions rights within that area and **provides a cap-and-trade system** with an overall limit (cap) on the total volume of greenhouse gas emissions that installations in the covered sectors can collectively emit.

- The cap is divided into pollution permits known as EU Allowances (EUAs)
- Installations covered by the EU ETS are obliged to hand over EUAs equal to their emissions of the previous year.

Companies can acquire EUAs through three main channels:

1. **buy them at auction** organised by the European Energy Exchange
2. **receive them for free:**
 - a) sectors deemed to be at risk of carbon leakage (production of cement, steel and iron, chemicals, aluminium, paper and pulp manufacturing, and other energy-intensive industries),
 - b) the aviation sector (partly), and
 - c) electricity producers in some lower-income member states,
3. **buy them on the open market**

What are BCAMs – Border Carbon Adjustment Mechanisms?

Clarity

Border carbon adjustments (BCAs) aims to make imported goods bear the same carbon costs that domestic goods must bear: There are generally two forms of BCAM:

- Border tax adjustment (underlying policy is a carbon tax) – ***we will focus on this for CBAM***
- Domestic regulation with a regulation affecting imports (underlying policy is a regulation)

Function

BCAMs will not function as a stand-alone policy mechanism but as a decision process (a flow-chart as such), with the final results depending strongly on the choices made about policy options during the elaboration process. To deliver both a:

- Environmental protection instrument, **and**
- Protectionist instrument

Example

The EU's Carbon Border Adjustment Mechanism (CBAM), launched in October 2023, is the most notable BCA, requiring imports to **report carbon emissions** and eventually **pay carbon costs**.

The EU's CBAM will be a focus for the rest of the presentation

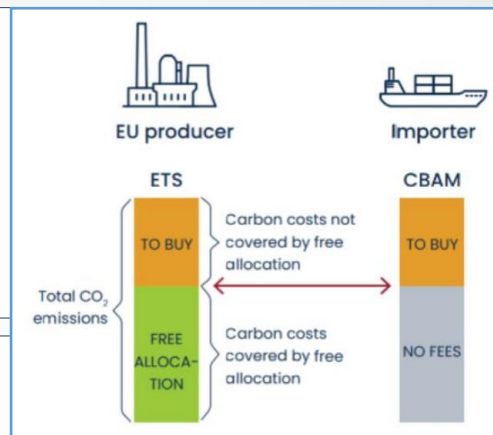
Summary of CBAM

What are the objectives of CBAM?

- Preventing carbon leakage
- Encouraging global emission reductions
- Levelling the playing field
- Supporting the EU Green Deal – focus on non-EU suppliers
- Promoting investment in low-carbon technologies

When does CBAM apply?

- Now the transitional phase is running until 2025 (since 2023) & only reporting is required.
- The **definitive regime will apply from 2026** and importers will have to start buying certificates.
- The free certificates for EU companies will be phased out until 2034.



How will the price be determined?

- The price of the certificates will be based on the carbon price of the EU ETS allowances.

Which products fall under CBAM?

- It now applies to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage:

- Cement
- Certain metals; iron, steel & aluminium
- Fertilisers
- Electricity
- Hydrogen

Soon CBAM will also apply to maritime transport

CBAM Transition : Opportunities and Challenges for the Textiles Sector

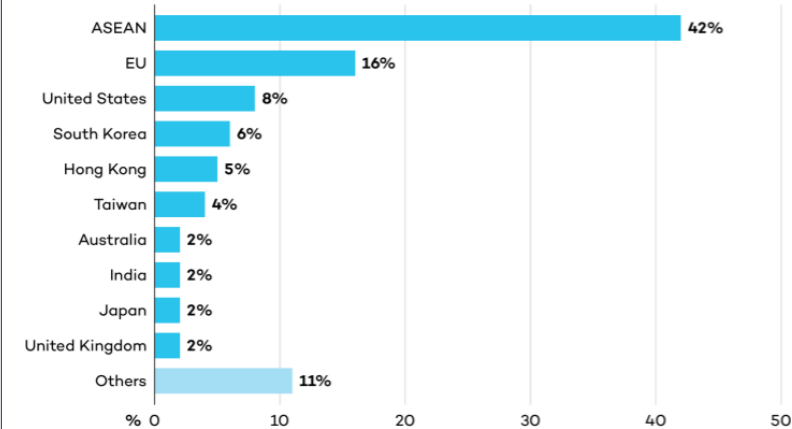


Source = Greenstitch

Examples of Affected Export Industries from Vietnam

Iron & Steel Industry

Figure 1. Top 10 export markets of Vietnam steel in 2022



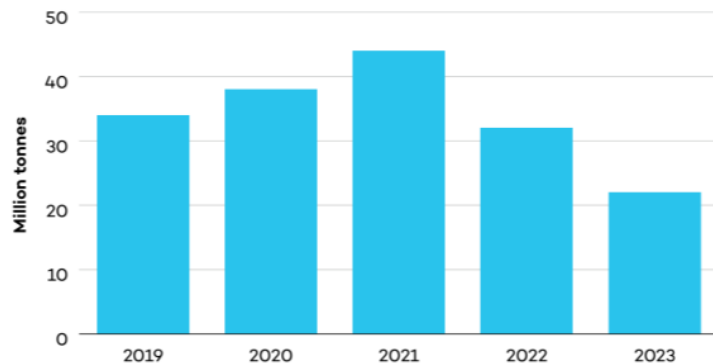
Source: Data from Vietnam Industry and Trade Information Center, 2022.

EU is the second biggest importer of Vietnamese steel

- Challenges:
 - **Volume** of exports to the EU and the **trade relationship** with the EU regarding steel products will be negatively affected
 - Require short-term measure and detailed guidance to comply with CBAM, while this is a relatively new mechanism
- Actions proposed:
 - Support from Vietnamese Government to help companies familiar with CBAM and provide consultations for suitable methods

Cement Industry

Figure 3. Exports of Vietnam cement to the EU from 2019 to August 2023



Source: Vietnam Association for Building Materials, 2023.

Exports: producing 100 million tonnes annually. Exports to the EU are low, accounting for less than 2% (over the past 5 years)

- Challenges
 - Required to **transition to green production** and **reduce carbon emissions** to deal with BCAs implemented and the government's net-zero commitment by 2050.

CBAM transitioning to full force

Until end 2024

Until the end of 2024, companies have the choice to perform:

1. **Full reporting according to the new methodology** (EU method) OR
2. **Reporting based on an equivalent method**, which could include:

- a mandatory monitoring and reporting system associated to a carbon pricing scheme,
- a mandatory emission monitoring scheme in a third country, or
- an emission monitoring scheme of the installation validated to meet EU requirements.

Until end 2025

Until the end of 2025, report only greenhouse gas emissions embedded in imports (direct and indirect emissions), without the need to buy and surrender certificates.

- Indirect emissions will be covered in the scope **after** the transitional period for cement and fertilisers.

NOTE: By 2030, the CBAM is supposed to cover all products covered by the ETS such as ceramics, glass, packaging material. It might apply to more products in the future, such as textile & garments, road transport, building...

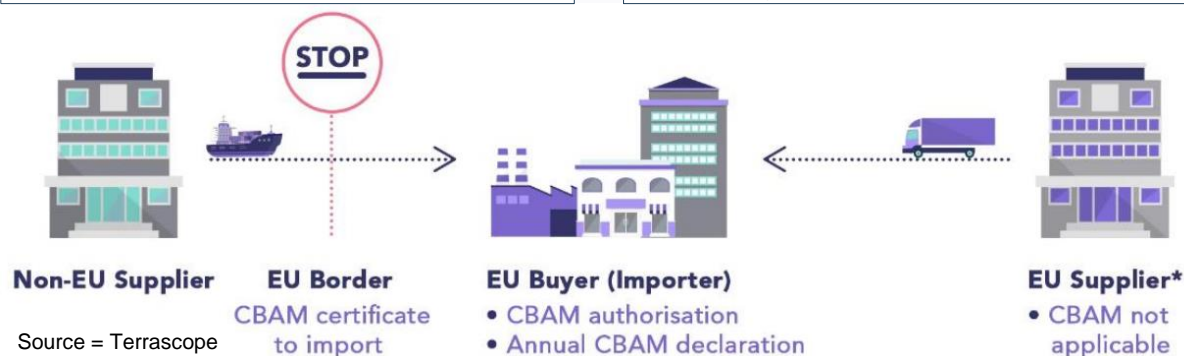
From 2026

As from 2026 companies need:

- to register with national authorities where they can buy CBAM certificates.
- to determine direct and indirect CO₂ emissions contained in imported CBAM goods based on actual or default (electricity only) values
- to acquire CBAM certificates for imported CO₂ emissions from the relevant CBAM competent authority
- to prepare and submit an annual CBAM declaration for the CBAM goods imported in the previous calendar year and the associated CO₂ emissions

→ Declaration needs to include a comparison of the imported CO₂ emissions with the emission allowances acquired during the year and to be released.

→ If too few certificates have been acquired, financial sanctions may be imposed.



Challenges, exemptions and con-compliance for businesses

How to be prepared and support local businesses/government:

- Support exporters in understanding and complying with CBAM whilst remaining competitive/attractive
- Influence the policy and design choices made by a business's trading partners whilst considering their own realities and concerns
- Ensure that multiple CBAM regimes are not divergent (i.e. UK or US in relation to EU)
- Decide what standardization to use in assessing and critiquing BCA regimes and proposals

Exemptions can occur when:

- If importers can prove that a carbon price has already been paid during the production of the imported goods, the corresponding amount can be deducted.
- Imports are from countries that have implemented equivalent carbon pricing mechanisms would be exempted from CBAM.
- Small importers and exporters that fall below a certain threshold would be exempted from CBAM.

Non-Compliance

- The National Competent Authorities
 - may initiate a **correction procedure**, granting reporting declarants the possibility to rectify potential errors in the case of missing, incorrect, or incomplete CBAM reports.
 - shall **apply penalties** where
 - the reporting declarant has not taken the necessary steps to comply with the obligation to submit a CBAM report, **or**
 - the CBAM report is incorrect or incomplete, and the reporting declarant has not taken the necessary steps to correct the CBAM report after the competent authority initiated the correction procedure.

Initial market reactions and how to seek Support

Early reactions from exporters to the EU from Vietnam

- GGSC cannot find specific examples of multi-national companies or FDI companies actively doing the CBAM reporting at this stage, we are aware textile and garment industry is preparing
- Some cement and steel companies considering other export markets apart from EU to divert their goods and avoid /reduce paying CBAM certificates

How to seek support

EuroCham Green Growth Sector Committee (GGSC)

- Supporting companies in Vietnam and key stakeholders in the transition, by both knowledge sharing and policy recommendations; several workshops have been held and position papers produced.

The EU Commission has sought to support companies and key stakeholders by:

- preparing specific guidance document for declarants, which outlines the functioning and step-by-step use of the “request delay” options in the CBAM transitional registry.
- developing a CBAM self-assessment tool for importers to the EU. The tool allows importers to the EU to get a quick overview on
 - ✓ whether the imported goods are subject to CBAM during the transitional period,
 - ✓ what the CBAM reporting requirements for that particular type of good are, and
 - ✓ where to find further information.
- On this website you can find supporting documents and other information:
https://taxation-customs.ec.europa.eu/carbon-border-adjustmentmechanism_en
- There is also sector specific information available for all products

Wrap-up

Broader Global Impact

- Additional export materials/items being considered to qualify under EU CBAM regulations – need to be aware of this
- Other countries such as Canada, the UK, Japan, Australia, and the US are considering similar BCA policies.
- Potential impacts:
 - Canada: Sectors at risk include iron and steel, furniture products, plastics.
 - UK: Draft regulations target sectors like iron, steel, aluminium, and ceramics.

Recommendations:

- ❖ Vietnam's early compliance with CBAM will be crucial, not just to avoid tariffs but to unlock first-mover advantages in terms of market access and green investment.
- ❖ Aligning with CBAM early can position Vietnam's industries as global leaders in sustainable manufacturing and bring FDI focused on low-carbon technologies.
- ❖ The risks of fragmented carbon policies across different markets can create non-tariff barriers for smaller manufacturers who may struggle to comply with different carbon standards.
- ❖ The key is for Vietnamese industries to **invest in sustainability now**, ensuring they remain competitive in international markets.