

## **ERCST Global Townhall on CBAM, Tuesday, 20 July 2021 (2 pm, Brussels Time)**

Let me begin with a question. Might it be useful to develop a set of multilaterally agreed guidelines that would provide guidance on the application of CBAMs in a WTO and UNFCCC consistent manner, and at the same time meet the EU's objective to prevent carbon leakage and ensure effectiveness of its climate policy.

Thank you for ERCST's initiative in organizing this timely townhall. We applaud the EU's climate mitigation efforts, and its commitment to become carbon neutral by 2050. Singapore and the EU have always been strong supporters of multilateralism and global climate action. We are long-standing partners to address this clear and present issue for all of us.

My presentation will be organised in three parts

- (i) To set the context, I'll highlight how the principle of national circumstances must inform CBAM, as it should, with regard to all aspects of the Paris Agreement. National circumstances must matter.
- (ii) Second, I'll flag the economic and social implications inherent in the CBAM.
- (iii) Third and most importantly, possible ways in which the potential adverse implications of CBAM can be addressed.

### **First, national circumstances and mitigation efforts of parties must matter in the implementation of CBAMs**

The Paris Agreement is founded on national circumstances. Parties are required to take account of the national circumstances of other parties in the adoption of their mitigation actions. In short, parties adopting CBAMs must factor the situation of other parties. Let me briefly explain this point using the specific situation of Singapore.

As all of you know, Singapore is a small island city state – the size of Lake Geneva (about 700 square km). We import for almost all our needs, including energy. In the words of Convention Art 4.10, Singapore is an alternative energy disadvantaged country. As an alternative energy disadvantaged country, Singapore faces constraints that make it difficult for us to achieve the same

targets as countries, such as the EU states, which have abundant access to alternative energy sources.

However, despite our geographical constraints and lack of alternative energy options, we have set ambitious stretch climate targets.

We submitted our enhanced 2030 Nationally Determined Contribution (NDC) and long-term low-emissions development strategy (LEDS) to the UNFCCC in March last year. Concurrently, we have launched the various sustainable development initiatives:

- (i) The Singapore Green Plan 2030. This is an ambitious plan with concrete initiatives over the next 10 years to advance Singapore's national agenda on sustainable development
- (ii) A carbon tax. It covers around 80% of total emissions, one of the highest carbon tax coverage rates globally. Singapore is the first country in Southeast Asia to do so.
- (iii) Enhanced energy efficiency measures.
- (iv) Phasing out of internal combustion engine vehicles; and
- (v) Accelerated solar deployment.

Singapore will continue to support multilateral framework of cooperation to address the global challenge of climate change and do our part to build a more sustainable future.

The robust stretch mitigation targets of AED countries such as Singapore must be factored by the EU as it designs and implement the CBAM. There is certainly no issue of carbon leakage here. Has the EU factored how it would factor the mitigation efforts of other parties, including those with stretch targets such as Singapore?

**CBAM in the UNFCCC and the WTO - the economic and social implications inherent in the CBAM.**

We recognize that the Convention and the Paris Agreement envisages the flexibility for parties to adopt measures to meet their climate mitigation

commitments. In their toolkit of measures to fulfill their NDCs, some parties are also looking at enacting trade related measures suited their national circumstances. This could include a carbon tax, and a CBAM to ameliorate carbon leakage concerns.

However, we must not underestimate the potential economic and social implications of CBAMs. A secretariat paper highlighted that border tax adjustments would have most impact on parties, particularly developing countries. Notably, a recent United Nations Conference on Trade and Development (UNCTAD) report which most of you would be familiar with, has the following findings:

- (i) The introduction of carbon pricing coupled with a CBAM helps reduce CO<sub>2</sub> emissions, inside and outside the European Union. However, the reduction represents only a small percentage of global CO<sub>2</sub> emissions.
- (ii) International trade patterns will change in favour of countries where production is relatively carbon efficient. *It should be noted that the production process in countries which are not able to access alternative energy options might not be carbon efficient. Should these countries be penalized due to their lack of alternative energy options?*
- (iii) The CBAM will result in declines in exports in developing countries in favour of developed countries, which tend to have less carbon intensive production processes.
- (iv) The EU consider flanking policies. For example, the use of revenue generated by the CBAM, to accelerate the diffusion and uptake of cleaner production technologies to developing country producers. This could be beneficial both in terms of greening the economy and fostering a more inclusive trading system.

There is one strand of argument that that CBAMs (which is a form of Border Tax Adjustments) might be permitted in the WTO subject to certain conditions. Let's assume that CBAMs are WTO permitted. However, if we were to be guided by the precedence of other trade measures such as AD and safeguard measures, even WTO permitted remedial measures could potentially be abused. How can we ensure that CBAMs are not abused?

This brings me to my final section of my presentation. How can parties address the potential adverse impacts of CBAM on their trading partners? Let me briefly offer five thoughts.

### **Addressing the potential adverse impacts of CBAM**

- (i) First, as I mentioned earlier, parties need to consciously and systematically factor the national circumstances of other parties when they design their CBAMs. For example, Art 4.10 specifically requires that parties take account of the situation of alternative energy disadvantaged countries.
- (ii) Second, parties must take into account partner countries' efforts at climate mitigation. For example, parties must factor the carbon taxation and pricing mechanisms of their trading partners. This is necessary to avoid imposing additional penalties and disincentives for climate action. Companies should not be taxed twice for the same unit of emissions.
- (iii) Third, parties must fully implement Art 3.5 of the Convention. The UNFCCC requires all parties to promote a supportive and open international economic system, and ensure that their measures do not discriminate nor restrict international trade. This is based on the recognition that an open economic system is critical for sustainable economic growth and development in all parties. This will in turn enable parties to better address climate change.
- (iv) Fourth, parties must ensure that both the design and application of CBAMs are consistent with relevant international rules such as the WTO such as non-discrimination. National treatment and MFN are two fundamental obligations. There are other provisions relating to the CBAM in the WTO.
- (v) Fifth, might there be a role for carbon credits? The design of CBAM should allow for the use of high environmental-integrity carbon credits traded internationally through a well-regulated, transparent, and open trading platform.

Let me conclude with the question I raised at the outset. Might it be useful to develop a set of multilaterally agreed guidelines that would provide guidance on the application of CBAMs in a WTO and UNFCCC consistent manner, and at the same time meet the EU's objective to prevent carbon leakage to ensure effectiveness of climate policy

In sum, there is a dual imperative of supporting climate mitigation objectives and fostering sustainable development through a supportive and open international economic system. All parties must respect the principles and provisions of the UNFCCC and relevant international trade rules in the WTO for their response measures such as the CBAM.

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