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MEMORANDUM

FOR : The Directors
Climate Change Service
Forest Management Bureau
Environmental Management Bureau
Mines and Geosciences Bureau

FROM : The OIC Director
Policy and Planning Service

SUBJECT : **REQUEST FOR COMMENTS AND INPUTS RE: TECHNICAL BRIEF ON
THE EU CARBON BORDER ADJUSTMENT MECHANISM (CBAM)**

DATE : **02 MAY 2022**

This refers to the letter dated 28 April 2022 from Dir. Angelo Salvador M. Benedictos of the Bureau of International Trade Relations of the Department of Trade and Industry (DTI-BITR) requesting the Department to provide comments and inputs on the attached draft technical brief and questionnaire re: European Union's Carbon Border Adjustment Mechanism (CBAM).

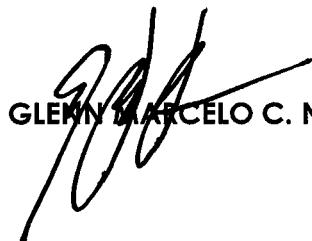
The CBAM is one of the mechanisms under the "European Green Deal" (EGD) which is its new strategy for mitigating global climate change. The idea of EU is to put specific tax (carbon tax) depending on the carbon content of an import. This will be benchmarked on EU's acceptable amount of carbon content.

The technical brief was prepared under the ARISE Plus Philippines Project and aims to provide support on certain regulatory aspects for accessing the EU market, including on the CBAM, as part of the broader set of the green initiatives being implemented by the EU. It contains the following, 1) explanation on the operation of the CBAM, 2) the status of the legislative proposal, 3) its impact on exports to the EU, and 4) concise insight to the Philippine stakeholders on the various green and sustainable trade initiatives.

Further, the questionnaire will be a helpful tool to better understand existing frameworks in the Philippines in relation to carbon accounting.

In this regard, we would like to request for your comments and inputs on the attached technical brief, and questionnaire which may also be accessed through the following link: <https://bit.ly/3ORvgPB>. We would appreciate receiving your comments and inputs in advance **by 11 May 2022** through this email address: psddivision@gmail.com, copy furnished policy@denr.gov.ph.

For your preferential and appropriate action, please.


GLENN MARCELO C. NOBLE

28 April 2022

Mr. Jonas R. Leones
Undersecretary
Policy, Planning and International Affairs
Department of Environment and Natural Resources
Visayas Avenue
Diliman, Quezon City

Attention: Director William P. Cuñado
Environmental Management Bureau (EMB)

OIC-Director Natividad Y. Bernardino
Biodiversity Management Bureau (BMB)

Dear Undersecretary Leones:

We write to you in relation to the technical brief on the EU Carbon Border Adjustment Mechanism (CBAM) prepared under the scope of Activity 1.1.1 of the ARISE Plus Philippines Project. This output aims to provide support on certain regulatory aspects for accessing the EU market, including on the CBAM, as part of a broader set of green initiatives being implemented by the EU. The technical brief seeks to explain the operation of the CBAM, the status of the legislative proposal, its impact on exports to the EU, and to provide a concise insight to the Philippine stakeholders on the various green and sustainable trade initiatives.

In this regard, we respectfully request your office to provide comments and inputs on the enclosed draft technical brief, as well as on the questionnaire which may be accessed through this link: <https://bit.ly/3ORvqPB>. The questionnaire will be helpful to better understand existing frameworks in the Philippines in relation to carbon accounting.

We would appreciate receiving your valuable inputs **on or before 13 May 2022** via email through Ms. Norma Arpafo (NormaArpafo@dti.gov.ph), Ms. Raissa Faminial (RaissaFaminial@dti.gov.ph), Ms. Shaira Granada (ShairaSteffanyGranada@dti.gov.ph), and Ms. Kareen Eltagon (KareenHopeEltagon@dti.gov.ph). Should you have inquiries and clarifications, you may contact Ms. Granada and Ms. Eltagon of DTI-BITR.

Thank you.

Sincerely,


Angelo Salvador M. Benedictos
Director

Copy : Undersecretary Ceferino S. Rodolfo, DTI-IDTPG
Assistant Secretary Allan B. Gepty, DTI-IDTPG

BUREAU OF INTERNATIONAL TRADE RELATIONS

ARISE Plus Philippines

TECHNICAL BRIEF

EU SUSTAINABLE TRADE INITIATIVES: CARBON BORDER ADJUSTMENT MECHANISM

CONTEXT

The European Union (EU) has committed to a suite of policies and regulations that will see its greenhouse gas (GHG) emissions drop by 55% from 1990 levels by 2030. By international standards, this commitment is a frontrunner in climate ambition.

Part of that package involves making GHG-emitting industries buy allowances for every tonne of carbon produced, under the EU's existing Emissions Trading System (ETS). Another part of the package – the carbon border adjustment mechanism (CBAM) – is aimed at ensuring that, as allowance prices increase, the EU's emissions don't simply shift to foreign producers who do not face a carbon price, and who might therefore gain market share – a process known as “carbon leakage”.

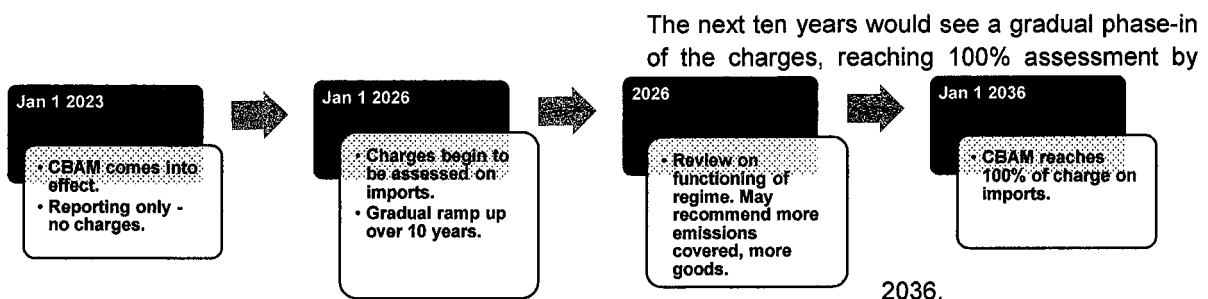
The EU CBAM would levy a charge on imports, aiming to make importers purchase GHG emission allowances for goods as if they had been produced by domestic firms.

The CBAM has not yet been passed into law. Before that happens, there will need to be agreement on its details by three EU governing bodies: the European Commission, the Parliament, and the Council.

The Commission launched the process in June 2021 with its proposal ([see full text here](#)). There will now be a process wherein the Council and the Parliament will negotiate to produce final legislation. That negotiation is supposed to be completed in time for the CBAM to come into effect by 1 January 2023, but it seems likely to be delayed.

Since the Commission proposal is the best indication available at this point of how the CBAM will look, this technical briefing note uses it as a starting point, but with the caveat that some parts of it may change in the process of negotiation to final law. Where those changes are likely, it is noted below.

According to the Commission proposal, the CBAM would enter into force 1 January 2023. For the first three years it would require reporting, but would levy no charges.



TIMELINE - CBAM LEGISLATION

HOW WOULD THE CBAM WORK IN PRACTICE?

EU SUSTAINABLE TRADE INITIATIVES : CARBON BORDER ADJUSTMENT MECHANISM

Coverage:The CBAM would cover EU imports of iron & steel, aluminum, cement, nitrate fertilizers and electricity. Coverage is for basic upstream materials and semi-processed goods. See the full list of HS codes in Annex 1 of the [Commission proposal](#).

Importer responsibilities:Before the act of import, importers (*declarants*) will have to apply to the national CBAM authority of their country (this is likely to be amended to be a centralized EU authority) for an authorization to import CBAM-covered goods. This is just a registration process, after which the declarant becomes an *authorized declarant*.

By 31 May of each year, all authorized declarants must submit a “CBAM declaration” to the CBAM authority that details:

- The total quantity (volume) of each covered good imported in the preceding calendar year.
- The total tonnes of CO₂ equivalent emissions that were embedded in those goods, calculated for each type of good imported.
- The total number of CBAM certificates that are due based on those imports – one certificate due for each tonne of CO₂ equivalent.

While this sounds as if the onus for compliance will be on the importer, in practice most of it will rest with the producer.

Producer responsibilities: Producers would register their operations and installations in an EU-maintained central database (registration valid for 5 years), and then would need to commission a verifier to assess the GHG-intensity of each exporting installation, for each different exported good, and provide that information to the authorized declarant. In theory the authorized declarant could commission its own verification, but **in practice importers will strongly prefer to deal with producers that register and provide them the required data.**

Presumably the producer would want to time the reporting period of the verification to align with the reporting periods of the authorized declarants, meaning verification would have to be done at least annually. The standard to which producers would certify, and the accreditation standard for verifiers, are still under development.

Calculating Carbon Content:There are three possible ways for the CBAM authorities to calculate the amount of carbon embedded in imports.

First option	The authorized declarant shows actual third-party verified data, as required under the CBAM legislation.
Second option	If the data cannot be determined by the authorized declarant, then the EU will assign a default value, equal to the average emissions intensity for the country of export for the class of goods in question. This involves the EU creating and maintaining a database of average emissions intensities across four sectors (29 classes of goods) for each trading partner.
Third option	If the EU database does not have an average emissions intensity for a particular good and country of export, it will assign a punitive default, equal to the average of the EU’s 10% most emissions-intensive producers.

In practical terms, Philippine exporters could benefit selecting the second option - particularly those exporters that are more emissions-intense than the national average – and also avoid certification costs. However, such exporters will still be subject to a higher CBAM charge than other exporters with a lower emissions intensity. Further, if the EU database does not have Philippine sectoral data for that particular good, it would mean a very high charge (third option).

Scope of emissions covered in calculations: The emissions on which the calculation is based are direct emissions only – those within the direct control of the producer/facility (*scope 1 emissions*).

The CBAM would not charge for emissions embodied in purchased electricity (*scope 2 emissions*), though those are likely to be covered in future revisions of the regime.

The CBAM would, however, cover other *selected upstream emissions* – those embedded in input goods. For example, producers of steel pipes would not only be charged for their own direct emissions, but also for the direct emissions of the

EU SUSTAINABLE TRADE INITIATIVES : CARBON BORDER ADJUSTMENT MECHANISM

producers of the steel they use as inputs. The EU has not made it clear yet exactly which upstream goods would be covered—this will be elaborated in the implementing legislation—but it will likely be those that are also covered by the CBAM.

Purchase of CBAM Certificates:The authorized declarant is responsible for purchasing enough CBAM certificates to surrender at the time of its CBAM declaration.

The CBAM certificates can be bought at any time from the CBAM Authority, the price being set by the average weekly auction price for ETS allowances. After purchase, the CBAM certificates are held in the authorized declarant's account with the CBAM authority. While certificates only need be surrendered at the time of the declaration, the account must hold at the end of each quarter at least 80% of the certificates required for imports up to that point in the calendar year, calculated according to a set of default GHG intensity benchmarks.

CBAM certificates not needed at the time of declaration can be sold back to the CBAM Authority (up to one third of total purchased) for the purchase price.

The number of CBAM certificates due can be reduced from full value in two ways. First, it will be reduced automatically by the CBAM authority to account for any free allowances granted to EU manufacturers under the ETS regime. This is to ensure an even playing field for foreign producers. Second—and this feature is not relevant for the Philippines at this time—the authorized declarant can claim a reduction to account for any carbon price paid by the producer in the country of origin. The methodologies for calculating the value of such prices are not yet developed, other than an explicit statement that any export rebate of a carbon price would negate the reduction.

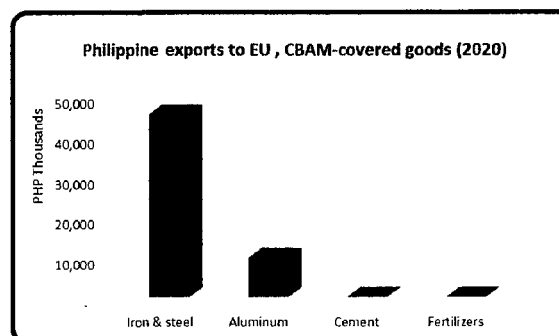
IMPACT OF THE CBAM ON THE PHILIPPINES' EXPORTS

As noted above, the CBAM as proposed by the European Commission would cover four sectors of goods: iron & steel, aluminum, cement, and nitrate fertilizers.

Philippines' exports to the EU:Philippines' exports in these goods amounted to just over

PHP 55 million (approximately USD 1 million) in 2020, as shown in Figure 1.

Figure 1: CBAM-covered exports



While this is not a significant volume of trade, that might change if more goods were covered.

The influential Environment Committee of the EU Parliament to likely recommend, for example, that plastics and organic chemicals also be covered – a revision that would increase the value of covered Philippine exports by almost PHP 4 billion.

It is expected that eventually more goods would be brought under coverage of the CBAM legislation, but likely not before 2026.

Preparing for future trends in CBAM:It is also worth noting that ultimately the EU may not be the only country to adopt a CBAM. Canada has just wrapped up consultations on what such a mechanism should look like there, and the US and UK have both committed to implementing one as well, though it is not clear what form these proposals might take. Any country that takes on ambitious carbon pricing – and many are doing so – will be looking at CBAM as one of the accompanying policy options, particularly if the EU experience goes well.

Moreover, the CBAM is just one of a wave of new instruments that seeks to focus on embodied carbon emissions in traded goods. Others include the recent US-EU Global Agreement on Steel and Aluminum, the work of bodies like the Industrial Deep Decarbonization Initiative, that is working on standards for green public procurement in steel and cement, and a multitude of developing accounting standards for assessing carbon embedded in traded goods.

Even if the CBAM has minimal trade impact at the outset, it is worth some attention as the frontrunner of trends in global trade.

CUSHIONING THE IMPACTS: EXPORTING COUNTRY POLICIES

While the impacts of the CBAM as surveyed above appear to be relatively small, at least initially, they may be significant for specific exporters, and may grow more significant over time.

There are a number of actions that the Philippine government might take that would help cushion those impacts:

- **Compiling statistics on national sectoral emissions and transmitting them to the EU** to avoid Philippine producers being subject to the punitive second-default assumptions, if the EU database is not extended to include Philippine default values.


- **Lobbying the EU to support exporters' costs of certifying their data, using revenues from the CBAM.**
- **Helping to build exporters' capacity for internal carbon accounting** that meets the regulatory requirements of the CBAM (and potentially other buyer requirements).
- **Being a conduit of information for exporters on the requirements and likely developments in the CBAM** and other similar instruments.
- **Ramping up existing support for industrial transformation in energy-intensive, trade-exposed sectors** to make them less vulnerable to border carbon adjustments and other such requirements in the global green markets of the future.
- **Putting in place national carbon pricing**, to avoid transmitting funds to the EU that could be retained domestically to support industrial transformation. (This would only be a determinative argument if there were a large volume of impacted trade. As it is, it is just one of several arguments in favour of carbon pricing.)
- **Lower the GHG-intensity of the Philippines electricity grid** (by, for example, reducing coal use), in anticipation of the time when CBAM and other such instruments will cover indirect emissions. As is the case with carbon pricing, the CBAM alone is not a determinative argument to do this, but rather just one of several.

This technical brief has been produced with the assistance of the European Union (EU). The contents of this technical brief can in no way be taken to reflect the views of the European Union (EU).

ARISE Plus Philippines is a project of the Government of the Philippines, with the Department of Trade and Industry as lead partner together with the Department of Agriculture, Food and Drug Administration, Bureau of Customs, the Department of Science and Technology, as well as the private sector. It is funded by the European Union with the International Trade Centre (ITC) as the technical agency for the project.

Technical Briefing on EU Carbon Border Adjustment Mechanism

Stakeholder Questionnaire

 febtumines@gmail.com (not shared) [Switch account](#)



* Required

ARISE PLUS PHILIPPINES



This project is funded by the European Union

Project Overview and Call for Contribution

ITC is the implementing agency for the ARISE Plus Philippines project funded by the European Union (EU). The Department of Trade and Industry (DTI) is the focal point for the project in the Philippines. The overall objective (impact) of the project is to foster inclusive economic growth and poverty reduction in the Philippines. The specific objective (outcome) of the project is to improve the Philippines' trade performance and competitiveness. Output 1 of the project is: Government and private operators are better able to identify and implement export priorities (including to the EU).

Under this output, ITC received various requests from Philippines' stakeholders for briefings/targeted support on certain regulatory aspects for accessing the EU market, including on the EU Carbon Border Adjustment Mechanism (CBAM). This is part of a broader set of green initiatives being implemented by the EU. Based on the requests received, ITC has developed a briefing note on the EU CBAM in order to explain the operation of this mechanism, the status of the legislative proposal, its impact on exports to the EU - and provide a concise insight to the Philippines' stakeholders as they seek to strengthen the knowledge and negotiating capacity on the various green and sustainable trade initiatives. ITC will also be exploring the other EU green and sustainable trade initiatives under this range of technical briefing notes - as identified relevant by the Philippines.

As part of this activity, ITC is collecting information from various stakeholders on the Philippines carbon accounting mechanisms, and the measures underway to support the carbon transition.


As a key stakeholder, we value your input would appreciate your kind responses to the questions prepared. If you are not able to answer a particular question, please leave the answer blank and proceed to the next question.

We also look forward to meeting with you over Zoom to present the EU CBAM and discuss questions/clarifications in this regard.

BACKGROUND INFORMATION

Which department/agency do you represent? *

Your answer

 [Request edit access](#)



What is your designation? *

Your answer

A. REQUIREMENTS TO COLLECT DATA ON GHG EMISSIONS

1. Are there any regulatory requirements in place in the Philippines – requiring firms to collect data on GHG emissions from operations?

Your answer

2. If not, to the best of your knowledge – are there still any mechanisms or practices adopted by firms to collect such data? Is this a requirement being placed by international buyers?

Your answer

3. If such data is collected, what standards or protocols are used?

Your answer

B. INDUSTRIAL CARBON TRANSITION MEASURES

4. What is the main source for power for Philippines' firms in the steel, aluminum, chemicals and plastics sectors– purchased from the grid or generated on their own?

Your answer

5. For firms in those sectors generating their own electricity – what fuel is used?

Your answer

5. For firms in those sectors generating their own electricity – what fuel is used?

Your answer

7. Are you aware of any significant measures taken by firms/industries in those sectors in the Philippines in the last five years to reduce emissions, or improve energy efficiency? If so, was this done for economic reasons (good payback), or in compliance with regulations, or for environmental reasons?

Your answer

C. TECHNICAL ASSISTANCE FOR THE CARBON TRANSITION

8. Are there any mechanisms in place to educate/raise awareness of industries in the Philippines on the CBAM? Are there any plans to do so?

Your answer

9. Are there existing or planned requirements for industrial firms to compile and submit data relating to their GHG emissions?

Your answer

10. Are there existing or planned efforts to build capacity in industrial firms for “carbon accounting” that would help them comply with foreign buyers’ demands?

Your answer


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