



# SolarPower Europe response to Carbon Border Adjustment Mechanism public consultation

SolarPower Europe can claim strong expertise on embedded carbon intensity files. Our association has been a highly proactive stakeholder in the PEFCR (Product Environmental Footprint Category Rules for PV, an EU-led LCA methodology) pilot projects for PV modules, inverters and systems, and it is currently involved in the DG GROW work on sustainable product policy tools such as Ecodesign, Energy Label and GPP of PV products.

As a sector driving the transition to a sustainable energy system and a decarbonised EU economy, we fully support EU climate ambition to become climate neutral by 2050. Internalising carbon costs within the price of products to reflect their full climate impacts is an important step towards this transition. However, a CO<sub>2</sub> pricing policy that is not applied at the global scale creates the need for appropriate measures to prevent carbon leakage. The solar PV sector is impacted by the carbon leakage issue in different ways, all of which could not only undermine EU climate policy efforts, but also generate market distortions.

- As PV technologies contain energy intensive materials such as glass, aluminum and silicon, carbon leakage can lead to higher production cost of such materials within the EU than outside, thus reducing the competitiveness of PV manufacturing in Europe;
- As solar power is a carbon free source of electricity, carbon leakage is negatively affecting the competitiveness of solar generated power vs. power from fossil fuels, as carbon leakage leads to lower demand for carbon allowances under the EU-ETS and thus lower prices for fossil based electricity.

This public consultation aims to get stakeholder feedback on the effectiveness, implementability, as well as the economic, environmental, social and administrative impacts of different Carbon Border Adjustment Mechanism (CBAM) tools. However, at this point in time, **insufficient information on the specific design of each CBAM tool makes it difficult to give detailed feedback on the proposed policy measures and their impacts**. It is too early to state what the effects of each tool would be on EU competitiveness, EU employment, prices for end-customers, as well as its effectiveness in curbing climate change. For SolarPower Europe to give feedback on each of these tools, it would be necessary to get more information on the following features:

- What sectors and geographies it would apply to;
- What methodology it would use to calculate embedded carbon intensity, including essential questions related to the average carbon intensity of national energy mixes and the possibility to self-declare less carbon-intensive production;
- What impact it would have on the current EU-ETS and what any EU-ETS extension would imply for the future of free allowances;
- What additional measures will be taken to counterbalance the cost increase for EU manufactured products and, as a consequence, their decreased competitiveness on the domestic and international market.

CBAM's first objective is carbon leakage prevention, and any other objective should be considered secondary. Therefore, to ensure EU production can remain competitive vis-à-vis producers outside the



EU that do not apply CO<sub>2</sub> pricing, indirect effects on the EU industry should be carefully assessed. These include the impacts linked to disturbances in trade relations.

SolarPower Europe welcomes the EU Commission's effort to tackle the issue of carbon leakage in the power sector. At the same time, we recommend a cautious approach in the assessment of the potential impact of CBAM on the solar sector, which needs to be carefully assessed, especially at different stages of the value chain:

- Although CBAM may have a positive effect on non-EU companies to intensify their efforts to offer products with less usage of fossil-fuel based energy, it may have some critical effects on the EU solar industry as well. EU companies producing raw materials for the solar industry with a high ratio of export business like, e.g., polysilicon, aluminium and cold-rolled steel will face a deteriorated competitiveness in their global export markets as they are still exposed to ETS costs without getting any compensation from a CBAM;
- At the same time, where local EU production of solar products does not meet the demand or is almost not existing, like for example PV glass, a CBAM would lead to significantly increased costs for EU companies which have to import these foreign products for their EU production, increasing the prices for EU consumers in the end;
- For solar project developers and installers, full participation in the cost reductions achieved on the global market is essential. A CBAM could limit access to the most competitive solar technologies and thus reduce deployment of PV in Europe;
- For solar-based power generation, a CBAM on imported power would be beneficial, because the power sector is particularly at risk as no carbon adjustment nor compensation is currently available; a CBAM on imported fossil fuels used in sectors other than power could complement current decarbonisation efforts and increase competitiveness of renewable power sourcing.

Hence, the impact of a potential CBAM on the solar sector is ambivalent and greatly dependent on its final form and execution. In any case, methodological choices with regard to carbon content calculation and lifecycle assessment will be essential. In this regard, we urge the Commission to make use of existing methodologies such as the PEF-CR, and avoid a duplication of methodologies and standards. A lifecycle approach should always be preferred.

Also, the options assessed in the consultation mostly consist of instruments applied at the EU border, running the risk of being perceived as protectionist and complicating trade relations. This goes against the EU objectives of modernising its trade and industrial policy. The European PV industry has already suffered from EU trade policy in the past. The measures applied on Chinese solar imports from 2013-2018 did not yield any tangible result and rather limited the growth of the European PV sector.

Hence, the EU Commission should also look at options strengthening the instruments already applied behind the EU border (Green Public Procurement, indirect cost compensation) while assisting EU industry decarbonisation efforts and using soft measures to encourage enhanced climate ambition from international trade partners.

While considering different CBAM policy design options, we believe that it is essential to maintain the integrity of the EU-ETS at all times. Most importantly, the discussions around CBAMs must not lead to a delay in the review and strengthening of the EU-ETS policy, aimed at bringing it in line with the increased EU climate ambitions. Stronger climate action is promptly needed if the Paris Agreement's goals shall be met, and the EU-ETS is one of the most powerful and cost-effective tools that the EU has at its disposal for achieving its ambitious decarbonisation objectives.