17 October 2022

Dear Ambassador Edita Hrdá,

We, the undersigned civil society organisations, are writing to you regarding the ongoing EU trilogue negotiations on the Carbon Border Adjustment Mechanism (CBAM).

The poorest and marginalised people are most severely affected by the climate crisis, and they are the least responsible for carbon emissions.[1] We are seriously concerned that the CBAM proposals of the European Commission, the Council and the European Parliament will disproportionately affect poorer countries, undermining the principles of cooperation and of common but differentiated responsibility and respective capabilities, agreed in the Paris Agreement. Affected trade partners have already raised concerns on CBAM, such as Senegal, South Africa and India.

As higher-income countries have yet to meet their $100 billion annual climate financing commitment, and adaptation needs steeply on the rise, we consider it of paramount importance to assure that the support for lower-income countries for the green transition is increased. Specifically, we ask you to support **allocating an amount equivalent to all CBAM revenues to new and additional climate finance, focusing on the needs of Least Developed Countries (LDCs) and Small Island Developing States (SIDS).** The European Parliament's proposal goes in this direction. This increased support should come through additional EU contributions to existing international climate funds or through a new European Fund for International Climate Action. It should not displace other critical resources needed in low-income countries, should come entirely in the form of grants and should be used to support climate adaptation and mitigation measures. Moreover, it is particularly important that

[1] Estimates say that the richest 10 per cent of the world's population was responsible for over half (52 per cent) of the world's total carbon emissions from 1990 to 2015, while in the same period, the poorest 50 per cent was responsible for just 7 percent of total carbon emissions. Industrialised countries were historically responsible for 90% of excess emissions, high-income countries therefore have a greater degree of responsibility for climate change and climate damages.

increasing support respects country ownership and is based on climate priorities as determined by people and their governments, with a priority towards community led initiatives. CBAM is estimated to raise up to EUR 2.1 billion per year through 2030 - a significant amount that can contribute to existing climate financing gaps. The proposal of the European Commission to allocate CBAM revenues to repay for the recovery of EU Member States will only support the perception of trade partners that CBAM is protectionist and unfair.

Secondly, it is not fair to ask poor countries to pay while EU companies are given exemptions from the EU carbon market as they continue to receive most of their allocation of EU ETS emission allowances for free. **A quicker phasing out of free allowances distributed to EU producers is necessary as CBAM and free EU ETS allowances cannot coexist.** Both instruments have the same declared objective that is to tackle the risk of carbon leakage.[2] Maintaining the free allowances will support the perception of CBAM as a protectionist measure. Moreover, it would further delay the enforcement of the polluter pays principle and create little incentive for EU sectors under CBAM to decarbonise and thus reduce their own emissions. **We urge you to support cutting the share of free ETS allowances for CBAM sectors from 2026 to reach zero by 2032 at the latest.**

Since the beginning of the CBAM negotiations, many of us have been advocating for an **exclusion or an exemption period for LDCs and SIDS.[3]** Not all of the affected trading partners of the EU have the same capabilities and resources to align with the EU carbon standards. CBAM could have serious negative consequences on their Domestic Revenues Mobilisation, undermining their investments in public services and in the green transition. We were disappointed to see that the option of exclusion or exemption period for LDCs and SIDS was not accepted by the EU institutions and is not part of the current trilogue negotiations.

While addressing the concerns for the "risk of carbon leakage", the EU and its Member States must ensure that CBAM does not increase inequality and undermine low-income countries' fight against the climate crisis.

The European Commission, the European Parliament and EU Member States, while negotiating CBAM, should use the opportunity to show that reaching the EU's climate targets in a responsible, fair and sustainable way is possible, without putting developing countries at a disadvantage.

Yours sincerely,

[2] There is no evidence to prove the existence of carbon leakage, we thus prefer to talk about "the risk of carbon leakage", see Ecorys (2013): https://climate.ec.europa.eu/system/files/2016-11/cl_evidence_factsheets_en.pdf

[3] LDCs and SIDS are highly vulnerable to and impacted by economic and environmental shocks. According to the European Commission's impact assessment the affected LDCs will be: Afghanistan, Cambodia, Chad, Ethiopia, Guinea, Haiti, Madagascar, Mozambique, Myanmar, Niger, Senegal, Sierra Leone, Uganda. According to the Institute for European Environmental Policy (IEEP), Zambia will be affected too. The practice of granting an exemption period to LDCs with EU tariffs would not violate WTO rules and it is nothing new. It has already been practised at the EU level through the Generalised Scheme of Preferences (GSP, GSP+ and Everything but Arms initiative) and would give LDCs time to decarbonise their economies gradually. An exemption for LDCs would not result in a big impact on CBAM's purpose to stop carbon leakage since the risk of leakages towards these countries is negligible. From an environmental perspective, carbon embedded in products imported from LDCs is only a small portion of the carbon in the EU's total imports. Exempting LDCs will result in only a small increase in their emissions, according to UNCTAD. While Mozambique's export of aluminium, for example, constitutes a very small share of EU imports (4.3 %), the export of aluminium to the EU constitutes a significant share of Mozambique's total exports (22%).

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