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Position Paper

The need for a level-playing field: European tool industry calling for inclusion of downstream products in EU Carbon Border Adjustment Mechanism (CBAM)

Introduction

The European Tool Association (CEO) is the association of European hand tools, power tool accessories and construction fixings manufacturers, representing the interests of around 180 member companies. The European tool industry generates an annual turnover of over €30 billion¹ and is deeply committed to the production of high quality products in the European Union as well as to open and fair international trade relations.

While we fully support the EU goal to achieve carbon neutrality by 2050, we are concerned by the repercussions of the European Green Deal and the gradual phase-out of free emission allowances under the EU Emission Trading Scheme (ETS) on the competitiveness of the European tool industry.

Our key request: The inclusion of hand tools and power tool accessories under CBAM

We welcome the introduction of the EU Carbon Border Adjustment Mechanism (CBAM) aimed at offsetting competitive disadvantages for European companies and preventing the relocation of production facilities outside the EU (carbon leakage).

However, in its current form CBAM only applies to raw materials such as steel and some narrowly defined downstream products (e.g. construction fixings such as screws and metal anchors). It does not apply to finished complex goods such as hand tools and power tool accessories despite their high steel content. Hence non-EU producers would be allowed to export their finished goods to the EU internal market without the need to acquire CBAM certificates for their products.

Against this background, we call on the European Commission to propose the inclusion of hand tools and power tool accessories under HS Codes 82 in the Annex of Regulation (EU) 2023/956. This will re-establish a level-playing with non-EU producers of hand tools and power tool accessories in the EU Single Market and safeguard the competitiveness of European producers of these products.

¹ Data source: Latest available EUROSTAT figures (2020)

Our position in detail: The EU Carbon Border Adjustment Mechanism

CBAM is a key component of the European Green Deal to reduce carbon-related emissions. Its main goal is to prevent carbon leakage, occurring when companies move their production to countries with less stringent climate policies. CBAM seeks to counteract this by placing a carbon price on imports of certain carbon-intensive goods, ensuring that imported products are subject to the same carbon costs as those produced within the EU.

CBAM has been operational since 1 October 2023, with a transitional phase and mandatory reporting requirements for importers until 31 December 2025. The definitive CBAM regime including the obligation to acquire CBAM certificates corresponding to the CO₂-costs for goods under the EU ETS will be applied as of 1 January 2026.

Under the current Regulation, CBAM mainly covers carbon-intensive raw materials such as iron and steel, aluminium, electricity or cement. Complex goods (downstream products) containing raw materials covered by CBAM are only included to a very small extent, including some construction fixings such as screws or metal anchors.

The European Commission is currently preparing its report on the possible inclusion of downstream products under the scope of CBAM by the end of 2024. It might table a proposal to extend Annex I of the Regulation in the course of 2025.

Effects of CBAM on the European tool industry

Despite their high steel content, finished hand tools and power tool accessories under HS code 82 are currently not included in the scope of CBAM. Together with the parallel phase-out of free emission allowances under the EU's Emission Trading Scheme, CBAM in its current form will have a major negative impact on the competitiveness of Europe's tool industry.

European producers of these products will face an increase in the cost of key manufacturing inputs, in particular for steel. The expected rise of steel prices relates to the costs of ETS allowances for steel produced in the EU and/or the price of CBAM certificates for imported steel from outside the EU.

Producers outside the EU, however, continue benefiting from lower sourcing costs for their products. At the same time, they are still able to export finished hand tools and power tool accessories into the EU without the obligation to purchase CBAM certificates. These products are in direct competition with products from EU manufacturers.

As a result, EU producers will face unfair competition from non-EU manufacturers of hand tools and power tool accessories both within the EU Single Market and on global markets due to their significantly lower production costs. The inclusion of hand tools and power tool accessories under HS code 82 in CBAM would partially remedy

the competitive situation within the EU Single Market and should be proposed by the European Commission in 2025.

The risk of carbon leakage for the European tool industry

The main primary material for the production of hand tools and power tool accessories is steel. An increase of the price of steel due to the introduction of CBAM and the phase-out of free ETS-allowances directly translates into significantly higher production costs for producers in the EU.

At the same time, European producers of hand tools and power tool accessories are highly export-oriented, often with the most relevant markets outside the EU. In 2023, European producers exported products worth €9.8 billion outside the EU. Imports of hand tools from third countries to the EU amounted to €9.1 billion in the same period.²

In order to both avoid a relocation of production facilities outside the EU and to safeguard the competitiveness of European producers of hand tools and power tool accessories, it is important to re-establish a level playing field and undertake the following actions:

- The inclusion of hand tools and power tool accessories as downstream products under CBAM (remedy for the EU Single Market)
- An impact assessment of possible support measures for the export of goods produced in the EU to third markets (remedy for global markets)

The need for a streamlined CBAM to reduce the administrative burden

The transition phase since 1 October 2023 with initial reporting obligations for importers has shown that the current regulations are too complex and cannot be applied in practice, especially for medium-sized companies.

The experience of our members is that it is often impossible to obtain data on emission values from suppliers from third countries. Many of the suppliers are not familiar with CBAM, and the associated documentation is too complex to be easily understandable. It is also not yet clear what sanctions our member companies will face if they are unable to submit their CBAM reports because they are missing relevant data from suppliers despite being requested to do so.

We are therefore urgently calling for the reporting obligation to be simplified and for the standard values provided by the European Commission for CO₂ emissions of the products concerned to be used after 31 July 2024.

Specifically, we propose a general simplification of the system, including the Excel template and the uploading of reports, as well as the introduction of the permanent use of standard values provided by the EU Commission already at that stage. As

² Source: EUROSTAT (2023)

stipulated by Annex IV of the CBAM Regulation, these standard values could be set at a higher level in order to continue to incentivise companies to calculate the values themselves.

If the existing application problems cannot be resolved, we believe that it is highly recommended to consider postponing the implementation phase planned for 2026.

We are open to providing you with even more detailed feedback, as part of our members are currently working intensively with their suppliers abroad.