



# CBAM's Effect on Malaysian Fastener Industry

## Introduction

Climate change is a global problem that needs global solutions. As the European Union (EU) raises its own climate ambition, and as long as undemanding climate policies persuade in many non-EU countries, there is a risk of so-called 'carbon leakage'. Carbon leakage happens when companies based in the EU move carbon-intensive production abroad to countries where less rigorous climate policies are in place than in the EU, or when EU products get replaced by more carbon-intensive imports.

Accordingly, as reported by the European Commission, the Carbon Border Adjustment Mechanism (CBAM) will originally apply to imports of certain goods and particular substances whose production is carbon intensive and with substantial risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. However, if the non-EU manufacturer can prove that a price for the carbon used in the production is already paid, like a carbon tax, in the production of the imported products, in another country, then the equivalent cost for the EU importer will be voided.

With this wide scope introduced by the EU, CBAM will ultimately, when fully implemented, capture more than half of the emissions in Emissions Trading System (ETS) covered sectors. Under the political agreement, the CBAM will enter into force in its transitional phase as of 1 October 2023.

## Impacts of CBAM on ASEAN

CBAM is certainly an important step towards a European pricing carbon dynamics. Its implementation conditions promote not just the local and regional low-carbon transition but also a global change if the carbon revenues generated by this mechanism are used to support the most impacted developing countries outside the EU.

The ASEAN is rapidly evolving and becoming the most important geo-strategic region for the EU. The EU's strategy for the cooperation in this region is to increase its presence as a strong economic player and to build more partnerships, strengthen the rules-based international order and address global challenges.



As the EU CBAM gradually rolls into operation, Southeast Asian policymakers may reflect on their existing domestic carbon policy frameworks, with a view to mitigate its impact on their economies. While CBAM may not have immediate impacts to the Southeast Asian countries, the condition will alter as the initiative develops. The expansion of product categories for CBAM will have significant economic consequences for the region. Given that, achieving net zero emissions will require making changes to all parts of the global economy. In that case, countries such as Vietnam, Malaysia and Indonesia will need to rapidly build and execute restrictive environmental regulations or they may face a huge risk of losing their vital overseas market. However, increasing and expanding decarbonisation initiatives and policies in Southeast Asia won't be an easy move, as regional governments recently increased fossil fuel subsidies to meet rising commodity prices.

The major concern for ASEAN is about the decrease in trade with the EU as a result of potential additional taxes on exports. Additional taxes will increase the final cost of goods, and therefore those goods become less competitive to compare with products from other countries, more specifically when we are dealing with fastener products, where final price plays a crucial role.

The impacts and perceptions of CBAM across Asia as well as South East Asian countries are not homogenous. Although, in the long run, a majority of the countries will be affected, in the short run there won't be the same story for all. In the near future, Indonesia, Malaysia, and Vietnam are the most impacted economies in this region. The total volume of exports from those countries to the EU will face a major challenge. The reason is, for these countries, export of CBAM products to other developed countries is pretty significant. In terms of the value of exports, these countries together with Thailand are amongst the top 20 exporters of CBAM products to the global market.

## CBAM and Malaysia's Market Responses

As stated earlier, the responses to the CBAM are not identical across ASEAN. Under the existing plan within the next two years, the CBAM will only apply to iron, steel, aluminium, cement, fertilizers and electricity imports. We can say that, none of these sectors is key to EU-ASEAN trade except for Malaysia! The carbon pricing mechanisms imposed by the EU could impact Malaysian exporters directly while putting more pressure throughout the whole supply chain.

Malaysia is the only Southeast Asian country ranked in the top 20 of exporters of this group of products to the EU. Last year, the EU accounts for 9.4% of Malaysia's total export volume. By looking at the trade statistics, it can be derived that the value of export from Malaysia related to the CBAM products has not been more than 5% compared with the total value of exports. In 2019, for instance, Malaysia exported USD769 million worth of CBAM-related products to the EU, which was equivalent to about 3.5% of the country's USD22.1 billion total export value. However, the impact of CBAM will be significant on fastener

### Resources:

EEAS, An official website of the European Union

EUROPARL, An official website of the European Parliament

Taxation and Customs Union, European Commission Website

exports for Malaysian manufacturers. **The local producers shipped more than USD91 million worth of steel fasteners to the EU in 2021.** This number could be drastically reduced if there is no immediate action taken by the governments as well as the industry players.

Malaysia increased its mitigation ambition with an unconditional target to cut carbon intensity against GDP by 45% by 2030 compared to 2005 levels. However, at this point in time, and more specifically in the fastener market, there has no substantial actions that have taken to safeguard exporters from the potential losses. Thus far, the feedback from some of the players in the market, is to progressively divert some of their exports to other regions, with lower or no cross-border carbon tax, as they have no immediate solution to meet the existing CBAM challenge. Although, changing the exports' destination would be challenging by itself, but it seems that it's a feasible and cost effective option for Malaysian manufacturers and fastener producers, at least, in the short run. For instance, China's carbon price per tonne was about USD 8.20 in Jan this year, while the EU carbon price was about USD80 per tonne, demonstrating a sharp price differential between the two regions.

Local fastener manufacturers are planning to gradually include this additional cost in to their operations, as failing to take proper care about this cost within this transition period, could shape a huge shock to operating cost once the CBAM gets started.

Eventually, the operating environment in Malaysia is projected to become more competitive for local manufacturers in the carbon-intensive segment, such as fastener, as the cost from both cross-border carbon tax and local carbon pricing mechanism will increase. Additionally, we should expect to experience an increase in regional supply of steel and aluminium products as a result of trade diversion. ■



Article by Shervin Shahidi Hamedani  
Copyright owned by Fastener World

