

Editorial

CBAM Frontline —

Taiwan's Progress and Europe's Bottlenecks

社論：CBAM 最前線——
台灣因應進行式與歐洲面臨的瓶頸

In Taiwan

Taiwan Ministry of Environment Discloses 3 Legislative Drafts on Carbon Fee Collection

Taiwan Environmental Information Center reported that on April 29, the Ministry of Environment disclosed three drafts including "Carbon Fee Collection Principles", "Autonomous Reduction Plan Management Principles" and "Greenhouse Gas Reduction Goals Specified for Carbon Fee Collection Targets" in accordance with the Climate Change Response Act. These drafts aim to build a supporting mechanism for the future implementation of carbon fees. They utilize general and preferential rates in hope of encouraging the targets to speed up and increase carbon reduction. The drafts include High Carbon Leakage Risk Coefficient, through which an 80% discount as well as preferential rates are to be applied to carbon emission fees. The drafts are open to the public for comments and suggestions for the Ministry of Environment's legislative amendments.

According to the drafts, the carbon fee targets large emitters with annual emissions of 25,000 metric tons of carbon dioxide equivalent or more. When calculating emissions, the 25,000 metric tons threshold is deductible. The threshold will gradually be lowered to 15,000 metric tons, and is expected to be 10,000 metric tons by 2030. Enterprises will complete registry of carbon inventory for the previous year at the end of every April and pay the carbon fee for the previous year before the end of May.

There are also transitional measures for industries with high carbon leakage risks, such as the steel and cement industries. If an enterprise applies for a voluntary carbon reduction plan and is approved to be recognized as having high carbon leakage risks, it can enjoy an initial carbon fee discount based on the carbon leakage risk coefficient. At a coefficient value of 0.2, an 80% discount is to be applied on carbon fees. The value will be gradually increased to 0.4 and then 0.6. On top of that, a preferential rate will follow the discount, but the 25,000 metric tons threshold can no longer be deducted from the emissions.

Regarding the preferential rates for voluntary carbon reduction, if an enterprise can meet the designated emission reduction goals, it can submit voluntary reduction plans and enjoy preferential rates. The designated goals will be divided into two approaches. One is to reference the Science Based Targets Initiative (SBTi) which uses 2021 as the base year to set reduction targets up to 2030 for various industries. This approach will provide more preferential treatment. The other one is to aim at 24% carbon emission reduction designated in the Nationally Determined Contributions 2030 and set technical benchmarks for different emission types to specify reduction rates.



Questions against the drafts have been raised by environmental protection groups who estimated that a carbon fee income of more than NTD 3.75 billion will be lost just by deducting the 25,000 ton threshold. Coupling that with the discount from the carbon leakage risk coefficient will result in more than NTD 30 billion loss of carbon fee income. That means no external costs on more than 60 million tons of emissions. The Ministry of Environment alleges to provide discounts in alignment with the "free allocation of EU ETS allowances", but the domestic carbon fee rates are still lower than the EU's set rates. Companies exporting to the EU will still face the pressure of additional carbon tax, and they could dump that burden to downstream companies. Taiwan CSC could become an example of that, passing the pressure to downstream small and medium fastener enterprises and potentially intensifying the impact on industries and the society in Taiwan. Environmental protection groups suggest carbon fees be set at a higher rate in the future to yield substantial carbon reduction benefits. They hope that the Ministry of Environment will stick to the bottom line of NTD 500 charged per ton of emission and the minimum post-discount price of NTD 300 per ton.

On May 7, the Ministry of Environment held the third carbon fee review meeting, where it stated that enterprises must implement a "voluntary reduction plan" before they can obtain preferential rates, which is to force enterprises to reduce carbon emissions. Without emission reductions, the preferential rates will not apply. During the meeting, some members had different opinions on whether to raise or lower the carbon fee rates. Therefore, the Ministry of Environment is trying its best to collect suggestions from all parties and entrusts Chung-Hua Institution for Economic Research to use models to calculate the potential carbon reduction performance, consumer price index and other economic influences under different rates. Related assessment data will also be made public for inspection by everyone.

Taiwan to Roll Out Carbon Reduction Guidelines for 8 Construction Categories Before CBAM's Official Implementation in 2026

In addition, Public Construction Commission of Executive Yuan has begun planning and adopting a step-by-step approach to carbon reduction targets for public projects. A database of building materials' carbon emission intensity has been launched

From Q3 this year, EU importers will be required to submit actual carbon emissions data of imported products, and it will not be allowed to use default values as the basis for reporting. It means product suppliers will be required by their clients to provide actual data. Suppliers should pay extra attention to CBAM reporting to avoid impact on purchase orders.

CBAM is now the talk of the town and industry players are in urgent need to learn its latest development. This article summarizes the latest progress of Taiwan's regulations in response to CBAM, and examines the challenges for CBAM in Europe to help readers learn a broader landscape and react early.

in the first half of 2024. The Commission will start off from the design and building material aspects to help public projects reduce carbon emissions. **The ultimate goal is to roll out carbon reduction guidelines for 8 categories of public projects, including buildings, railway, water facilities, bridges, etc., all of which must comply with carbon reduction standards covering aspects from design to construction.** In addition, server rooms consume a lot of electricity, and particularly, Taiwan's electricity usage is higher than in other countries. Therefore, although server rooms are not included in the 8 construction categories, carbon reduction guidelines will be introduced to reduce ineffective power use from the design phase.

The guidelines are like operation manuals and will become mandatory upon introduction. The standard operation procedures for calculation methods, construction and design will be formulated for government authorities and enterprises to follow. The scope of the guidelines may be expanded to other types of construction in the future. **The carbon reduction guidelines for public projects will also compel Taiwanese construction fastener companies to achieve carbon reduction on manufacturing process or launch low-carbon fastener products.** During Taiwan International Fastener Show this June, Alexander Kolodzik, Secretary General of EFDA, flew to Taiwan to explain the implementation progress of CBAM as well as the points to note. On July 8, representatives from EIFI and TIER (Taiwan Economic Research Institute) held a conference inviting industry experts to discuss carbon content calculation of Taiwanese and European fasteners. The conference was held in expectation of helping Taiwanese companies better comply with CBAM regulations and requirements.

In Europe

High Hurdles for EU Importers to Trace Carbon Emission Data

Det Norske Veritas (Norway) issued a press release on April 15 stating that during discussions with customers, it was discovered that **EU importers encounter many difficulties in sourcing and submitting actual emission data corresponding to their imports**, including:

1. They've had difficulty tracing back to the third-country operator who manufactured the goods.
2. The third-country operators had difficulties determining the actual emissions according to the new CBAM methodology.
3. They were not confident in the credibility of emission information they received from the operators.
4. The third-country operators hadn't taken necessary steps to determine actual emissions.
5. They opted for the simplest way of reporting (default values were pre-filled in the CBAM transitional registry).



Will CBAM Hinder Europe's Renewable Energy and Green Electricity?

According to a report by the Financial Times on March 19, the energy industry warned that the EU's introduction of a new electricity carbon tax will lead to an increase in carbon dioxide emissions in Europe and lead to higher prices for EU consumers. CBAM could also reduce North Sea energy collaboration between the UK and Europe, and hinder investment in renewable energy infrastructure. Energy UK said: "CBAM is becoming a regulatory nightmare."

An analysis by a consulting firm AFRY pointed out that **CBAM may reduce the EU's import of green electricity from the UK, leading to an annual increase equivalent to 8.3 million cars' carbon emission in Europe. This would be self-defeating given that both the EU and the UK share the goal of achieving net zero.** Research suggests that CBAM's tax on a range of carbon-intensive products will significantly increase the price of electricity traded via interconnecting cables between the UK and the EU.

Danish electricity transmission system operator Energinet said electricity imports from the UK will "fall significantly" once the carbon border tax is imposed. This will make the EU more reliant on domestic production, leading to higher prices and the use of natural gas for electricity generation.

CBAM Could Inflict Trade Disruption on Underdeveloped Countries

A report by Bloomberg on April 26 pointed out that some emerging and developing countries brought up questions against CBAM. At the WTO's 13th Ministerial Conference, 66 countries called on the EU and other countries to "refrain from imposing unilateral trade-related environmental measures to prevent such measures from creating unnecessary obstacles to trade." CBAM has been criticized for its lack of exemptions or phased implementation for underdeveloped countries.

In 2023, a study pointed out that CBAM may lead to a 0.29% decrease in global exports of the metal products industry and a 1.49% decrease in steel industry exports. Exports from South and Central Asia will fall sharply, highlighting the disruption to trade that economies heavily reliant on these industries could face.

Shared Information Will be Crucial for Learning the Ropes of CBAM

CBAM was launched on a trial basis last October. So far, Taiwan ranks fifth in the world in terms of the number of companies having submitted carbon emission data, showing that Taiwanese companies are closely monitoring CBAM. The Taiwanese government is striving to introduce carbon fee next year, and it is currently in a tug of war between enterprises and environmental protection groups regarding the calculation and preferential rates of the carbon fee. Despite that, the future roadmap is already set for Taiwan's carbon fee regulations. Fastener World interviewed a number of Taiwanese companies and found that Taiwanese fastener companies attach great importance to this issue. Most of them have already carried out carbon reduction transformation and will actively cooperate with Taiwan's regulations and CBAM regulations. However, outside of Taiwan, CBAM still faces many challenges, including difficulties in data tracing, concerns over the impact on renewable energy development, and trade barriers against underdeveloped countries. Everyone is fumbling for a way out of the CBAM maze. Fastener World will continue to actively monitor the latest news of CBAM and hopes to clear up the haze for readers by sharing information. ■

News compiled & edited by Fastener World editors