

Beyond Borders

The Impact of CBAM on Philippine Industries

29 August 2024

The SGV Purpose

Nurture leaders and enable businesses for a better Philippines.

#SGVforABetterPhilippines

The SGV logo consists of the letters 'SGV' in a bold, white, sans-serif font. Above the letters is a yellow graphic element that resembles a stylized mountain peak or a triangle pointing upwards.

Building a better
working world

Setting the context - European Green Deal

European Green Deal objectives

- ▶ No net emissions of greenhouse gases (GHG) by 2050
- ▶ Economic growth decoupled from resource use
- ▶ No person and no place left behind



Clean energy



Sustainable mobility



Sustainable agriculture



Sustainable food industry



Building and renovating



Eliminating pollution



Climate action



Sustainable industry



Biodiversity

17 Sustainable Development Goals (and UN Global Compact)

Paris Agreement

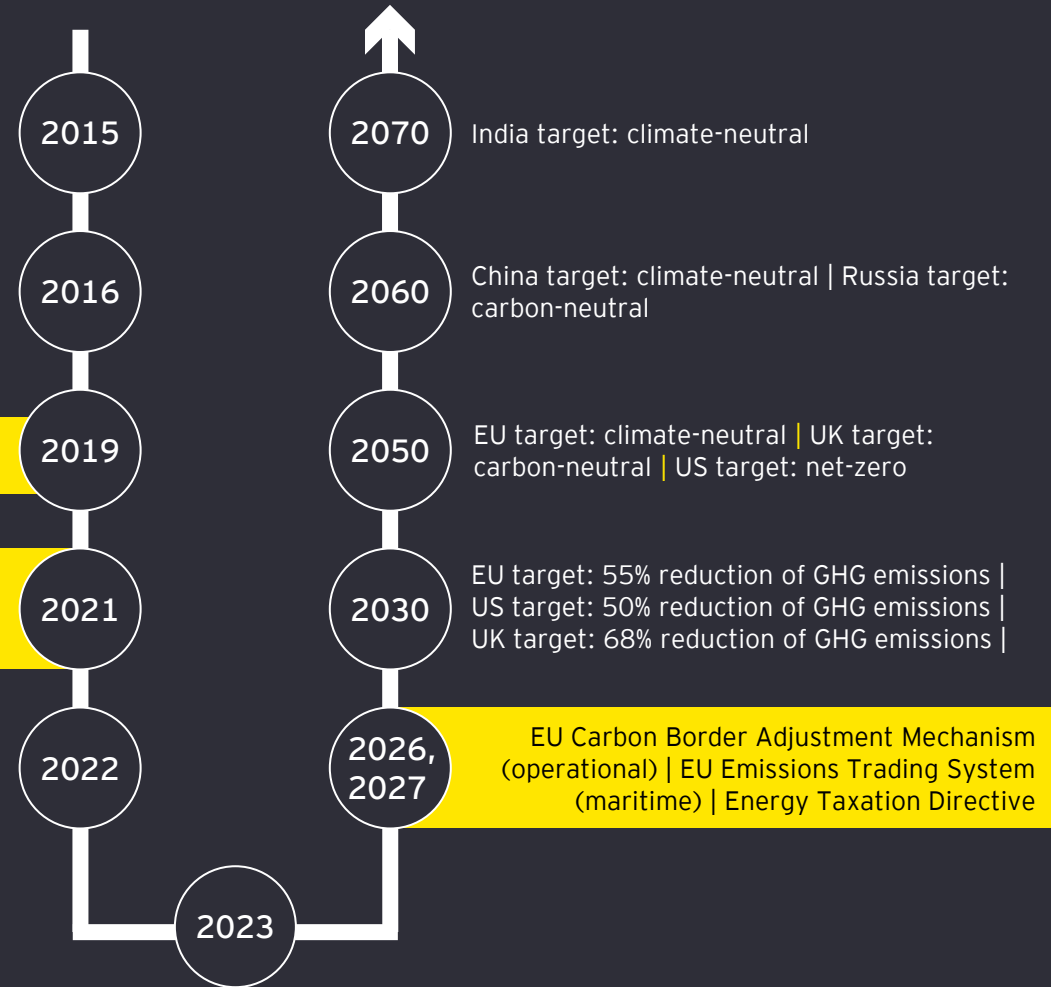
European Green Deal

Climate Law | Fit for 55 legislative package (EU CBAM, ETS, Energy Tax Directive, others)

Circular Economy | Sustainable Products | Eco-Design

EU Carbon Border Adjustment Mechanism (transitional period) | Energy Taxation Directive | Effort Sharing Regulations

Timeline is indicative



CBAM in context of carbon pricing measures

01	02	03	04	05
Emissions Trading System (ETS)	Carbon Taxes	Carbon Border Adjustment Mechanism (CBAM)	Energy Taxation	Voluntary Carbon Market/Credit (Art. 6 Paris Agreement)
<ul style="list-style-type: none">▶ Cost of credits▶ Rate of annual reduction in credits/emission allowances▶ Industries in scope extended▶ Phase out of free allowances from 2026	<ul style="list-style-type: none">▶ Taxes on emissions in excess of annual allowances▶ Industries in scope▶ Applied in parallel to ETS in many territories	<ul style="list-style-type: none">▶ Levy on certain emission-intensive EU imports▶ Designed to protect competitiveness of EU businesses▶ Has a potential to impact competitiveness of importers▶ Transitional phase starts 1 October 2023▶ Fully operational in Jan 2026	<ul style="list-style-type: none">▶ Changes to align with EU energy and climate policies▶ Taxation of fuels based on pollution and energy content rather than volume▶ Increased minimum tax rates▶ Removal of tax exemptions and reductions for fossil fuels	<ul style="list-style-type: none">▶ Expected to pave the way for a global marketplace to exchange carbon offset credits across the compliance and voluntary markets in a transparent manner

Carbon Border Adjustment Mechanism (CBAM)

What is CBAM?

- ▶ The mechanism under discussion is designed to protect competitiveness of the EU businesses and prevent a shift of production outside the EU.

Objectives

- ▶ **Leveling the Playing Field:** European companies are subject to strict environmental regulations and carbon pricing, which can put them at a competitive disadvantage compared to foreign companies that may not have the same costs because of laxer environmental standards. CBAM aims to level the playing field by ensuring that imported goods carry a similar cost for their carbon emissions.
- ▶ **Encouraging Cleaner Production:** By imposing a cost on imports based on their carbon emissions, CBAM incentivizes producers outside the EU to reduce their carbon footprint if they want to sell their goods in the EU market without facing additional charges.
- ▶ **Preventing Carbon Leakage:** Without CBAM, there's a risk that companies might move their production to countries with less stringent climate policies - a phenomenon known as "carbon leakage."
- ▶ **Global Climate Action:** By implementing CBAM, the EU hopes to encourage other countries to strengthen their own climate policies, leading to a more global effort to reduce carbon emissions.

Product categories - scope of CBAM

Political discussions seem to favor extending CBAM further by 2030, to cover all product categories that are subject to the EU ETS if these products were manufactured in the EU.



Cement



Aluminium



Fertilizers



Electrical energy




Iron and steel



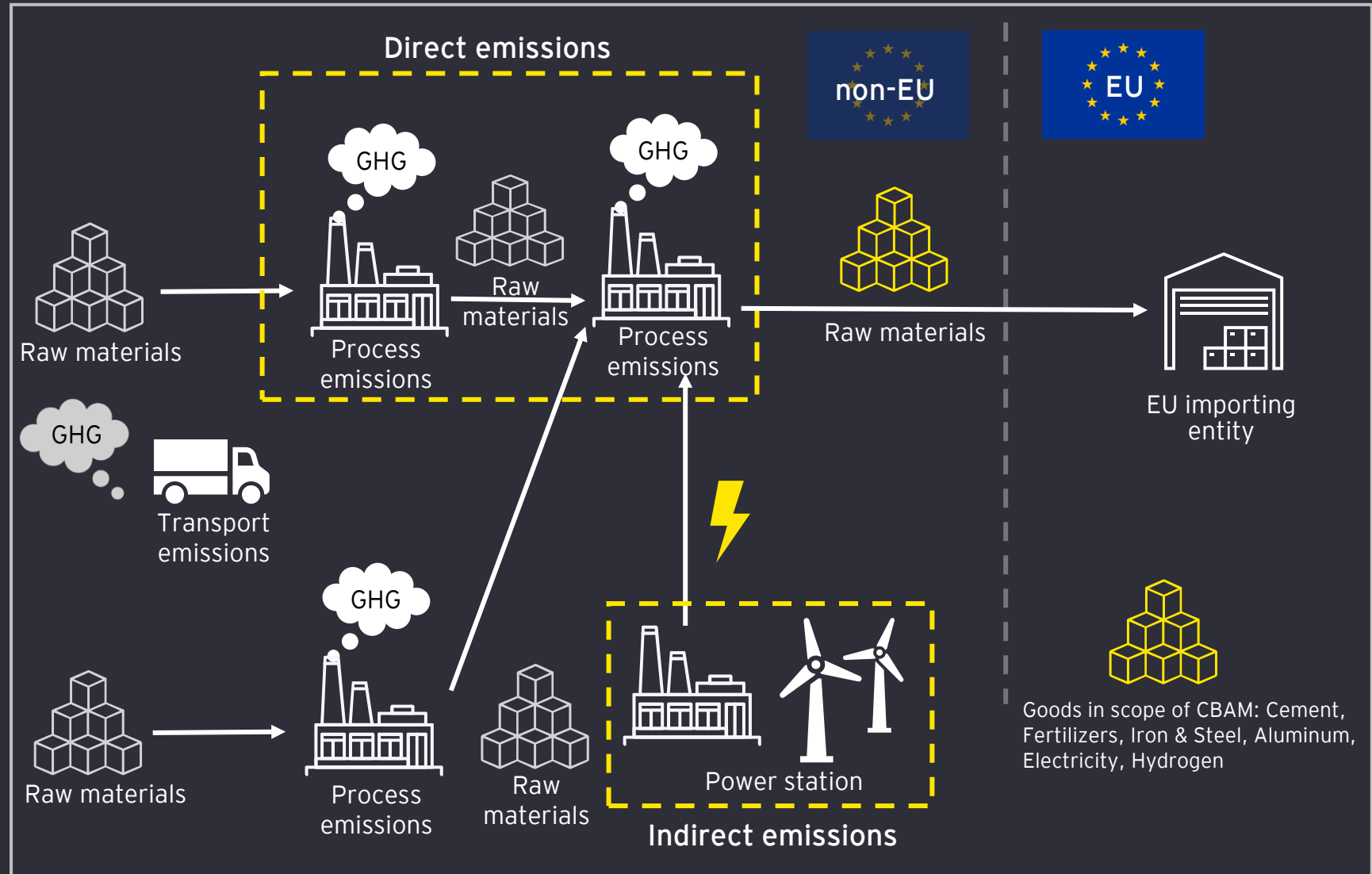
Hydrogen

What emissions are to be included?

Emissions covered



Direct and indirect emissions related to manufacturing + electricity
Footprint calculation may at some point be extended to cover further indirect emissions, e.g., transportation



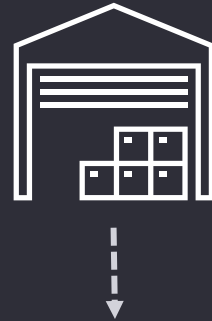
Impacted stakeholders in the supply chain

Non-EU

Non-EU manufacturer



Non-EU distributor



EU buyer and distributor



EU buyer and manufacturer



Indirect impact: compliance
This manufacturer will be asked by its customer to calculate and provide emissions data.

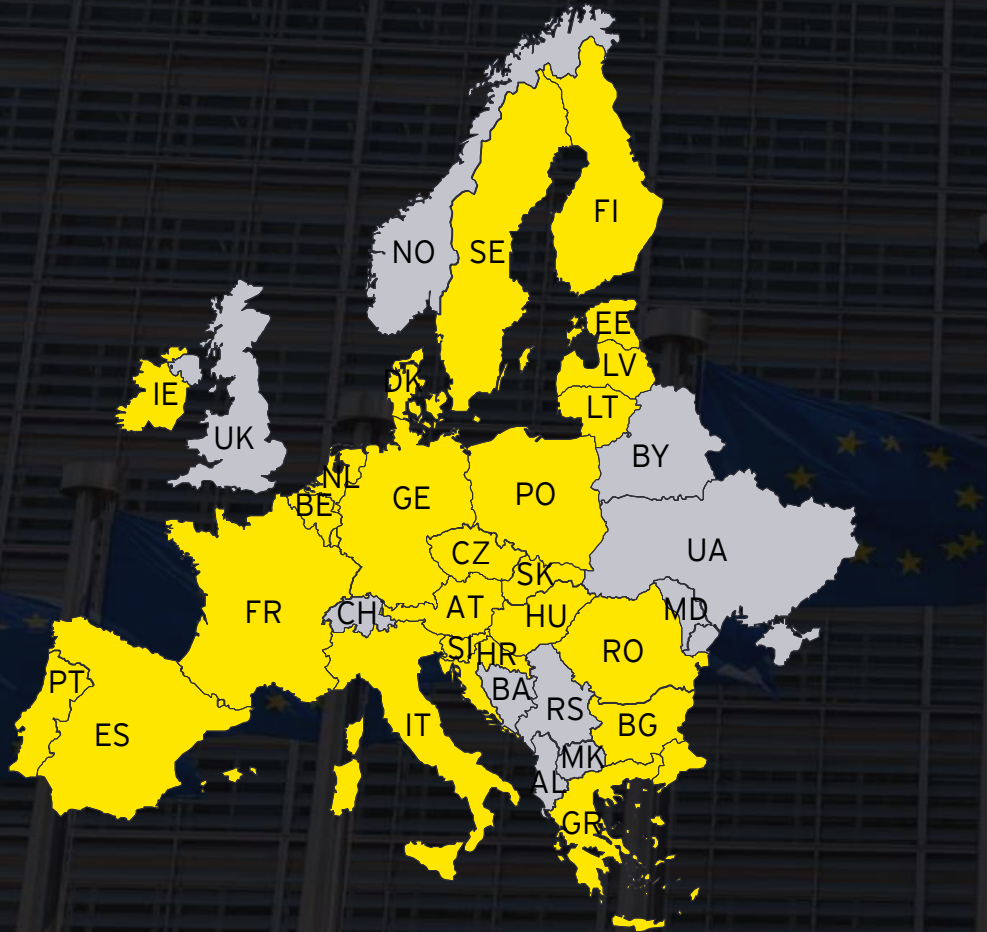
Indirect impact: compliance
This distributor will be asked by its customer to provide emissions data of the supplier and manufacturer.

Direct impact: compliance and cost
This importer is required to report (2023) and pay for (2026) embedded emissions to the EU authorities.

Indirect impact: cost
Due to CBAM, the cost price of imported products may increase. The customer may look for alternatives with lower CO₂ emissions.

Note: Goods in scope of CBAM: Cement, Fertilizers, Iron & Steel, Aluminum, Electricity, Hydrogen

Geographic scope



Import from non-EU, except products originating in:

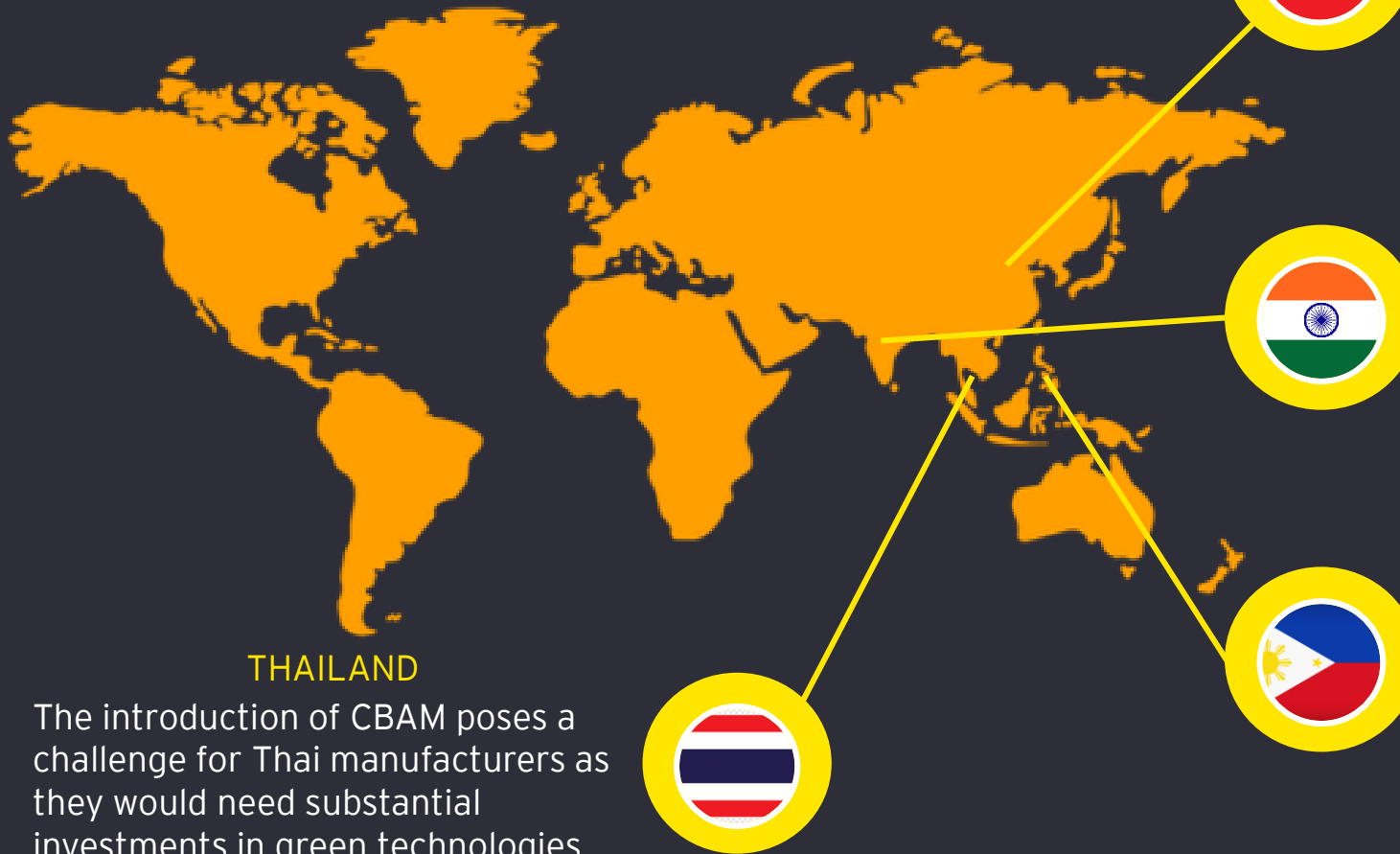
- | | |
|---|---|
|  Switzerland |  Iceland |
|  Norway |  Liechtenstein |

Other countries are also planning a similar border adjustment mechanism such as:

- ▶ Australia and Great Britain
- ▶ European Economic Area States
- ▶ Switzerland
- ▶ Japan
- ▶ Canada
- ▶ South Korea
- ▶ USA

Effects on the Asian manufacturing landscape

Asia's Manufacturing Landscape



THAILAND

The introduction of CBAM poses a challenge for Thai manufacturers as they would need substantial investments in green technologies and carbon reporting systems.

CHINA

Through the introduction of CBAM, Chinese manufacturers will be pressured to mitigate their emissions especially to carbon-intensive industries like steel and aluminium.

INDIA

The sector's reliance on coal as its primary energy source makes it particularly vulnerable to the regulations of CBAM.

PHILIPPINES

The Philippines may face challenges in aligning their production processes with the carbon intensity standards expected by the EU. This may require investments in cleaner technologies and more robust emissions reporting frameworks.

Economic implications in Asia

The introduction of CBAM is likely to have several economic implications to Asian manufacturing companies such as:



Export Reductions

- ▶ CBAM is expected to lead a decrease in exports from Asian countries
- ▶ Iron and steel sectors could see export reductions of:



-0.29% to -1.49%

- ▶ Middle-income economies may struggle to comply



Welfare Effects

- ▶ Effects could vary across countries and sectors
- ▶ Effects on employment level to public revenues may be more pronounced for countries heavily dependent on carbon-intensive goods export



Production Shifts

- ▶ Due to increased costs caused by CBAM, some manufacturers may consider relocating production to countries with lower carbon pricing
- ▶ Others might invest in cleaner technologies to reduce its impact

Addressing CBAM in your organization

- ➔ CBAM is always a cross functional matter
- ➔ Each option for the CBAM responsible function comes with its own pros and cons
- ➔ Appropriate setup depends on business CBAM exposure, available capabilities/resources



CBAM sustainable transformation journey

CBAM is a transformative journey for companies in ASEAN. Acting now, while recognizing that it is a longer-term endeavor, will lead to a competitive advantage over regional peers. By meeting CBAM requirements, businesses can demonstrate environmental responsibility, maintain current EU businesses, capture additional market share and establish themselves as industry leaders. Start your CBAM journey today and secure a sustainable future.

Now

Continue

- ▶ Identify products impacted by CBAM in portfolio.
- ▶ Determine key internal stakeholders (E.g., supply chain, indirect tax, regulatory, legal, procurement).
- ▶ Align understanding of operating model, ERP and other IT systems.
- ▶ Create understanding of CBAM across relevant business functions.
- ▶ Identification and availability of relevant data for CBAM purposes.
- ▶ Impact assessment and analytics based on CO₂ benchmarks values and company's CO₂ data.

Next

Adapt

- ▶ Evaluate if processes for the transitional phase are set up, data is prepared, functions are aligned, identify gaps and build high-level roadmap for compliance readiness.
- ▶ Identifying vendor and customer relationships that may be impacted by CBAM, review contractual arrangements and initiate data collection and provision conversations.
- ▶ Implement the reporting processes and support with the documentation and implementation of the new processes and upskilling of people.
- ▶ Set up compliance processes and prepare on-going CBAM compliance.

Beyond

Increase resilience

- ▶ Run as managed service or support development of internal processes and capability.
- ▶ Review the key drivers for carbon emissions - consider changes in supply base, supply chain footprint, logistics flows, bill of material, business model in general to reduce the carbon footprint.
- ▶ Use CBAM compliance and reduced carbon footprint to achieve a competitive advantage in the EU market.
- ▶ Review supply chain and operating models to manage future growth while utilizing government incentives.

How well do you understand your CO₂ emissions?

How can you utilize government incentives to increase your sustainability?

How can you transform CBAM requirements into a competitive advantage?

Next steps

Identify products in scope

Identify if products exported to the EU are in scope of CBAM and assess future financial impact.

Vendor and customer conversations

Identifying vendor and customer relationships that may be impacted by CBAM, review contractual arrangements, and initiate data collection and provision conversations.

Gap analysis

Conduct gap analysis regarding missing CO₂ emission information.

1

2

3

6

5

4

Inform EU importers

Inform existing and new EU customers of your CBAM capabilities.

CO₂ emission calculation

Once all necessary information is identified, implement CO₂ emission calculation methodology.

Liaise with suppliers

Contact upstream suppliers regarding the need for CO₂ emission information.

Questions?



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