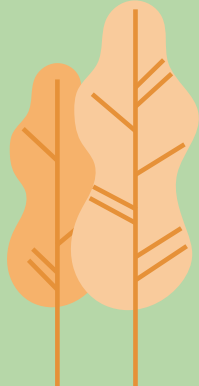


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# Carbon Border Adjustment Mechanism (CBAM): Opportunities and challenges for Vietnam's exports to the EU



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## Sustainable Development and CBAM



# Sustainable Development

**...has become an inevitable trend**

## **(1) Negative impact on the environment due to economic growth**

Globalization and trade liberalization have promoted strong economic growth but have also increased the heavy ecological damage.

## **(2) Economic recovery and growth after COVID-19**

The Covid-19 pandemic has taken a heavy toll on the economy. Implementing sustainable development to recover and increase the resilience of the economy, especially in a developing country like Vietnam in the face of unexpected risks such as the pandemic is essential for the future.

In that context, many countries have actively applied sustainable development regulations to limit the impact of economic activities on the environment. One of the most notable recent instruments is the CBAM – issued by the EU. CBAM is applied to get the EU's carbon emission reduction target and also sets the common rules, directly affecting the export activities to the EU of partner countries, especially developing countries.





# Carbon Border Adjustment Mechanism (CBAM)

CBAM is part of the European Green Deal launched by the EU in 2019. The EU is expected to levy a carbon tax on goods exported to this market based on the intensity of greenhouse gas emissions in the production process in the host country.

CBAM aims to address **carbon leakage** that occurs when companies based in the EU could move carbon-intensive production abroad to take advantage of lax standards or EU products could be replaced by more carbon-intensive imports.

In the first phase, CBAM will focus on goods most at risk of carbon leakage: cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen.

# Carbon Border Adjustment Mechanism (CBAM)

**10/2023**

CBAM begins the transition period.

+ EU importers are required to comply with reporting obligations and are not subject to CBAM fees.

**01/2026**

Full implementation of CBAM with the gradual elimination of the EU ETS free quota.

+ EU importers of goods covered by CBAM will need to buy CBAM certificates. The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in € / tonne of CO<sub>2</sub> emitted.

+ If importers can prove, based on verified information from third-country producers, that a carbon price has already been paid during the production of the imported goods, the corresponding amount can be deducted from their final bill.

Operation phase	2026	2027	2028	2029	2030	2031	2032	2033	2034
ETS Free Quota (%)	97.5	95	90	77.5	51.5	39	26.5	14	0
CBAM (%)	2.5	5	10	22.5	48.5	61	73.5	86	100

# The potential impact of CBAM: a literature overview

In general, many studies show that the application of CBAM could impact the development of poorer countries, reduce their opportunities for export-led development (Lowe, 2021) and exacerbate regional inequality (Böhringer et al, 2012).

- Brandi (2013) identified that Low-Income Countries such as Tajikistan and Zimbabwe were particularly vulnerable to CBAM because they tend to export more EITE products to the EU.
- Boston Consulting Group (2020) found that the CBAM could impact countries' trade competitiveness depending on their production processes' emissions levels and trade intensity. Ex: in the case of steel, China and the Russian Federation would be more affected due to high carbon intensity in production. Turkey and India would become more attractive due to low-carbon production processes in this sector.
- Zimmer and Holzhausen (2020) found that the implementation of CBAM would create important costs for developing economies, particularly African trade partners and the Arab states.

# 02

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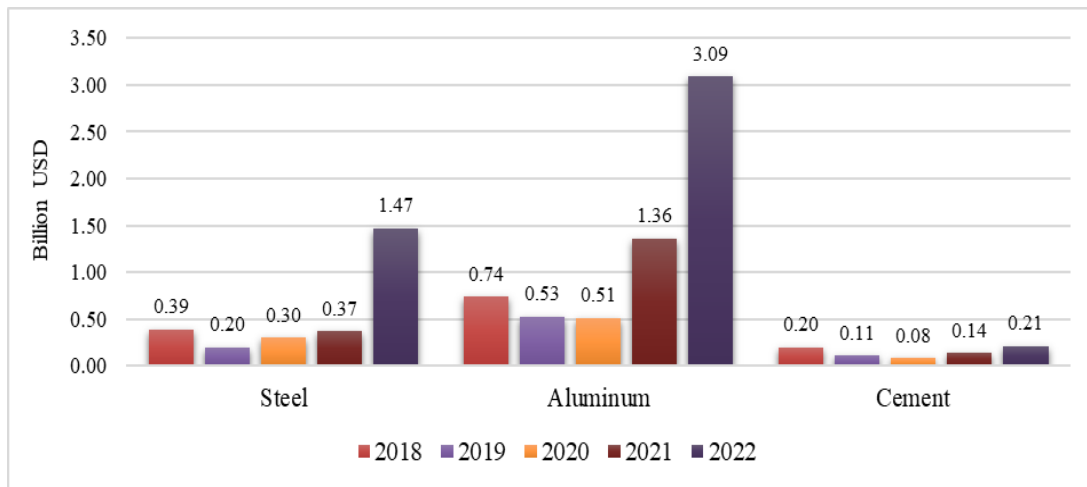
## The potential impact of CBAM on Vietnam's exports





# Vietnam's exports to the EU

The EU is the leading trading partner and the 3rd largest export market of Vietnam. Vietnam-EU trade relations have developed quickly and effectively; in which, Vietnam's exports to the EU increased nearly 16 times, from 2.8 billion USD in 2000 to 46.07 billion USD in 2022 (According to the General Department of Customs).



**Figure 1. Vietnam's export turnover of steel, aluminum, and cement to the EU in the period of 2018 - 2022**

Source: VSA, Trademap.org

According to the average calculation of the 5-year period from 2018 to 2022, Vietnam's export turnover of steel, aluminum, and cement products to the EU:

- Steel: 0.55 billion USD (accounting for 8.1% of Vietnam's total steel exports)
- Aluminum: 1.24 billion USD (accounting for 6.7% of Vietnam's total aluminum exports)
- Cement: 0.15 billion USD (accounting for 1.0% of Vietnam's total cement exports).

# Estimated impact of CBAM in 2030

## (following the EU regulations of March 2023)



- The "-" sign means "reduce" compared to the development trend scenario when CBAM begins to apply in 2026 (Ceteris Paribus); The "+" sign means "increase";
- In "[ ]" is a 95% confidence interval, the external value "[ ]" is the average estimate;
- -0.0 and +0.0 (if applicable) mean an increase or decrease in value with an absolute value less than 0.05, respectively.

	Steel	Aluminium	Cement
Change in output (%)	-0.8 [-1.7; -0.0]	-0.4 [-0.8; -0.0]	-0.1 [-0.2; -0.0]
Change in export value (%)	-3.7 [-5.5; -0.4]	-4.3 [-5.7; -0.7]	-0.6 [-0.8; -0.2]
Change in emission levels (million tons of CO2)	-1.0 [-2.0; -0.0]	-0.2 [-0.4; -0.0]	-0.2 [-0.4; -0.0]

Source: Southeast Asia Energy Transition Partnership ETP and  
Ministry of Natural Resources and Environment



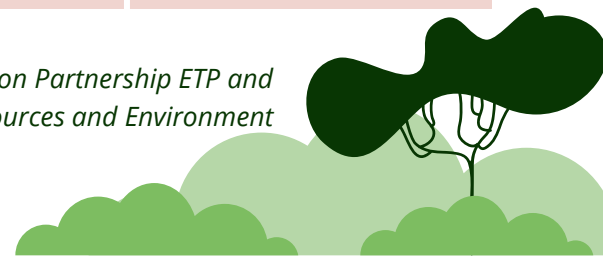
# Estimated impact of CBAM and Carbon pricing in 2030



- Both CBAM and carbon pricing in Vietnam aims to create a price for GHG emissions. Carbon pricing is also a commitment of Vietnam (expected to start in 2028)
- If Vietnam has a carbon price, part of the tax paid by exporters to the EU will be retained in Vietnam
- CBAM will apply to some exports to the EU while domestic carbon prices will have a wider scope of application.
- Estimated carbon cost: 11USD/tCO<sub>2</sub> (Lowest estimated cost for emission reduction measures in Vietnam's NDC)

	Steel CBAM + Carbon Pricing	Aluminium CBAM + Carbon Pricing	Cement CBAM + Carbon Pricing
Change in output (%)	-5.1 [-9.6; -0.4]	-9.3 [-18.1; -1.0]	-32.9 [-70.6; -3.3]
Cost of emissions (billion USD)	+1.2 [+1.1; +1.3]	+0.6 [+0.5; +0.6]	+1.8 [+1.3; +2.2]
Change in emission levels (million tons of CO <sub>2</sub> )	-5.5 [-10.2; -0.4]	-4.6 [-8.4; -0.5]	-48.5 [-86.0; -6.6]

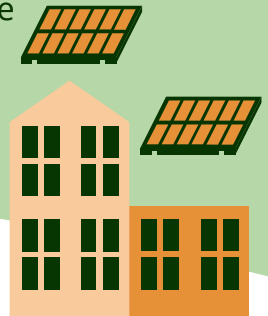
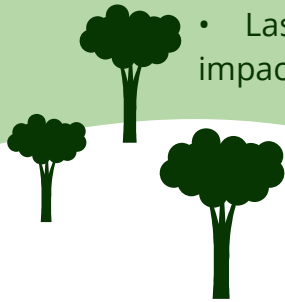
Source: Southeast Asia Energy Transition Partnership ETP and  
Ministry of Natural Resources and Environment



# Some comments

Based on research, an estimate of CBAM's effect on Vietnam's exports and emissions by 2030 has been presented. However, it's important to note that this estimate may change in the future due to several reasons:

- Firstly, the estimated results are based on EU regulations of March 2023, but CBAM regulations are still being updated and adjusted.
- Secondly, the estimated results do not take into account the possibility of EU support policies for developing countries like Vietnam, which has trade commitments with the EVFTA and may benefit from such support to reduce the negative effects of CBAM.
- Lastly, other aspects such as investment and employment may also be impacted by CBAM and should be considered.





# 03

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Opportunities and challenges for Vietnam's  
exports to the EU when applying CBAM



# Opportunities

**Applying CBAM is a motivation for Vietnam to quickly improve regulations on reducing GHG emissions and developing carbon markets, adapting to international green standards**

Green standards for exporting to major markets tend to increase. The opportunity to quickly improve the legal corridor and supporting policies is a premise for Vietnam to develop its market share in the international market and promote domestic enterprises to accelerate the transition of the economic model towards low carbon.

In fact, Vietnam has already issued various regulations in response to these green standards, including the Law on Environmental Protection 2020, Decree No. 06/2022/ND-CP, Circular No. 01/2022/TT-BTNMT, Decision No. 888/QĐ-TTg (25/7/2022), Decision No. 896/QĐ-TTg (26/7/2022),...



# Opportunities

## Promoting Vietnam to build cooperative relations and receive supporting policies from the international partners

### EU

Potentially, the EU could consider CBAM flanking policies, including the use of revenue generated by the CBAM, to accelerate the diffusion and uptake of cleaner production technologies to developing country producers. Chapter 16 on "Cooperation and capacity building" of EVFTA (Vietnam – EU) emphasizes the special importance of cooperation in areas including environmental sustainability.

### IPG

Opportunity to implement solutions to achieve the goal of net zero emissions by 2050 and receive support from the International Partnership Group (IPG) through JETP with a financial package mobilizing up to 15.5 billion USD over the next 3-5 years.

### ASEAN

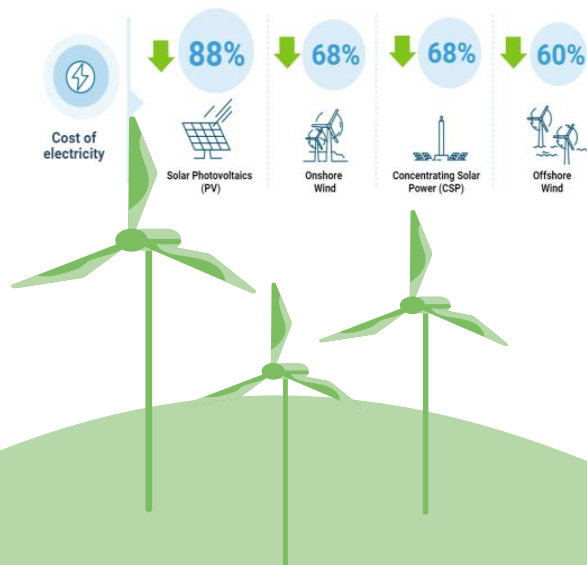
Opportunity to strengthen cooperation with ASEAN countries in promoting the development of a Carbon Neutrality Strategy. The development of a regional strategy will contribute to supporting solutions of each ASEAN member country while optimizing advantages in resources and technology to develop a more comprehensive carbon-neutral roadmap to ensure the uniformity and competitiveness of the global trade of member countries.



# Opportunities

2010 to 2021

witnessed a seismic shift in the balance of competitiveness between renewables and fossil fuels



## Promoting Vietnam to transform fields and develop renewable energy (wind power, solar power)

- Countries exporting goods to the EU that have strong policies aimed at reducing carbon emissions will be exempt from carbon border taxes.
- Green energy transition is one of the ways to respond to CBAM. Wind and solar power are considered the key to carbon neutrality for ASEAN and Vietnam.
- In Vietnam, the room is still huge when electricity from renewable energy accounts for about 15.4% of installed capacity nationwide while the price of renewable energy has decreased a lot.



# Challenges

01

**CBAM is still being shaped and has many volatile factors**

- The fluctuation of Carbon market prices on ETS in the EU
- Emission calculation method (the definition of traceability boundaries of emission intensity is still unknown); scope of CBAM (when to expand, what more industries to include),...
- How will other countries react to CBAM? Major economies may also apply CBAM in the future: the US, UK, Canada, Japan, etc., so the impact of CBAM will likely increase a lot.
- The rise of green barriers in developed countries.

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02

**The speed of Vietnam's legal framework and supporting policies improvement to respond to CBAM and develop carbon market**

- CBAM requires emissions reporting in 2023 and will collect fees from 2026. However, the legal framework on carbon credits, carbon market development, and specific guidelines for enterprises have not been shaped and remain many obstacles.
- If Vietnam cannot speed up and issue regulations in time, it will affect the calculation of enterprises' ability to meet emission standards, delaying the implementation of adaptive emission reduction solutions with CBAM.



# Challenges

03

## Risks from the wave of "exporting pollution" from abroad to Vietnam to avoid the impact of CBAM

- When CBAM is officially applied, this could lead to the risk of developed countries – where industries pollute and emit large amounts of carbon – seeking to shift their investment projects to developing economies such as Africa and Southeast Asian countries to avoid CBAM fees.
- In Vietnam, steel does not require inspection of imported goods. Most imported steel enjoys a 0% tariff, leading to a sharp increase in Chinese steel imports into Vietnam to reach more than 2.65 million tons, accounting for more than 52% of total steel imports, causing the risk of environmental pollution from steelmaking from scrap.

04

## Increasing the difficulties in capital, technology, human resources, competitiveness with EU domestic manufacturing enterprises, and lacking data on emissions inventory

The enterprises could face difficulties as do not have enough resources to carry out the transition to green production and lack data on emissions inventory. Monitoring, reporting, and appraisal capacity is limited. In 2022, the proportion of surveyed enterprises that understand the content of the CBAM is only about 11%, 53% do not know about this content, while about 36% have heard but do not understand.





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Recommendations

# Recommendations for the Government

**Proactively issuing guidelines for enterprises to respond to possible scenarios of CBAM. Regularly dialoguing with the enterprise's community to raise their awareness and promptly adapt to green barriers in the international market.**

**Quickly improving regulations and legal frameworks related to carbon credits and developing carbon markets.**

If Vietnam had regulations on carbon pricing, part of the export corporate tax that would have been paid to the EU would be retained in Vietnam. It is also the goal that Vietnam aims to achieve its commitment to achieve net-zero emissions by 2050.



**Intensifying negotiation and leveraging regional and international support**

**Strictly controlling investment projects or imported goods into Vietnam by improving environmental protection standards according to regional and international green standards.**

**Adopting digitalization and smart technologies such as the IoT, mobile devices, artificial intelligence, and sensors can increase the efficiency of monitoring carbon emissions.**

# Recommendations for the enterprises

**Proactively updating, having orientations and plans to reduce carbon emissions with a clear and flexible roadmap to avoid exceeding EU standards**



Enterprises need to develop emission reports and must well control emissions in the entire production chain, and reduce emissions in each stage of their production (especially manufacturing enterprises in high-risk industries such as steel, aluminum, cement,...)

**Improving the capacity of businesses to adapt and compete in the global trend of "green export"**



Vietnamese enterprises can actively find out information, improve production processes, invest in R&D and innovate technology, take advantage of scientific and technical achievements to quickly meet the trend of green standards in general, and gain competitive advantages over enterprises from other exporting countries.

**Proactively exploring criteria and developing proposals to receive support from the EU**



Besides the commitment to cooperate in EVFTA, the EU could consider building a support mechanism for enterprises in Vietnam. Suitable proposals of enterprises may receive technical and financial attention and support from the EU.

# Thanks for listening!



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