

Position on a Carbon Border Adjustment Mechanism (CBAM), especially for fertilisers

1. The Commission's proposal for a CBAM

On 14 July 2021, the EU Commission published a proposal for a regulation to create a carbon border adjustment mechanism for energy-intensive products. Steel, iron, cement, electricity, aluminum and nitrogen fertilisers are to be covered by a CBAM (Carbon Border Adjustment Mechanism). Under CBAM, EU importers will have to buy emission certificates at the current price within the EU Emission Trading System (ETS). This approach is intended to contain the risk of production being relocated to non-EU countries ("leakage").

2. Core demands of the German Farmers' Association

In order to avoid carbon leakage and at the same time maintain price competition for fertilisers, DBV calls for the following steps:

- A long-term predictable introduction path of the CBAM in the EU of at least 12 years from 2026, better 15 years, so that sufficient new production capacities for climate-friendly fertilisers can be built up inside and outside the EU and price competition is maintained.
- The introduction of a carbon border adjustment for agricultural products in order to avoid displacement effects of EU agricultural products on world markets. As a first step, the European Commission must prevent the importation of agricultural products that originate from areas with illegal land use changes.
The European Commission or the German federal government should carry out a feasibility study for a carbon border adjustment for agricultural products. The agricultural branch is ready to contribute with its expertise.
- Use of the revenue from the CBAM on nitrogen fertilisers for additional climate measures in agriculture by the EU budget.
- Commitment of the EU for an international climate club of all countries with a uniform minimum CO₂ price and a common carbon border adjustment.

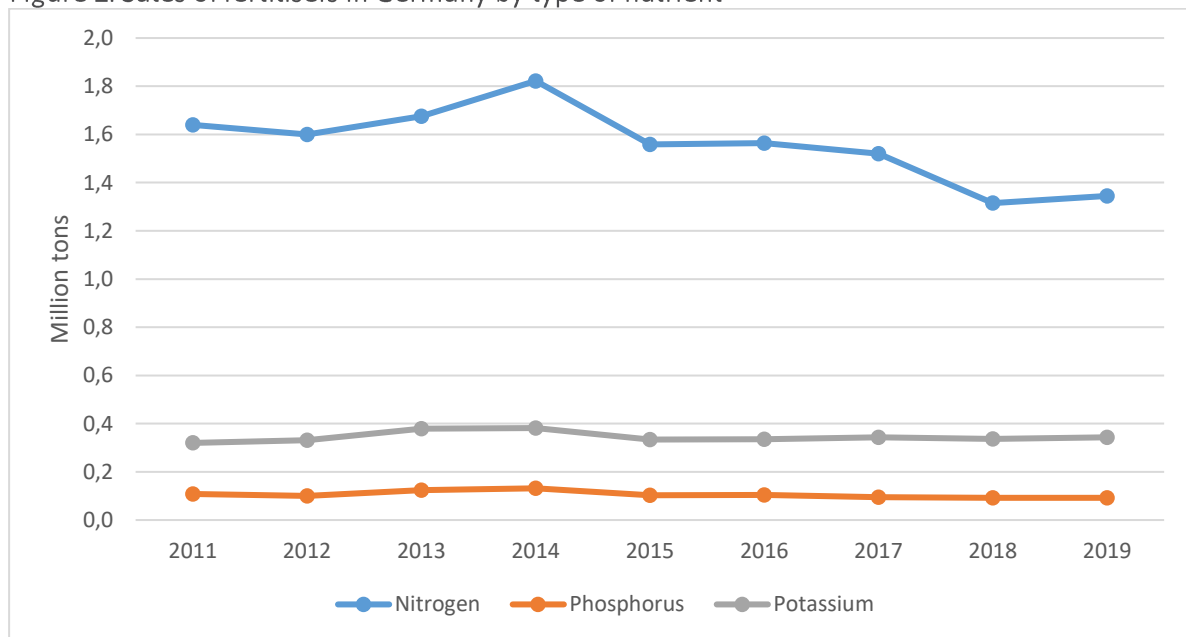
3. Importance of nitrogen fertilisers for agriculture

3.1. Agriculture in Germany and Europe achieves high yields on the basis of modern plant breeding and good agro-climatic conditions and produces food of excellent quality. In view of a growing world population and the growing pressure on global ecosystems, the realisation of the full yield potential on the available agricultural land is becoming increasingly important. For this, needs-based and sustainable plant nutrition with organic and mineral fertilisers is essential.

3.2. Nitrogen fertiliser is the most important input in crop production and the largest element of variable cost in crop production. In Germany, nitrogen fertilisers with an equivalent of around 1.4 million tons of pure nitrogen were recently sold each year (see Fig. 1). Fertilisation has become

more and more precise, economical and sustainable in recent years. For example, sensors for variable nitrogen fertilisation are now being used on a large number of specialized arable farms. Livestock farms are strengthening the principle of circular economy through increasingly using environmentally friendly techniques in the application of farm manure. With even more diverse crop rotations and the use of technologies such as nitrification inhibitors, the need for nitrogen fertilisers can be reduced further, but only to a certain extent if yields and product quality are to be secured. To meet this basic need, both the preservation of livestock numbers as a basis for farm manure and access to sufficient mineral fertilisers are of crucial importance.

Figure 1: Sales of fertilisers in Germany by type of nutrient

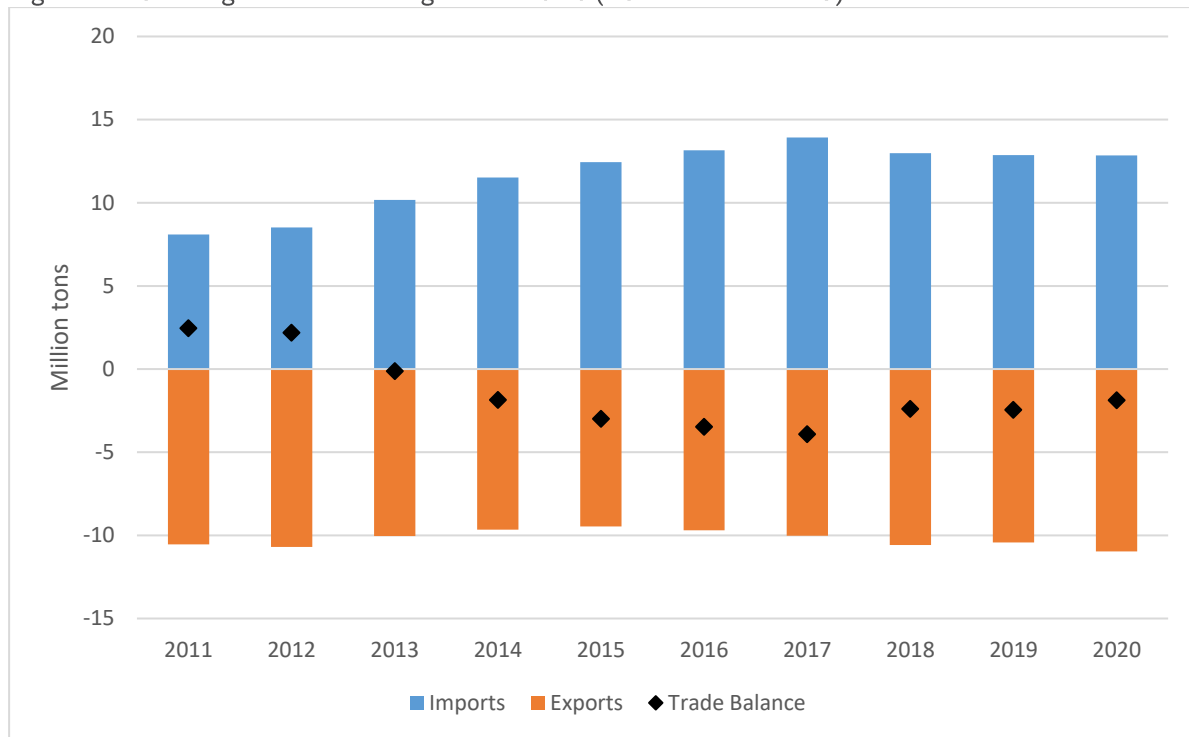


Source: Eurostat

4. Fertiliser imports as a central factor in price competition

Germany and the EU are net importers of fertilisers (see Fig. 2). In the 2018/19 fertilisation year, Germany imported a total of 911 thousand tons of nitrogen fertilisers. Around 13 million tons of nitrogen fertilisers are imported into the EU every year. The net import position thus makes the EU directly dependent on the prices for imported nitrogen fertilisers. The prices for fertilisers in Europe are already higher than elsewhere because our fertiliser market is protected by tariffs and anti-dumping measures. These cost European farmers 1.6 billion euros a year.

Figure 2: EU foreign trade in nitrogen fertilisers (EU-27 with non-EU)



Source: Eurostat

Should a CBAM be added, as suggested by the European Commission, fertiliser prices would rise much higher. DBV estimates that a carbon border tax for nitrogen fertilisers would make up a significant part of the price. At a CO₂ price of 50 euros/tonne of CO₂, the carbon border tax for calcium ammonium nitrate could, for example, amount to up to 46% of the current price for farmers (see Table 1).

Table 1: Additional cost scenarios for imported calcium ammonium nitrate with different CO₂ prices

Origin	CO ₂ emissions (t CO ₂ / t N) ¹	Fertiliser price (euro / kg N) ²	CO ₂ price (euro / t)	Application rate (kg N / ha)	Additional costs (euro / ha)	Additional costs (% current costs)
Middle East	7.391	0.80	50	175	64.67	46.2%
	7.391	0.80	100	175	129.34	92.4%
Russia	7.341	0.80	50	175	64.23	45.9%
	7.341	0.80	100	175	128.47	91.8%

Source: DBV calculation

¹ including energy; source: https://www.fertiliserseurope.com/wp-content/uploads/2020/01/The-carbon-footprint-of-fertiliser-production_Regional-reference-values.pdf

² Average values for Germany from June 2018 to June 2021 according to AMI

5. CBAM for nitrogen fertilisers makes sense in principle - but there is a risk of additional climate price dumping in agricultural trade

The production of nitrogen fertilisers is an energy-intensive process. Depending on the production technology and type of fertiliser, the production of one ton of nitrogen fertiliser causes emissions from 1.0 to 3.6 tons of CO₂ equivalent. The synthesis is based on the Haber-Bosch process for which in Europe, mainly natural gas is used. Like all other sectors, the fertiliser industry must become climate neutral in the medium term. Effective political instruments are needed to ensure that an ambitious climate policy in the EU is not undermined by imports with a poorer greenhouse gas (GHG) balance. Without an appropriate system, the shift in CO₂ emissions could lead to an overall increase in global emissions. In principle, a CBAM is a suitable instrument.

However, the implementation of a CBAM carries the risk of partial circumvention as long as only a few sectors are included. If the cost of agricultural production in Europe is further increased by the CBAM, this will make imported food and agricultural products more competitive and attractive. For the production of these imported products, any fertilisers may continue to be used in third countries regardless of their carbon footprint.

6. Prevent undesirable side effects and leakage in agriculture

6.1 The adjustment of fertiliser production and / or the payment of a carbon border tax for nitrogen fertilisers imported into the EU makes it more expensive for farmers within the EU, while the agricultural sector outside the EU can still obtain cheaper nitrogen fertilisers with a poorer GHG balance. DBV calls on the EU to take suitable steps in the medium term to counter this circumvention of the CBAM on nitrogen fertilisers. A suitable instrument against carbon leakage in agriculture should not create excessive bureaucracy, recognize unavoidable emissions from agriculture and also take regulatory requirements into account. It should be achieved effectively that agricultural products and food, which are produced in countries without ambitious climate protection targets for agriculture, do not have equal access to EU markets. In particular, the EU must work towards deforestation-free global supply chains and deforestation-free land use in third countries as a whole.

6.2. The EU should carry out a study as soon as possible to examine the feasibility of creating a carbon border adjustment for agricultural products. This feasibility study should assess the effectiveness in preventing agricultural leakage, the technical feasibility and the impact on the agricultural sector. It should also be examined whether other sustainability criteria beyond greenhouse gas emissions can be included in a border adjustment. It must also be checked whether and how suitable reference values for fugitive emissions can be defined or emissions can be aggregated and recorded unbureaucratically. It is also of particular importance for the DBV to check whether a regulatory framework creates strong incentives for climate-friendly investments in agriculture.

7. Transition by 2037/2040 for more competition and security of supply

In order to give all affected sectors in the EU a realistic chance of adaptation, the DBV calls for a long transition period of at least 12 years - better 15 years, so that the CBAM does not fully take effect until the end of 2037 or 2040. The minimum period of 12 years is required for the fertiliser industry in the EU as well as in third countries to convert their production to climate-friendly processes. The CBAM should only be phased in at the same or a slower rate as free allocations for the EU fertiliser industry are reduced. Keeping in step is also a prerequisite for avoiding trade conflicts.

8. Climate club and compliance with the rules of world trade

8.1 The establishment of an international climate club open to all countries with a uniform minimum CO₂ price and a joint carbon border adjustment can mitigate and partially offset the above-mentioned effects of a CBAM that distort competition. A climate club would create an additional incentive for states to quickly make their economies, including the fertiliser industry, climate-neutral. Such a club would offer a platform for further binding sustainability agreements, e.g. the ban on deforestation. With regard to energy-intensive intermediate goods such as fertilisers, not only farmers in the EU but also in other member states of the climate club would be affected by a CBAM on these intermediate goods, which would mean a step towards fairer competition. In addition, the burden associated with the EU CBAM and the bureaucratic costs between the members of the climate club would be significantly reduced.

8.2 The introduction of a CBAM carries the risk of trade disputes. Regardless of the goods included in the CBAM, there is a risk of retaliation in the form of increased import tariffs for EU goods by trading partners, which could also affect the agricultural and food sector. DBV therefore calls on the EU to give the CBAM's conformity with WTO law the highest priority. With extensive diplomatic support, the EU should work towards generating acceptance for the CBAM among its trading partners and, if necessary, advise partners on converting their economy towards climate neutrality.

9. Use of the CBAM revenue for climate-related investments in agriculture

Regardless of the CBAM, agriculture is under enormous pressure to adapt to reduce its greenhouse gas emissions in order to contribute to climate protection. This requires state support, for example for investments in low-emission slurry storage facilities, farm manure processing and much more. Against this background, DBV considers the intended use of the CBAM revenue as non-earmarked own resources to be insufficiently ambitious. DBV demands that the funds from the CBAM revenue shall feed a special EU climate protection fund for agriculture. Among other things, this fund should finance necessary innovations in fertilisation.