



There is a new upcoming issue many industry professionals worry that may bring impacts to the fastener industry in the near future, which is “Carbon Border Adjustment Mechanism”, or we can just call it the EU’s carbon tax on certain imported goods. CBAM will officially come into force in 2026 with a grace period from 2023 to 2025. Some factories relocated their manufacturing operations from their home country to where the manufacturing cost is relatively lower in order to increase their competitive edge on the global market. However, once CBAM take effects, they are very likely to be levied with the carbon tax as those countries where their factories are located currently still do not have complete carbon reduction regulations that meet the EU’s standards.

Carbon Border Adjustment Mechanism and Its Effect on the Fastener Industry

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The proposed use of border carbon measures by the European Union (EU) Member States has been among the most contentious issues in the trade and environment debates. The EU proposal is to use border carbon adjustment against imported products, whose producers do not conform to the emission norms followed by the EU Member States.

In December 2019, the EU proposed to introduce a carbon border adjustment mechanism (CBAM), a form of carbon pricing on imports into the EU. As part of its Green Deal, the European Union is currently preparing a “Carbon Border Adjustment Mechanism” (CBAM). A CBAM applies carbon pricing to imports with the objective of mitigating concerns about carbon leakage. As indicated by the European Green Deal, the CBAM would ensure that the price of imports reflects more accurately their carbon content.

The CBAM is meant to extend the geographic reach of the EU’s carbon price by applying it to products imported from non-EU countries. Such products could include electricity and fuels, basic industrial materials like steel, aluminium and cement, or more complex semi-manufactured and manufactured goods. Aluminium products should be included in the CBAM as they are highly exposed to carbon leakage. Moreover, in several industrial applications they are in direct competition with steel products because of characteristics closely resembling those of steel products. Inclusion of aluminium is also relevant as the scope of the CBAM may be extended to cover also indirect emissions in the future.

Fasteners as a Type of Steel Production

The following table shows that in 2020 the total trade of fasteners in the world was around 36.5 billion USD, 1.64 billion USD (4% of the total trade in the world) of which were contributed by ASEAN fastener producers (26% of their production, about 423 million USD were bought by EU consumers).

Numbers are in Thousand USD	Year 2020	Share in the Total World Trade
World trade	36,534,012	100%
ASEAN Export to the world	1,639,843	4%
ASEAN export to the EU	423,160	26%

Therefore, **there is concern in Southeast Asia that the potential for more EU tariffs on exports from ASEAN countries will result in a decrease in trade if the cost of imports becomes uncompetitive. Moreover, Under the currently planned pilot stage between 2023 and 2025, the CBAM will only apply to iron, steel, aluminium, and electricity imports (these items directly impact on the fastener industry).** The steel industry in particular is on track to consume 50 percent of humanity’s carbon budget by 2050 unless thorough decarbonization is implemented. And, compared with other industries like automobiles, steel is more difficult for carbon abatement.

On the other hand, most fastener manufacturers are SMEs that focus their efforts on survival for example, short-term profitability, ensuring their day-to-day operations, maintaining revenue and paying salaries.



Improving environmental performance (like carbon border adjustment mechanism) may seem like an additional cost of doing business for SMEs. They rarely have (or can afford) dedicated staff to work on the environmental performance, including understanding sometimes complex carbon border adjustment mechanism requirements. However, experience from around the world demonstrates that adopting greener practices can have real benefits for SMEs, including increasing profitability and lowering the operating costs, increasing competitiveness and resilience, and opening access to new markets and sources of finance. For example, China has taken several initiatives to combat this by discarding ageing and outdated facilities, prohibiting manufacturers from blind expansion of their production scales, and attempting to streamline the fastener industry through consolidation. Concurrently, there is also an ongoing effort to export its excess production capacities through outward investments.

Beyond the economic and environmental benefits of greener practices for conventional fastener industry, the green economy presents entirely new opportunities for them to become leaders in fields such as renewable energy installation, green service provision, and green consulting. Firm size cuts both ways for the fastener industry trying to adopt greener practices. Although small firms have fewer resources to adopt green measures, they often have greater flexibility than larger firms and can sometimes adopt new technologies more quickly. The resultant expansion in the fastener sector in ASEAN may, therefore, be replicated in other industries, as will its implications on the region's total capacity as a whole and on the subsequent need to export. ASEAN, therefore, must play a more active role in using existing initiatives or creating new approaches to monitor the impact of the export of excess production capacities from China into the region. The increase in production capacities may create employment and possibilities for technology transfer, but it can also negatively impact the sustainability of existing ASEAN steel producers who lack the scale and technology to compete with the larger scale of Chinese production and the technology that are supported by the Chinese government in the form of tax rebates, financing support, grants, and others. In short, national FDI policies have to be cognisant of regional developments in their planning.

Foreign Direct Investment (FDI) flows into the ASEAN region fell by 25% in 2019 given the impact of the coronavirus disease (COVID-19) pandemic. Despite the decline, ASEAN remained an attractive investment destination, with its share of the global FDI rising from 11.9% in 2019 to 13.7% in 2020.

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