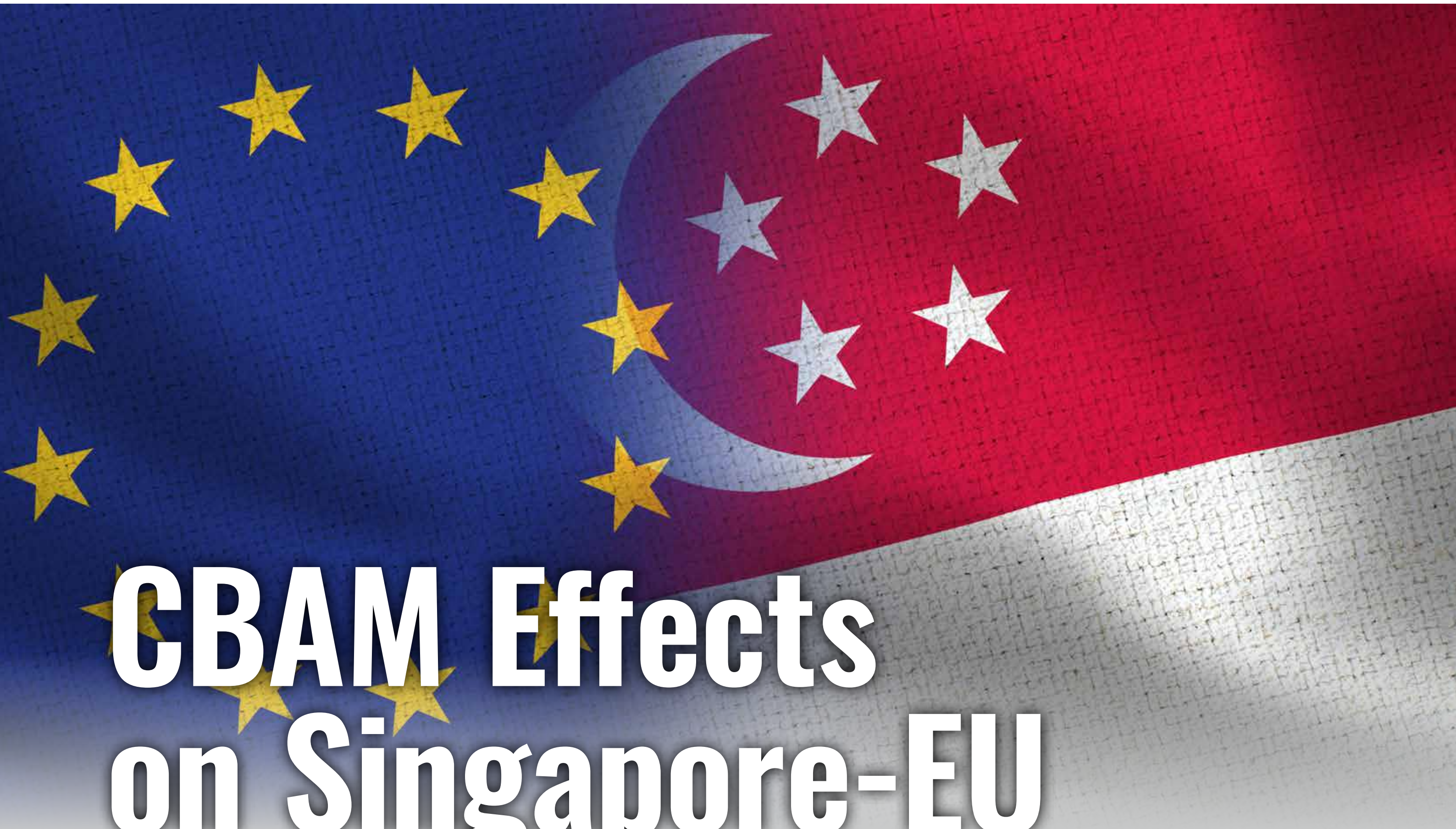


CBAM Effects on Singapore-EU Fastener Trade

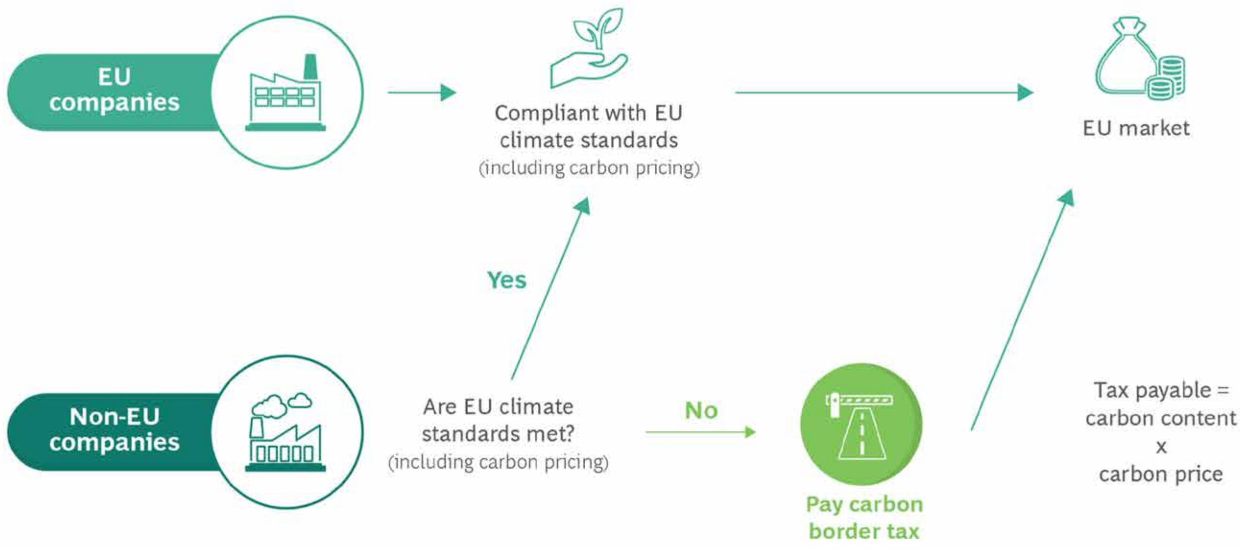
Introduction

As fasteners are often made from steel or other metals, the CBAM could potentially affect the trade of fasteners between Singapore and the EU region. However, it is important to note that the CBAM is still a proposal and has not yet been implemented. If the CBAM were to be implemented, it could increase the cost of fastener exports from other countries to the EU region, as Fasteners exporters would be required to pay for the carbon emissions associated with the production of steel or other metals used in fasteners. This could make other countries' imported fasteners less competitive in the EU market, which could lead to a reduction in trade. The impact of the CBAM on the fastener trade between other countries and the EU region will depend on the details of the policy and how it is implemented. It is important for Singaporean fastener exporters to closely monitor the development of the CBAM and adapt their business strategies accordingly.

How The Carbon Border Tax will Work[1]

The carbon border tax is an integral part of broader reset of the EU's climate change policy, which was unveiled at the same time. To meet its ambitious climate targets for 2030, and achieve net-zero emissions by 2050, the EU must ramp up its efforts across manufacturing industries, buildings, and the transportation sector. For the bloc to meet these goals, it will need to rely heavily on market-based measures—such as carbon pricing—aimed at making it less expensive for companies to invest in decarbonizing technologies than to continue emitting carbon. Many EU manufacturers have been paying for their carbon emissions since 2005 through the Emissions Trading System (ETS), which places annual caps on emissions and creates a carbon market for trading of emissions permits. This market then sets the carbon price, which is currently just over €60 per metric ton. The higher the carbon price rises, however, the more EU producers are put at risk of "carbon leakage"—losing out to cheaper imports from countries with less strict climate regulation. EU manufacturers have been receiving free carbon permits to compensate for carbon leakage. But these will now be phased out. Instead, the carbon border tax will be used to address this problem by reducing the attractiveness of offshoring as a means of avoiding EU climate costs. Under the new policy, importers will be required to purchase carbon import permits for each metric ton of CO_2 brought into the EU through particular goods and materials. (See Graph 1.) The tax liability will depend on both the carbon intensity of the import and the tax rate per metric ton—which will be the same as the domestic carbon price paid by EU producers. To avoid double taxation, goods imported from countries that have domestic carbon-pricing regimes similar to the EU's will be exempt from the levy, subject to agreement between those countries and the European Commission. The US, Canada, and other nations are also exploring mechanisms to tax carbon embedded in imports.

Graph 1 - How the Carbon Border Tax Will Work



Source: BCG analysis.

Appraising Singapore'S Carbon Tax Policy[2]

As a low-lying island state, Singapore is particularly vulnerable to the onslaught of rising seas a consequence of global climate change now seemingly foreordained. This incursive problem, together with global momentum to combat climate change in general, have meant reformation in laws and shifts in rhetoric focusing on environmental protection. This has led to the enactment of a national carbon tax regime known as the Carbon Pricing Act 2018 ("CPA"). The CPA was conceived as part of Singapore's regulatory arsenal to meet its obligations agreed to in the Paris Agreement under the United Nations Framework Convention on Climate Change ("UNFCCC"). The rationale for the CPA becomes all the more compelling when one considers that, while Singapore's overall carbon emissions are low, its per capita emissions are seen as high. Singapore therefore pledged to reduce greenhouse gas ("GHG") emissions intensity by 36% from 2005 levels by 2030, with the aim of emissions peaking that same year. Later in March 2020, Singapore submitted its enhanced Nationally Determined Contribution ("NDC") to the UNFCCC which states 65MtCO2e as its absolute emissions target in 2030. Alongside its enhanced NDC is its Long-Term Low-Emissions Development Strategy ("LEDS") which aspires to halve Singapore's emissions from this peak to 33MtCO2e by 2050, with a view to achieving net zero emissions as soon as viable in the second half of the century. While the CPA was promulgated before Singapore submitted its enhanced NDC and LEDS, it is clear that the CPA is a key tool for Singapore to achieve these targets of reducing its carbon emissions.

Therefore, according the Carbon Tax policy of Singapore and EU CBMA policy, the CBAM could create opportunities for Singaporean fastener exporters that are able to demonstrate that they produce their fasteners using low-carbon methods or materials. These companies could potentially benefit from a competitive advantage over fastener exporters from other countries that are subject to the CBAM. Therefore, trade in fasteners between Singapore and the EU region has been growing, and the FTA between the two regions has helped to facilitate this growth. As long as the demand for fasteners remains high, the trade between the two regions is expected to continue to thrive.

Conclusion

Fasteners are an essential component in many industries, including construction, automotive, and manufacturing. Singapore is a significant exporter of fasteners to the European Union (EU) region, and trade between the two regions has been growing steadily over the years. According to the International Trade Centre, Singapore exported fasteners worth USD 102.2 million to the EU region in 2022, making it the fifth-largest supplier of fasteners to the EU after China, Taiwan, Germany, and Italy. The EU, in turn, exported fasteners worth USD 52.4 million to Singapore in the same year. The EU and Singapore have a Free Trade Agreement (FTA) that entered into force in November 2019. The FTA has helped to boost trade between the two regions by reducing trade barriers, including the elimination of tariffs on almost all goods traded between them, including fasteners. Singapore's strength in the fastener industry lies in its advanced manufacturing capabilities, high-quality standards, and skilled workforce. The country's strategic location also makes it an ideal gateway for fastener exporters looking to access the fast-growing markets in Southeast Asia and beyond. ■

1. *https://www.bcg.com/publications/2021/eu-carbon-border-tax*
2. *https://law.nus.edu.sg/apcel/wp-content/uploads/sites/3/2022/01/APCEL-WPS-2201.pdf*

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