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EU statement (check against delivery)

Agenda Item 3: The Least Developed Countries Report 2022: The Low-Carbon Transition and Its Daunting Implications for Structural Transformation.

Mister President, dear Secretary General Grynspan, Excellencies, distinguished Delegates,

I have the honour to speak on behalf of the European Union and its Member States.

We take note of the 2022 LDC report that has been presented for this agenda item. The report legitimately highlights the particularly vulnerable situation in which LDCs find themselves in the face of climate change. Limited fiscal space of LDCs, which has been further exacerbated by the COVID-19 pandemic, inflationary pressures and debt burdens, restricts their capacity to offset the consequences of extreme weather events.

We fully subscribe to the calls made by the report on the need to support an inclusive and fair green transition in LDCs, including as the best way to ensure realisation of indivisible human rights.

As the report notes, global low carbon transition is under way. This is a challenge and an opportunity for LDCs.

The EU and its Member States are a long standing partner of LDCs' economic transformation efforts, including through the three avenues called for by the report.

Global Gateway is the most recent and most ambitious Team Europe's push for climate resilient infrastructure in our partner countries, delivering up to EUR 300 bn worth of investment.

Representing 40% of global Aid for Trade programmes, we support regional, as well as global, economic integration, not least by being AU's main partner for its African Continental Free Trade Area.

And finally, the substantial EU financed Train for Trade programme in Angola delivered by UNCTAD, is a clear example of EU's support to comprehensive domestic policies that contribute to a green economic transformation.

Indeed, during the discussions on loss and damage at COP27, the EU proposed to focus technical assistance on the most vulnerable, while enhancing the donors' base. The EU made concrete proposals to that effect and will continue engaging towards an agreeable solution for all parties.

Moving on to the second part of the LDC report, which looks at domestic environmental policies with cross border impacts.

The report makes a thought process on how such policies may have a negative impact on LDCs. The report's modelling takes EU's Carbon Border Adjustment Mechanism (CBAM) as the basis. However, it elaborates on it beyond the characteristics of CBAM.

In this respect, allow us to briefly explain some of the key features of CBAM, so as to avoid potential misunderstanding. In parallel, we invite UNCTAD secretariat to reach out to our experts at the European Commission, who can help improve the understanding of CBAM and prevent potential misleading conclusions.

Addressing climate change demands immediate action. The EU is at the forefront of international efforts to fight climate change. The European Green Deal sets out a clear path towards realising the EU's ambitious target of becoming a climate-neutral continent by 2050.

CBAM is <u>a part</u> – let me stress this – <u>a part</u> of these efforts. It is a climate measure – not a trade tool – that addresses the risk of carbon leakage and thus supports EU's increased climate ambition. It does so by ensuring a WTO compatible level playing field for all economic actors.

Operationally it means that, at the end of the transition period, EU importers will have to buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's Emissions Trading System. In this way, EU and non-EU producers will operate in same and non-discriminatory environment.

Important to note: if a non-EU producer shows that a price for the carbon used in the production of the imported goods has already been paid in the country of origin, the corresponding cost can be fully deducted from the price to be paid under CBAM. This clearly confirms that CBAM is not a revenue tool for the EU. Rather it provides an incentive to third countries to set up their own carbon pricing schemes. Indeed, registering zero income from CBAM may be the ultimate objective of the mechanism, as it would indicate that low carbon transition is being secured around the world.

CBAM will be phased in gradually and only apply to a selected number of goods at high risk of carbon leakage: iron and steel, cement, fertiliser, aluminium, hydrogen and electricity generation. CBAM's scope does not cover goods up or down the value chain, while so-called 'indirect' emissions (for instance carbon emissions from electricity used to produce the good) are only included for a very specific subset of products.

The EU is well conscious of the impacts that CBAM may have, including for trade with the EU. As well as of the preoccupations voiced by different stakeholders. Indeed, in preparation of CBAM, an extensive open public consultation was carried out, complemented by targeted bilateral outreach with EU and non-EU countries, international organisations, businesses and NGOs. These dialogues, in particular those with third countries, including LDCs, will continue in relevant multilateral fora and bilateral relations.

Worth noting is that our studies indicate that exports from LDCs to the EU in the sectors covered by the CBAM are very limited. Nevertheless, the EU stands ready to work with low and middle income countries, in particular LDCs, towards decarbonisation and transformation of their manufacturing industries. This could include technical and financial assistance to support climate mitigation and adaptation in LDCs, as well as investment support for developing industrial production structures that are compatible with long-term global climate objectives. As for instance in the ongoing support to Mozambique's transformation towards renewable energy production. Not to be ignored – the EU will continue in its role as one of the biggest contributors to climate finance in developing countries and LDCs.

We hope this brief outline offers a better insight into what CBAM is and what it is not.

Thank you.