

POSSIBLE REACTIONS FROM OTHER COUNTRIES AND POINTS FOR CONSIDERATION FOR VIET NAM

Technical Assistance Project on Impact Assessment of the EU's Carbon Border Adjustment Mechanism
and Recommendations on Carbon Tax Policies for Viet Nam

14/04/2023

Possible reactions from other countries: Theory

CBAM “Opponent Index”

1. Trade with EU
2. Carbon intensity
3. Track record of confrontation in WTO
4. Domestic public opinion about climate change
5. Capacity for innovation

Source: Overland and Sabyrbekov (2022)

13/04/2023

Name	Index	Name	Index
Japan	1	Thailand	64
Rep. of Korea	12	Vietnam	66
Singapore	28	Algeria	67
Chile	33	Bangladesh	68
Peru	34	Morocco	69
Colombia	36	Jordan	70
Israel	38	Serbia	70
New Zealand	38	Tunisia	71
Argentina	45	Kuwait	73
Australia	45	South Africa	73
Mexico	47	Indonesia	74
Senegal	48	Saudi Arabia	80
Philippines	49	Belarus	82
Canada	50	Russian Federation	82
Lebanon	50	India	86
Brazil	53	Kazakhstan	86
Nigeria	55	China	88
Malaysia	58	Egypt	89
Turkey	58	United Arab Emirates	94
Azerbaijan	62	USA	96
Pakistan	64	Ukraine	99

Increasing likely opposition

Initial reactions from other countries

- **Negative reactions**

- Russia, China, India, Brazil, South Africa
- Have raised concerns that: CBAM will violate WTO rules, promote protectionism, sabotage international trust, damage international trade, and hamper the UNFCCC “common but differentiated responsibilities” principle
- However, no collective and/or individual legal actions have been taken
- Seem to have moved from “push-back” to “reluctant acceptance”

Initial reactions from other countries

- **Positive reactions**

- UK, Canada, New Zealand, Morocco, Turkey
- Share with EU the views on the need for preventing carbon leakage and accelerating global decarbonisation
- Considering their own national CBAMs or domestic carbon pricing

- **Mixed reactions**

- US (currently no federal carbon price), Japan (small carbon tax)
- Raised concerns about CBAM violating WTO
- However, share with EU the need to accelerate global decarbonisation and considering their own CBAMs

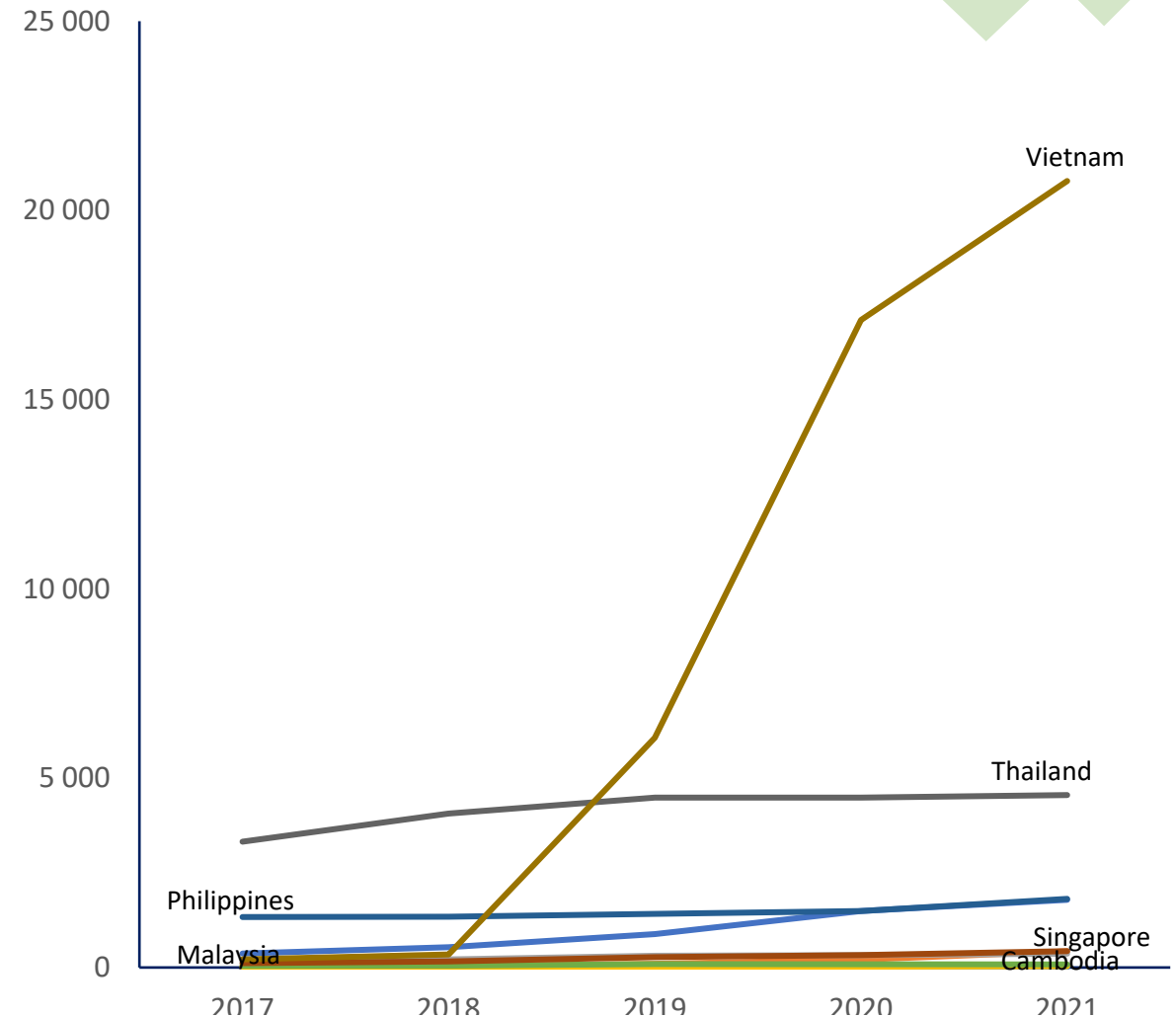
- **Neutral reactions**

- ASEAN, Central Asia, non-EU European countries

Viet Nam responding to CBAM: SWOT analysis

Viet Nam's strengths

- Sizable RE potential: solar, onshore and offshore wind
- Political interest in joining international efforts to address climate change
- High momentum for energy transition: leading ASEAN since 2019 about solar and wind uptake



**Solar and wind installed capacity in Southeast Asia
2017–2021 (MW)**

Vietnam responding to CBAM: SWOT analysis

Weaknesses

- Limited emission data at firm levels
- Modest awareness about CBAM
- Nascent monitoring, reporting, and verification capacity
- Incomplete regulations for carbon pricing and energy transition
- Stretched state budgets, insufficient international investment in renewables

Vietnam responding to CBAM: SWOT analysis

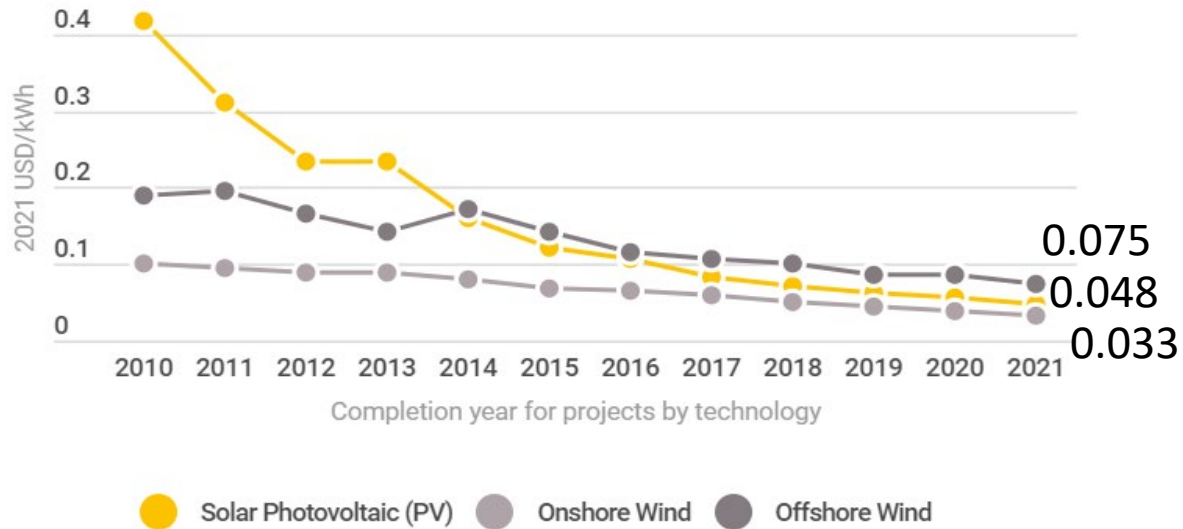
Opportunities

- International support, e.g. Just Energy Transition Partnership: \$15.5 billion in the next 3-5 years
- Solar and wind are becoming more competitive
- Opportunities to export solar and wind
- EU is willing to negotiate and offer support
- Global energy transition may happen faster

Falling costs of solar PV & wind energy

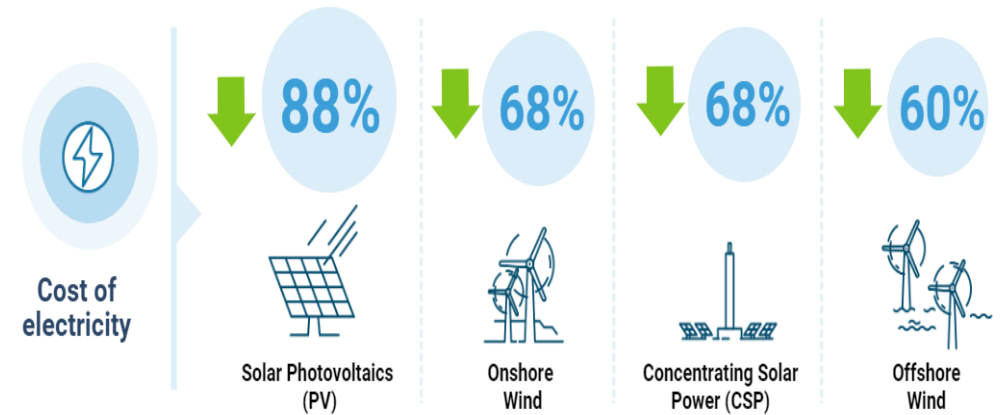


Falling renewable costs mark the next stage in the global energy transition towards net zero



2010 to 2021

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



Vietnam responding to CBAM: SWOT analysis

Threats

- EU-CBAM highly likely to expand; EU appears to control over how
- Lots of uncertainties about:
 - Emission calculation methods: unclear boundaries
 - CBAM future scope: when to expand, what other sectors to cover?...
 - whether non-carbon pricing policies and non-EU ETS carbon credits can count towards exemption
 - how countries will engage in CBAM
- Other large economies may follow EU to impose CBAM: US, UK, Canada, Japan...
- Short time frame to prepare: CBAM starts in 2026!

Response options

- Join a case against CBAM at the WTO led by some other countries
 - Legally possible
 - But, lengthy and costly without guarantee of success
 - May harm relationship with EU and trade benefits
 - Unclear whether such a collective action will ever happen

Response options

- **Accept CBAM while seeking to reduce its negative impacts**
 - Government to issue guidance, enterprises to prepare engagement
 - Negotiate with EU for favourable conditions for Viet Nam
 - Introduce a carbon price
 - Strengthen non-carbon price policies: phasing out coal, promoting renewables, energy efficiency

Response options

- **Accept CBAM while seeking to reduce its negative impacts**

Pros	Cons
<ul style="list-style-type: none">• Proactive	<ul style="list-style-type: none">• Initial increasing production costs
<ul style="list-style-type: none">• Contribute to NDC, net zero emissions targets	<ul style="list-style-type: none">• domestic consumers may resist potentially increased energy prices
<ul style="list-style-type: none">• Greening economy	<ul style="list-style-type: none">• Improving technical and institutional capacity would also require resources
<ul style="list-style-type: none">• Gain access to markets where consumers demand green products	
<ul style="list-style-type: none">• Gain international support	

Points for consideration

Accept CBAM while seeking to reduce its negative impacts

Government

- Engage in constructive dialogues with EU
- Strengthen institutional and technical capacity for adapting CBAM
- Consider the adoption of carbon pricing in a broader context
- Improve national legal frameworks for decarbonisation
- Enhance international cooperation

Points for consideration

Enterprises

- Watch for CBAM developments
- Start to plan for CBAM
- Prepare for emission reporting requirements
- Cooperate with the government to adopt decarbonisation policies such as carbon pricing and boosting renewable energy uptake

In short

1. CBAM is evolving with lots of uncertainties
2. Impacts may grow fast and beyond financial
3. Early preparation for CBAM is important
4. Engaging in constructive dialogues with EU seeking to mitigate CBAM impacts is recommended

THANK YOU!

