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RESEARCH

A border adjustment for the EU ETS: reconciling WTO rules and capacity to tackle carbon leakage

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Abstra

This arti the EU Emissior rld Trade Organisa ith Article XX (its itatively using ncluded in the EU E dicate that the inclu an the inclusior compatible with WT orld emissior e precisely on the re nt would only be partial and carbon leakage would nevertheless be significantly reduced. The

popular view that a BA contributes to both carbon leakage limitation and to domestic production preservation is discussed, and it is argued on the contrary that although a BA would efficiently limit leakage, a decrease in European production of GHG-intensive products is to be expected. Industries that consume cement, aluminium and steel would pay more for these goods with a BA. Consequently, the price signal should be preserved and diffused in downstream sectors, an expected key result of climate policy. On the contrary, free allocation efficiently preserves domestic production, but does not preserve and diffuse the price signal and is less efficient in limiting leakage.

Cet article compare plusieurs configurations d'ajustements aux frontières (AF) appliqués au système communautaire d’échange de quotas d’émissions (SCEQE) conçus pour maximiser leur compatibilité avec les règles de l'OMC, que ce soit en fonction du régime général du GATT ou de son article XX (exceptions pour motifs environnementaux). Les différents AF sont évalués quantitativement avec le modèle d'équilibre partiel CASE II, qui représente quatre secteurs inclus dans le SCEQE (ciment, aluminium, acier et électricité). Les principaux résultats indiquent que l'inclusion des importations et des exportations conduirait à une plus grande réduction des émissions mondiales que l'inclusion des importations seules, qu'une obligation d'acheter des quotas européens est plus compatible avec les règles de l'OMC qu'une taxe et qu'elle serait plus favorable à la réduction des émissions mondiales. Par ailleurs, si l'AF est basé sur les meilleures technologies disponibles, plus précisément les benchmarks europée ablement réduites pinion populair de carbone et à la p e les AF seraient n europée ndustries qui consomm s matériaux avec servé et diffusé natique. Au contraire on domesti ce en ce qui concern

Keywords

border adj cation

Mots clés:

ajustements aux frontières | fuites de carbone | système d’échange d’émissions | SCEQE | Organisation mondiale du commerce

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Notes

A third argument is to create further incentives for countries to join an international climate agreement (Cosbey, 2008).

Free allo Genasci (2008) g rules and free allo

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Thes the EU insta

This last rious doubts still exis industry in the US o may lead to a mix of ustries.

Whatever measure is applied, importers must be permitted to demonstrate how much carbon they emitted individually and pay for allowances on that basis (Bordoff, 2009).

An adjustment based on foreign specific emissions is problematic to evaluate, because most non-EU production installations have no obligation to declare – and thus do not know precisely – their CO_2 emissions. An option is to ask importers to provide certified information on the carbon content of the products they want to import in the EU, but it is difficult to oblige importers to do so as for a small importer the administrative burden could be high in proportion to its sales. Another option is to use the average emissions per tonne in the exporting country for every product covered by the BA, but this value could be difficult to compute, especially if the country is reluctant to participate. Consequently, the practical feasibility of this scenario is not certain.

Conversely, if Article XX is not used, it is not possible to exempt a group of countries because, for instance, they are engaged in an international climate agreement, or are the least developed countries, due to the GATT most favoured nation principle (cf. previous section).

Because the model aggregates all foreign countries into one RoW region, a BA based on country-of-origin specific allowance obligations cannot be assessed, which could reduce leakage further.

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In the EU its allocation (EC, 201 d then produce narios.

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The mod ed in the rest of the economy. For instance, building retrofitting would moderate the decrease in

cement demand.

However, in some downstream industries, the cost increase would be weak. For example, according to ADEME (2007), the emissions related to the use of steel and aluminium in a car of 1 tonne is around 1.6 tonne of CO_2. If a CO_2 price of around EU€20 is assumed and that the cost pass-through is complete in the electricity, steel and aluminium sectors, the cost increase to produce a car would be around €30–35.

Related Research Data

Border Tax Adjustments and Emissions Trading: The Implications of International Trade Law for Policy Design
Source: Carbon & Climate Law Review
World Energy Outlook 2010
Source: Unknown Repository
U.S. Federal Climate Policy and Competitiveness Concerns: The Limits and Options of International Trade Law
Source: SSRN Electronic Journal
European emissions trading and the international competitiveness of energy-intensive industries: a legal and political evaluation of possible supporting measures
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