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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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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

européenne, les émissions mondiales seraient plus faibles que dans le scénario de référence. Les résultats indiquent également que les AF basés sur les meilleures technologies disponibles sont plus compatibles 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



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## Notes

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

Free allocation still requires business to bear costs that may be significant. Genasci ([2008](#)) gives some simple examples of the difficulties with respect to WTO rules and free allocation.

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most non-EU production installations have no obligation to declare - and thus do not



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know precisely – their CO<sub>2</sub> 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.

Over 2008–2020, the limit of credits from the CDM and JI in the EU ETS is set at 1.68 Gt CO<sub>2</sub>e, hence 6% of the cap (Turner, [2010](#)). It is assumed that this limit will be binding and that credits will be used homogenously over the period.

In the EU ETS, a firm must emit more than a minimum threshold to receive its allocation (EC, [201](#)

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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

Climate and energy: divergent interests and approaches between Australia and the European Union


Source: Informa UK Limited

EU Emissions Trading Scheme, competitiveness and carbon leakage: new evidence from cement and steel industries

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