EU Green Deal (carbon border adjustment mechanism)

Inception impact assessment - Ares(2020)1350037

Comments

The European Green Deal adopted by the Commission on 11 December 2019 includes a willingness to establish the long-term goal of climate neutrality by 2050 in the legislation, and increase the EU's climate ambition to reduce greenhouse gas emissions 50-55% compared to 1990 levels by 2030.

However, Europe's efforts to become climate neutral by 2050 could be weakened by the lack of ambition of international partners.

Indeed, the Commission notes a problem concerning the taxation based on polluting emissions, linked to the possibility that companies transfer their production to States subject to less stringent environmental legislation or that EU products are replaced by more intensive imports of carbon. The situation is even more critical as regards those sectors which, due to the nature of the activities put in place, envisage a shift between different countries. Think of maritime and air transport, and the ease with which ships and planes could go to refuel in countries where fuel taxation is lower.

This would mean a risk of relocation of carbon emissions. If this risk materializes, there will be no reduction in global emissions and this will frustrate the efforts of the EU and its industries to achieve the global climate objectives of the Paris Agreement.

It follows that, as rightly highlighted in the Green New Deal, the adoption of useful tools to limit this phenomenon, known as carbon leakage, must be a European priority to ensure the overall sustainability of the standards that will be launched.

In this regard, the Commission has proposed to insert a mechanism to counter this risk by setting a carbon price on imports of certain goods outside the EU. It is therefore a question of inserting a carbon border tax going to check and quantify the ecological footprint of individual products.

Evaluation

A tax on carbon border seems to be a necessary step towards a decarbonisation of the European economy.

However, firstly, it is necessary to verify the legal and technical feasibility of each measure which will have to be carefully evaluated, also in relation to the EU trade acquis (the rules of the World Trade Organization and EU trade agreements) and other international commitments.

Technically, the European Commission proposes a "carbon border adjustment mechanism" that would protect EU companies from cheaper imports from countries with weaker climate policies.

This mechanism would not be applied until at least 2021 and could take the form of a levy on imported goods, based on average prices in the EU emissions trading scheme, although other options are possible.

In any case, the idea is conceptually shareable. First of all, it would stop the so-called "reallocation of carbon emissions", when climate action in one country pushes polluters to move to another and overall emissions remain virtually unchanged.

The mechanism would then have the effect of making domestic and European companies more competitive than international competitors, thus enhancing the supply chains and employment on the EU territory while ensuring a reduction of CO2 emissions equivalent globally.

Analyzing the economies of the European states, it is evident that the product category that would be most affected would be the technological products, to date almost entirely from Asian countries.

This would lead to a generalized increase in prices for many products. It is therefore necessary for the Commission to carry out a careful assessment of the possible impact in terms of contraction in consumption and to provide for compensation mechanisms so that there are no excessive effects on the final consumer.

In this regard, it is necessary to select the sectors subject to this measure. It will therefore be necessary to define an area in terms of sectors concerned to ensure that the measure applies where the risk of carbon leakage is greater, also going to avoid excessive penalties for those sectors already subject to the ETS mechanism or for which there are no European markets.

From an international point of view, it is noted that such a mechanism could induce countries and companies to adopt more stringent environmental policies, so as to avoid a contraction in sales on the European market.

However, it should be stressed the idea that there are also different environmental realities within the same Union. Countries, like Italy, traditionally have strict and complete environmental protection legislation; they are characterized by a high rate of waste recycling, as well as by a high circularity rate; they have integrated renewable energy sources into the national energy mix, encouraging their diffusion. This inevitably entails greater burdens for companies both from the point of view of labor costs, and of raw materials and environmental requirements.

On the other hand, there are Member States, especially those from Eastern Europe, which maintain rather low levels of sustainable development and not in line with European guidelines. In these countries, in fact, there is a deficient environmental law, as well as high levels of dependence on fossil sources.

Many times the so-called delocalization do not in fact concern countries outside the EU, but precisely these latter Member States which allow industries to remain within the borders of the Union, with the relative benefits, and at the same time reduce their costs for compliance with environmental legislation, for work and raw materials.

The Commission should therefore urgently and preliminarily tackle this problem, within its borders, and then turn to the international market through the tools presented.