

EU-CBA

Is it possible or mission impossible?

June 2021

Hiroyuki Tezuka

JFE Steel/Keidanren

Is CBA allowed in global framework?

UNFCCC Article 3 Principles

5. The Parties should cooperate to promote a supportive and open international economic system that would lead to sustainable economic growth and development in all Parties, particularly developing country Parties, thus enabling them better to address the problems of climate change. **Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.**

○ There is no arbitration mechanism in UNFCCC

GATT Article 20: General Exceptions

Subject to the requirement that such measures are not applied in a manner which would **constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade,** nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(b) necessary to protect human, animal or plant life or health;

(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;

Is CBA allowed in global framework?

CIGI Papers No. 204 — December 2018

“The Content of a WTO Climate Waiver”

by James Bacchus

Under the GATT, a border tax adjustment equivalent to an internal tax is permitted as a charge on imported products. Likewise, a border tax adjustment is permitted also as a remission on exported products. It is clear from the text of the GATT that **only indirect taxes on products** — such as sales taxes — may be adjusted at the border.

In contrast, **direct taxes on producers** — such as income taxes — **may not be. What is not clear is whether a carbon tax is a direct tax on a producer or an indirect tax on a product. Therefore, there is no legal certainty as to whether a carbon tax is a permitted border tax adjustment under WTO rules.**

Can a carbon tax on a process input (ex. energy) be adjusted??

Carbon Price in EU: What is to be adjusted?

Is CBA replacing current adjustment measures or complimenting?

Adjustment measures: ETS Free Allocation, FIT Surcharge/Carbon Tax Exemption etc.

IF Free Allocation is continued:

Av. Auction Price

$CP_{EU} / \text{product} = (\text{Annual Emissions} - \text{Free Allocation}) \times \text{€EUA} / \text{Annual Emissions}$

Free Allocation = EU Benchmark Intensity x Planned Annual Production

CASE1: Impose import Tax based on the difference in CP per product

$$CBA(\text{TAX}) = CP_{EU} - CP_{EX}$$

- *How to calculate/compare CP_{EX} ?? (with implicit CPs)*

CASE2: Impose the same EU CP rule (exempt local CP_{EX} in export country)

$$CBA(\text{TAX}) = (\text{CO}_2 \text{ Intensity per product} - \text{EU Benchmark}) \times \text{€EUA}$$

- *Needs EU-ETS base benchmark calculation in export country*

- *Different boundary and Scope 1, 2 (indirect emissions)*

Carbon Price in EU: What is to be adjusted?

IF Free Allocation is removed:

(suppose EU industry/consumers agrees full carbon cost...)

All products in EU are imposed simple CP_{EU} based on CO2 intensity

→ Impose the same $CP_{EU} = CBA(TAX)$ based on CO2 Intensity

CASE1: Use the same intensity calculation/reporting in export country

- *Needs bilateral agreement / policy arrangement*
- *Needs EU base calculation in export country*
- *Different boundary and Scope 1, 2 (indirect emissions)*

CASE2: Use the EU worst intensity for imports, then adjust with proof

- *Unilateral measures possible, but may cause trade conflicts*
- *Needs EU base calculation for export company to adjust*

Can CBA be Effective?

1. How to design CBA on *complex products*?

Automobiles, Cellular Phones: hundreds of parts/components produced in various countries

2. How to take care of “*indirect imports*”?

Automobiles, Cellular Phones: use steel and other materials

3. Can it be effective on *Exports*?

CBA will increase product prices in EU (That’s the purpose of CP)

- effective for emission reduction/keep competitiveness

But ..How to promote “exports” from EU?

Is CP Exemption (Minus CBA) possible/effective?

Under EU-ETS, Steel sector received enough Free Allocation

Real Carbon Price = “Zero”?



Source: (EU) Emissions Trading System (ETS) data viewer (European Environment Agency) form EU Transaction Log (EUTL)

EU-CBAM: Is it possible or mission impossible? ©Hiroyuki Tezuka 2021

Comparison of Electricity Prices (2015)

with/without “Exemption” for industries

What is to be adjusted?



Electricity Costs of Energy Intensive Industries
An International Comparison (2015)

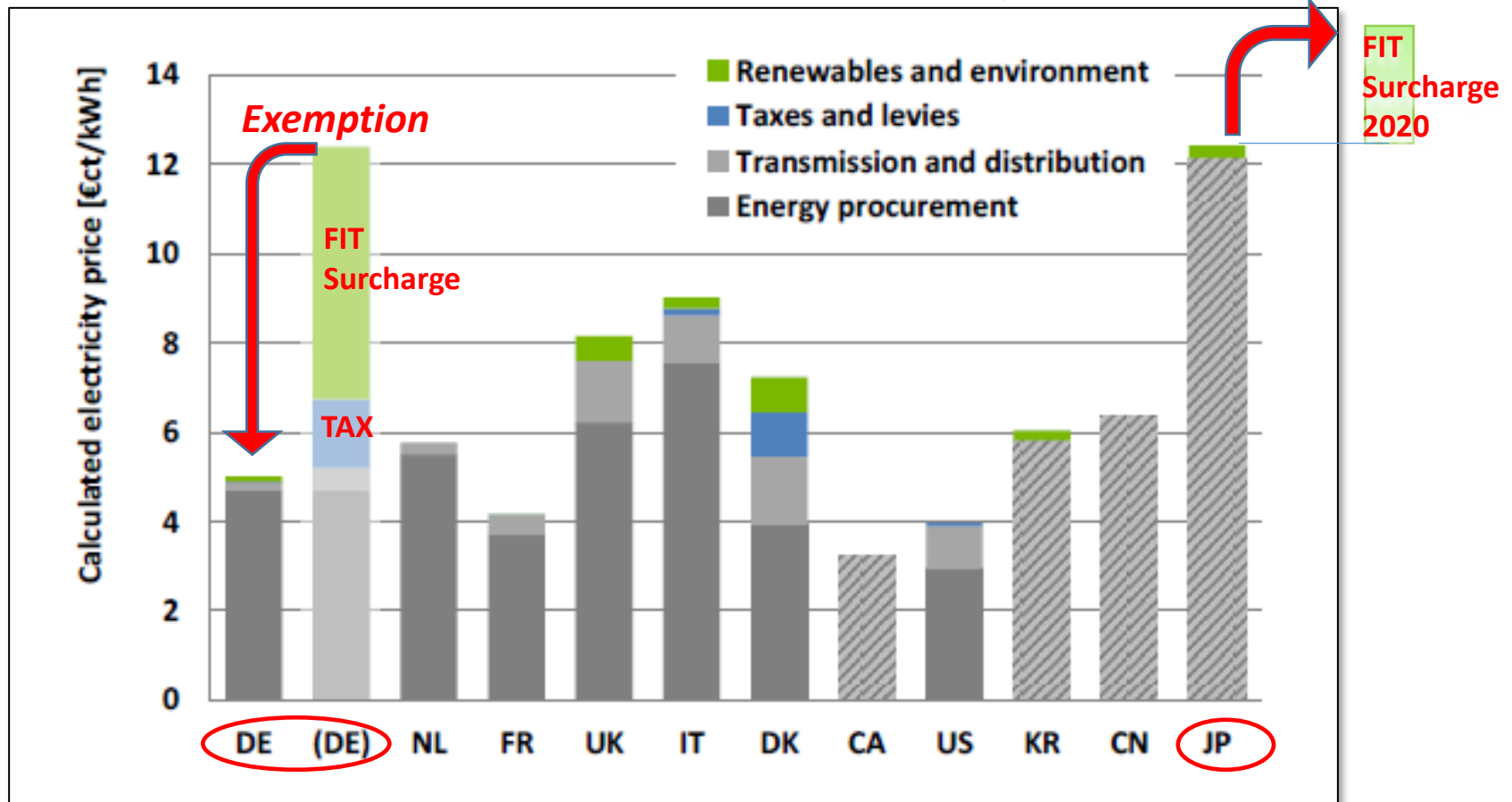


Figure 1: Electricity prices for big, privileged companies

END

Thank you