

Will the push for Border Tax Adjustments (BTAs) help to address the problem of carbon leakage?

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GREEN BUDGET GERMANY
FORUM ÖKOLOGISCH-SOZIALE
MARKTWIRTSCHAFT

- **Non-Profit Non-Governmental Organization**
 - founded in 1994, now 6 employees and 6+ interns
 - >90% of funding through studies, lobbying, conference organisations, trainings
 - hence depending on 3rd party financing



- **Fields of expertise**

Commitment to Market-Based/-Improving Instruments in environmental policy such as:

- Environmental Fiscal/Tax Reform: Taxes/Charges on energy and resources
 - Cutting of environmentally harmful subsidies
- **Main activities**
 - Studies (on ETR/EFR and environmentally harmful subsidies) and **Newsletters, Conferences** and Trainings
 - Projects for the German Environment Protection Agency (UBA), European Climate Foundation, Greenpeace, WWF
 - GBG is internationally very active...

Green Budget Europe

was set up as project of GBG in 2008 = European network for market-based/improving instruments

has organised the Global Conference on Environmental Taxation in 2007 in Munich

has contributed to many **international conferences**, has carried out **consultations for EU-Commission, OECD, European Environment Agency (EEA), World Bank, Governments, NGOs and other stakeholders in countries such as Morocco, China, Thailand and Vietnam.**

has developed a **Training Manual** on EFR mainly in developing countries - on behalf of **GIZ**, the German development aid agency (www.giz.de); also available in French and Spanish. Further applications, also in industrialised countries are welcome.

will organise the **next GBE-Conference at EEA/Copenhagen on 15th/16th September 2011**

Environmental Fiscal Reform (EFR) Elements – Introduced in D in 2011

- Tax on air tickets
- Tax on nuclear fuel
- Heavy goods vehicle toll extended
- Reduction of industrial exemptions from the energy tax
- Financial transaction tax (starts as banking charge)
- Shifting the tax base for company cars on CO₂-emissions
(not implemented, in the opposite: At least, the initial attempt to enlarge tax benefits according to coalition treaty was rejected)
- GBG proposed all these elements + more in a study on behalf of the Heinrich-Böll-Foundation: (English.
http://www.foes.de/pdf/2010-10-HBF_GreeningTheBudget.pdf)
- Great success story:
Combining timely information with lobbying activities

Definition of Border Tax Adjustments

Objective:

BTA can be a means to allow some countries to move ahead with an ambitious climate policy even if not all are following at that moment

Rationale:

BTA avoids industry losing competitiveness due to higher costs due to ambitious climate policy instruments such as emissions trading or energy/environmental taxes

Mechanism:

Levying taxes on imported products according to the energy consumption of the production method in the exporting country which may be substantially higher and not taxed like in the country to which the product is exported.

Impact:

BTA provides a level playing field for products that are imported or/and exported so that domestic producers are not worse off.

Applicability also to ETS:

In the case of emissions trading this can be by requiring importers to buy a certain amount of emission allowances.

Problems with current energy taxes on energy-intensive processes/products/sectors:

- **Danger of loss of competitiveness, jobs and eventually reallocation**
- **Loss of revenues** due to excessive tax reductions for these products/sectors
- **Hardly tax induced incentives to reduce CO₂-emissions**

Border Tax Adjustments (bta) could be a way out: Advantages (I)

- **No loss of competitiveness, jobs and eventually reallocation**
- **More revenues due to abolition of excessive tax reductions** for these products/sectors
- **Less problems** for Commission and Member States with difficult **state aid issues**
- Substantial **incentives to reduce CO₂-emissions**
- Could also be **applied for leakage problems in the Emission Trading System**

Border Tax Adjustments could be a way out: Advantages (II)

- Could be **THE incentive-based hook to get non-Kyoto-parties** to take substantially more action and eventually agree to a post-Kyoto regime.
- EU could **build an ally with energy-intensive sectors** since they benefit: The relatively high level of taxation in the EU would be **transformed into a competitive advantage for them**
- BTA would increase the **incentive for other countries to similarly apply high energy taxes**
- BTA are already **broadly used in the VAT system** (and others, too), however not yet for not incorporated substances).

Methods for determining rates

Energy/carbon Products need to be chosen

Data on energy/carbon intensity of the production process are required

Concentrate on energy/carbon intensive products

Countries need to be chosen which do not yet apply ambitious climate policies respectively have not committed to reductions under an international treaty.

Potential approaches for data collection

- **Current data availability and possibilities to use data tracking, transfers and control should enable to keep administrative costs reasonably low**
- **Carbon footprint, ecolabelling are more widely used anyway**
- **It can only be potentially overcome by the adoption and implementation of bta in a region, e.g. EU, and then potentially (but not necessarily) being challenged at WTO/GATT**
- **It is sufficient to concentrate on the energy-intensive AND trade-intensive products such as steel and aluminium. A list has been drawn up by several reserchers. EU has done some work on that for the EU-ETS.**

OECD statements on bta

Bta could shield OECD producers completely – and reduce global emissions – but would be **difficult to administrate**.

The only problem under the GATT/WTO rules is **clouded with uncertainty**, due to the fact that the treatment of inputs (such as energy) which have not been physically incorporated into a product has **never been formally considered by a GATT/WTO dispute panel**

Why and when should the EU-Commission act?

- At the latest the EU-Commission should act as soon as the EU moves towards **more ambitious climate targets like -30%**
- The **EU-Commission is the only institution worldwide** which could have the political will and the capacities to work out a detailed proposal of how such bta could be implemented and administrated in practice. It could be adopted in the context of the above opportunities.
- As long as no international successor of the Kyoto Protocol has been agreed:
What is the alternative – are there any?
The **costs of inaction** (e.g. regarding climate change) are likely to be very substantial

Impacts/Triggers of debate on BTA

- **USA:** Waxman-Markey-bill, border adjustment is foreseen
- **Nicolas Sarkozy (FR)** pushes for BTA for a long time
- **EU High Level Group on competitiveness, energy and environment** a few years ago asked the EU-Commission to examining the option of a BTA and to come up with a proposal
- **Many Asian countries** are about to introduce broad energy taxes, often in the context of an Environmental Tax/Fiscal Reform (ETR/EFR) like **Vietnam, Thailand, Indonesia, China**
- **China** focuses on the introduction of a **carbon instead of an energy tax – announced in its 12th Five-Year-Plan**
- **Vietnam** applies broad energy taxation from 2012, but **no exemptions for industry** to allow for full exploitation of its energy efficiency potentials exploited



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Thank you very much for your attention!

**Remarks?
Questions?**

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