

Thinking Ahead on International Trade (TAIT)

Round Table 5

Climate-linked tariffs and subsidies: Economic aspects (competitiveness & leakage)

Border Tax Adjustment in the Context of ETS, Environmental Goods

Reinhard Quick

I. Preliminous Remarks on ETS

- ETS Cap and Trade
- Fix target: EU - 21 %
- Certificates (auctioned-free) = Quantities fixed, price not
- Installations are covered, not products

ETS possibilities for procedures:

- invest in CO2 reduction technologies
- produce less
- speculate

these alternatives
can affect the price
of the final product

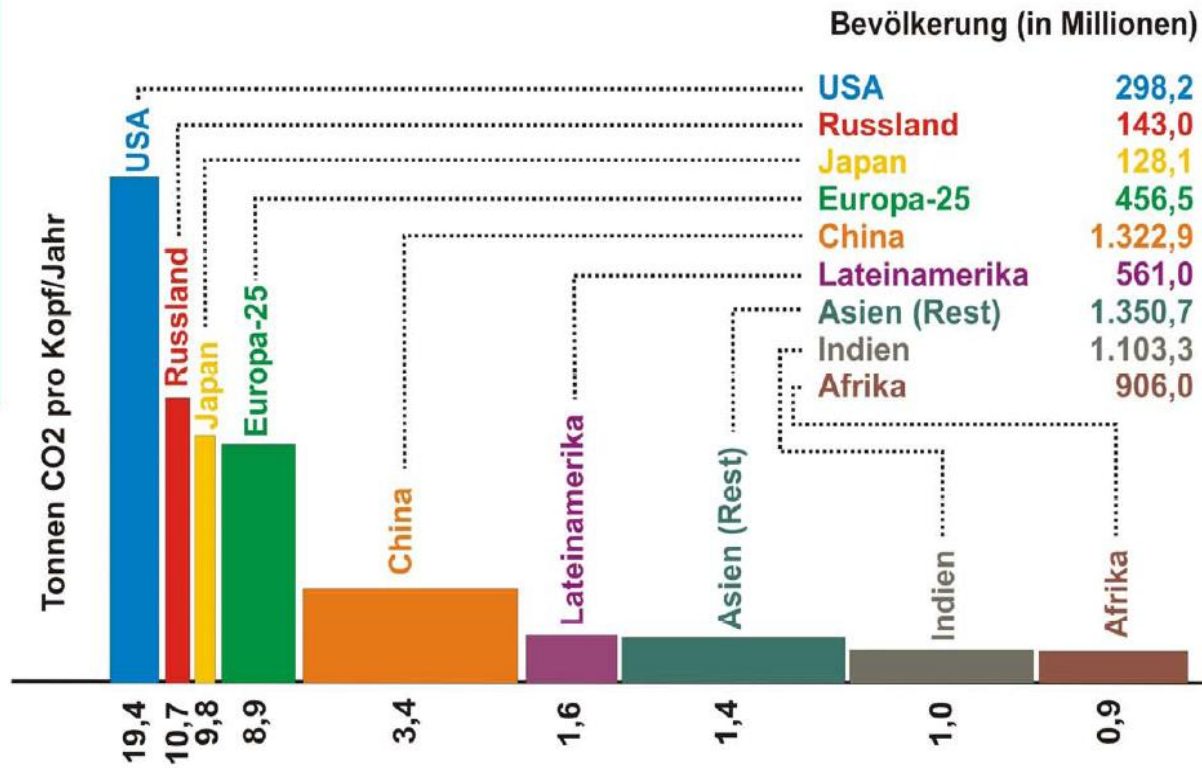
II. Who would be the potential target of the European BTAs?

- Countries which are not taking binding and verifiable action to reduce greenhouse gas emissions comparable to the actions taken by the EU.



Bundesministerium
für Umwelt, Naturschutz
und Reaktorsicherheit

Wer muss handeln? Gesamtemissionen und Bevölkerung



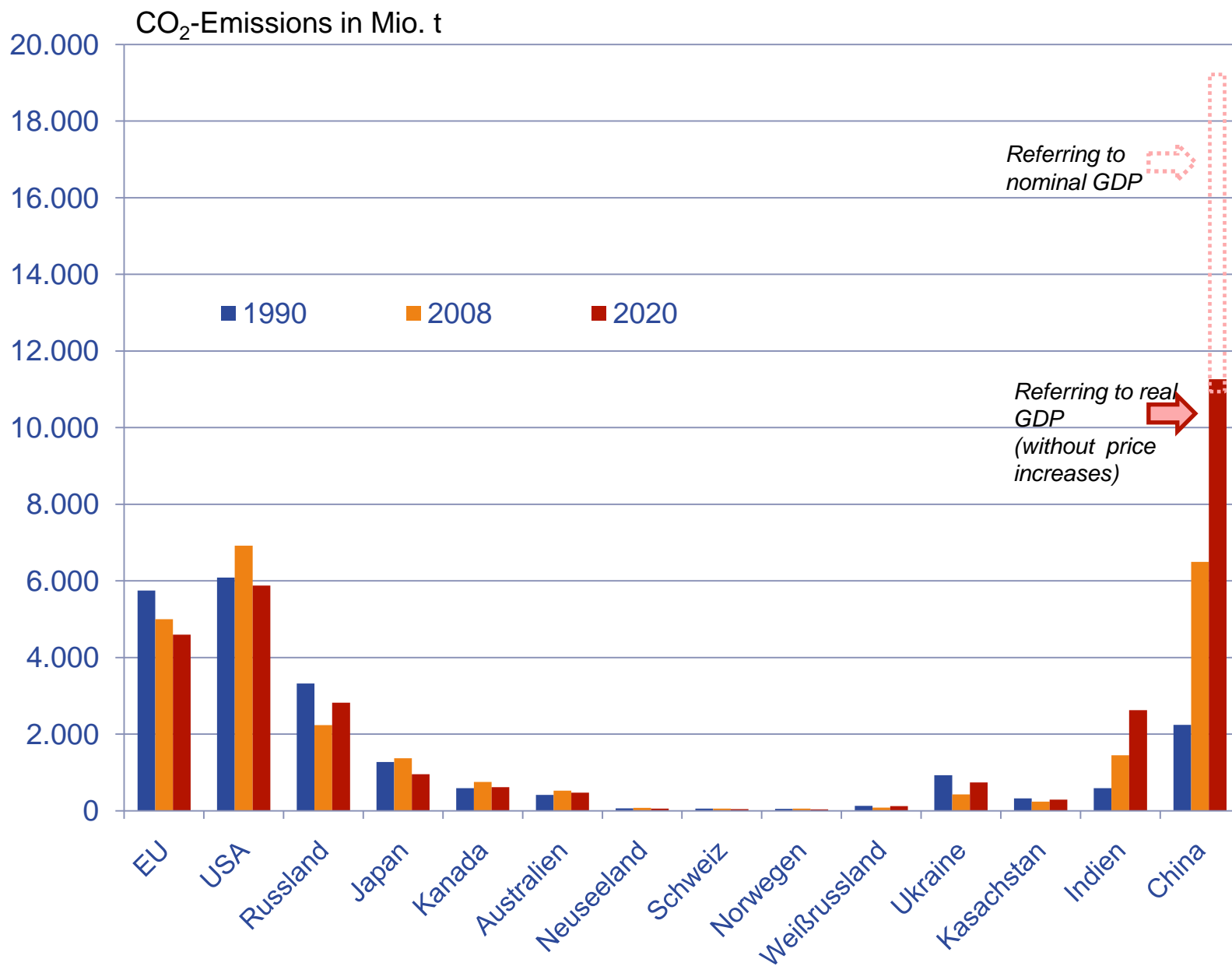
Quelle: Deutsches Institut für Wirtschaftsforschung/Vereinte Nationen

Stand: März 2006

Not taking into account the Export/Import of CO2-intensive Products!

Climate Change, Trade and
Competitiveness: Issues for the
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Emissions in 1990, 2008 and 2020, the latter based on Copenhagen Accord and unilateral reduction commitments



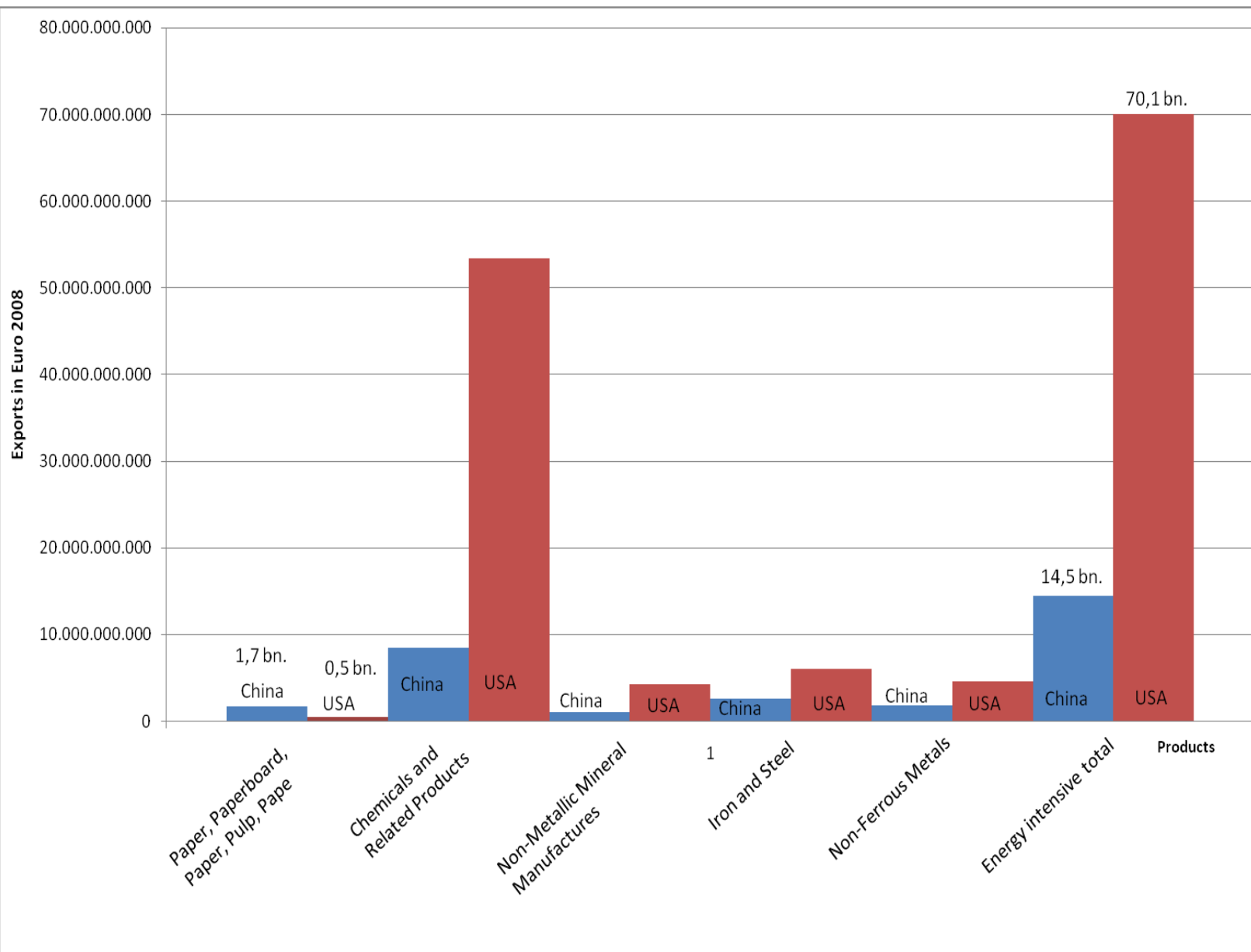
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EU trade with USA and China 2008 with an analysis of energy intensive industries (EII)



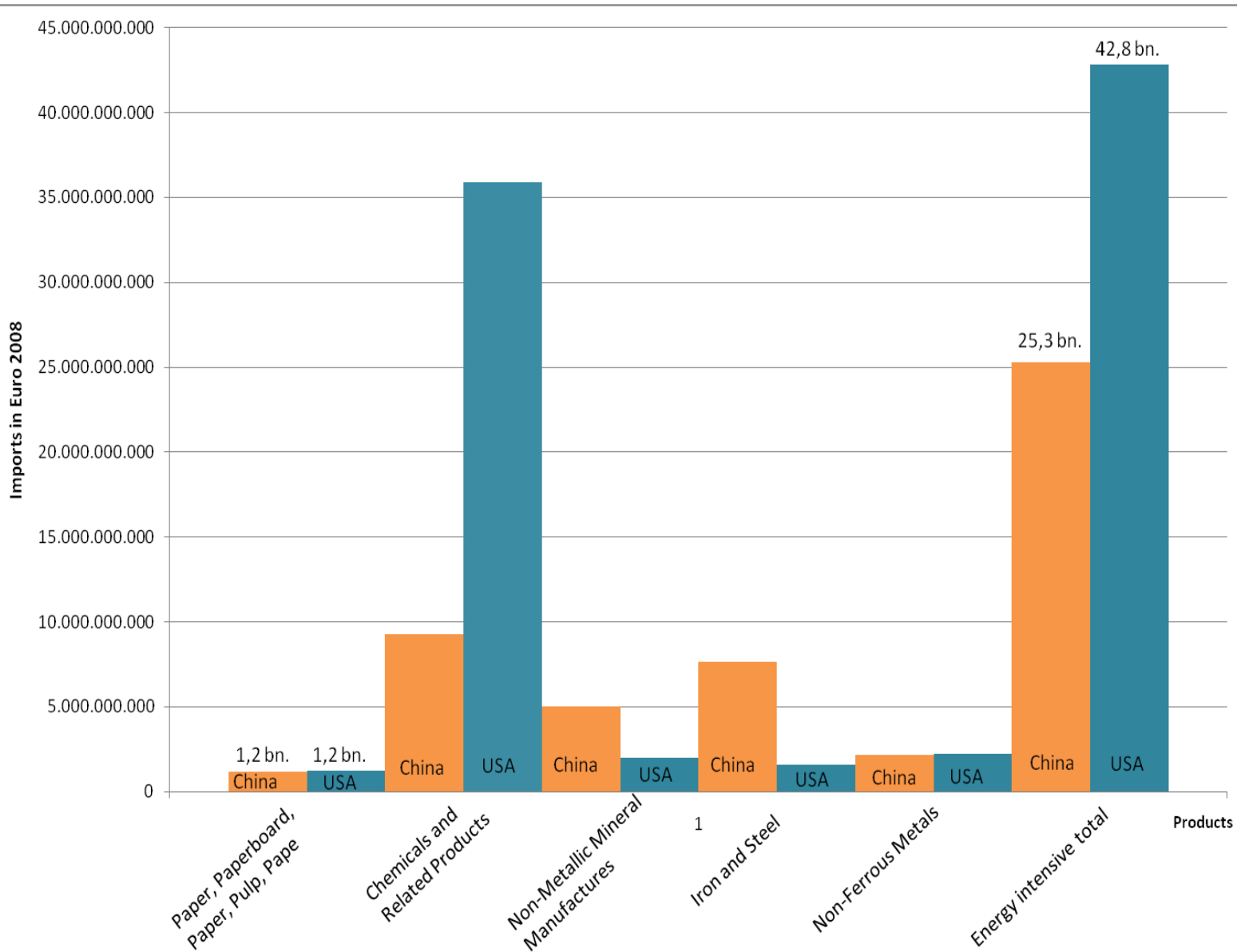
EU	to/ from USA	to/ from China
Total Exports	250,1 bn. Euro	78,4 bn. Euro
EII	70,1 bn. Euro	14,5 bn. Euro
Proportion EII	28,0 %	18,5 %
Total Imports	186,8 bn. Euro	247,9 bn. Euro
EII	42,8 bn. Euro	25,3 bn. Euro
Proportion EII	22,9 %	10,2 %

EU exports of energy intensive products



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EU imports of energy intensive products



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III. Copenhagen Accord

- Is there room for unilateral trade measures after Copenhagen?
- How would border measuers take into account the UNFCCC principle of „common but differentiated responsibilities“?
- Could the EU or the US, for example, take trade measures against China or India and not against Algeria?

IV. Border Measures will lead to Trade Diversion

- CO₂-efficient companies abroad

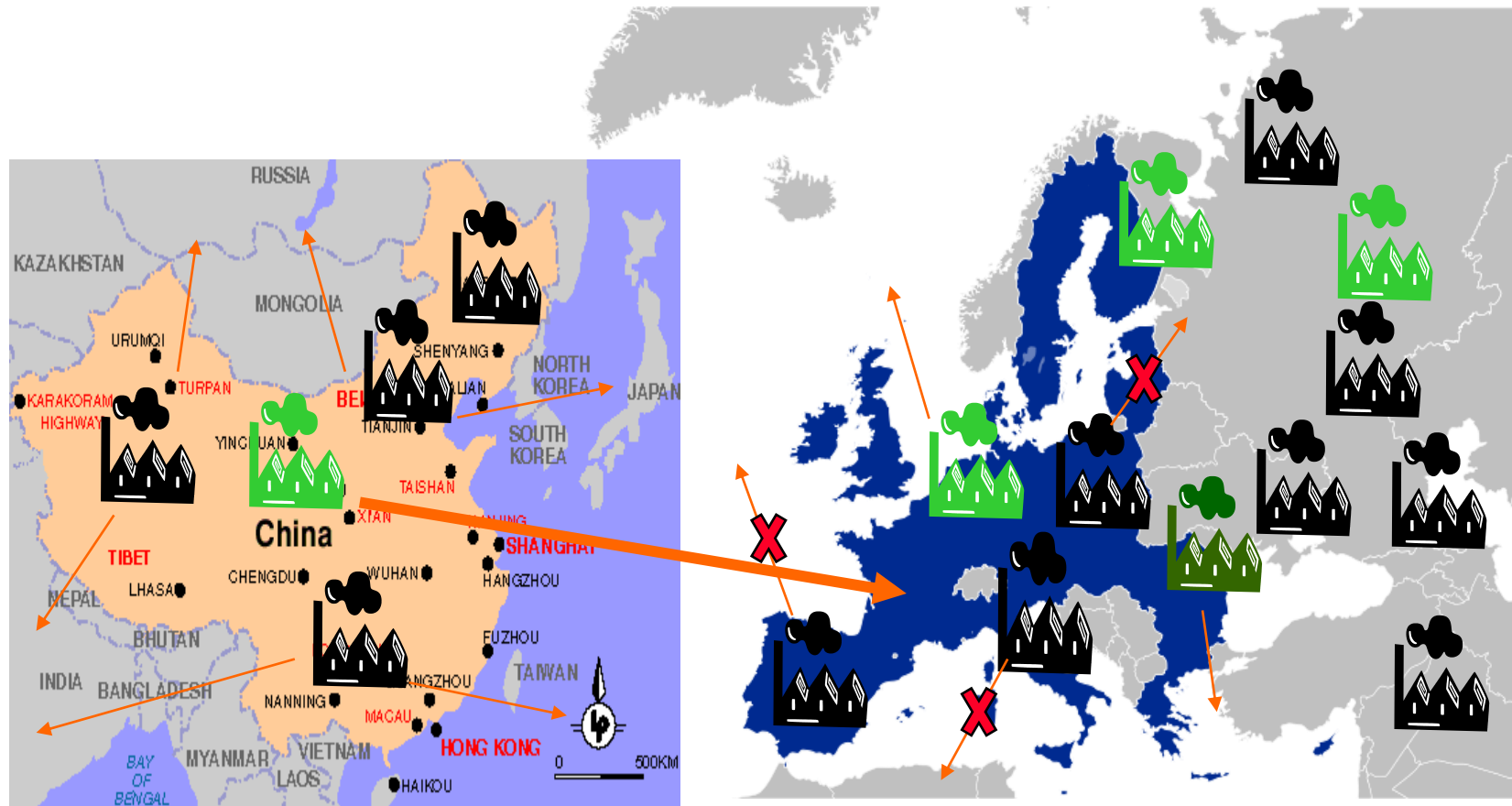
[\(China\)](#)

- UNFCCC/Kyoto perpetuated carbon leakage

[\(Algeria\)](#)

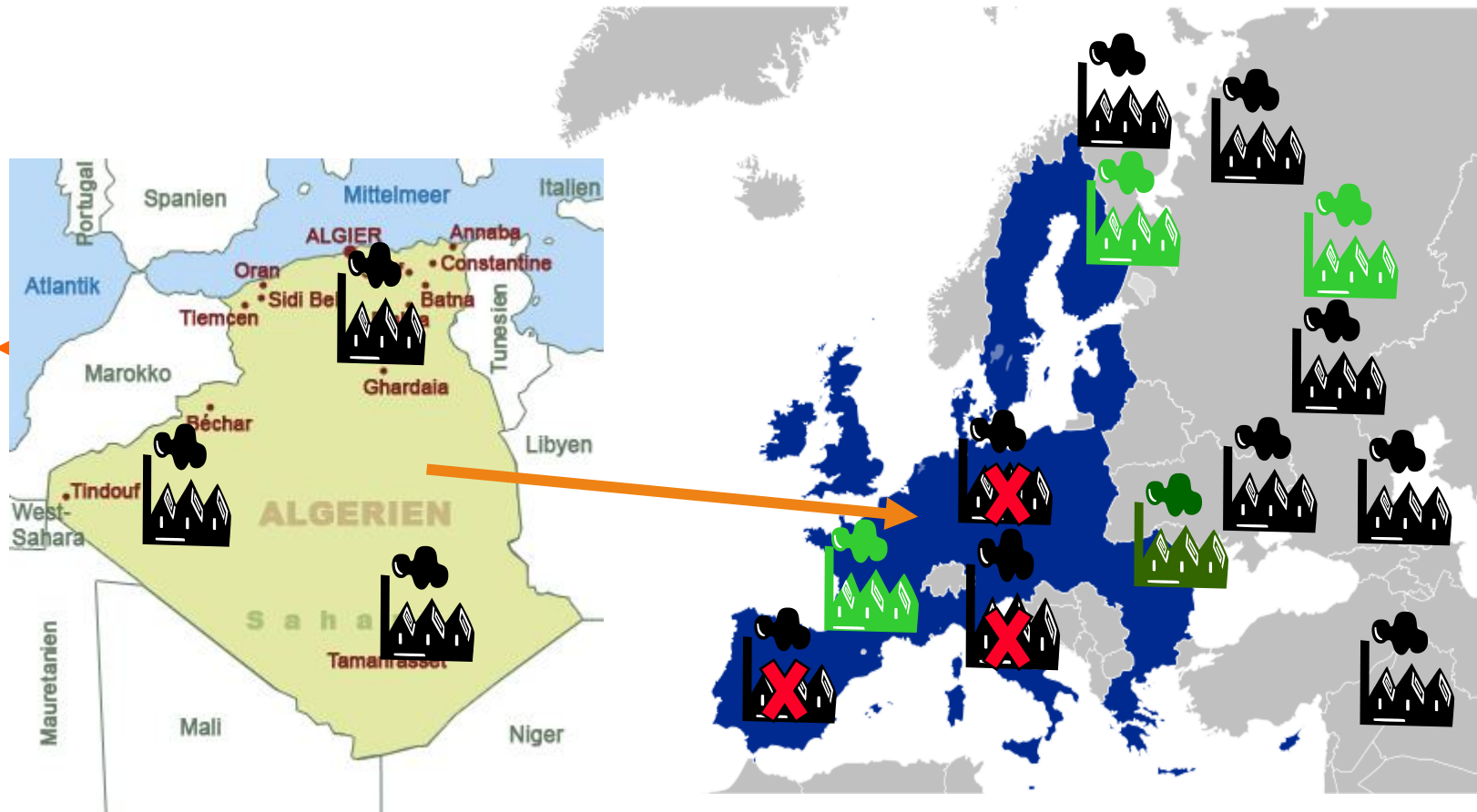
- trade diversion through diversification by exporting products of a higher value chain

[\(Petrochemicals\)](#)



CO2-efficient companies will export to the EU, CO2-inefficient companies will export to the world market.

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The notion of common but differentiated responsibilities effectively allows for carbon leakage. Installations can be transferred from an ETS-country into a non-ETS-country without the possibility of trade action.

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V. WTO Problems (1st part)

■ **Art. III. 2 GATT:** Is ETS a tax?

→ „as those applied directly or indirectly“

■ **Art. III. 4 GATT:** Domestic Regulation applied at the border?

- like product? → ‚consumer tastes and habits‘
- less favourable treatment? → the various possibilities for action which only exist for domestic producers

■ **Art. II. 1 (b) GATT:** Is BTA a prohibited additional tariff?

■ **Art. I GATT:** The notion of „common but differentiated responsibilities“ will lead to a violation of MFN

VI. WTO Problems (2nd part)

■ Art. XX GATT

- Jurisdictional limitation
 - what is a sufficient nexus? [\(World Climate\)](#)
- Natural resources Art. XX (g) referring to:
„Substantial relationship of the measure to the conservation of the natural resource“
- Chapeau
 - The notion of „common but differentiated responsibilities“ in the context of the chapeau could lead to a finding of ‚arbitrary or unjustifiable‘ discrimination

■ Example for Environmental Goods



Cadmium Solar Cell



Silicium Solar Cell

- Win-Win-Win or Lose-Lose-Lose
- Conceptual Problem
 - Purpose of a Tariff?
- Definition: Environmental Good?
 - a valid definition would require a life cycle assessment of all products
- Result: Product Discrimination achieved through mercantilist list-based approach