



Reconcile climate and energy policies with Border Adjustment Measures?



EESC Opinion CCMI-167

EESC conference

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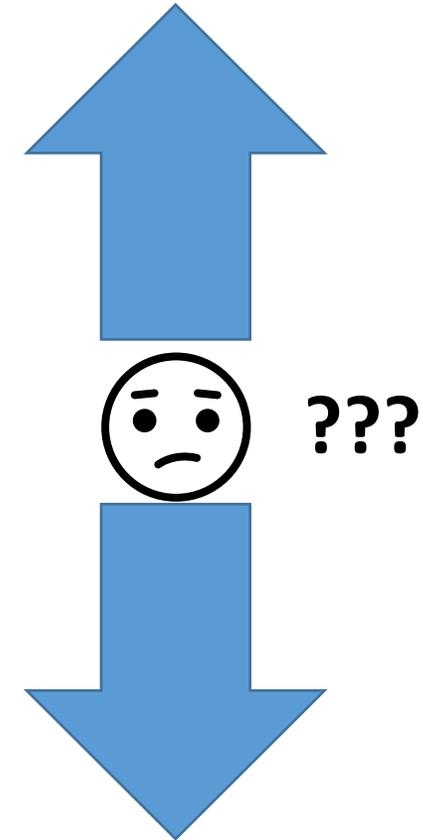
Setting a price for GHG emissions: a policy dilemma

Pushing **up**:

- Business case for **investment** in energy efficiency
- **Price signal** to shift consumption patterns towards sustainability

Pulling **down**:

- External competitiveness of energy-intensive industries = **carbon leakage**



Setting a price for GHG emissions: a policy dilemma

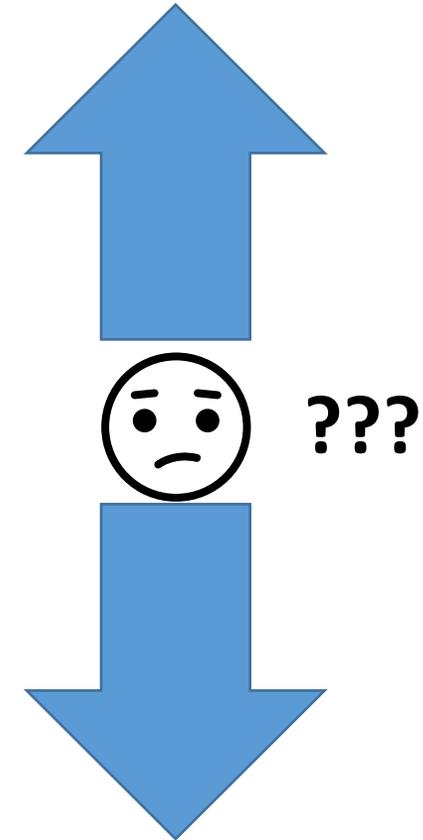
Pushing **up**:

- Business case for **investment** in energy efficiency
- **Price signal** to shift consumption patterns towards sustainability

Envisaged solution: Border Adjustment Measures

Pulling **down**:

- External competitiveness of energy-intensive industries = **carbon leakage**



Opinion CCMI-167: timely proposal for Border Adjustment Measures

The European Economic & Social Committee (EESC) adopted its [Opinion CCMI-167 “The sectoral industrial perspective of reconciling climate and energy policies”](#), on 17-Jul-2019 with 148 votes in favour, 3 against, 3 abstentions

Drafted by [Consultative Commission on Industrial Change \(CCMI\)](#) based on work performed by industriAll European trade union

Purpose:

- propose a **concrete** mechanism of Border Adjustment Measures for the price of GHG gases emissions. The **how**, once the “whether” question has been answered positively.
- Suggest **debate** and comparison of options – no political endorsement

Border Adjustment Measures are fully legal under WTO rules

In case of **internal tax on consumption**, restoration of fairness by:

- **imposing** the tax on **imported** goods
- **re-funding** the tax to **exported** goods.

Legality confirmed by GATT review (1970)

In place for decades (alcohol + tobacco excises, VAT...)

Only (strict) condition: **no detriment to external players**

Re-funding to exporters: VAT-like accounting

GHG emissions contained in goods exported from the EU:

- **Origin:** ETS allowances / (national) carbon tax paid by energy-intensive industries + electric power operators
- **Transmission** along the supply chain: additional line on invoices, full forwarding to internal customers (open question: until final consumer?)
- Upon **export**: selling of ETS allowances / re-fund of (national) carbon tax per invoices received from suppliers, at **average price** for EU-based companies (= including free allowances, if any, in the calculation)

Duplication of existing VAT accounting systems

Tax on imports: GHG content of basic metals, materials & chemicals

ca. 89% of GHG content of industrial product: embedded in basic metals, **materials** or **chemicals**

Application of internal tax to imports / request to purchase ETS allowances based on **GHG emissions content** of **basic metals**, **materials** or **chemicals**:

- At average price of GHG emissions for EU-based companies
- Easy to compute: mass (kg) x GHG emissions per kg
- Easy to control + legal certainty for Customs
- Good approximation
- (slight) advantage to importers

Virtuous circle to incentivise disclosure of emissions data

GHG content of basic material, metal or chemical:

- **national average**, based on public, official databases or
- controlled, reliable **factory-specific data**. If so: national average re-computed by taking out GHG emissions and production of factory

Virtuous circle of data disclosure on GHG emissions at factory level:

- High-performance factories don't want to be penalised by national average => disclose first
- National average deteriorates
- Other factories, previously protected by national average, disclose their data



Application of internal tax to imports: example – light car

Material	Mass	GHG intensity	GHG content
Unit	kg	kg CO ₂ e/kg	kg CO ₂ e
Steel	900	3,01	2 709,0
Glass	30	0,91	27,3
Polyethylene	250	2,54	635,0
Aluminium	150	9,22	1 383,0
Rubber	50	2,85	142,5
Total	1 250		4 896,8

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At 30 EUR /
tonne CO₂e:
147 EUR
adjustment

Recommendations given by EESC in Opinion CCMI-167

- Border Adjustment Measures on GHG emissions: Potential reconciliation of climate policy + external competitiveness of energy-intensive industries, because:
 - **Simple** principles
 - Fully **compatible** with WTO rules
 - **Implementable**, based on fully-proven technologies + procedures
 - Based on **simple evidence** (mass of materials) and on available public data + incentives to disclose private data (GHG intensity)
 - Applicable to **any** – or even **all** – **industrial sectors**
- Full policy debate on options, including this one
- No political endorsement taken

Sector-specific concerns: chemicals

Very large **diversity** of **complex molecules**

Basic chemicals (strong acids & bases, strong oxidising and reducing agents, alkenes, aromatics): storage of chemical energy + supply of key chemical elements

Possible **answers**, to be debated:

- Complex molecules as **assemblies** of basic chemicals (analogy: mechanical objects = assemblies of parts each made of one basic metal)
- List of basic chemicals used in molecule: provided by non-developed chemical formula + by standard initial stages of chemical processes

Sector-specific concerns: metals

How to distinguish between:

1. **Primary** and **recycled** metal
2. Different emissions per kWh of **electric energy**.

Possible **answers**, to be debated:

1. **Traceability** using **blockchain** technology *or*

Analysis of **impurities**:

- a) Primary material = one ore, recognizable pattern of impurities in spectrometer
 - b) Recycled material = many ores, averaged-out pattern of impurities
2. Use publicly-available **emissions data** at the scale of the **electric network**. Allocating “green” electrons to specific usages is a fiction. Electricity from all sources is physically pooled in the network, so should their associated GHG emissions.