

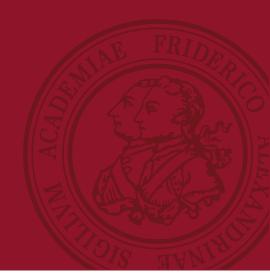
Including consumption in the EU ETS -

A chance for the European Union to overcome carbon leakage

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1. Overview



1.1. Objectives of the "Inclusion of Consumption"

Economically:

- reactivate emissions reduction potentials on production and consumption side under carbon leakage constraints
- establish level-playing field between low- and high-carbon products
- incentivise investment in low-carbon technology
- promote sustainable consumption

Politically

- create trade neutrality
- do not discriminate against imports
- avoid political constraints at European level
- design a systemic approach



1. Overview



1.1. EU ETS and Carbon Leakage

EU ETS:

- Market-based approach...
- ...through production efficiency...

- ...to promote emissions reductions...
- ...and consumption efficiency.

Carbon leakage:

- Increase of emissions in region A...
- ...due to unilateral climate policy in region B.
- ...and decrease of emissions in region B...
- Undermines an effective and efficient ETS at production and consumption side

Approaches to tackling carbon leakage

Border Carbon Adjust.

HAL-allocation

Output-based allocation

Political constraints

Economic inefficiencies

Limited pass-through of carbon costs

2. Including consumption in the EU ETS



2.1. Overview: Including consumption

Production pillar

 output-based allocation of allowances to sectors exposed to a risk of carbon leakage based on benchmarks that reflect BAT

Consumption pillar

- including consumption of carbon-intensive goods (metals, non-metals, clinker) in the EU ETS...
- ...by means of a parafiscal charge...
- ...imposed at the time of release for consumption...
- ...assigned to national trust funds...
- ...used for the acquisition of allowances at the auction platforms and mitigation efforts...
- ...calculated according to the carbon content and carbon price at the time of consumption (benchmark*weight*carbon price).

Charge = weight x product specific benchmark x carbon price

2. Including consumption in the EU ETS



2.2. European Primary Law (Article 192 TFEU)



- measures which are fiscal in substance...
- ...but not market-based approaches

primarily implemented for environmental purposes and not to generate income for public authorities;

the amount levied is determined by its environmental aim; the amount payable cannot be determined in advance by establishing a base of assessment or rate in advance

- parafiscal charge is no tax in the narrow sense
- parafiscal charge as auxiliary tool
- integration into EU ETS
- level of charge determined by allowance price and carbon content of products

'Inclusion of consumption' constitutes market-based approach

→ qualified majority vote sufficient

2. Including consumption in the EU ETS



2.3 World Trade Law

GATT

- internal taxes and charges (Articles II (2) (a), 3 (2) GATT)
 - consumption based charges
 - directly levied on a product (i.e. excise tax, VAT, sales taxes; working party on BTA)
- irrespective of its purpose (Superfund Case)

1. Like products

Defined with reference to the product's end-uses, consumers' tastes and habits, product's properties, nature and quality, and similar tariff qualification; **not** based on the production process

2. Non-discrimination

Inclusion of consumption

- parafiscal charge to be in line with WTO law
- charge directly levied on the consumption of i.e. steel
- → adjustments feasible under WTO law
- target product: i.e. steel, clinker
- calculation of the charge based on benchmarks and weight of target product
- no differentiation between i.e. low- and high-carbon steel
- equal treatment of imported products and EU products
- **→** Compatible with GATT

National treatment requirement (Art. III (2) GATT

Adjustments for

3. Implementation: Defining consumption sphere



aims

- shift charge closer to final consumer
- reduce administrative costs
- avoid carbon leakage downstream

Introduction of duty suspension arrangements similar to excise tax law

carbon-intensive

suspension arrangements

suspense payment of the parafiscal charge

- applicable to production, processing, holding or movement of high carbon goods
- can be applied upon importation of carbonintensive goods

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consequences

goods subject to charge at time of production or importation

- chargeable at the time of departure of goods from duty suspension arrangement
- payable by person that releases goods from duty suspension arrangement

requirements

- licensing of producers as warehouse keepers
- licensing of production premises as carbon warehouses

approach



Thank you for your attention!

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