The sectoral industrial perspective on reconciling climate and energy policies

CCMI/167 Own-initiative opinion

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Background

- Climate policy is confronted with an inherent difficulty
- European energy and climate policy is hampered by contradictory requirements on the price for Greenhouse effect Gas (GHG) emissions
  - high prices would be necessary to incentivise investment and changes in consumption patterns
  - low prices would be required by the preservation of the external competitiveness of EU energy-intensive industries, as well as the prevention of “carbon leakage”
- The report investigates the technical and legal feasibility of Border Adjustment Measures for the internal price of GHG emissions

The EESC position

- The EESC is concerned by the risk of carbon or investment leakage in REIIs, and of resulting job losses, in the current situation of divergent prices for GHG emissions on global markets
- The EESC called for a global ETS in order to create a level-playing field in international competition between REIIs
- The EESC considers it essential to reconcile industrial and energy policies with climate policy in order to mobilise the huge investment made necessary by the transition to a zero-carbon economic model for REIIs
- The EESC intends to contribute to the reflection on the long-term industrial strategy called for by the European Council, by examining the technical and legal feasibility of one among many policy options currently in the public sphere

The dilemma of climate policy

- In a market economy, a very efficient tool is to set a price for GHG emissions
- Economic players can either profitably invest in emissions-saving equipment or can save money by reducing their consumption of materials
- In order for this method to be effective; the price for GHG emissions must be high and predictable enough to trigger investment or behaviour change

The target for the EU is to reach carbon neutrality by 2050, as encouraged by the Commission's Communication "A clean planet for all".

The envisaged mechanisms

- Transparent accounting system for exporters; importers pay only for the GHG emissions content of the basic materials
  - A transparent accounting system keeps track of the GHG emissions incorporated in each industrial item, and brings it forward along the value chain
  - When an REII has had to pay for its GHG emissions it must keep track of this payment in its accounting system, and forward it to its customers in its invoicing
  - This would re-use the existing, elaborate system of GHG accounting that was developed in the EU for the sake of computing free allowances for ETS, and which is a clear asset

Computing the remedy applicable to imported goods

- The tax base and the tax rate must be established with minimal room for interpretation or legal dispute
- The tax base must be verifiable by analysing the imported good itself, which is the least disputable piece of evidence
- The EU should provide technical support to companies abroad in setting up the reliable GHG emissions accounting systems required, and thus continue its current friendly stance towards trading partners
- To prevent unscrupulous players from unduly attributing the low GHG emissions intensity, a traceability system, e.g. based on blockchain, could be developed and used

The EESC advises

- The Commission to deepen its reflection on this and other policy options
  - reformed Emission Trading System
  - carbon border adjustment
  - VAT rate adjusted to carbon intensity
- The Commission to engage early in consultations with the EU's main trading partners to test their views on the options considered

Thank you for your attention!

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