



Time to tax the carbon dodgers

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VIEWPOINT - *John Hontelez*

With rapidly mounting signs that carbon dioxide emissions cause global warming, how should we deal with countries which haven't ratified the Kyoto Protocol and don't impose a "carbon charge" on their exports?

These countries unfairly favour their own goods and discriminate against nations that do apply such a charge, as the European Union is doing with its Emissions Trading Scheme, and some of its members with carbon taxes.

Can we rebalance the economic burden of shifting to a low-carbon society?

Border Tax Adjustments (BTAs) might be the answer which allows the EU to develop responsible climate policies without having to wait for other countries.

They would result in products imported from the US being taxed to compensate for resulting differences in production costs. Thus EU firms would be protected against unfair, carbon-careless competition from outside.

BTAs can redress the balance between, say, EU companies that pay for their CO₂ emissions, and companies from the USA which do not because the White House won't take climate change seriously.

Hot topic

Politicians, economists and environmentalists have periodically promoted BTAs.

The subject most recently hit the EU agenda when its High Level Group (HLG) on Competitiveness, Energy & Environment advised the European Commission on the long-term energy future last October.

The HLG includes EU commissioners, economic affairs ministers, business leaders, trade unionists and delegates from environmental NGOs.

Responses have been mixed. Some were concerned over repercussions on free trade; others felt the issue needed serious study.

I'm involved as a "sherpa", or advance planner, to an NGO leader, so I've seen how heated the reactions can be.

The group concluded that it would be worth looking in depth at the feasibility of using BTAs, as well as positive trade measures to encourage low-carbon thinking, such as granting access to environmentally-positive goods.

There was subsequent evidence of differences in opinion within the Commission.

In November last year, Enterprise Commissioner Gunter Verheugen asked Commission President Jose Manuel Barroso for a taskforce to explore possibilities including border tax adjustments.

Trade Commissioner Peter Mandelson responded in December: "There is one trade policy response to climate change about which I have serious doubts... (namely) a specific 'climate' tariff on countries that have not ratified Kyoto.

"This would be highly problematic under current World Trade Organization (WTO) rules, and almost impossible to implement in practice."

Hostages of fortune

Mr Mandelson went on to point out that developing countries are not required to make specific emissions cuts under the Kyoto Protocol; also, that some US states have ambitious climate policies.

"Dealing with climate change is an international challenge. Coercive policies will harm this," he said.

"Collective responsibility will only be fostered by policies of dialogue, incentive and co-operation."

I agree; co-operation is better. But making international co-operation a requirement gives hostages to cynical governments.

I'm least impressed by the WTO reference. The importance of limiting climate change is overwhelming, so the WTO shouldn't obstruct it; nor do its rules proscribe BTAs.

The debate will continue. In November, French Prime Minister Dominique de Villepin proposed a study with other EU states, looking to impose an EU carbon tax on goods from countries which refuse to implement the Kyoto Protocol after 2012.

Such a study should emerge early this year.

Responsible move

There are several important aspects regarding border taxes.

It's clear the tax shouldn't apply to imports from poor countries with low per-capita carbon emissions; the real onus is on countries with major responsibility for climate change which refuse to take necessary measures.

A "Kyoto tax" shouldn't be abused to respond to low labour costs in other countries

At present, this list shouldn't include China, which as a developing country has a relatively low emissions-to-population ratio.

However, exempting specific US states from a BTA targeting that nation, if technically feasible, would be great, as it would pressure the rest of the US to fall in line.

I don't see BTAs as a monolithic or permanent phenomenon. Eventually we should all move to taxation systems which make labour cheaper and environmental damage more expensive.

Economies which lead the way in promoting energy and resource efficiency, renewables and clean production methods will become more efficient and stronger, and have great export opportunities.

So BTAs should be seen both as a temporary measure, a bridge to the tax shifts which must inevitably come; and as a justifiable threat to irresponsible governments like those of the US and Australia, the only rich countries which refuse to implement Kyoto.

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