THE CONSUMER PERSPECTIVE ON AN EU CARBON BORDER ADJUSTMENT MECHANISM

ABOUT THE FEDERATION OF GERMAN CONSUMER ORGANISATIONS

The Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband e.V. – vzbv; www.vzbv.de) is the umbrella organisation for more than 40 consumer organisations throughout Germany and represents the interests of German consumers vis-à-vis policymakers, the private sector and in public. vzbv is also a founding member of BEUC, the European Consumer Organisation.

CARBON BORDER ADJUSTMENT AS AN EFFECTIVE MEANS OF ACHIEVING CLIMATE TARGETS

An increase in the level of ambition for CO_2 reduction in the EU within the framework of the European Green Deal entails the risk that emission-intensive industries will relocate their activities to regions of the world with less stringent climate regulations. Such "carbon leakage" would make it more difficult for consumers to make sustainable consumption choices. To prevent this, a number of instruments are conceivable, above all an international agreement on the pricing of CO_2 emissions. Since such an agreement seems politically unrealistic at present, vzbv considers a carbon border adjustment mechanism to be a sensible instrument for imposing a surcharge on imports to reflect the costs of their CO_2 emissions, as would be the case in the EU.

- vzbv welcomes the discussion on a carbon border adjustment mechanism. If properly designed, it can be an effective trade instrument to achieve the climate goals of the European Union and can enable consumers to consume sustainably. Such a mechanism must have a clear steering effect towards sustainable, consumer-friendly production methods.
- Furthermore, a border adjustment mechanism can be an adequate means to create a "level playing field" between European and non-European products with regard to the CO_2 emissions contained in the products.
- The design of a carbon border adjustment mechanism should be WTO-compliant and aim to include as many other states as possible in such a system.

COMPREHENSIVE MAPPING OF INDUSTRY SUBSIDIES

- In order to achieve WTO compliance, the EU Commission should examine what measures have been taken at European and Member State level to relieve industrial sectors from environmental and climate protection costs ("mapping exercise"). In vzbv's view, this mapping should be comprehensive and include exemptions from energy taxes granted under Article 17 of the Energy Taxation Directive as well as the allocation CO_2 allowances under the EU-ETS and of course state aid granted under the Guidelines on State Aid for Environmental Protection and Energy 2014-2020 (EEAG). In a subsequent step, these industrial subsidies, which serve to maintain competitiveness, should be abolished, since the border adjustment mechanisms will then already create a competitive level playing field with third countries.

Background

In order to ensure that a carbon border adjustment mechanism can be applied to third countries in a non-discriminatory manner, it may only compensate for burdens on domestic (EU) industry. This presupposes that these burdens actually exist in the form of a carbon price. In principle, the introduction of a border adjustment mechanism would mean that all subsidies for industry at EU level and national level would have to be abolished.

- The current allocation of free CO_2 certificates, or even partial reimbursement or concessions on the purchase of a CO_2 certificate within the EU ETS would not be compatible with a non-discriminatory carbon border adjustment mechanism.
- If the EU Energy Taxation Directive were to be reformed, as announced by the European Commission, the exemptions for energy-intensive industry currently regulated in Article 17 would also have to be deleted.
- In the forthcoming reform of the 2014-2020 Guidelines on State aid for environmental protection and energy (EEAG), the current reductions for industry of "financial contributions to the promotion of renewable energy sources" would not be compatible with a carbon border adjustment mechanism. In Germany, for example, this concerns the exemption for energy-intensive industries from payment of the full levy under the Renewable Energy Sources Act (EEG).

DETAILED ANALYSIS OF THE IMPACT ON CONSUMERS

The European Commission should examine in detail the effects of a border adjustment mechanism on consumer prices. It should pay particular attention to the economic impact on low-income consumer groups and examine distribution effects between consumer groups.

Border adjustment can potentially lead to price increases for consumer goods. Thus, private consumers would have to bear the greatest burden. Therefore, the revenues from a border adjustment mechanism as well as the public money which becomes available after removing the subsidies for the energy-intensive industry should be used for the benefit of household consumers.

Background

Potential costs for consumers

The effects of a border adjustment mechanism on German and European consumers have not yet been examined in detail. However, the French Institute for Economic Research has calculated the effects of a border adjustment tax based on a CO_2 price of 25 euros/ton. The study assumes that all consumer goods are subject to this tax. The calculation, which could also apply to the supply chains of raw materials and consumer goods in Germany, shows that almost half of France's CO_2 balance is due to imported CO_2 (47.2 percent). 21.4 percent of imported emissions come from countries of the European Union. The largest third country for CO_2 imports is China with 17.9 percent of imported emissions. If the above-mentioned tax of 25 euros/ton were levied on all CO2 imports, this would amount to around 3 billion euros, or 87 euros per French household. The calculations of the French institute show that a CO_2 border tax could well lead to an increase in consumer prices, depending on the consumption structure.

In addition, consumers may face additional costs. In order to make a border adjustment mechanism WTO-compatible, a number of industrial subsidies that are currently paid to maintain domestic competitiveness would have to be abolished. The industry would have higher costs, which it would possibly pass on to consumers through higher product prices.

If, at the same time, the desired steering effect of a border adjustment were to occur and third countries were to introduce their own CO_2 pricing systems in order to escape the EU border adjustment, the costs for industry in third countries would also rise. This could also be reflected in higher consumer prices for goods imported into the EU.

Potential cost reductions for consumers

On the other hand, consumers could pay less for their products if the price increases were cushioned or fully compensated.

In functioning markets with sufficient competition, exporters to the European Union could accept smaller profit margins and thus not fully pass on the CO_2 surcharge to consumers. If producers in third countries invest in more efficient production plants with low emissions, their burden of border adjustment would be reduced again. If a border adjustment charge were to be introduced in sectors whose materials are heavily processed, such as cement and steel, the impact on the prices of consumer goods could be minimal.

It would also be necessary to examine the price elasticity in individual sectors. If a border adjustment charge on cement were to make the construction of houses more expensive for consumers, this would affect a consumer group that has a higher tolerance to price increases than an economically vulnerable consumer living in rented accommodation.

Furthermore, although a border adjustment could make imported goods more expensive, it would also generate new income. These revenues could be used to offset negative effects on the purchasing power of consumers.

In addition to the revenues of the border adjustment tax, additional funds would be freed up because subsidies to industry would have to be eliminated to make the mechanism WTO-compatible. These freed-up funds could also benefit consumers so that, on balance, private consumers would not incur any additional costs.

Kontakt

Verbraucherzentrale
Bundesverband e.V.

Team
Brussels Office

Rudi-Dutschke-Straße 17
10969 Berlin

Buero-bruessel@vzbv.de

verbraucherzentrale
Bundesverband