CIOT/IFS debate: Carbon border adjustment

Briefings



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With the government consulting on plans that would help to prevent the taxation of greenhouse gas emissions leading to the movement of emissions-generating activities overseas, in May the CIOT and the Institute for Fiscal Studies held an online debate on proposals for a carbon border adjustment mechanism (CBAM).

Joining the chair of the event, IFS Deputy Director Helen Miller, were Michael Keen of the University of Tokyo, Alice Pirlot of the Geneva Graduate Institute, Jennifer Rowland of HM Treasury and Richard Woolley of the Chemical Industries Association.

A CBAM would tax imports to the UK based on their embedded and untaxed carbon content and is an idea gaining traction in policy making circles.

Jennifer Rowland said that a CBAM was among the options being considered by the government in its consultation (which closed on 22 June) on tackling carbon leakage. She emphasised that no decision had at that stage been taken on whether to

introduce a UK CBAM but said that any mechanism would need to find the ‘sweet spot’ of simplicity and fairness.

Michael Keen argued that a CBAM would allow for more aggressive domestic carbon pricing and contribute towards more efficient and effective efforts to tackle carbon leakage globally. He said a levy like this would need to tackle carbon leakage and maintain competitiveness. While encouraging other countries to adopt similar carbon pricing schemes is often also given as an objective, this depends on how much of your domestic carbon emissions is embodied in your exports. For major emitters such as China, that is relatively low.

Alice Pirlot, while supportive of CBAMs in principle, warned that they were legally problematic. Under international trade law, you need to be non-discriminatory, treating imports the same as domestic production. Under the Paris agreement (climate change law), developed countries are supposed to take the lead and developing countries are permitted to do less. Moves towards a uniform carbon price such as through a CBAM conflict with this.

Richard Woolley argued that a CBAM could be a helpful tool but that to be successful it would need to be well-designed with input from industry. He said that it would need to align with the UK’s existing Emissions Trading Scheme and be designed to ensure that it does not price UK products out of international markets. It must disincentivise companies from switching to pollutants that fall outside the scope of the scheme. He also argued that a UK scheme significantly different from the EU’s could increase the risk of non-recognition.

In the Q&A session that followed, panelists considered questions including the legal and political challenges identified by Pirlot and Woolley and the challenge of taxing embedded carbon.

For a fuller write-up and recording of the debate, see: tinyurl.com/35dxwxd3