European Parliament backs carbon border tax

Hans van Leeuwen *Europe correspondent*

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London | The European Parliament has backed the bloc's push for a carbon border tax on imports from countries such as Australia, in a plenary vote on Wednesday (Thursday AEDT) that gives Brussels the political imprimatur and momentum to press ahead with the plan.

The European Commission is expected to present the details of the EU's carbon border adjustment mechanism (CBAM) in June, with a view to getting at least a pilot scheme up and running by the start of 2023.

The European Union is looking for a road out of coal dependency. **Bloomberg**

Although several models are still under consideration, the European Parliament urged a direct link between the CBAM and the EU's emissions trading system (ETS), in which producers in carbon-heavy industries buy and trade permits to emit greenhouse gases.

Australian companies exporting to the EU would face a tax equivalent to the ETS carbon price paid by Europe-based competitors, unless Australia had an ETS of its own or the exporter could demonstrate its low-carbon credentials.

The regime is seen in some European quarters as the potential centrepiece of a "carbon club" of countries that might impose border taxes to avoid penalising their own industries as those governments pursue aggressive emissions targets.

The European cheerleaders have been encouraged by US President Joe Biden's support for carbon pricing, British Prime Minister Boris Johnson's climate evangelism and China's move to set a 2060 "net zero" target.

Mr Biden's climate envoy, John Kerry, was visiting Europe as the parliamentary vote took place. On Tuesday, he said Brussels and Washington would need to work together to spearhead the global campaign to cut emissions.

"We have no better partners than our friends here in Europe, the EU. It is important for us to align," Mr Kerry told the press in Brussels on Tuesday. The following day in Paris, he said his mission was "to raise the ambition of many countries, of all countries . . . this decade is the decade of action".

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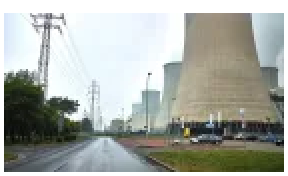
The EU's stated policy is to reduce net carbon emissions by 55 per cent from 1990 levels by 2030, reaching net zero by 2050. Large swathes of funding have been earmarked, but the transition is still gearing up only slowly.

"The question is whether the US and the EU can co-ordinate their action. And if they do then you move towards a CBAM-based climate club," said Guntram Wolff, director of Brussels-based think tank the Bruegel Institute.

The European Parliament's MPs voted 444 in favour of the CBAM on Wednesday, with 70 against and 181 abstentions.

Although the CBAM is expected to be politically contentious in some European states, this indicates broad-based political support.

"I don't hear strong voices against the mechanism," said Pascal Canfin, a liberal MEP who chairs parliament's environment committee. "It's not a project that Germany supported at the very beginning, for example, but now Germany is on board. We will move on this, I'm quite confident that it will happen."



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The parliamentary motion said the CBAM should not be "misused as a tool to enhance protectionism" – a charge levied recently by Trade Minister Dan Tehan – and had to be compatible with World Trade Organisation rules.

MEPs said it should cover sectors including energy, cement, steel, aluminium, oil refining, paper, glass, chemicals and fertilisers. Some of these sectors still receive generous allocations of free permits under the ETS.

Those details will emerge in June, which could herald the start of a political bunfight.

“As soon as it becomes a concrete proposal on paper, and the colours are nailed to the mast on what it means, it then gets down to the detail of negotiation and it becomes very tricky,” said Susi Dennison, a program director at the European Council on Foreign Relations in Brussels.

Matthew Snoding, a tax adviser at public affairs consultancy FIPRA, said the complexity of the proposal, and the need to reduce the amount of free permits, would make for a drawn-out process.

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“I’m not sure 2023 is a realistic timetable,” he said. “If you get a proposal in June or July this year, you’ll need a good while of discussions and negotiations after that, and then you’ll need some kind of implementation period – because EU businesses need time to prepare as well, it will impact on them.”

Aaron Cosbey, senior associate at the European Roundtable on Climate Change and Sustainable Transition, said he would be surprised if Brussels could match the ambition of the Parliament’s CBAM motion.

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"It's likely that there will be something running by 2023, but I think it'll be a scaled down, pilot-level thing that includes cement and electricity," he said. "The probability that you'll see something for chemicals, the steel industry, aluminium, non-ferrous metals – that's much more uncertain."

Anu Bradford, a Columbia University professor and author of *The Brussels Effect*, said the EU would be hoping Mr Biden was able to follow through on his own pledges and create a multiplier for the CBAM.

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"The EU hope would be that the US would at about the same time implement its own measure, and we could imagine a carbon-free trade zone, a trans-Atlantic zone within which this rule would apply," she said.

"That would make it very difficult for anyone to resist the EU measure because you would be shut off from both of the leading markets, so ideally this would be much easier for the EU, to launch it jointly or in parallel with the US."

But Mr Cosbey said Mr Biden would struggle to get a carbon-pricing system through Congress, and might opt for an alternative approach.

"The plan looks like being that the US will spend its way to future competitiveness as opposed to any kind of carbon price," he said. "So there is intense political will to work out some co-operative way forward. I just don't know what on earth that looks like at this point, given the realities of the different approaches."

Hans van Leeuwen covers British and European politics, economics and business from

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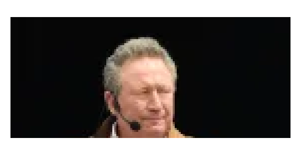

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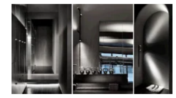

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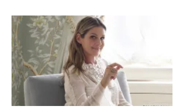

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