Tariff policies in climate change mitigation

Border measures, such as tax adjustment and tariff policies, are among the central issues of climate mitigation policy. Instead of serving their traditional fiscal function, these measures are rather designed to prevent so-called "carbon leakage": reallocation of production from countries with carbon reduction commitments to countries with no emissions restrictions, since such leakage might considerably decrease the effectiveness of global climate change mitigation efforts.

Initial empirical research into the issue does suggest that a gradual increase in the import-export ratio of energy-intensive industries in developed countries—and a gradual decline in the ratio in some developing regions—indicates a process when energy intensive production is gradually shifting to developing countries. More stringent climate policies in industrialized countries in the future may continue to provide the necessary impetus for an even more visible leakage of carbon-intensive industries, which can undermine all the climate change mitigation efforts leading to even larger, amounts of carbon dioxide ending up in the atmosphere.

Recently, a number of proposals to introduce BTA measures in various national and regional carbon taxation and emissions trading systems were put on the table on governmental level (Hennig, 2008). These proposals include a carbon tax on imports, emissions standards and a requirement to the importers to surrender emission allowances at the time or point of importation. However, the introduction of climate policy-related BTA measures is deemed quite problematic both from economic, legal and political perspectives (Hufbauer, 2009; Cosbey, 2008; Ismer and Neuhoff, 2007). There is a need to focus on the legal issues of BTA measures, particularly their justification under WTO law. These issues might include, among others, the clarification of the concept of BTA measures under WTO law and the specification of WTO law provisions on BTA measures for regulations and taxes on climate-related Process and Production Methods (PPMs).

Another approach is to revert to the tariff policy. Tariffs are a lawful instrument of protection under the WTO law, creating opportunities for unilateral deconsolidation with a compensation, which can take the form of lowering tariffs on equivalent products with a greener profile. A number of technical and procedural obstacles must be overcome. First, for some of the products concerned, there is no appropriate code under the Harmonised System Codes (HS Code). While some of these products can be located through the six-digit HS code, for most it would have to work at eight or ten digits and may require new classes to be devised. In a very few cases visual inspection might suffice to identify a relatively efficient good: e.g. compact fluorescent lamps or LCD monitors, etc. But generally a "greener" product can only be identified through testing and comparison according to test procedures, product categories and efficiency metrics, which often differ by country. For energy-efficient goods to be included in tariff reduction or tariff-elimination initiatives, there would have to be agreement on a standard set of product descriptions, reference testing standards and efficiency thresholds, etc. Following questions arise: Should we use tariffs to achieve a level playing in climate mitigation; Should tariffs be deconsolidated and imposed on the basis of CO2 emission standards of products, and PPMs; How to compensate sectoral increases, etc.