



DANGERS IN UNILATERAL CO² ACTION

Opinion Piece by ACCI Trade and International Affairs Policy Director Daniel Tehan “*Dangers in Unilateral CO² Action*” as published in the Australian Financial Review - 5 June 2008

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The introduction of a domestic emissions trading scheme (ETS) before a post-Kyoto multilateral agreement on curbing global greenhouse gas emissions must be approached cautiously.

If Australia were to cap its emissions through the introduction of a trading scheme without similar action occurring in other countries, especially developing countries, the cheaper production costs in free-rider or non-complying countries may result in jobs and industries being relocated to these lower-cost centres. There would be no net change to global emissions output and negative economic consequences for Australia.

Overseas, these two problems of environmental integrity from developing-country inaction and the loss of international competitiveness have been recognised.

In the United States, a white paper prepared by House Energy and Commerce Committee staff has argued that “unilateral action by the US could harm the competitiveness of our industries in world markets and result in the loss of American jobs”.

Debate in the US is not about whether to include developing countries in a domestic ETS but how to do so in a manner consistent with the rules and regulations of the World Trade Organisation.

On March 5, the US energy and air quality subcommittee of the House Energy and Commerce Committee discussed the WTO implications of a carbon border tax, a carbon intensity-based regulation on imports, and imposing conditions or costs on foreign country participation in the US carbon market. The situation is not too dissimilar in Europe. While more advanced than the US on its draft legislation for a second-phase ETS (it was presented to the European parliament in January), the European Union has also left open the possibility of border measures.

Academic work in the EU also suggests that a CO₂ border tax adjustment can be both feasible and compatible with WTO constraints. The authors of a working paper for the department of applied economics at the University of Cambridge conclude that a border tax adjustment for an ETS is an economically viable approach to address the risk of leaking emissions and jobs, profits and tax revenues, and “should be compatible with World Trade Organisation laws”.

Border tax measures such as these, which are designed to solve the dilemma of non-participation by developing countries, are very much a second-best solution behind a multilateral climate change agreement, do not effectively target either competitiveness or developing-country action and have the potential in a worse-case scenario to lead to open trade disputes between developing and developed countries.

The conclusion of a post-Kyoto multilateral agreement must be Australia’s top priority at the United Nations. This is the best way to prevent domestic economic dislocation if we move too far or too fast and in a unilateral manner. It would also be the way to stop dangerous unilateral trade measures from being adopted in the future by the EU and the US.