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**WCO Research Policy Brief -  
The EU Aviation Emissions Policy  
and the Australian Carbon Tax**

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## **Abstract**

This WCO Research Policy Brief provides a summary of recent developments on global warming, climate mitigation policies, and the implications for customs. Global warming likely contributed to the slew of damaging climatic events experienced in 2010 and 2011. No significant international or national climate change policies were adopted in 2010. Two climate change policies neared fruition in 2011, however, namely the European Union's (EU) plan to add aviation emissions to its Emission Trading Scheme (ETS) and a carbon pricing mechanism in Australia. Both plans face opposition, and the EU plan was challenged at the European Court of Justice. While these two new policies have no direct implications for customs, indirectly the results of the policies could influence future decisions about carbon border tax adjustments (carbon tariffs). In addition, Australia's carbon pricing mechanism could motivate other countries to adopt carbon taxes which would again raise the question of which public administration (such as customs) would collect such taxes.

## **Key words**

Customs and Climate Change, border tax adjustments, carbon tariff, carbon tax

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*"It's bad out there  
High water everywhere"<sup>1</sup>  
-Bob Dylan*

## **Introduction**

This WCO Research Policy Brief provides a summary of recent developments on global warming, climate change mitigation policies, and the implications for customs. Carbon emissions significantly increased in 2010. A large number of deleterious climatic events have occurred in 2010-2011 and these were likely manifestations from global warming.<sup>2</sup> No significant national or international climate policy proposals were adopted in 2010.

Policymakers in Brussels and Canberra, however, are on the verge of implementing two carbon pricing policies in 2012. First, a European Union (EU) policy, which is due to come into effect in January 2012, will require carbon emissions by flights landing or taking off from the EU be incorporated into the EU Emission Trading Scheme (ETS). Second, the Australian Government has proposed a carbon pricing mechanism (initially a carbon tax which will shift to an ETS after three years) that if passed by the legislature would come into effect in July 2012. Both policies have met ferocious opposition.

Neither proposal, at least directly and over the short-term, will have implications for customs administrations (Ireland, 2010). Indirectly, however, the sustainability of the EU policy could provide political and policy support for carbon border tax adjustments (carbon tariffs) to influence recalcitrant countries to introduce serious carbon pricing mechanisms. In addition, the Australian plan notes concerns about carbon leakage to pollution havens and offers several types of assistance, including the allocation of free carbon credits to the most emissions-intensive and trade-exposed Australian businesses (Commonwealth of Australia, 2011: p. 55). If this approach is unsuccessful, it could lead to reconsideration of the decision not to use border tax adjustments. Moreover, Australia's policy could spark adoption of carbon taxes or emission trading systems by other countries, and questions about which agency (such as customs) is responsible for collecting the tax.

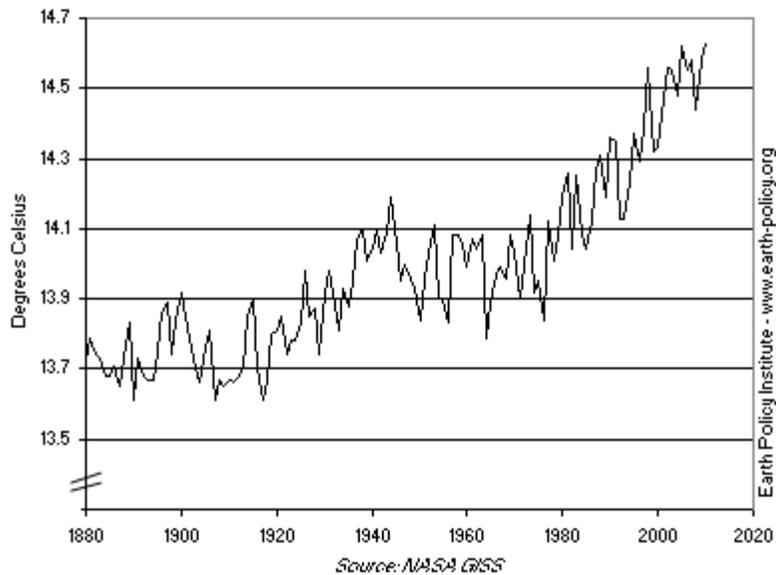
## **Carbon Emissions**

Carbon emissions by human activity, which are unassailably the primary cause of global warming, reached a new record in 2010. After a lull caused by the Great Recession, the highest volume of carbon emissions in history occurred in 2010 with a total of 30.6 billion tons.<sup>3</sup> Carbon parts per million (ppm) in the atmosphere reached 393.69 ppm in June 2011.<sup>4</sup>

## **Heat, Floods, Fires, and Drought**

2010 is now confirmed as being tied with 2005 for the highest average global surface temperature at least since record measurements began in the 1880s.<sup>5</sup> In 2010, Mohenjo-Daro, Pakistan, reached 53.5 °C (128.3 °F), the highest temperature ever measured in Asia.<sup>6</sup> U.S. National Aeronautics and Space Administration (NASA) data reflects that average global temperatures have steadily increased from 1880 to 2010 (see Earth Policy Institute chart below).<sup>7</sup>

Average Global Temperature, 1880-2010



While it is impossible to determine precise causality of any complex event, such as the Great Recession or extreme weather, scientists are confident that global warming is likely contributing to the spate of unusual weather events that the planet is experiencing. Floods, fires, and drought have been especially worrying over the past year (Gore, 2011). Pakistan suffered devastating flooding in 2010.<sup>8</sup> Australia,<sup>9</sup> Colombia,<sup>10</sup> Denmark,<sup>11</sup> South Korea,<sup>12</sup> and the United States (Mississippi River Valley<sup>13</sup> and North Dakota<sup>14</sup>) have experienced unusual precipitation events leading to short-term or long-term flooding. Serious droughts and fires afflicted Russia<sup>15</sup> and the United States (Arizona<sup>16</sup> and Texas<sup>17</sup>). Developing countries are being especially harmed and have limited recourse: the Horn of Africa is suffering its worst drought in 60 years.<sup>18</sup>

### **Climate Change Mitigation Policy**

Public policy can best support climate change mitigation by raising the price of carbon emissions and creating incentives for low-carbon energy technologies such as solar and wind. No major policy measures to price carbon were adopted in 2010. The outcomes of the November-December 2010 United Nations Framework Convention on Climate Change (UNFCCC) meeting in Cancun were modest. Efforts by some U.S. legislators to pass a climate change law ultimately failed. France abandoned its proposal to launch a carbon tax, although it is still part of the EU ETS.

### **The EU Aviation Emission Policy**

Under the EU aviation emissions policy, which will take effect on January 1, 2012, airlines that land in or take off from the EU will be required to buy carbon credits under the EU ETS. Because the policy entails a cap on emissions, airlines that reduce their emissions by the set amount need not to pay anything. In addition, if nations can show they are taking “equivalent measures” to reduce carbon emissions for their airlines, this would result in a reduction of what would be required. Several governments oppose the

policy and U.S. airlines have filed a lawsuit at the European Court of Justice in an effort to overturn the law (Rahim, 2011; The Economist, 2011a).

The EU policy can be considered, among other things, as a strategy to prevent carbon leakage and loss of competitiveness to non-EU airlines. The comparison has its basis in the notion that Country A's aviation carbon emissions are conceptually akin to Country A's manufacturing industry's embodied carbon emissions. If, as a result of the government's carbon pricing mechanism, Country A's aviation emissions cost more than Country B's aviation emissions, it would create an expense differential conceptually comparable to where Country A's manufacturing industry's emissions cost more than Country B's manufacturing industry's emissions.

Because EU airlines come under the policy, if non-EU airlines are not covered, the EU airlines would be at a competitive disadvantage. This has similarities to the reasoning behind the proposed remedy of carbon border tax adjustments (BTAs) or carbon tariffs suggested by some policymakers, but as of yet not implemented. BTAs in the climate change context would entail customs or another border agency taxing or requiring the purchase of carbon credits related to the embodied carbon in internationally traded goods (predominantly imports). While most of the literature on carbon BTAs has focused on the potential economic impacts, some have discussed the view that BTAs could function as a political lever to persuade trade-exposed national businesses with significant emissions to not oppose as robustly national climate change legislation and also to influence reluctant countries to adopt their own national carbon pricing laws (Victor, 2011: p. 86; Krugman, 2010; Ireland, 2010).

### **Australia's Carbon Pricing Mechanism**

In July 2011, the Australian Government announced the unveiling of its new carbon pricing mechanism. The plan is scheduled to begin in July 2012 and function for three years as a tax with a fixed carbon price. In July 2015, the plan is scheduled to shift to an emissions trading scheme where the price of carbon would be determined by the market. At the onset, Australia's largest emitters would be required to pay 23 Australian dollars per ton of carbon emissions with annual increases of 2.5 percent in real terms (Commonwealth of Australia, 2011: p. 26).

The carbon tax will need to be collected. It appears that the Australian Customs and Border Protection Service (Australian Customs) will not be the collector of the tax. There is, however, no reason that it could not have been Australian Customs. In addition, Australia's plan could motivate other countries to adopt a carbon pricing policy; customs may or may not be the administrator for revenue collection in those countries.

Australia's plan discusses concerns about carbon leakage and loss of competitiveness to countries that do not have a comparable carbon pricing mechanism. Its remedy, called the *Jobs and Competitiveness Program*, does not use border tax adjustments but a two-tier shielding approach that provides permits (credits) to Australian emissions-intensive and trade-exposed businesses. The initial rates of assistance are 94.5 per cent of the industry average baseline for activities for the first tier, and 66 per cent of the industry average baseline for activities for the second tier (Commonwealth of Australia, 2011: p.115).

The assistance to Australian emitters would end when other major countries institute similar carbon pricing mechanisms or a “harmonized global price” (Garnaut, 2011b: p. 32) is reached. This will thus be an informative experiment in observing whether the plan both reduces Australia’s emissions and adequately protects trade-exposed emitters from competition. If Australia is unable to achieve both goals, it potentially implies the need for an alternative approach, such as border tax adjustments. The assistance approach will be reviewed after five years (Commonwealth of Australia, 2011: p. 115).

The Australian Government’s *Garnaut Climate Change Review – Update 2011*, which fueled this climate policy, states among other things, the following about *assistance* to emissions-intensive and trade exposed businesses as opposed to *BTAs* for carbon leakage:

Where assistance was supported by the Grattan Institute [an Australian think tank] —for cement and steel—it recommended that this be provided through a *border tax adjustment* [emphasis added] rather than free permits. This is because these two industries are largely import competing, and where free permits might inhibit a switch to less emissions-intensive substitute products or processes. It also avoids the economically undesirable outcome of assisting Australia’s least profitable and most emissions-intensive industries simply to avoid global emissions increases in the short term. The Grattan Institute analysis does not consider how regular reviews might amend assistance targeting, or rates, in light of the evolving global environment. The 2008 Review expressed serious reservations about broader adjustments (Garnaut, 2011b).

## **Conclusion and the Implications for Customs**

Extreme weather patterns in 2010 and 2011 have provided more evidence that the global warming miasma is worsening. In 2010, no significant international or national climate change policies were adopted. In 2011, two climate change policies neared implementation, namely the EU plan to add aviation emissions to its ETS in 2012 and a carbon pricing mechanism in Australia. Both plans faced significant opposition, and the EU plan was challenged at the European Court of Justice.

While these two new policies have no obvious implications for customs, indirectly the results of the policies could influence decisions about border tax adjustment proposals. In addition, the introduction of carbon taxes by other countries would continue to raise the question of which public administration (such as customs) would become the revenue collector.

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