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# Opinion Statement FC 7/2020 on the EU Consultations on the Carbon Border Adjustment Mechanism & Energy Taxation Directive

Prepared by the CFE Fiscal Committee

Submitted to the EU institutions on 28 October 2020

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This Opinion Statement responds to the EU Consultations on the Energy Taxation Directive and Carbon Border Adjustment Mechanism

CFE Tax Advisers Europe is a Brussels-based association representing European tax advisers. Founded in 1959, CFE brings together 33 national organisations from 26 European countries, representing more than 200,000 tax advisers. CFE is part of the European Union Transparency Register no. 3543183647-05. We would be pleased to answer any questions you may have concerning our Opinion Statement. For further information, please contact Ms. Stella Raventós-Calvo, Chair of the CFE Fiscal Committee or Brodie McIntosh, Tax Policy Analyst, at [info@taxadviserseurope.org](mailto:info@taxadviserseurope.org). For further information regarding CFE Tax Advisers Europe please visit our web page <http://www.taxadviserseurope.org/>

CFE Tax Advisers Europe welcomes the opportunity to provide input on the EU consultations concerning the Energy Taxation Directive and the Carbon Border Adjustment Mechanism.

Climate changes affects us all. CFE accordingly welcomed the goal announced by European Commission President Von der Leyen during her first State of the Union address on 16 September 2020, to reduce EU emissions by 55% by 2030, up from the planned 40% reduction in emissions. CFE also welcomed the announcement that almost 40% of funds generated by the New Generation EU recovery instrument will be invested in projects which are in line with the EU Green Deal Objectives.

CFE observes that the Carbon Border Adjustment Mechanism will be central to this plan, and Ms Von der Leyen's statement that, "Carbon must have its price – because nature cannot pay the price anymore. This Carbon Border Adjustment Mechanism should motivate foreign producers and EU importers to reduce their carbon emissions, while ensuring that we level the playing field in a WTO-compatible way." CFE is supportive of this goal and CFE members aspire to share their unique knowledge on tax with governments and other international stakeholders in the process of transition to a low carbon global economy. CFE in particular welcomes the proposition that the EU solution on carbon border adjustment mechanisms would seek to avoid a 'tariff war' by ensuring compliance with existing WTO and GATT obligations undertaken by the European Union, as well as close coordination with updated Directive on Energy Taxation currently into discussion.

Tax policy is a key tool to internalise environmental costs and foster the transition to a low carbon economy, for the generations to come. CFE can accordingly see merit in policy proposals being subject to a thorough climate change and environmental assessment. Future-proof tax systems are an equilibrium between today's public finance needs and tomorrow's sustainable policies, bearing also in mind a highly desirable stable framework for stakeholders planning their forthcoming investments in this new economic reality.

Although both carbon adjustments taxation and 'cap and trade' as policy choices both seek to put a price tag on carbon emissions, the resulting uncertainty is managed in different ways: whilst a carbon tax specifies the carbon price by reference to tax rate, with no certainty as to the level of carbon emissions resulting from such pricing, a 'cap and trade' system limits the amount of carbon emissions but results in uncertain price tag on the carbon output.<sup>1</sup> CFE supports further research and evaluation of the most appropriate policy choice which will ensure the precise link between the carbon emission reductions as a key policy goal of the European Green Deal vis-à-vis the carbon tax mechanism as a chosen course of action. Thus proposed Mechanism should not be seen as an automatic substitute for current allowance measures contained in current European 'cap and trade' System (ETS), as it should be carefully reviewed integration of both systems not to harm European industry competitiveness.

CFE is of the view that any new tax measures and the Carbon Border Adjustment Mechanism must be designed in a manner to avoid double taxation, such as in instances where countries have an existing national carbon border adjustment measure, and must come within the ambit of existing dispute resolution mechanisms. CFE understands the challenges in designing new tax rules that are

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<sup>1</sup> Marc A C Hafstead, Robertson C Williams, III, Designing and Evaluating a U.S. Carbon Tax Adjustment Mechanism to Reduce Emissions Uncertainty, Review of Environmental Economics and Policy, Volume 14, Issue 1, Winter 2020, Pages 95–113

not going to produce unintended consequences and lead to double taxation. The issue of double taxation is already difficult to address at present, considering the inadequacy of tax dispute resolution mechanisms.

As such, coordinated measures among EU Member States' rules would prevent mismatches among national legislations, which is an element to consider for a competitive tax environment, taking the interest of the Single Market as whole. From CFE's perspective, simplicity must be a key design-element in the development of any new taxes.