

The European Union's Carbon Equalization System and Its Compatibility with the World Trade Organization's Multilateral Trade Rules —The Case of Border Tax Adjustments

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Abstract

In the absence of any robust international agreements to combat climate change, some countries and organizations have undertaken unilateral policies and measures. One such example is the European Union's emissions trading system—a program that sets limits on the quantities of authorized carbon emissions within the EU. This system places the EU's energy-intensive industries at a competitive disadvantage with respect to foreign firms not so constrained. In order to address carbon emissions and competitiveness through climate change policies, the European Union proposed leveling the playing field by implementing the Carbon Equalization System, including border tax adjustments. This paper examines whether those measures are compatible with multilateral trade agreements under the World Trade Organization.

Key Words: climate change, carbon equalization system, carbon leakage, border tax adjustments, Emission Trading System