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5th AIEE Energy Symposium

SDA Bocconi
SCHOOL OF MANAGEMENT
SUSTAINABILITY LAB

Current and Future
Challenges to
Energy Security

VIRTUAL CONFERENCE

15-17 December 2020

INTERNATIONAL
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ECONOMIC IMPACT OF GHG COSTS ON THE EU INDUSTRY

AGIME GERBETI

PRESIDENT OF THE SCIENTIFIC COMMITTEE OF THE ITALIAN ASSOCIATION
FOR ENERGY ECONOMICS (AIEE)

GLOBALIZATION ISSUES



- Globalization has created a sort of “industrial nomadism” i.e. companies:
 - are not interested in the local industrial culture so they no longer anchor to a specific productive fabric: choose the country that guarantees better production and tax conditions.
 - move in search of incentives, tax exemptions jumping from a corporate paradise to a fiscal one. They often reach emissive paradises, i.e. those territories that have no environmental obligations and limits.

Today, it does not matter where the factory is physically located but only the quality and the production costs of the goods that are related to raw materials rather than labour costs or environmental and energy commitments.



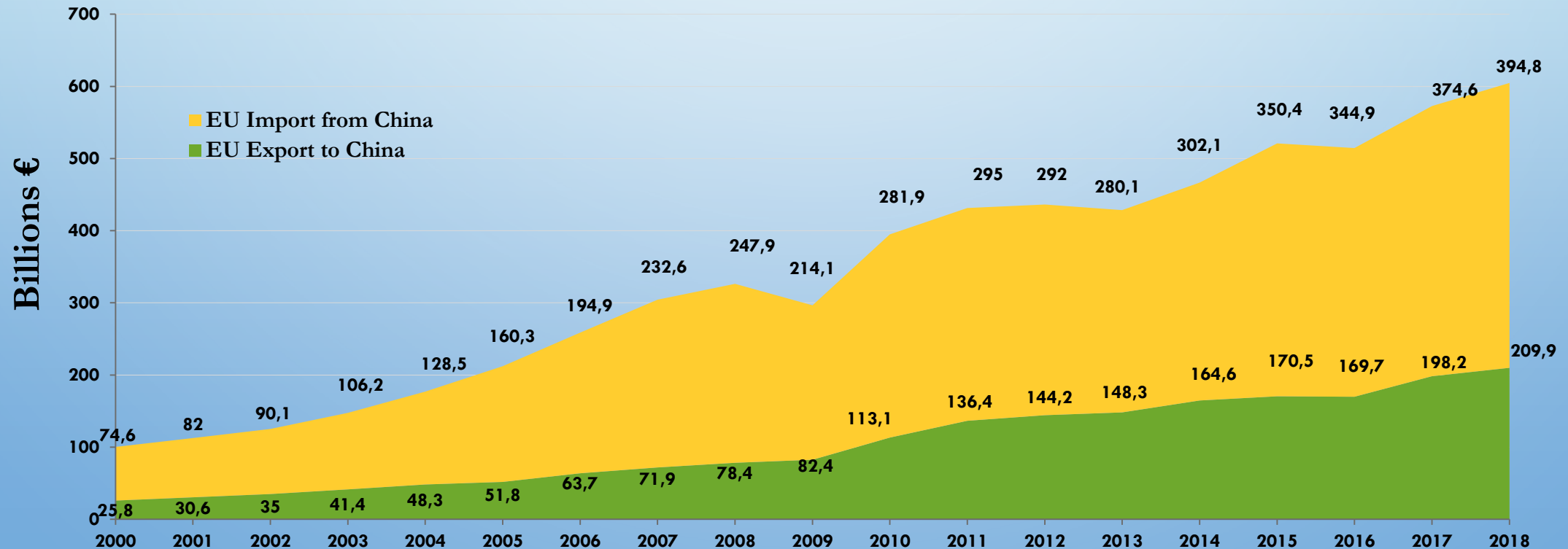
In the industrial field the limits of a regulation based on the national territories become more evident and more inadequate to the trade and production changes.

CIRCUMSTANTIAL EVIDENCE

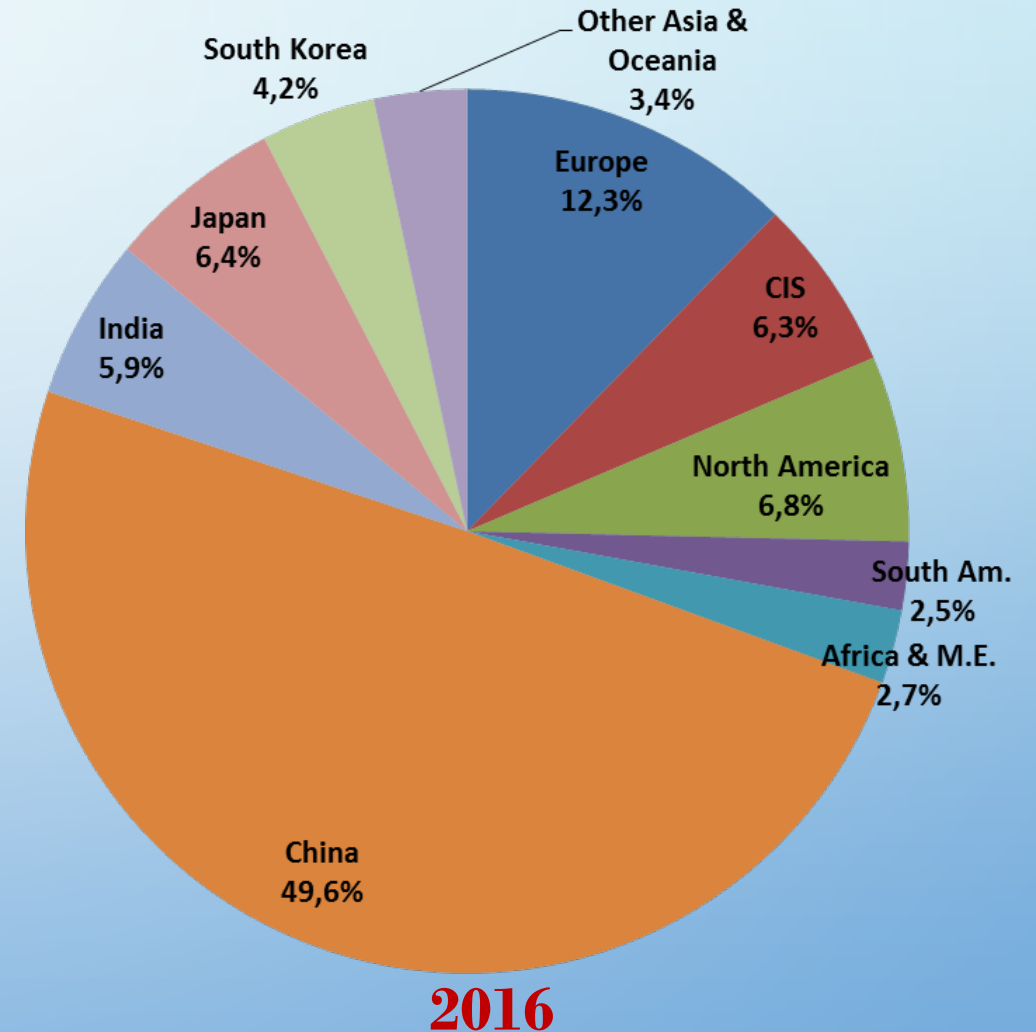
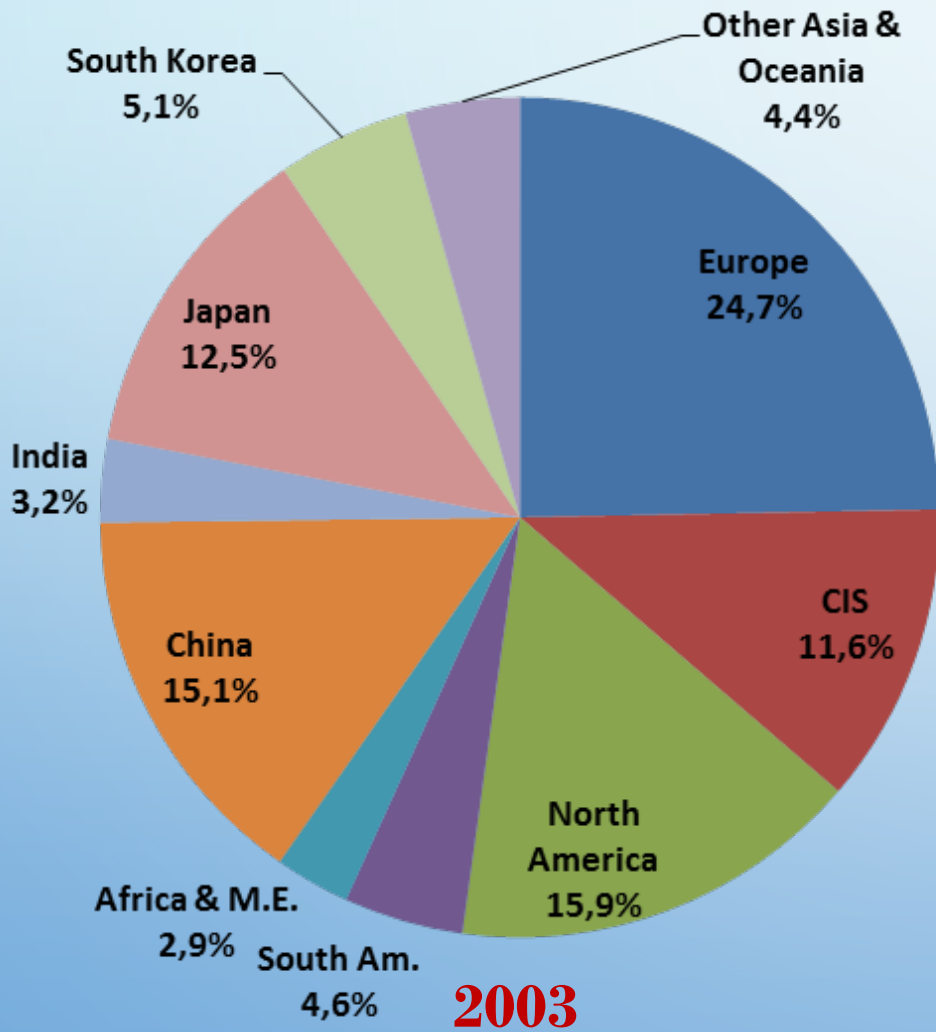
There are a number of “circumstantial evidences” that creak in the European industrial production, without showing visible signs of the impending split:

- the relationship between production and consumption. Trade balance EU- China is – 163.7€

billions 2018

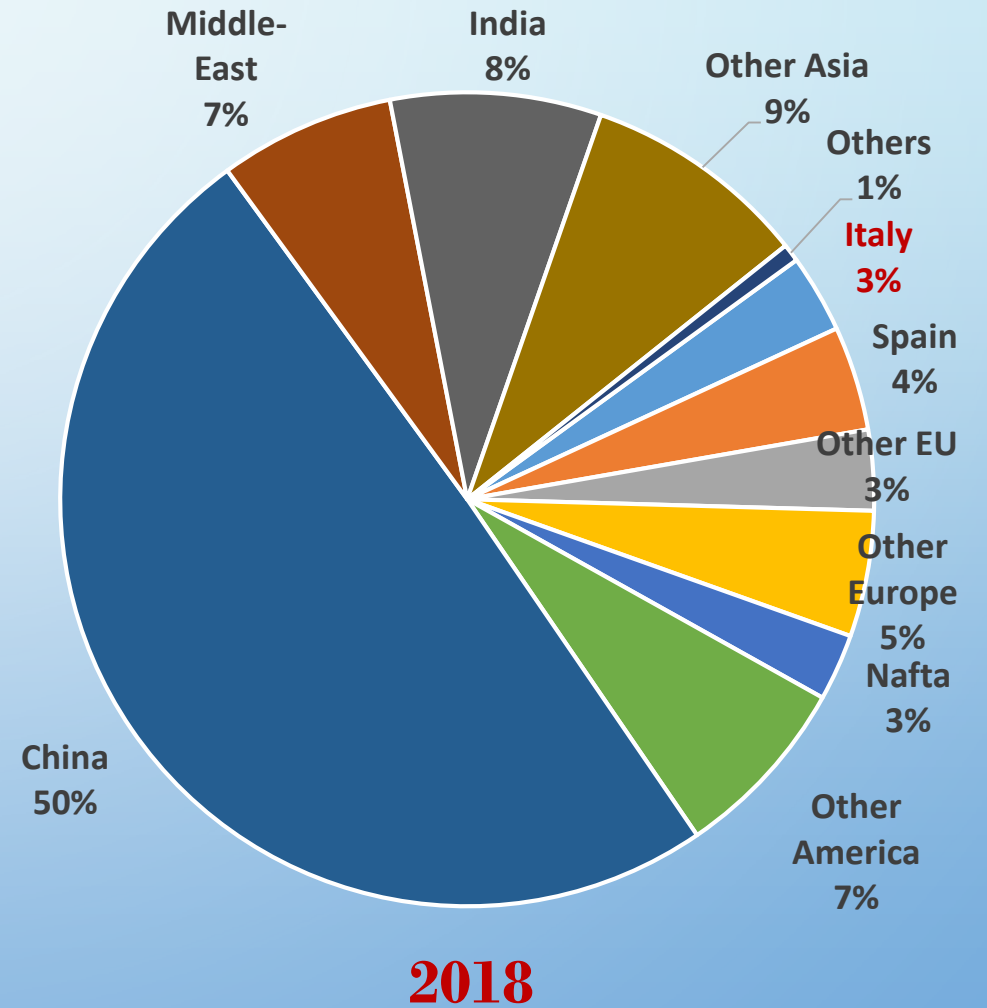
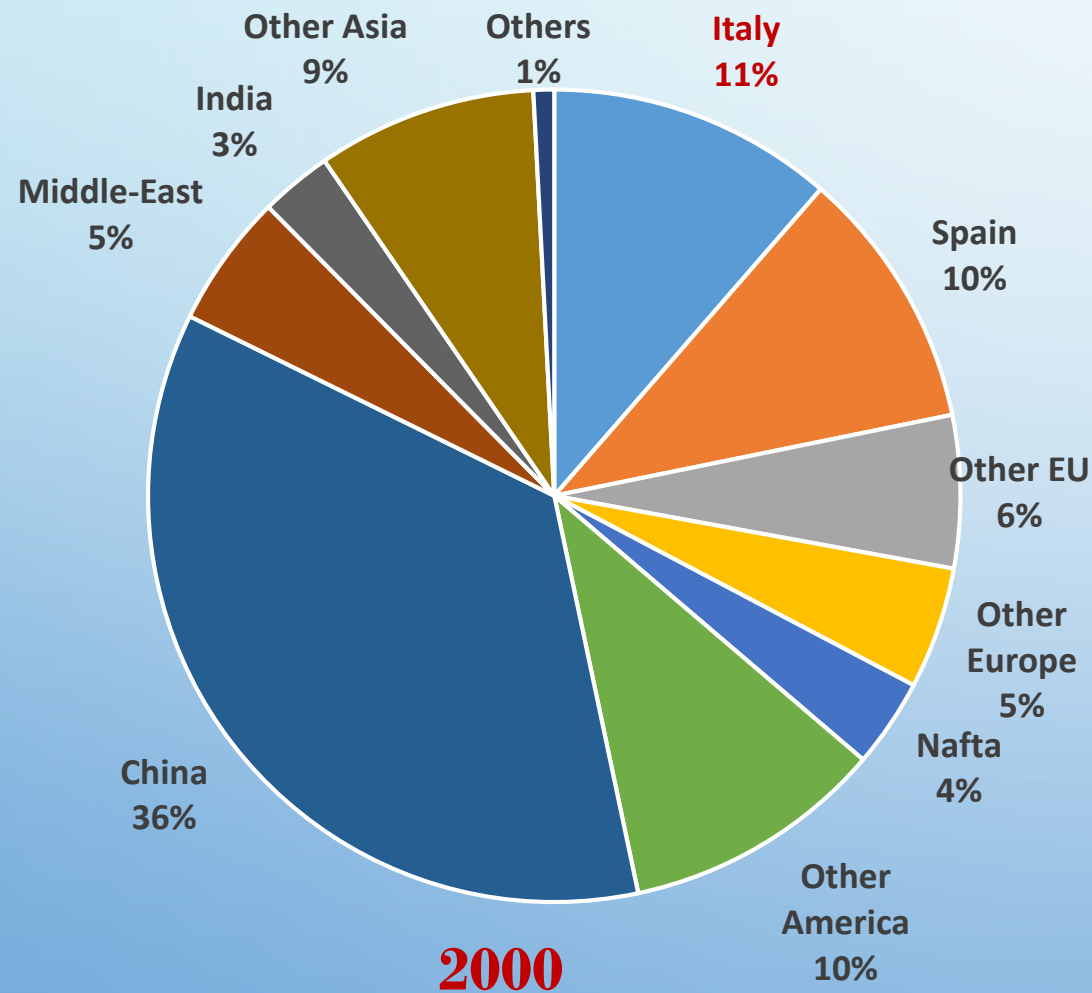


STEEL MARKET SHARES %



Source: World Steel Association

CERAMIC TILES MARKET SHARES%

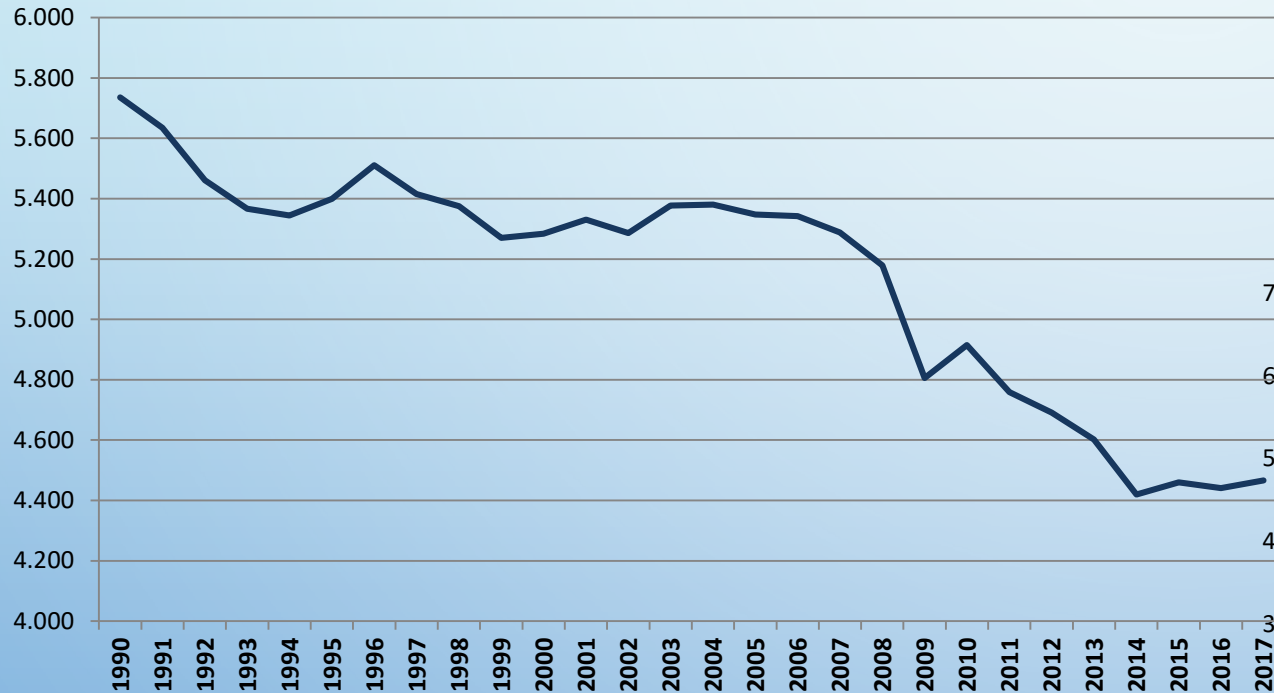


Source. Confindustria Ceramica

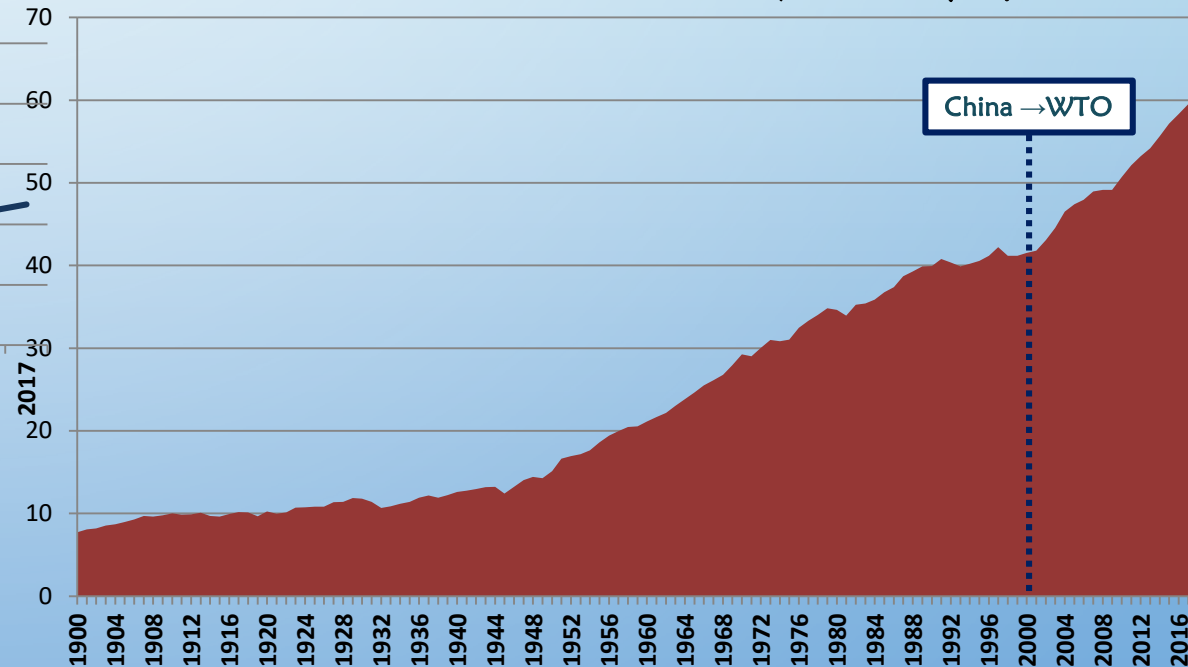
EMISSIONS EU VS. WORLD



Europe's Emissions



Global CO₂ Equivalent Emissions (GtonsCO₂/year)



Fonte EU DG Clima

INCENTIVES, MARKETS AND TAXES (1/2)



- EU state and legal system concepts have their own territorial delimitation in which the legal provisions are effective.
 - when a production activity is regulated it refers to a territorial area in which the factory is physically located.
 - with the regulation we affect a production that is probably not intended for the internal market consumption.
 - it would probably help to correctly assess if environmental limits penalize only some of companies, operating in the globalized market, without a real and generalized increase in overall global sustainability.
- The production of goods in a globalized market can and will probably have consequences on the energy, economic and production systems of third countries.

INCENTIVES, MARKETS AND TAXES (2/2)



The recent measure proposed to deal with environmental obligations on businesses and to resolve the lack of competitiveness of EU industries on energy and environmental costs is the carbon border tax.

Some limits of the carbon border tax seem to elude the EU:

- a. ETS is a tax on production, the carbon border tax is on import tax, it could defend the competitiveness of EU producers only on EU territory excluding export.
- b. Likely commercial retaliations
- c. This could lead EU to believe that it represents a real shield in protecting companies from carbon leakage or environmental dumping risk and eliminate free allowances and also raise the CO₂ price with unpredictable effects on the industry.

QUALITY, PRICE AND SUSTAINABILITY



The task of the State is:

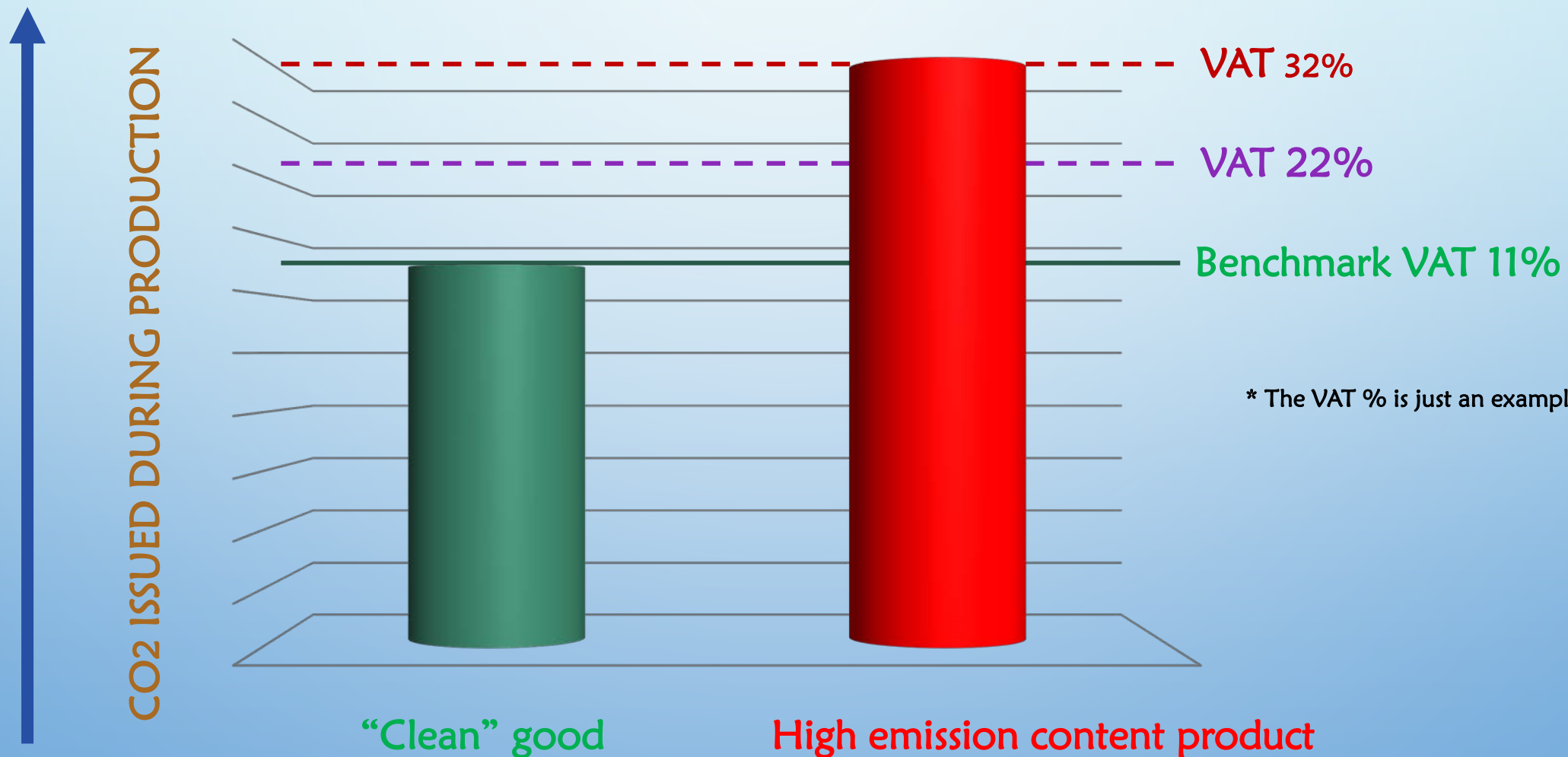
- to put in place measures that allow environmental friendly behaviors to become competitive advantages towards those who do not adopt these behaviors.
- to create the conditions under which the most sustainable industrial entity is more competitive in the market.

If we want producers to act on the basis of values that are considered indispensable as the limitation of GHG emissions, their products must comply with the expectations of the regulated market.

With the **Charge on added emissions proposal** (Gerbeti 2014), CO₂ emissions produced during the manufacture of goods are expected to be enhanced within the VAT, regardless of where the goods are produced.

ImEA* – Imposta sulle Emissioni Aggiunte (1/2)

Charge on added emissions = Green VAT



* A. Gerbeti. «CO2 nei beni e competitività industriale europea» 2014.

ImEA – Imposta sulle Emissioni Aggiunte (2/2)

Charge on Added Emissions = Green VAT



Main features :

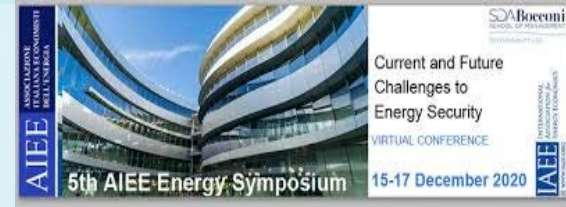
- Takes into account the real emissions of products
- Applies regardless of the origin of production (non-discriminatory)
- Gives the possibility to demonstrate the emissions of products traded in EU market
- Traceability and verification of emissions at EU level
- Introduction of a standard that enhances low carbon intensity products.

Manin effects

- Reduction of emissions globally
- Competitiveness recovery for efficient companies
- Awards for "clean" products through the reduction of VAT
- Penalization for "dirty" products through the increase in VAT
- No increase on administrative costs

CONCLUSIONS

- **The reallocation of businesses is an ongoing and very complex phenomenon.**
- **There are many circumstantial evidences that reveal "industrial nomadism"**
- **Environmental regulations and emission reduction should become the driving force of technological and economic development, EU should transform environment sustainability into an interest and a competitive need**
- **The adoption of competitive environmental standards, such as the charge on emission, has a series of advantageous including the shift of environmental objectives from public to private; not affected by the territorial limitation to which laws are subject only by the attractiveness of the regulated market.**
- **This approach cannot be adapted for any environmental need. A correct application of this way of thinking will help to recognize in advance incentives that only represent a tourist attraction for those nomadic industries, without bringing investment, innovation and jobs for the target nations.**





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THANK YOU!

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