

12 – After Covid-19, a Carbon Pricing to Finance the European Budget and to Achieve Carbon Neutrality in the European Union

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The aim of this paper is to examine the possibility of introducing a carbon price to complement the Emission Trading System in the transport, agriculture, small and medium-sized enterprises and building sectors. Today, 43% of emissions in Europe are included in the ETS and are required to hold emission allowances, purchased either at auction or on the market. There are two main limits to be exceeded: 57% of emissions do not pay a price in sectors excluded from the ETS and European carbon pricing can encourage carbon leakages and the loss of competitiveness of European companies.

Carbon Pricing must be high enough to change consumer and producer behaviour, but introduced gradually to allow adaptation to new energy market conditions. Part of the revenue could be used for a redistribution in favour of employees with lower incomes. The imposition of a compensatory duty at the border will avoid carbon leakages.

In the European Commission's programme, the Green Deal occupies a central position, but in the aftermath of the pandemic the problem has arisen of reviving the economy and securing employment. The Recovery Plan is based on the issue of bonds on the market guaranteed by the European budget, which will have to have its own resources to service the debt. To this end, the Commission has made several proposals, including a border carbon adjustment, but does not envisage the introduction of a carbon tax. The Commission's idea is to extend the ETS to transport, shipping and domestic heating.

The paper seeks to explore the feasibility of introducing carbon pricing in all sectors excluded from the ETS, showing its benefits in administrative terms and as a financing instrument for the EU budget. It will have to be accompanied by a border carbon adjustment, which as a custom duty constitutes an own resource without having to resort to the procedure laid down in Article 311 of the Treaty on the Functioning of the European Union, and at the same time will facilitate the introduction of a similar price in exporting countries. In the paper it will be shown the compatibility of this measure with WTO rules and its validity as a tool to put the European economy on a fair and sustainable development path.

Biographical note

Alberto Majocchi is Professor Emeritus of Public Finance in the University of Pavia. He has taught in the University of Venezia-Ca' Foscari, Varese, Castellanza and Leuven. He has been Visiting Professor in the University of Cambridge and York. From 2003 to 2010 he has been President of the Institute for Studies and Economic Analysis (ISAE) in Rome. He is currently Honorary Director of the Italian Journal of Law and Economics of Taxation, President Fondazione Magni for Ayamé (Ivory Coast) and Vice-President of the Centre for Studies on Federalism (Turin).