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MIGRATIONS, SECURITY, ENVIRONMENT: THE CONTRIBUTION OF A CARBON TAX

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In a recent article published in the *Bloomberg View*, Kirkegaard and Philippon estimate that, if Europe wants to guarantee the security of the Union's external borders and to integrate the immigrants and refugees received by the Member States, the costs of doing so will considerably exceed the resources available in the European budget. Their estimate is that €20 billion is needed for border security and between €10 and €20,000 per capita to integrate the new immigrants, for a total amount of about €40 billion. Just in border control the United States spends $32 billion, while Europe's financing of Frontex only accounts for €143 million (out of a total budget of €140 billion).

To deal with the migrant emergency, Kirkegaard and Philippon propose issuing Security and Mobility Bonds (SMB), recalling that, in the United States, Alexander Hamilton was able to mutualise the debts emerging from the War of Independence precisely because those debts were considered the consequence of a common fight. Similarly the management of the current immigration problem should be increasingly seen as a common-interest issue for all Europeans. Along the same lines in a leading article in *Corriere della Sera*, Lucrezia Reichlin remarked that no country is able to cope with the problem of immigration and security without violating the rules of the Stability Pact and suggests that "not only is desirable, but also unavoidable, to take a different path and to increase the expenditure capacity of the Union by issuing federal debt".

In a *Comment* published by the Centre for Studies on Federalism, I largely agreed with Reichlin's suggestion, but I also remarked that, while it seems totally acceptable to issue Eurobonds to finance investment expenditures whose nature is multi-annual, "a residual part of the expenditures to manage the inflow of migrants and to guarantee security against terrorism has the characteristics of current expenditure and must be funded through the levy of fiscal resources".

In this context, the stance taken by the German Finance Minister Wolfgang Schäuble is particularly significant, stating in an interview to the *Süddeutsche Zeitung* that "if the national budget or the European budget is not sufficient, then we could all agree to implement, for instance, a tax per litre of car fuel in order to get the financial means to deal with the refugee crisis". This statement is important since it links the creation of new own resources, and the strengthening of the European budget, to an issue that risks creating deep divisions within the Union, limiting the free movement of people guaranteed by the Schengen Treaty, an aspect of great importance to European public opinion, particularly after the recent wave of terrorist attacks.

On December 12, 2015 the 21st yearly session of the Conference of the Parties (COP21) of the United Nations Framework Convention on Climate Change closed in Paris. The title of a *Comment* by Roberto Palea published by the Centre for Studies on Federalism seems a particularly appropriate evaluation of the results: "Ambitious goals, inadequate instruments": not only is the Green Climate Fund short of financial resources but there are no sanctions for countries that fail to comply with the commitments taken.

There is a point at which the issue of climate change interlinks with providing funds to manage immigration and external security in Europe. It is becoming increasingly clear that the EU's method to control climate changes, the system of the tradable emission allowances (Emission Trading System – ETS), must be complemented by a carbon tax. The ETS efficiently guarantees control of 45% of emissions coming from power plants and energy intensive industries. But the system does not include the other 55% of emissions, generated by the domestic sector, transport, agriculture and small-medium size enterprises. Furthermore, over time the emission allowance price has decreased and is now less than 6 Euro.

The carbon tax should be levied on all the sectors not included in the ETS, with the instruments of tax assessment used for the excises on fossil fuels, and should be collected in proportion to the carbon content of different energy sources. In short, if it is assisted by a compensatory import duty at the border on goods coming from countries where no price is put on the carbon content, it acts as a proxy for a tax on the consumption of carbon.

If a moderate tax rate is fixed, such as the €20 per tonne of carbon dioxide included in the Commission's proposal of 13 April 2011, the tax will amount to €6 per barrel of oil and €0.0377 per litre of fuel. Eurostat's estimate is that, in 2014, CO_2 emissions amounted to 3,184 million tonnes. 55% of these emissions, amounting to 1,751 million tonnes, come from sectors not included in the ETS, which could be subject to the carbon tax. Even with such a moderate tax rate as this (the 1992 proposal by the Commission was for a rate of $10 per barrel of oil which, at the current exchange rate, is about €9 or 1.5 times the rate considered here), revenues of up to €35 billion could be collected (not including the amount of compensatory duties levied on imports).

The idea proposed by Schäuble of a tax on fuel to finance immigration control and the management of security measures can then be integrated, choosing as a taxable basis the carbon content of fossil fuels in the sectors not included in the ETS and thereby providing the additional resources needed for the European budget. These new own resources could give the EU the possibility to increase the financial means of the Juncker Plan through the emission of Eurobonds guaranteed by the increased size of the European budget. At the same time, the introduction of a carbon tax will help achieve the ambitious objectives in reducing CO_2 emissions set out in the conclusions of the COP21 held in Paris.

Recently, an inter-institutional Commission chaired by Sen. Mario Monti has been asked to propose a reform of the structure of financing the European budget. Considering the constraints imposed by the Treaties against creating new own resources, this is a difficult task. But if the budget were funded to a significant extent through own resources, especially by a carbon tax, this will leave the way open to completing Fiscal Union and, in the longer term, Political Union. However, two conditions should be met before introducing a European tax. First, the tax should be allocated entirely to financing a European common good and, second, there needs to be general consensus from the public about this kind of levy. With a carbon tax, targeted to cut down the emissions deriving from the use of fossil fuels and, at the same time, to fund the measures on migration and external security of the EU, it seems that these two conditions could be simultaneously met.

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