

EU Environment council Informal meeting Paris, 15 July 2000

The story line

EEA's report Environmental Taxes *- Recent developments*

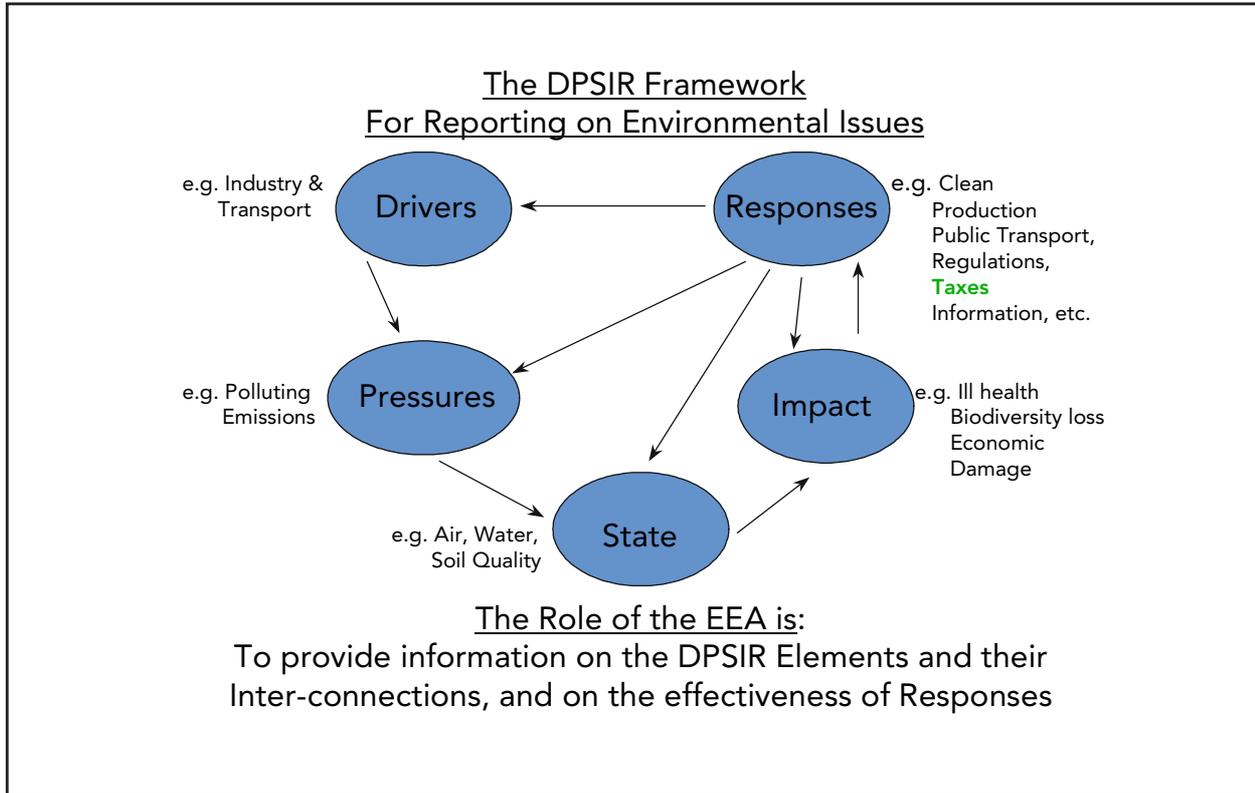
Domingo Jiménez-Beltrán
Executive Director
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European Environment Agency

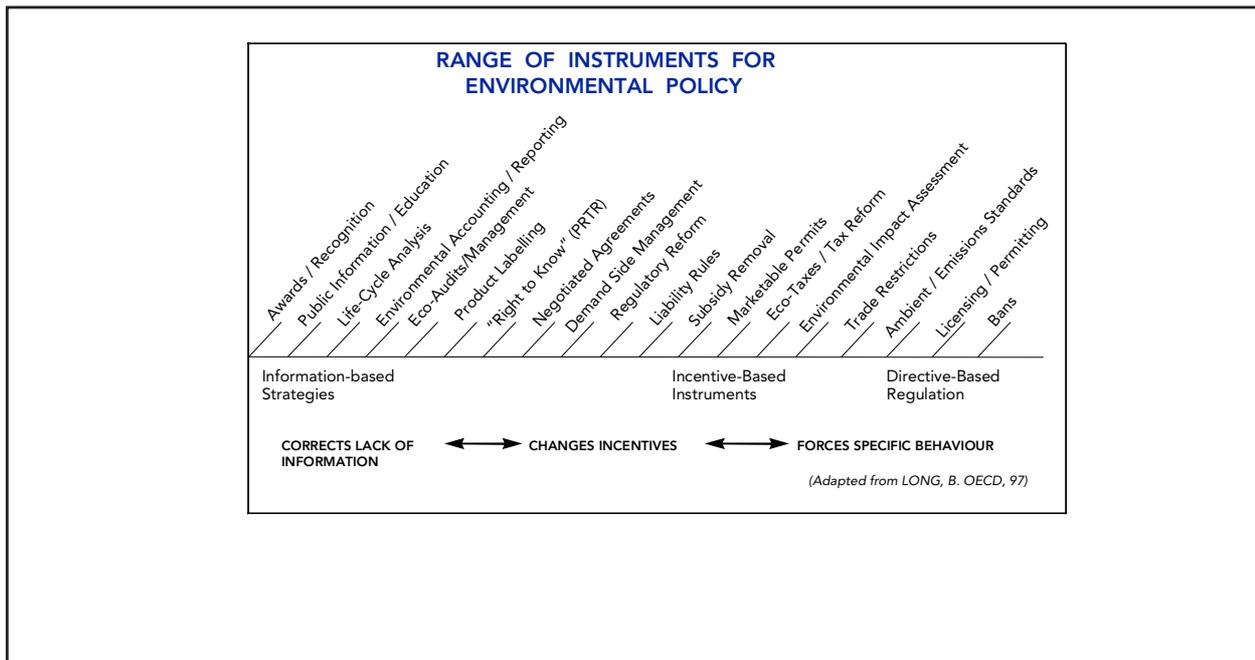


1. Why this report from the Agency?

- Reporting on the “present and foreseeable state of the environment taking into account the social-economic dimension” and “placing it in the context of sustainable developments” implies the continuous analysis of the **D – P – S – I – R** chain.



- Economic and fiscal instruments belong to the “toolbox” of policy responses to be used. But are still considered as “difficult” tools.



- A first assessment was prompted in 1996 by a request from the EP Environment Committee. This is an update.

2. And why now?

- The EEA's June 1999 report "EU's Environment at the turn of the century" made the case for integration; there would be no general progress without shifting socio-economic/sectoral policies.

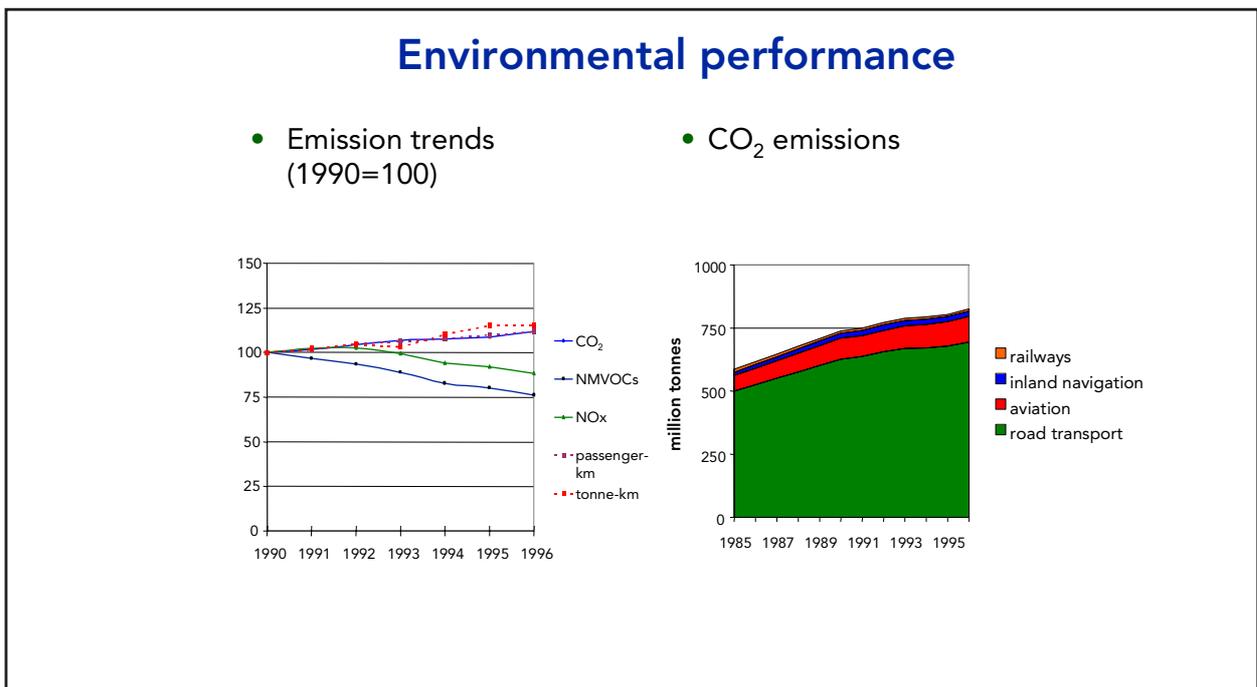
As stated then:

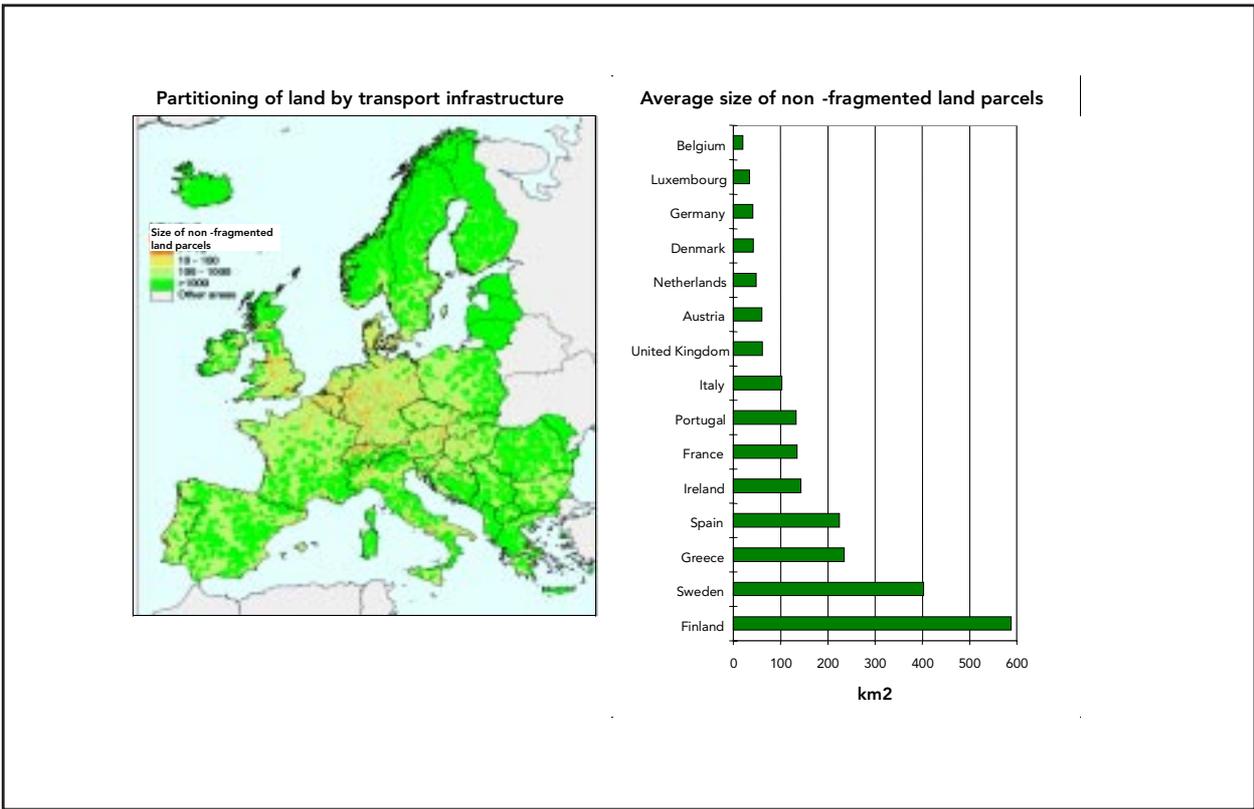
This is my perception:
That the situation and trends are not yet good (making the case)

- In spite of the relative success of environment policies particularly at EU level, there has not been:
 - General improvement of environmental quality
 - And still less in progress towards sustainable development.
- From now on, the progress towards sustainable development and even on environmental quality will not come directly from environmental policies, **BUT** from socio-economic policies, guided by extended (sustainability) and reinforced environment policies.

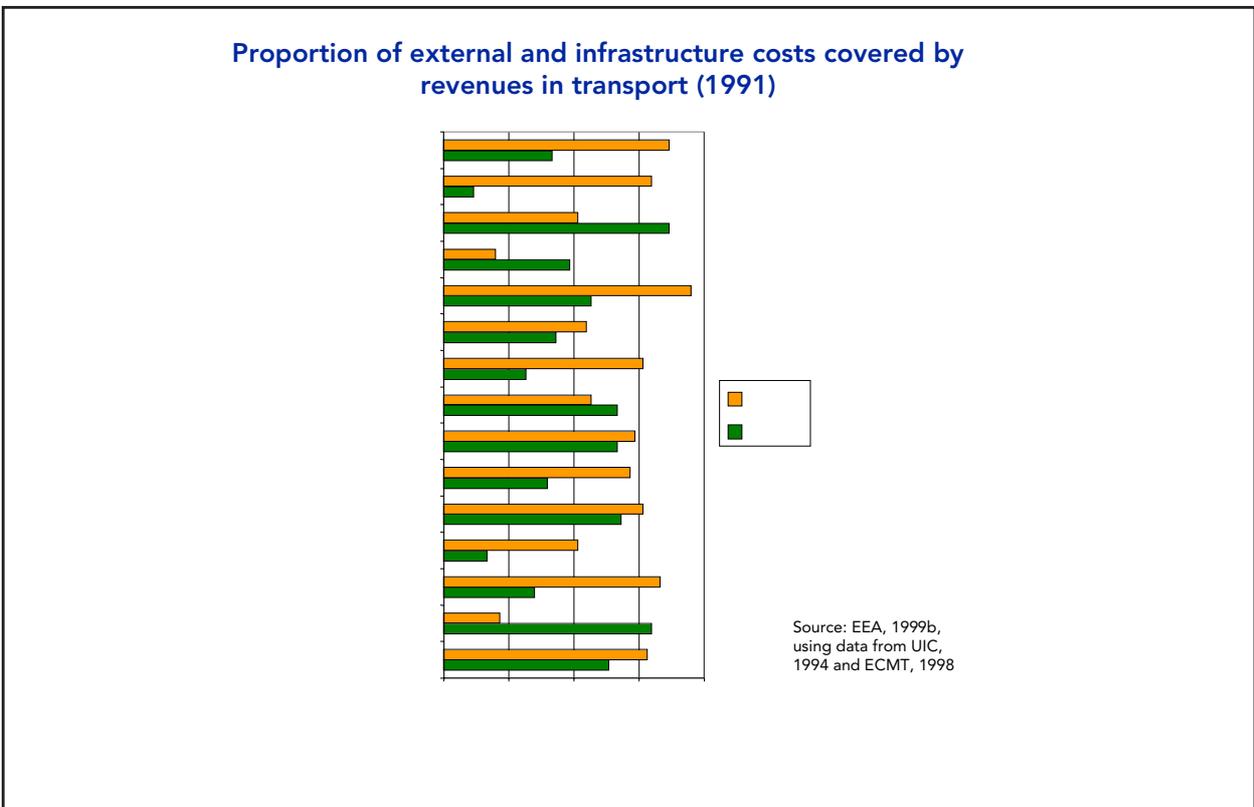
- And when analysing sectors as transport, the EEA's May 2000 report on transport and environmental integration "Are we moving in the right direction – TERM 2000" clearly shows that it is becoming more unsustainable:

Faster growth and modality shift (road) fully coupled to some environmental pressures (noise, space fragmentation, GHG emissions, urban environment ...)



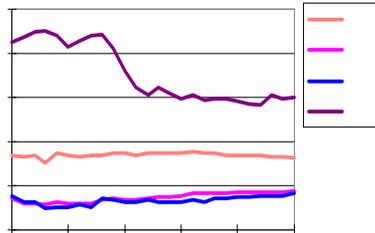


No “fair” prices, as externalities are only partly internalised (Environmental externalities: 4% of EU GDP. Total turnover of EU car industry in 1998: 3,8% of GDP).

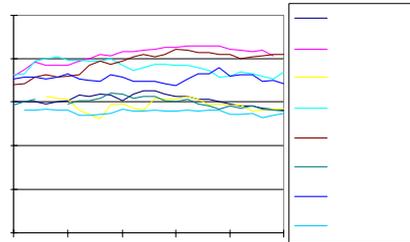


Energy efficiency of passenger transport (MJ/passenger-km)

- All modes (average 8 EU countries)



- Passenger cars



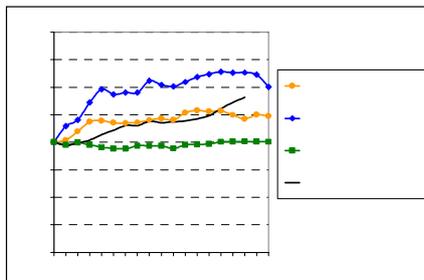
- The general perception is that while most of the EU sectoral policies (and related EC services) are willing and struggling to put the “sustainability” label on themselves, very few are in the process of **fully reviewing** (see report for Helsinki Summit) their policies as really required by the sustainability paradigm (business as usual). And curiously enough it is the **environmental sustainability, more than social and economic sustainability**, that seems to be more advanced in conceptualisation, benchmarking, accountability and feasibility.
- And there is growing evidence that there are a few “**musts**” to be put into place in order to progress in integration (and related environmental quality) and towards sustainable development, as identified in EEA’s 1999 report “Monitoring progress towards Integration – A contribution to EC Global Assessment of the 5th EAP”, and fair fiscality is one.

And price signals are working in the wrong direction

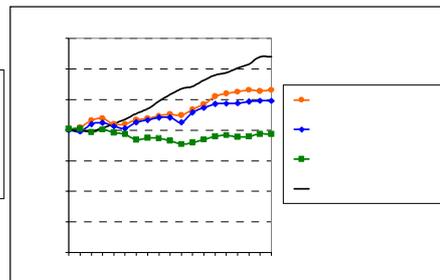
Price signals

Real changes in transport prices

- Denmark



- UK



Some Criteria for Assessing Market Integration in Economic Sectors

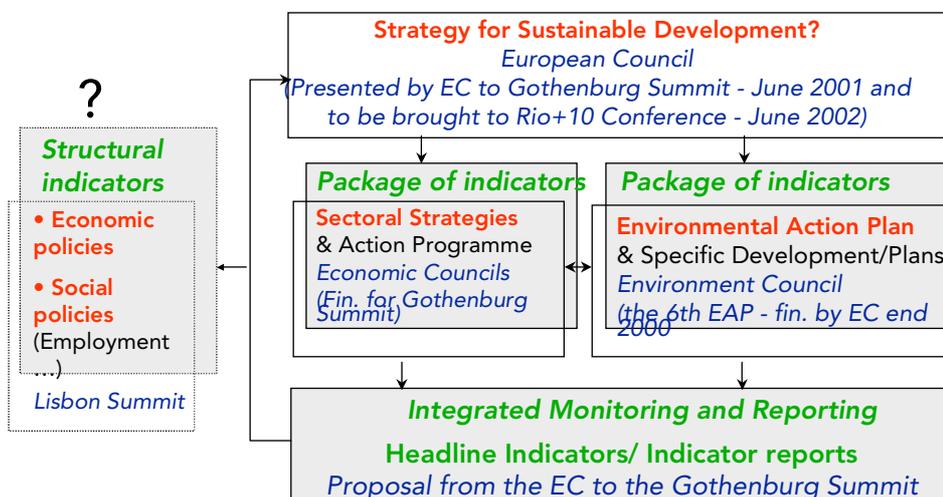
| | |
|---|---|
| 1 | Have <u>environmental costs/ benefits</u> been <u>quantified</u> ? |
| 2 | Have <u>environmental costs</u> been <u>internalised</u> in market prices through market based instruments? |
| 3 | Have <u>revenues</u> from these market based instruments been <u>directly recycled to maximise behaviour change</u> ? |
| 4 | Have <u>revenues</u> of these market based instruments been <u>directly recycled to promote employment</u> ? |
| 5 | Have <u>environmentally damaging subsidies</u> and tax exemptions been <u>withdrawn or refocused</u> ? |
| 6 | To what extent have <u>incentives</u> been introduced which encourage <u>environmental benefits</u> ? |

- In a market economy **progress in identifying/assessing externalities** (both related to environmental quality and to non sustainable use of resources) **and in implementing proper price and fiscal** (taxes and subsidies) **policies** for fair prices and costs internalisation is a **benchmark for progress towards integration and sustainable development** in a market economy.
- And the moment to monitor the situation and make the case for progress at EU level is now:
 - Following the Amsterdam Treaty and the “Cardiff initiative” (sustainability in a faster track), sectors and development in general are made accountable to the European Council in sustainability terms.
 - Many Member States are reviewing their fiscal policies (among them France, Germany, Italy, UK).
 - The IGC includes the expanding of qualified majority voting to some basic/priority policies, including possibly fiscality.
 - And both a “Sustainability Strategy” and a “6th EAP” are being drafted by the EC, to accompany also the Sectoral Strategies.

Putting sustainable development in the fast track

The European Council "Cardiff" initiative.

The "two corridors model"



3. And what has been done so far?

My perception is that not much has been done, but that big hopes exist, since there is an increasing number of initiatives and experiences. But again in fiscal policy like in sectoral policies, there seems to be a trend not to make the big changes for a “Sustainable Fiscal Policy”. Success seems to be in many cases to be dependent upon strong political will and good design and planning and on getting the Ministry of Finance or the tax authorities on board. And this makes the case again for the jumbo Council ECOFIN-ENVIRONMENT

4. The logic of the assessment. Why environmental taxes?

- Sustainability also applied to fiscality.
- Responding to well established and accepted principles of costs internalisation
- “Polluter Pays Principle”

'Polluter Pays' Principle

(The Rio Declaration on environment and development, 1992)

“National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment.”

- 'Resource User Pays' Principle

'Resource User Pays' Principle

(Environment Council Conclusion of 12 December.

Community platform for UNCED Rio 92)

"In order to reach the necessary reallocation of economic resources to achieve sustainable development, full social and environmental costs should be integrated into economic activities so that environmental externalities are internalized. This means **that environmental costs and others related to the exploitation of natural resources in a sustainable way and borne by the supplier country should be reflected in economic activities.** Economic and fiscal instruments could be among the measures used to achieve this."

- Main goals

Why environmental taxes?

1. Internalising external costs
2. Static and dynamic efficiency
3. Raising revenues for environmental purposes
4. Creating environmental AND economic benefits
5. *Integrating environmental requirements into sector policies (the "Cardiff process")*

- Well embedded finally into Community proposals

Environmental taxes...

....are major tools "... to get the prices right and to create market-based incentives for environmentally friendly behaviour..." (*5th EAP, 1992*)

"As the experience of those countries which have unilaterally imposed a carbon tax shows, the effect on renewables is extremely positive." (*Second Communication of the EC under the UNFCCC, 1998*)

"Fair and efficient pricing based on the polluter pays principle including fair taxation of fuels across all modes of transport and a shift towards variable taxation on cars in order to increase people's awareness of the costs of their travel " (*From Cardiff to Helsinki and beyond, 1999*)

- And demanded by experts, as needed and feasible

"Not too difficult"

"These damaging trends (in energy use, waste creation, road traffic and intensive agriculture) cannot be reversed by timid measures at the margin. We need to set clear goals for transforming our society over the next 10 to 20 years and seek support from the whole of our society for the necessary changes. Taxes and charges can play a crucial role in changing relative prices and giving clear signals"

(Mr Derek Osborne, Chairman of the Round Table, introducing the report "Not too difficult! – economic instruments to promote sustainable development within a modernised economy", by the UK Round Table on Sustainable Development)

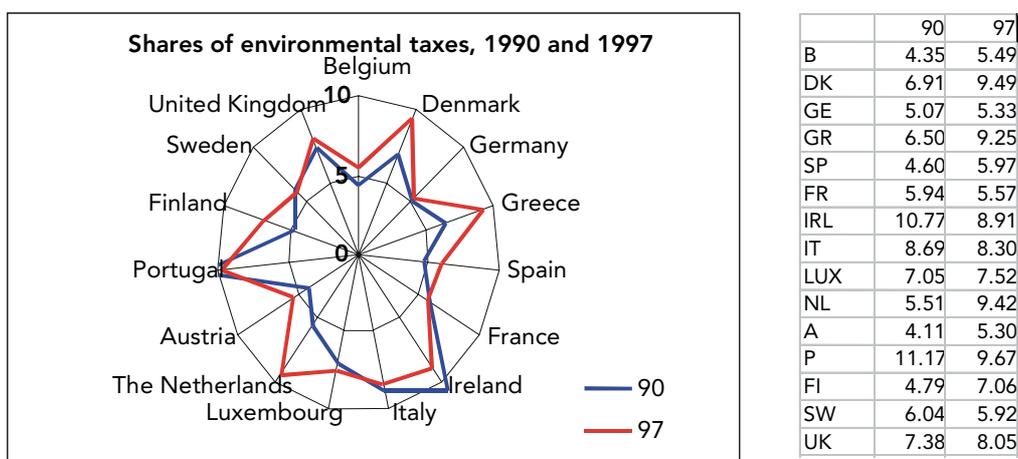
"We want more such instruments to be rescued from the "too difficult" box!"

(Baroness Young of Old Scone, Chairman of the Round Table's subgroup on Economic Instruments, introducing the same report)

5. Who is using them?

- The use of environmental taxes is increasing in Member States. There are more applications, tax bases and liable subjects. By 2001, eight MS will apply CO₂ taxes. The level of energy taxation is rising and there are more product taxes (batteries, packaging, car tyres, etc.). Environmental taxes yield more revenue.

Share of environmental taxes in total tax revenue



- The share of non-energy, non-transport pollution taxes is small but growing fast

Environmental tax revenue as % of total revenue from taxes and social contributions, 1990 and 1997

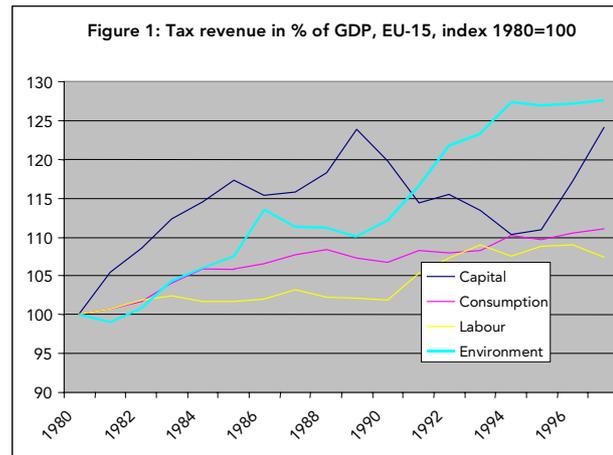
| EU 15 | 1990 | 1997 | change (%) |
|-------------------|------|------|------------|
| Energy taxes | 4.71 | 5.18 | 10.1 |
| Transport taxes | 1.29 | 1.26 | -2.2 |
| Pollution taxes | 0.16 | 0.25 | 50.8 |
| Environment taxes | 6.17 | 6.71 | 8.6 |

Source: Eurostat

- Member States apply ecological tax reforms

Eight Member States now apply dedicated ecological tax reforms. Environmental taxes revenue offsets revenue of taxes on labour and the share of environmental taxes is growing faster than the share of labour taxes (as a percentage of GDP).

Tax revenue growth as share of GDP, 1980-1997



Source: EUROSTAT

- Progress in Member States, almost none at EU level

There is no progress with the 1991/1997 proposals for energy taxation. A tax on aviation kerosene has been proposed and the Eurovignette came into effect by 1 July 2000.

6. Does it work?

There is increasing evidence of environmental effectiveness. Cases include CO₂ taxes, waste taxes, taxes on S and Pb in fuels.

Effective CO₂ taxes?

| | |
|-----------------|---|
| Denmark | Tax had some impact but is one among many factors (e.g. agreements) |
| Finland | Tax among the highest in Europe; impact probably modest |
| The Netherlands | Regulatory tax had little impact in business firms, and no significant impact in households |
| Norway | Some impact in offshore, service, household and transport sector |
| Sweden | Reduction of tax (1992-1994) is responsible for more than half of increase of emission in 27 industry firms |

Sources: Århus Universitet/Daamen and Bos (1999)/SEO (1998)

Other effective taxes?

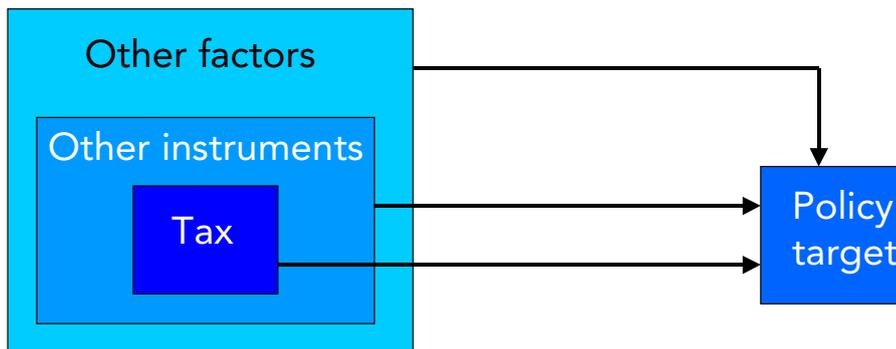
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| UK | Study claimed <i>landfill tax</i> had impact, Committee report says tax should further increase from £ 10 to £ 30 "...to achieve its objective" |
| Denmark | "Waste tax has had significant impact on reductions in taxable waste" (construction and demolition waste, heavier fractions of household and other waste) (Århus University) <i>Sulphur tax</i> has contributed to significant decrease of S-content in fuel and SO ₂ emissions |
| UK | <i>Fuel duty escalator</i> contributed to decreasing fuel consumption in transport |

- What about effectiveness?

Ex-ante assessments show that taxes can be effective; ex-post evaluations studies show positive experiences, but also big methodological problems

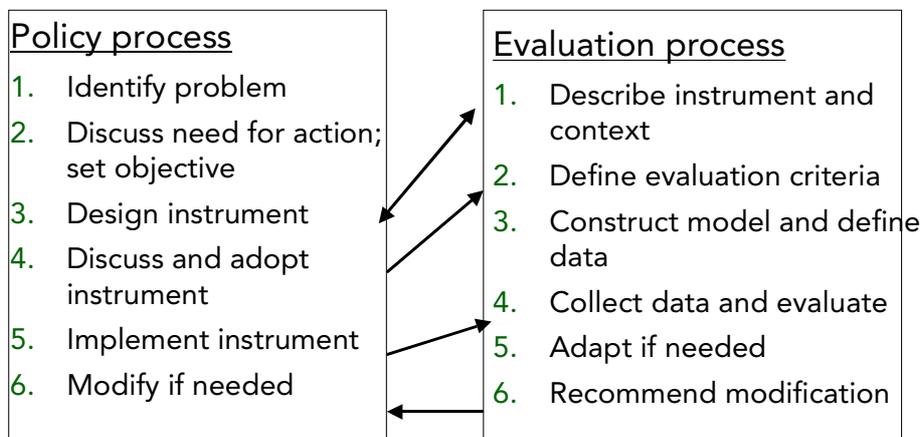
Methodological problems

Disentangle: what would have happened without (other) instruments?



..... as well as problems with data availability. OECD has proposed an “in-built” evaluation framework that can provide early and relevant data.

"In-built" evaluation framework



7. Conclusions

Recent developments

1996 Report

- Small share of environmental taxes in total tax revenues
- Considerable progress in the use in MS
- No progress at EU level
- ETR in Denmark and Sweden; advanced plans in Norway and Netherlands
- Limited data on effectiveness
- Effective taxes in Sweden (NO_x charge, tax differentiation, tax on S), NL (water pollution tax)
- Shortage of "southern" studies

2000 Report

- Tiny increase in revenue share
- Continuous progress in MS
- More tax bases
- Again, no progress at EU level
- ETR now also in Finland, France, Germany, Italy, Netherlands, Norway, and UK
- More effectiveness studies show mixed results, and point at data problems
- Effective taxes in DK (waste tax, CO₂ tax, tax on S), Sweden (CO₂ tax), UK (Fuel duty escalator, Landfill tax?); no "southern studies"

- **Any hope? Any sense of direction? Any prospects?**

There are positive signals in Member States:

- More application of taxes and extension of tax bases
- The majority of Member States now have a dedicated ecological tax reform
- The majority of Member States apply or are about to apply CO₂ taxes and raise the level of energy taxation

But the pace is too slow to bring economic activities within sustainable boundaries

Possible main leverage points

- Progress at EU level. It may affect credibility of EU's sustainability.
- Partnership with fiscal authorities.
- Proper design - planning - progress. Public information. Anticipation.
- Strengthening positive motivation. "Charge and reward" (feasible through symmetry: use revenue of taxing less sustainable alternatives for partly subsidising greener ones).
- Make internalisation of external costs an indicator of progress in sustainable development (at sector level).

- **And there are some late good news**

Charge, unless.... and reward

- *"EU backs exemptions from green taxes"...*
(Reuters, July 12, 2000)

... if companies promise to take measures
to improve environmental standards

- Dutch increase taxes, as well as tax provisions for sustainable alternatives
- Danes grant lower CO₂ tax rates if firms take energy conservation measures
- UK plans to do both in climate change levy scheme

- *"Europeans ready to pay up for green energy
- report"*

(Reuters, July 13, 2000)

Over half of households in the United Kingdom, Germany and Sweden are willing to pay more for "green" energy, UK-based analysts Datamonitor said yesterday.

New report "Marketing Green Energy in Europe".

- **To allow me to conclude**

Final message

- NO ECO-TAXES OR FAIR FISCALITY
- NO PROGRESS IN SUSTAINABILITY
... in a market economy
- UNFAIR FISCALITY IMPEDES
SUSTAINABILITY