

**The time to act  
is now!**

# MONEY MATTERS

## Environmental Fiscal Reform and the Green Economy

To avoid catastrophic environmental change, humanity must stay within defined planetary boundaries for a range of earth-system processes. These have already been overstepped in relation to i.a. CO<sub>2</sub> concentrations in the atmosphere, radiative forcing, and rate of biodiversity loss.

**The Rio+20 Conference offers the global community the chance to secure renewed political commitment for sustainable development. There is a risk that the outcome of Rio will be "greenwash" followed by business as usual.**

Consumption of natural resources has reached unsustainable levels. Europeans today consume an average of 16 tonnes per annum, while UNEP's International Resource Panel estimates that a global annual consumption of 6 tonnes per capita is sustainable.

### Green economy

A green economy is one that results in human well-being and social equity, while significantly reducing environmental risks and ecological scarcities (UNEP 2011).

Only an economy that respects planetary boundaries and uses resources sustainably and addresses poverty can be called green and inclusive.

To realise a green economy we need to get prices right and so reduce market distortions that encourage pollution and the depletion of natural resources

### Environmental Fiscal Reform: Using the power of the market to protect the planet

Environmental Fiscal Reform (EFR) makes environmentally harmful activities more costly by means of fiscal and tax policy reform.

EFR makes prices tell the social and ecological truth so that the market itself discourages pollution and the depletion of natural resources.

If the cost of environmental damage is not included in the price of a good or service, then these costs are typically borne by those populations most vulnerable to climate change and environmental deterioration, and by future generations.

In this sense, EFR is also about justice, because it makes polluters pay for the damage they cause and can raise revenues for poverty alleviation and pro-poor investment.

We cannot afford to waste money on environmentally damaging practices when we could be saving money and the planet by implementing EFR.

We often say that money is a universal language - EFR uses the power of money to green economies effectively and efficiently at all stages of development.

# KEY DEMANDS FOR RIO

## The Rio outcome document

The outcome document must include a specific commitment to phase out environmentally harmful subsidies, with particular emphasis on fossil fuel subsidies, by 2020.

The text should avoid the use of wording such as "eventual" or "gradual".

The outcome document should explicitly state that governments must act to remove market distortions which work against the environment and climate protection by means of the internalisation of external costs. This should be agreed to constitute a fundamental principle of a green economy by governments in Rio.

The outcome document should identify EFR as one of the most central, effective and fast policy instruments for the realisation of a green economy.

Industrialised countries should lead the way by committing to raise the share of environmental taxes in overall taxation to at least 10% and phase out all environmentally harmful subsidies - both by 2020.

The phase-out of global fossil fuel consumer subsidies by 2020 would reduce global CO<sub>2</sub> emissions by 6.9% by 2020 - equivalent to the combined emissions of France, Germany, UK, Spain and Italy (IEA 2010).

Global fossil fuel consumer subsidies have been estimated to be worth US\$409 billion in 2010 (IEA World Energy Outlook 2011).

Removing subsidies in energy, water, fisheries and agricultural sectors would save 1-2% of global GDP every year (OECD 2011). This is more or less exactly the amount that has been estimated to be necessary for the transition to green economy (UNEP 2011).

## Commitments, targets, operational outcomes

The result of Rio+20 must be far more than just a final declaration. To drive the process forward, Rio must produce operational outcomes.

We support the development of a green economy roadmap with timetables for specific goals, objectives and actions at the international level as a significant contribution to sustainable development, with emphasis on poverty eradication - as called for by the European Council in March 2012.

Specific goals, objectives and actions - including the green economy roadmap - must include specific EFR measures to correct false price signals and reduce market distortions, including measures to phase out environmentally harmful subsidies.

GBE calls on all governments in Rio to sign the Global Subsidies Initiative / International Institute for Sustainable Development pledge and commit to phasing out fossil fuel subsidies that are damaging to the environment.

## Sources:

**UNEP 2011:** Towards a Green Economy: Pathways to Sustainable Development and Poverty Eradication

**OECD 2011:** Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels

**IEA 2010:** Energy Subsidies: Getting the Prices Right [http://www.iea.org/files/energy\\_subsidies.pdf](http://www.iea.org/files/energy_subsidies.pdf)

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