



European expert platform on environmental
taxation and green fiscal reform



Green taxation as key for sustainable fiscal reform

The French context and European perspectives

*A conference organised by
Green Budget Europe and the Institute for Sustainable
Development and International Relations (IDDRI)*

29 – 30 October 2012

Sciences Po - 28, rue des Saints-Pères · 75006 Paris

CONCEPT NOTE

Green taxation as key for sustainable fiscal reform

The French context and European perspectives

After almost four years of the most serious financial and economic crisis Europe has seen in 80 years, the question of fair and efficient fiscal policy seems more relevant than ever before. Numerous EU member states have engaged in fiscal reform, by introducing increasing tax rates, introducing new taxes and removing others, and reducing subsidies.

Some countries have tried to implement green taxes as a way to generate new sources of revenue, lessen environmental pollution, and reduce the tax burden on some activities. Ireland successfully introduced a carbon tax, France tried and failed, and Italy is at the reform proposal stage. Various experiences in the EU have shown that the introduction of such taxes raises a number of issues (e.g. equity and efficiency), and that their integration in broader fiscal reform processes creates several social, environmental and economic challenges, as well as opportunities.

This conference sets out to explore the interrelationships between green fiscal reform and broader fiscal reform processes currently being developed, or discussed, in France and throughout the EU.

The case for green taxes

In 2009, the carbon tax project in France was shelved. The ruling of the Constitutional Court, coupled with a loss of public support for the tax, largely due to its perceived regressive nature, resulted in the removal of green tax reform from the mainstream political agenda. As a result, pre-electoral debates have left out the potential greening of future budgets. In fact, the discussion on green fiscal reform in France is still pending.

However, green budgeting is an important way to reduce Greenhouse Gas emissions and achieve the EU's ambitious 2020 targets. As pioneers of European environmental policy have demonstrated, fiscal reforms can be powerful tools - as in Sweden, where a combination of tax reform and green public policies reduced the country's CO₂ emissions by 9% since 1990. When included in broader fiscal reform processes, green taxes can also generate further dividends, like employment creation or budget consolidation. Green taxes can modify the structure of the economy and support the development of promising green industries.

In France, as well as among other European Member States, four factors could pave the way for the reintegration of green taxes in the reform agenda:

- The political agenda and discussion over broader fiscal reform processes,
- The macroeconomic context and the public debt crisis,
- The EU institutional context and the EU Energy Tax Directive,
- The industrial policy debate and the potential of green technologies.

These new opportunities must be assessed taking into account the determinants of previous policy failures - legal obstacles to coordination between domestic tax, EU tax bases and EU-ETS, and socioeconomic obstacles relating to the tax's distributive effects.

Broader fiscal reform processes in France and other European countries

To date, several jurisdictions across the European Union have successfully implemented environmental tax reforms, with Member States such as Sweden (1991) and Denmark (1992) having 20 years of experience. Many ex-post studies find that EFR has had a number of interesting results in terms of i.a. energy use, greenhouse gas emissions, GDP and employment, as well as ETR's po-

tential impacts on competitiveness and households. These data are all the more significant since they might inform France's current debate on broader fiscal reforms, or a "fiscal big bang" as initially announced by François Hollande during the French presidential electoral campaign.

Among the French population, there is growing recognition of the regressive and inefficient nature of the French fiscal system. A broader reform agenda would consist of the redefinition of tax bases and tax rates, and in the screening of inefficient subsidies and tax rebates and tax loopholes. This debate raises two questions on the role of green fiscal reforms:

- Could the implementation of broader tax reforms be a key to the implementation of green taxes?
- Do vulnerable groups need to be protected from the impact of reform and if so, how?
- Is there scope to reduce implicit or explicit subsidies on pollutants and if yes, which ones?

The public debt crisis in the EU

The public debt crisis calls for the creation of innovative sources of financing. Green taxes, as they generate multiple dividends could be particularly interesting. Recent research by VIVID Economics in association with the European Climate Foundation and Green Budget Europe has revealed that green taxes are often preferable in terms of macroeconomic impact to direct or other indirect taxes.

The debt crisis raises a number of questions relating to green fiscal reform:

- What is the best way to use environmental tax revenues? Via tax shifts, fiscal consolidation or reduction in the level of taxes?
- What are the successful experiences among EU member States?

Reform processes at the European level

EU countries have responded to the public debt crisis by coordinating their fiscal policies more closely. For example, in 2010, the European Commission launched the European Semester to coordinate *ex ante* member states' macroeconomic, budgetary and structural reform policies in line with the Stability and Growth Pact and the Europe 2020 strategy. Furthermore, in March 2012, all EU Member States, except the UK and Czech Republic, signed an intergovernmental treaty - the Fiscal Compact - to implement a binding balanced budget rule for all signatories.

EU-level debates about the Energy Taxation Directive call for the harmonization of carbon-energy tax policies across member states. A green tax reform thus cannot be designed and thought about in isolation in France or in any country, but must be in line with current developments at EU level.

However, strong resistance towards coordinated action at EU level remains, and negotiations on the much-needed revision of the Energy Tax Directive are moving forward at a snail's pace - in spite of promising examples from EFR measures successfully contributing to budget deficit reduction, as in Ireland and Greece, and a growing body of evidence that environmental taxation is less damaging in macroeconomic terms than other indirect or direct forms of taxation.

European level processes raise the following questions:

- How can the European dimension be integrated into the broader fiscal reform agenda in France?
- How can reform proposals in France feed into EU level debates and so enhance fiscal convergence?
- How can Environmental Fiscal Reform be better integrated in harmonisation processes at EU level, such as the Fiscal Compact and the European Semester?

The aim of this part of the conference is to explore ways of mainstreaming environmental measures within this EU-wide process of fiscal policy coordination and reform.

Fiscal instruments, climate change and industrial policies

In the context of the financial crisis, the rate of industrial plants going bankrupt, unable to compete on the international stage has increased. Some see green taxes as an additional burden on industrial players, further hampering competitiveness. Others argue that non-price competitiveness (the quality of products, their innovation content) is central to the success of European industries and that green taxes can be central in developing innovative and attractive products. Rather than hampering the European economy, climate policy and green taxes offer the opportunity to set the European industry on a sustainable and prosperous path. But this raises questions of international trade, border adjustments, and the coherence of EU industrial policy.

The conference will ask the following questions:

- Should border adjustments be reintroduced in the political agenda?
- How can fiscal instruments at the European level and climate policies stimulate European industries and develop new drivers for the European economy?

Overview

Two dimensions emerge from current debates on fiscal reforms and green taxes: the first dimension is national and raises the question of the integration of green taxes in the broader fiscal reform agenda; the second dimension is a European one, and raises questions relating to the integration of Member State's reform processes within the EU framework.

The aim of the IDDRI/GBE high level conference is to explore and find ways to bridge gaps within and between these two dimensions in order to emphasise the contribution green taxes can make not only to fiscal consolidation, but also to long term economic and social prosperity in France and throughout Europe.

We are convinced that the conference can act as a vehicle for innovative and in-depth analysis of the situation in France and the EU and provide a venue to explore ways of overcoming existing barriers to move the agenda forward on designing more sustainable, more efficient and ultimately fairer public policies.

Suggested Reading

Why is green taxation key for sustainable fiscal reforms?

- Vivid Economics (2012). *Carbon Taxation and Fiscal Consolidation: The Potential of Carbon Prices to Reduce Europe's Fiscal Deficits*, report prepared for the European Climate Foundation and Green Budget Europe
- Baranzani A. et al. (2000). "A Future for Carbon Taxes", *Ecological Economics*, 32(3), pp.395-412

Green taxation in the French broader fiscal reform

- Bureau D. (2009). « Vers une révolution fiscale verte en France ? », *Regards croisés sur l'économie*, 2(6), pp.135-141
- Combet E. et al. (2009). *Economie d'une fiscalité carbone en France: éléments d'un débat nécessaire*, Cired
- Godard O. (2011). "La contribution carbone entre expertise économique et jeu politique". *Revue française de finances publiques*, 114, pp.137-148

Green fiscal reforms and equity issues: experience from Member States

- Andersen M.S. (2004). "Vikings and Virtues: a Decade of CO2 Taxation", *Climate Policy*, 4(1), pp.13-24
- Combet E. et al. (2010). "Carbon Tax and Equity: The Importance of Policy Design" in Soares C.D. et al. *Critical Issues in Environmental Taxation: International and Comparative Perspectives*, vol.18, Oxford University Press
- Hammar H. and Akerfeldt S. (2011). "CO2 Taxation in Sweden: 20 Years of Experience and Looking Ahead"
- Sterner T. (2012). "Distributional Effects of Taxing Transport Fuels", *Energy Policy*, n°41, pp.75-83

Green fiscal reforms in the crisis context

- Andersen M.S. and Ekins P. (2009). *Carbon-Energy Taxation: Lessons from Europe*, Oxford University Press
- Barde J.P. and Honkatukia O. (2004). "Environmentally Harmful Subsidies" in Tietenberg T. and Folmer H. (ed.) *The International Yearbook of Environmental and Resource Economics 2004/2005*, Edward Elgar
- Vivid Economics (2012). *Carbon Taxation and Fiscal Consolidation: The Potential of Carbon Prices to Reduce Europe's Fiscal Deficits*, report prepared for the European Climate Foundation and Green Budget Europe

Green taxation at the European level: Fiscal Compact, EU Semester and the Energy Taxation Directive

- Fiscal Compact: http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf
- Energy Taxation Directive – current legislation : http://ec.europa.eu/taxation_customs/taxation/excise_duties/energy_products/legislation/index_en.htm
- Energy Taxation Directive – Proposal : http://ec.europa.eu/taxation_customs/resources/documents/taxation/minima_explained_en.pdf

European climate and industrial policies in the context of the financial crisis

- Exiting the crisis in the right direction: A shared prosperity plan for Europe, T. Spencer, L. Chancel, E. Guerin, Working Paper Iddri
- Huberty, M and G. Zachmann (2011), "Green exports and the global product space: Prospects for EU industrial policy", Bruegel.
- Constantini, V. and M. Mazzanti (2012), "On the green and innovative side of trade competitiveness? The impact of environmental policies and innovation on EU exports", *Research Policy*, 41(1).

Organisational matters

Date of event: 29-30 October 2012

Event location:

Sciences Po
Amphithéâtre Caquot
28, rue des Saints-Pères
75006 Paris

Event cost: There will be no conference fees.

However, GBE/IDDRI will offer different paid options for lunch and dinner which will be published with the registration form.

Booking modalities:

It is recommended to book soon as places are limited.

We kindly ask you to complete the online booking form. In the coming days a link to the conference registration form will be available on the following page: <http://www.foes.de/internationales/green-budget-europe/gbe-veranstaltungen/anstehende-veranstaltungen/>

Participants wishing to register for the conference may contact Green Budget Europe at info@green-budget.eu.

(Programme is subject to alterations)

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