Green taxation as key for sustainable fiscal reform

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THE RATIONALE OF ENVIRONMENTAL TAXATION:
internalisation of environnemental costs

- Unregulated market forces lead to oversupply of pollution
- Taxes could be employed to account for environmental negative impact/externalities (Pigou)
- Taxation provides an incentive for pollution abatement
- Taxation of consumption of polluting goods and taxation on intermediate inputs. [Taxation on inputs (often emission taxes) more effective: it induces the replacement of polluting by cleaner inputs]
- Taxing broad base is more efficient: all pollution sources should bear the full cost of the negative environmental impact
- BUT: In reality deviation from this principle: reductions and exemptions

THE RATIONALE OF ENVIRONMENTAL TAXATION:

environment and economic growth

- Quality of taxation: taxation systems more “growth friendly”
- Tax shift from income taxation and social contribution to environmental taxation (in fact, income taxation is the most damaging to investment and other drivers for growth)
- Green Growth Strategy and Exit Strategy
- “Employment dividend” (when industries facing environmental taxes are not exceptionally labour intensive)

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ENVIRONMENTAL TAXATION AND INNOVATION

- Innovation plays a key role in promoting long-term growth
- Market forces alone lead to undersupply of innovation
- By putting a supplementary cost on polluting technology, taxation stimulates innovation
- Means: Taxes on pollution and tax incentives, such as tax credits, accelerated depreciation allowances or reduced rates of consumption taxes on green products
- Careful assessment needed: Positive and negative aspects of tax incentives for innovation: stimulate innovation but, excess of investment in certain productive sectors, costly initiatives, complexity in terms of compliance and administrative costs

DISTRIBUTIONAL AND COMPETITIVENESS CONSIDERATIONS

Distributional (social) considerations

- Trade-off between efficiency and distribution
- Difficulties in determining distribution costs
- Several different designs of approaches in the MS' tax systems (exemptions, rates' differentiation, 'ad-hoc measures)

Competitiveness

- Environmental taxation determines competitive disadvantages which create the incentives for pollution abatement
- Sectoral impacts, tax competition and cross-border activity
- Reductions and exemptions as remediation measures
- Third-country competition

ENVIRONMENTAL TAX INCENTIVES

- “Harmful tax incentives” - reduced rates or significant tax breaks of energy intensive industries: effective subsidy to the creation of pollution
- Harmful tax incentives exist in all sensitive sectors: agriculture, fisheries, energy, transports, manufacturing and natural resources
- “Environmentally friendly” tax incentives may weaken the incentives and the effectiveness of environmental taxes
  - ➢ The case of VAT: reduced VAT rates (distributional concerns) may subsidise pollution. Reduced VAT rates do not incentivise pollution abatement

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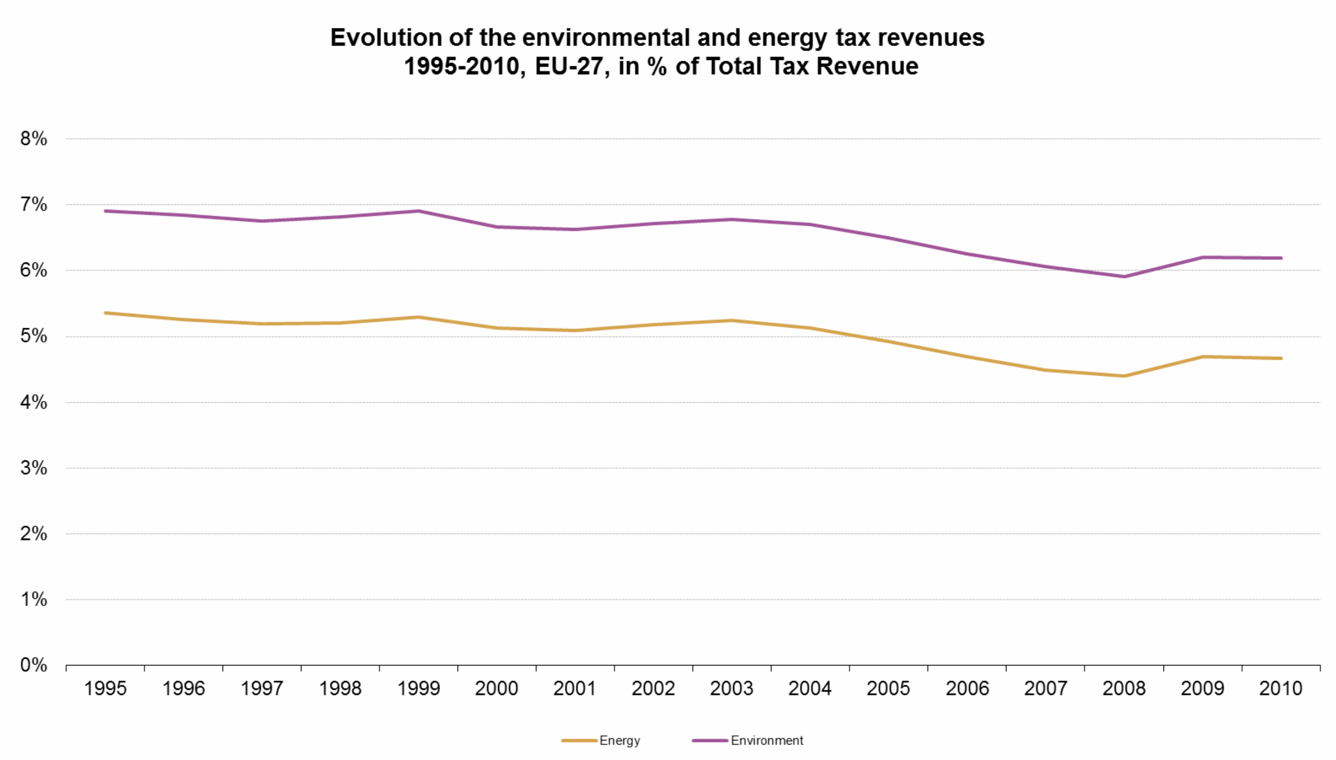
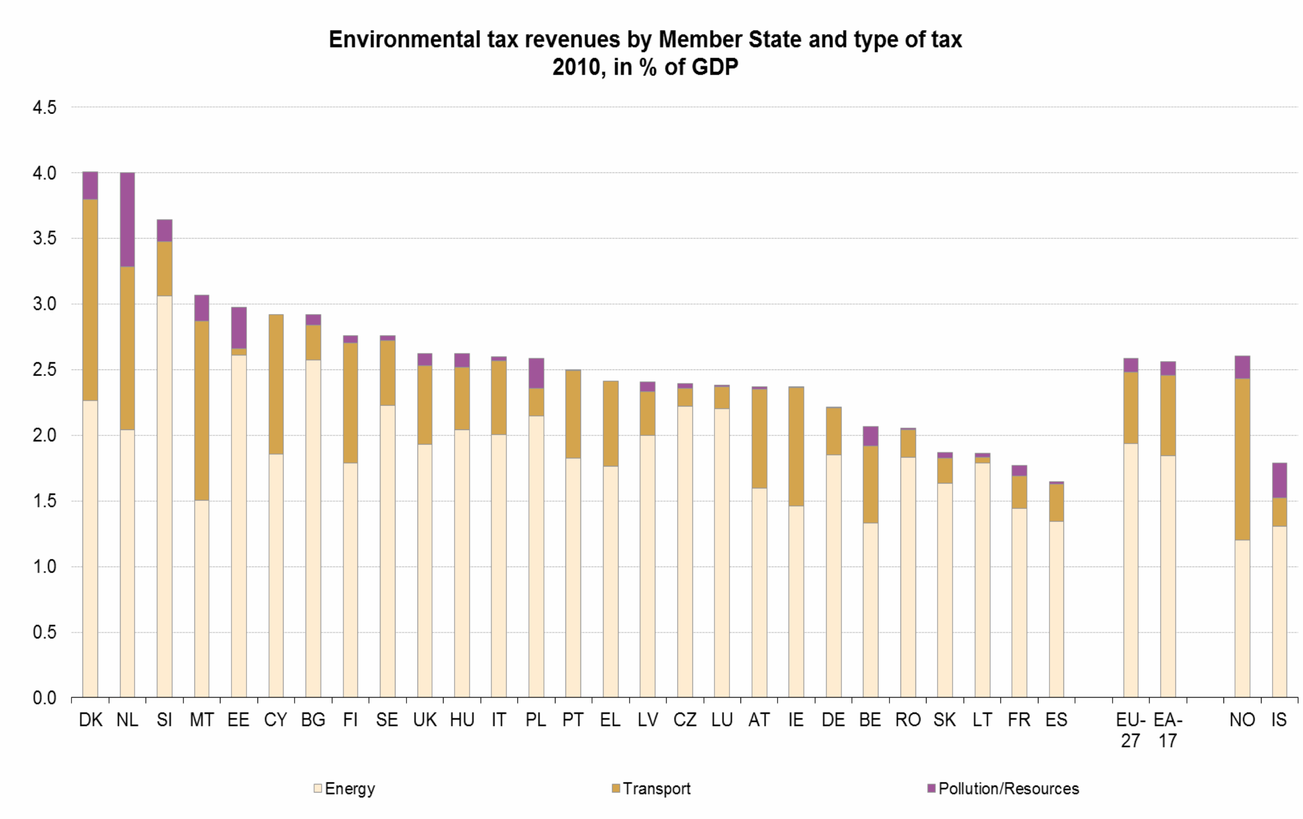
THE NEED FOR COORDINATION

- In order to protect competitiveness a great number of harmful tax subsidies are implemented
- Solution in economic terms: coordinated approach
- Competitiveness problems are both global and EU specific (third-country dimension)
- Different implementation of exemptions and incentives may give rise to concern for the proper functioning of the Internal Market
- Need for a coordinated approach inside the EU, taking into account the most efficient national experiences

ENVIRONMENTAL TAXATION TREND



SITUATION BY MEMBER STATE



POLICY FRAMEWORK

- **EU climate and energy strategy (2013-2020):**
  - ✓ 20% cut in emissions,
  - ✓ 20% improvement in energy efficiency and
  - ✓ 20% share of renewables by 2020
- **Exit strategy:** Public finances and *quality* of revenue
- **Europe 2020 Strategy (COM (2010)2020):** sustainable growth for a more resource efficient, greener and more competitive economy.
- **Annual Growth Survey 2011 (COM (2011)0011)**
- **European Semester**

TWO POLICIES AREA

- 20% cut in emissions by 2020 (30% in case of international agreement reached)

  division into two areas:

  Emission Trading System:

  - EU cap
  - single instrument
  - uniform price signal

  „Effort-sharing“:

  - national reduction objectives,
  - taking GDP into account

SCHORTCOMINGS OF THE CURRENT STATE OF PLAY

- NO signal to reflect CO2 emissions of energy products
- NO signal to reflect the energy content of the product used
- NO incentive to develop markets for alternative energies
- NO European framework for CO2 taxation
- NO sufficient coverage of 50% of emissions outside ETS
- NO clear distinction with ETS: double burden or loopholes to evade responsibility for emissions

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WHY REVISION OF THE EU ENERGY TAX DIRECTIVE NOW?

- MS are designing **now** their **strategies** to meet **agreed targets in the most cost-effective way** and exit the crisis
- MS and stakeholders need **now legal certainty** of possible uses of taxes in this context
- Revision ideally applicable in parallel with the third phase Emission Trading System (ETS)
- Opportunity for a **green tax shift**: shift taxation from labour to pollution and energy use to help create jobs and boost growth

NEW STRUCTURE OF ENERGY TAXATION

Tax reconstructed according to **CO_2 emissions** and **energy content**:

- A part based on <u>CO_2 emission</u> of the energy product. CO_2 taxation would be zero for all sources of energy that currently are, or will in the future, be recognised as CO_2-free.
- A part based on <u>energy content</u> per GJ, regardless of the energy product, thus providing an incentive to save energy.

Because:

- <u>logical and technology neutral</u> approach
- automatic <u>incentive for less polluting</u> energy products and generalised CO_2 price signal vital for the shift towards low carbon economy
- remove unjustified subsidies for certain fossil fuels (diesel, coal)
- consistent treatment of all energy sources

RATE STRUCTURE WITH 2 ELEMENTS

CO_2-related taxation

EUR 20/t CO_2

Energy related taxation

EUR 9.6/GJ (motor fuels)

EUR 0.15/GJ (heating fuels)

- No CO2 tax on sustainable renewable energy sources
- No CO2 tax for installations falling under EU ETS, avoiding double burden

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LINK WITH EMISSION TRADING SYSTEM

Framework for CO2 taxation as complement to the EU emission trading scheme

- no double burden for business;
- Level playing field for the sectors exposed to carbon leakage
- no overlap CO2 tax with ETS: CO2 tax
- complements ETS with alternative market-based instrument for small installations excluded from the EU ETS

THANK YOU!

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