



GBE-IDDRI

Green taxation as key
for Sustainable Tax Reform
Paris, Sc.Po, 29-30 October 2012

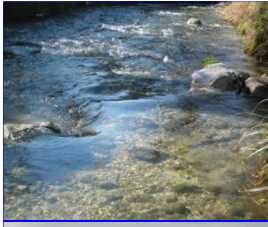
**Challenges and potentials of Environmental
Fiscal Reforms in the crisis context
Italian Case-Study**

Aldo Ravazzi Douvan

*Italian Ministry of Environment, Land & Sea
OECD-JMTEE Tax & Environment, Past Co-Chair
Green Budget Europe, Vice-President*

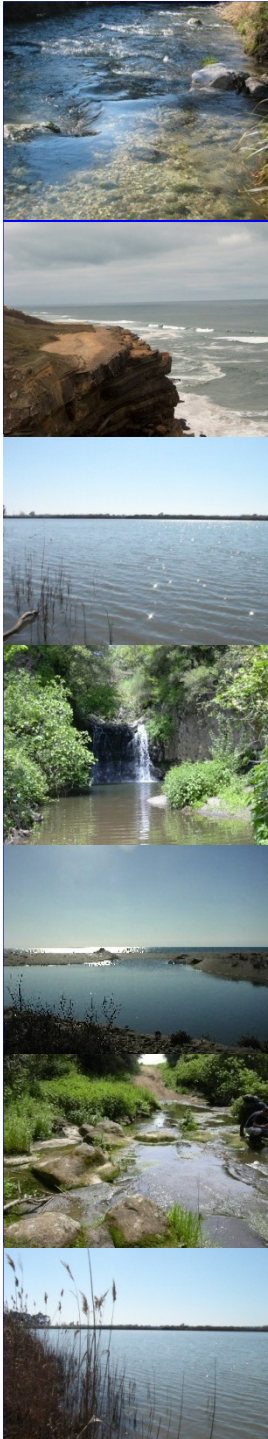
FACTS 1

- Government: approved a project of General Tax Reform (Apr.12) including for the first time ever an explicit element of Green Fiscal Reform (Art.14)
- Parliament: must approve the delegation to the Government for the General Tax Reform, fixing principles and limits
- In the proposal, powers to the Gvmt for details design and implementation are for the following 9 months



FACTS 2

- Common Principles of GTR and EFR:
 - A) Growth
 - B) Fiscal Consolidation (burden shift)
 - C) Social Fairness
- For the Environmental Fiscal Reform, powers are potentially very wide





POTENTIAL OF THE EFR IN ITALY

MAJOR ELEMENTS OF THE PROPOSED EFR

- CO2 Tax only on non-ETS sectors (e.g. UK is taxing progressively also ETS sectors)
- CO2 Tax revenue used with priority to finance renewables & energy efficiency (replacing feed-in tariffs financing thru electricity bills) and eco-innovation
- Phasing out of EHSs (esp. excise tax)
- Any other measure possible
- Entry into force linked to European Directives and Regulations (mainly ETD)



THE ECONOMIC CRISIS CONTEXT

- Economic-Financial Crisis (spread Bot-Bund up to 575, after the euro introduction down to 170)
- Heavy (accumulated) Public Debt (reached again 120% of GDP, after going down to 104%)
- EU Maastricht Parameters for Convergence
- Missing European budget common policies
- One currency, no common political economy
- Fiscal unanimity rule;



POLITICAL WINDOWS OF OPPORTUNITY 1

- + Technical Government (Anti-Crisis, Emergency) in Nov.2011
- +/- Short-term perspectives (18 months), elections planned for Spring 2013
- Credibility of initial measures:
 - + **Save-Italy Decree Dec.11** (pensions, Imu, 1000€, EU Funds, fiscal evasion, etc.)
 - + **Grow-Italy Decree Jan.12** (firms, liberalizations, labour market reform, etc.)
 - + **Simplify-Italy Decree Feb.12** (for new activities, tax payment, bureaucracy, etc.)

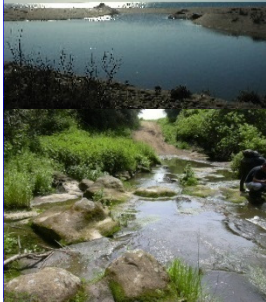
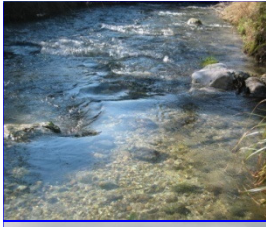


POLITICAL WINDOWS OF OPPORTUNITY 2

- +/- Citizens/Consumers/Voters irritation
 - . with inefficiencies in public expenditure
 - . with the fiscal burden in general
 - . with each tax in particular
 - . still ready to accept sacrifices
- + Does not need to be re-elected (Monti “my constituency are the future generations”)

TIME IS NOT NEUTRAL

- Several measures with environmental impact adopted within the 3 emergency decrees
- In the last 10 months: Fuel P+20%, C-10%, recovering the decrease in real terms of fuel taxation of the last 20 years, bringing Italy back to price leadership - energy intensity
- Waste tariffs refiscalized (charges to taxes)
- Water tariffs to the Energy Authority (AEEG)
- Company cars tax deductions reduced by 1/4
- Regional aviation noise tax revived
- Stabilization law - Financial law ongoing



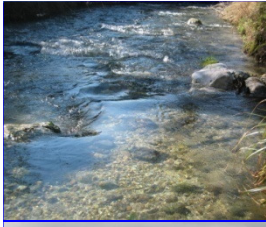


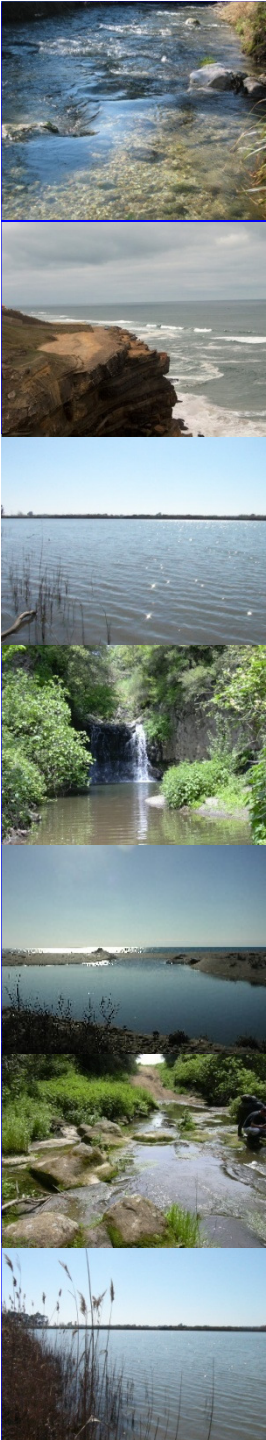
PREPARATION BACKGROUND

- OECD (e.g. GTRs, EHSs, Green Growth)
- UNEP (e.g. Green Economy, Resources)
- EUROPEAN ENVIRONMENT AGENCY (e.g. Country workshops, reports)
- EUROPEAN COMMISSION (e.g. White Paper, MBI Forum, Europe 2020, White Paper Delors, Semester Recommendations)
- EAERE-ISEE-GCET Scientific Conferences
- GREEN BUDGET EUROPE (support to EU Country Presidencies and EC, annual conferences, researches,)

OPENING AND CLOSING WINDOWS OF OPPORTUNITY

- Dec.11 - Ministry of Economy & Finance Conference - EEA and MoE supported key in building consensus prepared under the old administration Ceriani - Bank of Italy → Undersecr. MEF Clini Director G. MoE → MoE Minister
- Apr.12 - Gvmt Fiscal Reform proposal
- Oct.12 - Finance Commission of the Chamber cancels Art.14
- MoE Minister has asked the Gvmt to reintroduce it in following steps: open issue





EU COUNCIL RECOMMENDATIONS FOR ITALY (Jul.12): loud and clear

- 10-12 Member Countries have Council Recommendations about EFRs, tax burden shifts, EHSs
- Rec.5 “... *Take further action to shift the tax burden away from capital and labour to property and consumption as well as environment.*”



OECD ENVIRONMENTAL PERFORMANCE REVIEW OF ITALY (11 OCT. 2012)

Assessment: loud and clear

- *“The high tax-to-GDP ratio limits the possibility of further raising tax revenue in Italy. Nonetheless, expanding and restructuring environmentally related taxes and removing environmentally harmful tax concessions could help fiscal consolidation. It could also help to make the tax system more growth-friendly by reducing taxes on labour and businesses. The comprehensive fiscal reform proposal presented by the government in April 2012 explicitly includes an environmental component for the first time. To make the best of this opportunity, the environmental component of the reform proposal could be broadened.”*



OECD EPR ITALY (OCT. 2012) - Recommendations

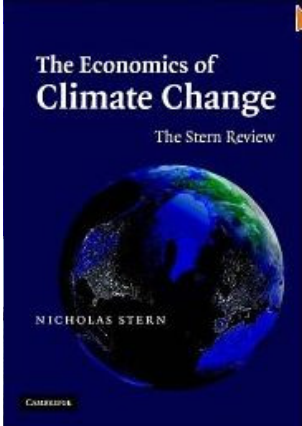
- *REC.8* “Implement a comprehensive environmental fiscal reform as part of the proposed reform of the tax system that: i) removes special tax provisions that are environmentally harmful and economically inefficient; ii) restructures energy and vehicle taxes so that they better reflect environmental externalities including greenhouse gas emissions; and iii) considers reforming existing or introducing new, environmental taxes on resource use and pollution (*e.g.* on water abstraction, wastewater discharges, pesticides, fertilisers and packaging materials).



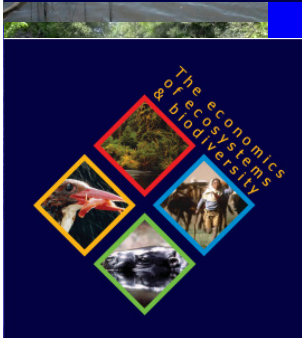
OECD EPR ITALY (OCT. 2012) - Recommendations

- REC.9 *“Continue to regularly survey tax expenditure; introduce a mechanism to systematically screen existing and proposed direct and indirect subsidies against their potential environmental impact.”*

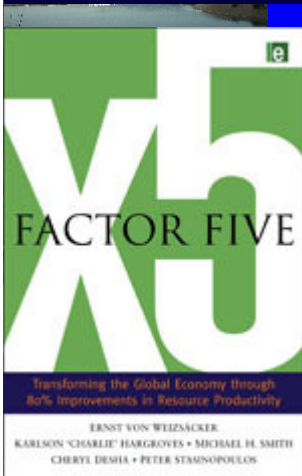
ECONOMIC KNOWLEDGE WINDOWS OF OPPORTUNITY



- Nicholas Stern (2006), "The Economics of Climate Change - The Stern Review ", HM Treasury, London
- Nicholas Stern and James Adams (2009), "The Global Deal: Climate Change and the Creation of a New Era of Progress and Prosperity", Library Edition



- Pavan Sukhdev ed. (2010 e 2011), "TEEB - The Economics of Ecosystems and Biodiversity", vol.1 "TEEB: Ecological and Economic Foundations", vol.2 "TEEB in National and International Policy Making", Earthscan, London



- E. Von Weizsaecker et al. (2009), "A Long-Term Ecological Tax Reform", ch.7 in "Factor 5 - Transforming the Global Economy through 80% Improvements in Resource Productivity", Earthscan, London



CHALLENGE 1: EQUILIBRIUM TO BE FOUND

- Ministry of Economy & Finance looking with priority for raising funds, tax revenue stability, revision of the tax system
- Ministry of Economic Development (industry, energy, transport) looking with priority for competitiveness and innovation
- Ministry of Environment looking with priority for funds for environmental policies, eco-innovation and solve ecological crises (climate, waste, water, biodiversity, contaminated sites, floods and hydro-geological risk...)
- Debate on revenue form ETS auctioning



CHALLENGE 2: QUANTITATIVE POTENTIAL

1. Revenue from environmentally related taxes in Italy in 2010 accounts for 2.6% of GDP and 6.1% of total tax receipts in 2010.
2. Higher than the corresponding shares for the OECD as a whole.
3. Declining in the last 10 years.

But what is the objective? 0.1 or 0.5%?

to tend to the average OECD or EU behaviour?

Or ambitious & progressive targets 15-20-30%?

Denmark 12%, Turkey 14%, Costarica 18%



CHALLENGES 3-4-5: SHIFT – STRATEGY - TIMING

1. In normal times: EFRs and Fiscal Neutrality. In crisis times: Dynamic Neutrality: the tax burden shift can be applied even in times of increasing taxation (even decreasing)
2. We should accompany EFRs by the announcement of tangible reductions in Direct Taxation (persons and companies)
3. In times of crisis, specific measures risk to be more successful than rational designs
4. Must be ready for when the train passes by
5. Not clear what the final result will be