

The EU Semester and fiscal reform

30 October 2012, Paris

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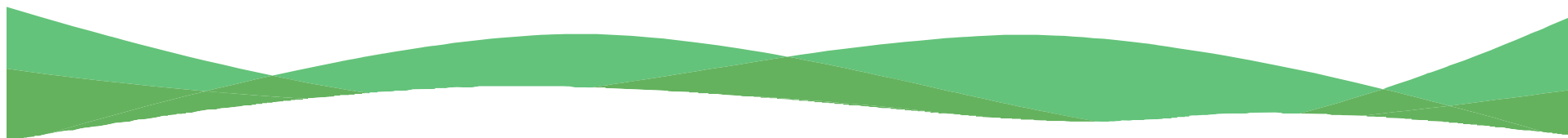
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Europe 2020 – a strategy for smart, sustainable and inclusive growth

- **Sustainable growth** – priority to a more resource efficient, greener and more competitive economy.
- Context of economic crisis => need for smart fiscal consolidation
 - calls MS to shift the tax burden from labour to energy and environmental taxes as part of a “greening” of taxation systems
 - calls for phasing out of EHS as being economically and socially inefficient and environmentally damaging.
- **European Semester:** Annual monitoring exercise. A tool to improve EU policy coordination on macroeconomic and structural issues.



Europe 2020 Strategy and fiscal reform

- **Roadmap to a resource efficient Europe:** "By 2020 a major shift from taxation of labour towards environmental taxation (...) will lead to a substantial increase in the share of environmental taxes in public revenues"
 - ➔ At EU level, the Commission will monitor via the European Semester MS follow-up to country-specific recommendations on fiscal reform;
 - ➔ At national level, Member States will shift taxation away from labour to environmental impacts (continuous) and identify the most significant EHS (by 2012) and prepare plans to phase them out and report on these as part of their National Reform Programmes (by 2012/2013);

Annual Growth Survey 2012

- "Greater efforts should be made to **shift taxation away from labour** towards taxation which is less detrimental to growth: for example, **increasing consumption, environmental, wealth (...) taxation** can help to alleviate the tax burden on labour (...). Particular attention should be paid to the needs of the most vulnerable groups in any tax shifts."
- "**Phasing out some hidden tax subsidies** could help to widen the tax base. In particular, **environmentally harmful subsidies should be eliminated.**"

Member States response – National semester

■ National Reform Plans submitted

- Only 4 MS mention EHS reform
- Minor declarations on tax shift

■ Reasons:

- Lack of the EU Semester visibility?
- Low political priority to green taxes?
- Strong sectoral lobby?
- Social pressure?

Country Specific Recommendations 2012

A shift towards **environmental taxation** - 12 countries - AT, BE, CZ, EE (vehicles), ES, FR, HU (energy), IT, LT (including car taxation), LU, LV (resources) and SK.

Recommendations on **energy aspects** - 8 countries – BG, EE, LT, LV, MT (energy efficiency), EE, MT (renewables), regulated prices (HU), PL, UK (energy infrastructure)

No recommendations use of MBIs in specific sectors (water, waste, air).

No recommendations to phase out environmentally harmful subsidies

EU frameworks on the use of taxes and other market-based instruments

- Rules to ensure that external impacts are priced. Avoiding harmful subsidies or linking them to environmental measures
 - COM proposal for review of **energy tax directive**: Change in tax base, closure of loopholes, coherence with ETS
 - Transport – vehicle taxation, Eurovignette, White Paper on transport
 - Review of existing **reduced VAT rates** – ongoing consultations
 - **State aid guidelines** – environment, coal, others. State aid modernisation exercise started
 - **EU Emission Trading System**: pricing emissions, moving towards auctioning, numerous exceptions.

Environmental tax reform and phasing out EHS – COM studies

- Monitoring Member States' achievements and progress in selected environmental policy areas – winter 2012/2013
 - Assessing MS progress in meeting European Semester recommendations, **focus on taxation and EHS reform**
- Modelling Resource Efficiency Roadmap milestones – spring 2013
 - Assessment of economic, social and environmental impacts of meeting the Roadmap's objectives – **ETR and EHS impacts will be modelled**
- Complementing OECD **fossil fuel subsidies inventory** with 6 MS – winter 2012