



Institute for
European
Environmental
Policy

Motivating progress on environmental tax reform through coalitions of like-minded countries

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Government of
the Netherlands

Withana, S., ten Brink, P., Illes, A., Nanni, S., Watkins, E., (2014) Environmental tax reform in Europe: Opportunities for the future, A report by the Institute for European Environmental Policy (IEEP) for the Netherlands Ministry of Infrastructure and the Environment. Final Report. Brussels. 2014.

Introduction to the study

Aim:

- To assess the current state of play with environmental taxes in Europe, explore where **further greening taxation could be appropriate and how to drive this agenda forward.**

Timing:

- December 2013-May 2014

Basis:

- Review of relevant literature by EC, OECD, EEA, national agencies, research institutes, academics, NGOs etc.
- Insights from targeted interviews, a steering group which included representatives from the Ministries of Environment, Finance and Economy in the Netherlands, discussions at an international experts' workshop in Brussels in April 2014.

Current approaches to ETR

- To date, **countries have largely taken forward the ETR agenda unilaterally** according to their own needs, opportunities and political expediencies.
- In some cases, these actions have been **inspired by efforts in other** countries while sometimes they have been **held back or limited by a lack of action in others.**
- In certain cases **progress has been driven by EU legislation**, either explicitly (e.g. Energy Tax Directive) or implicitly (e.g. cost recovery under Water Framework Directive).
- This has led to a **significant diversity in practices** among countries. To some extent may be inevitable and appropriate given different circumstances; but can have implications for a level playing field, could lead to competitiveness problems or less effective results in certain areas.

Possible approaches for further ETR in Europe

Diversity to Coordination to Harmonisation

Legal approaches across EU

Legislative specific minimum requirement: e.g. Energy Tax Directive, VAT

Legislative general requirement: e.g. 'principle of recovery of the costs of water services' under Water Framework Directive

Legislative possibility: e.g. strengthen Eurovignette Directive

Legal approaches for a subset of MS:
Enhanced cooperation

Special legal framework: e.g. initial Schengen (limited no of countries under international treaty distinct from EU treaties).

Existing legal framework: e.g. Enhanced cooperation under EU Treaties – little used to date (patents, discussion on FTT)

Political intention to promote ETR: **Open Method of Coordination (OMC)**

Formal/structured OMC: e.g. country specific recommendations under European Semester

Flexible/light OMC: e.g. Green public procurement (GPP)

Voluntary policy coordination: e.g. Cars CO2; reform of EHS

Multi-country cooperation and coordination

'Coalition of like-minded countries' to be defined depending on interests: e.g. climate and energy, resource efficiency and circular economy, pollution and health etc.

National approaches & Learning from others (copy-cattng)

Inspired by / based on **other Member States' initiatives**

Own initiatives developed according to own needs

The role of multi-country cooperation & coordination

- Given the fiscal unanimity rule on tax issues in the EU, some form of **'enhanced coordination'** or **'coalitions of like-minded countries'** could be explored
- Bring together groups of countries (and actors) with similar interests in a particular area to coordinate efforts on ETR.
- Voluntary approach which could lead to **more harmonised/synchronised approaches** (e.g. agreed minimum level) or support **sharing of information** (e.g. on experiences and plans with ETR).
- Scoping study indicates there is **appetite among certain European countries** for some form of voluntary cooperation on ETR, currently preferred to mandatory approaches (e.g. IE plastic bag levy being encouraged across EU).

Potential themes for the coalitions

- **Fiscal consolidation** as a new window of opportunity for ETR
- Cooperating to avoid **competitiveness** concerns
- **Jobs, equity, social costs and benefits**
- **Resource efficiency & circular economy**
- **Climate change & energy**
- **Transport & mobility**
- **Pollution & pressures on environment, biodiversity & health**

Fiscal consolidation

- Environmental taxes and ETR increasingly promoted in the context of **economic recovery and growth-friendly fiscal consolidation**
- **Already taken up by some countries** as part of their response to the economic crisis and fiscal consolidation challenges (e.g. DK, IE, IT, PT)
- Fiscal consolidation needs can be a **useful driver of the ETR agenda**

Coalition of countries facing fiscal consolidation challenges to:

- Exchange information,
- Learn from each other's experiences
- Point at others' practice to facilitate domestic support.

Windows of opportunity: discussions on national budgets and European Semester.

Cooperating to avoid competitiveness concerns

- Competitiveness impacts are a **key concern** when introducing ETR. Available literature not sufficient to clearly claim that ETR either supports or hinders competitiveness; however **little evidence of negative impacts to date**
- Common concerns about possible negative competitiveness impacts of ETR can act as a **driver for collaboration between countries.**

- **Coalitions** could support **more ambitious efforts** (may be easier to garner support if key competitor countries are working together).
- **Engage wider group of actors** (incl. ministries of economy, finance, environment, energy, employment).
- **Targeted working groups** on areas where competitiveness concerns may merit cooperation, e.g. neighbouring countries on aviation taxes, fuel pricing

Jobs, equity, social costs and benefits

- Social impacts **sometimes presented as barriers to ETR**
- While carefully designed ETR can support social objectives (e.g. employment with gains dependent on relative labour intensity of affected sectors), there is a **need for more evidence** on the link.
- Given current levels of unemployment and other social concerns in Europe, arguments on the **potential of ETR to contribute to such objectives** can facilitate support for action.

- **Coalitions** could focus on areas where opportunities to address social objectives are more likely (e.g. landfill tax that encourages recycling and composting can lead to increased employment in these sectors).
- Some tax reforms can **combine social & environmental objectives** (e.g. car and airline taxes tend to benefit a certain (usually richer) segment of society)

Resource efficiency & circular economy

- Resource efficiency and the circular economy are **increasingly important priorities** for policy-makers and business.
- Provides a **new window of opportunity** for action and potential cooperation constellations, e.g. between frontrunners (e.g. UK, NL) which could support more ambitious efforts or inspire/inform action in other countries.

Within coalition, targeted working groups could focus on:

- **Waste exports:** Cooperation (e.g. UK, NL, BE, NO, SE) in setting waste-related taxes and fees could deter export of waste for which recycling, reuse/prevention is environmentally preferable to use as fuel in energy-from-waste plants
- **Plastic bags:** encourage further through information exchange and sharing of lessons (e.g. between IE and PT on how to overcome retailers' opposition)
- **Water pricing:** encourage implementation of cost recovery principle through information exchange, sharing of lessons, development of guidelines

Climate change & energy

- Climate change and energy will **remain a common challenge**, heightened by recent energy security concerns and decisions to phase out nuclear energy
- Cooperation between countries with carbon and/or energy taxes could **address competitiveness concerns and facilitate more ambitious reforms** to make these instruments more effective.

Within coalition, targeted working groups could focus on:

- **Effective carbon pricing:** A coalition could include frontrunners learning lessons from each other (e.g. how SE reduced exemptions for energy-intensive industries), inspire efforts in others discussing carbon taxes (e.g. PT, IT, CZ) and those contemplating how to achieve a phase out of nuclear energy (e.g. DE, CH).
- **Phasing out reduced VAT rates on energy:** Reduced VAT rates are applied in several MS (e.g. BE, FR, IE, IT, LU, UK) as allowed under current EU VAT legislation. Concerns about phasing out such subsidies can be addressed through smart design (e.g. targeted income support to vulnerable households) and lessons learnt from experiences in other countries.

Transport & mobility

- Addressing growing emissions from the transport sector and improving the mobility of citizens remains a **challenge for several European countries**.
- Despite efforts, there remains **significant potential for ETR** in a number of areas including issues of fuel taxes.

Within coalition, targeted working groups could focus on:

- **Fuel taxation:** Collaboration between neighbours (e.g. BE, FR, DE, LU, NL) could help overcome opposition to diesel tax reform and avoid fuel tourism
- **Vehicle taxes:** Collaboration between countries with VRT that promote low-carbon vehicles (e.g. NL, ES, IE) could strengthen efforts and inspire progress (e.g. EE, SK, CZ, PL)
- **Infrastructure charging:** collaboration on road pricing, particularly between neighbours could help increase efficiency.
- **Air passenger taxes:** coordinated approach especially among neighbours could avoid concerns about passengers diverting to airports in other countries.
- **Kerosene tax exemptions** in aviation, shipping/fishing and agriculture sector: need EU/international cooperation (e.g. OECD), scope to learn from others experience

Pollution & pressures on environment, biodiversity & health

- Given **multiple pollution sources and pressures** on the **environment, biodiversity** and **health**, legislative requirements and commitments, likely to be **increasing interest in environmental taxes and incentive measures**.

Within coalitions, targeted working groups could focus on:

- **Marine litter:** can be addressed through various tools including deposit-refund schemes (e.g. DK, DE, MT) and plastic bag charges (e.g. IE). Regional approach could be considered, e.g. OSPAR Convention, Regional Action Plans under Marine Strategy Framework Directive in the Baltic Sea, North Sea or Mediterranean.
- **Sustainable use of pesticides:** Cooperation between countries could include frontrunners in application of pesticides taxes (e.g. DK, NO) learning lessons from each other and inspiring efforts in other countries. A related issue is the reform of lower VAT rates on pesticides (and fertilizers).
- Reform of **incentives harmful to biodiversity** to meet the **Aichi Target 3** (Strategic Plan for Biodiversity 2011-2020) and also the Resource Mobilisation target.

When and what type of cooperation?

- **Cooperation is likely to be more useful in certain circumstances**, depending on the ease with which an environmental tax can be avoided, e.g. through trade (e.g. waste exports) or movement of consumers (e.g. airline tax/fuel tax).
- **Different forms of cooperation are likely to be needed** for different resources, materials, pollutants and issues.
- Cooperation can be **structured according to the issue at hand**, i.e.:
 - **Neighbouring countries** (e.g. to reduce risk of fuel tourism across borders, leakage of products or activities),
 - **Multi-country or regional** (e.g. marine litter in Baltic Sea, North Sea or Mediterranean),
 - **Common challenges** (e.g. fiscal consolidation needs)
 - **Pan-European concerns** (e.g. climate, energy security, biodiversity)

Type of collaboration depends on **potential benefits**, **leadership** and **windows of opportunity**

Potential benefits of 'coalitions of like-minded countries'

- Facilitate **political & public support** (overcome reluctance to be first mover)
- **Avoid sub-optimal situations** (e.g. air passenger duties in NL and DE, incineration taxes in SE and NO, Fuel Duty Escalator in UK)
- **Overcome certain obstacles** to progress (i.e. competitiveness concerns, fiscal unanimity rule in EU) and **contribute to a level playing field**
- Support more **efficient** (e.g. compatible road pricing), **effective** (e.g. avoid leakage) and **ambitious** environmental taxes
- Support **informal exchanges of national experiences and plans**
- **Facilitate achievement of targets and objectives**

Catalysing change - next steps for ETR in Europe

- Coalitions would **complement existing approaches** to ETR
- Need further analysis to **identify specific issues** on which coalitions would focus and **specific actors** to engage including drivers of different coalitions, e.g.
 - **Individual countries** (e.g. NL, DK, NO, SE, PT, IT ... ?)
 - **Groups of countries** (Nordic countries, Green Growth Group, ...?)
 - **Other actors** (e.g. European Commission, OECD, IMF, EEA, ...?)
- Engage **policy-makers from different areas** (finance, economics, tax, transport) and **wider stakeholders** (academics, business, civil society)
- Make use of **existing platforms / processes** (e.g. MBI Forum, OECD Env Tax Group; GBE)
- In all cases make use of **Windows of opportunity to take the agenda forward** at:
 - **National level** (budget and legislative proposals);
 - **Regional level** (e.g. HELCOM-Baltic Seas);
 - **European level** (e.g. European Semester, legislative processes; EU presidencies);
 - **International level** (e.g. relevant COPs to the Rio Conventions; G-20 meetings).



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The full report can be downloaded from the IEEP website:

<http://www.ieep.eu/work-areas/environmental-economics/market-based-instruments/2014/06/environmental-tax-reform-in-europe-opportunities-for-the-future>

For more information about the study and our work in this area, please contact:

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See also:

New Book! [Paying the Polluter - Environmentally Harmful Subsidies and their Reform](#)
by [F. Oosterhuis and P ten Brink \(eds\)](#).

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