



Commission Green Paper on market-based instruments for environment and related policy purposes

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Overview

- **Objectives and issues**
- **Political context**
- **Consultation process and first results**
- **General issues: ETR, Reform of environmentally-harmful subsidies**
- **MBI in the area of energy consumption**
- **MBI in further areas of environmental policy: transport, water, biodiversity**



Objectives and issues

- **Economic instruments** are most efficient tool to promote energy efficiency and limit pollution.
 - Potentially least-cost options for society
 - Best combine environmental, economic and social considerations
- What is **potential for more intensive use**? Ways to improve existing EU legislation? Mechanisms to exchange experience/best practice? Areas where need for joint action?
- **More comprehensive reforms**:
 - Environmental tax reforms
 - Reform of environmentally-harmful subsidies



Political Context

- Support for use of MBI at EU level, e.g. in **EU-Sustainable Development Strategy** or in **6th EAP**
- **Energy and Climate package**
- Intensified use of MBI by MS, often within instrument mixes
→ *EEA Report of 2006*
- **Community sets of rules:** EU-ETS, Energy taxation, Eurovignette directive, specific environmental directives, environmental state aid guidelines.
- **Green paper does not discuss:** Review of EU-ETS and of state aid guidelines

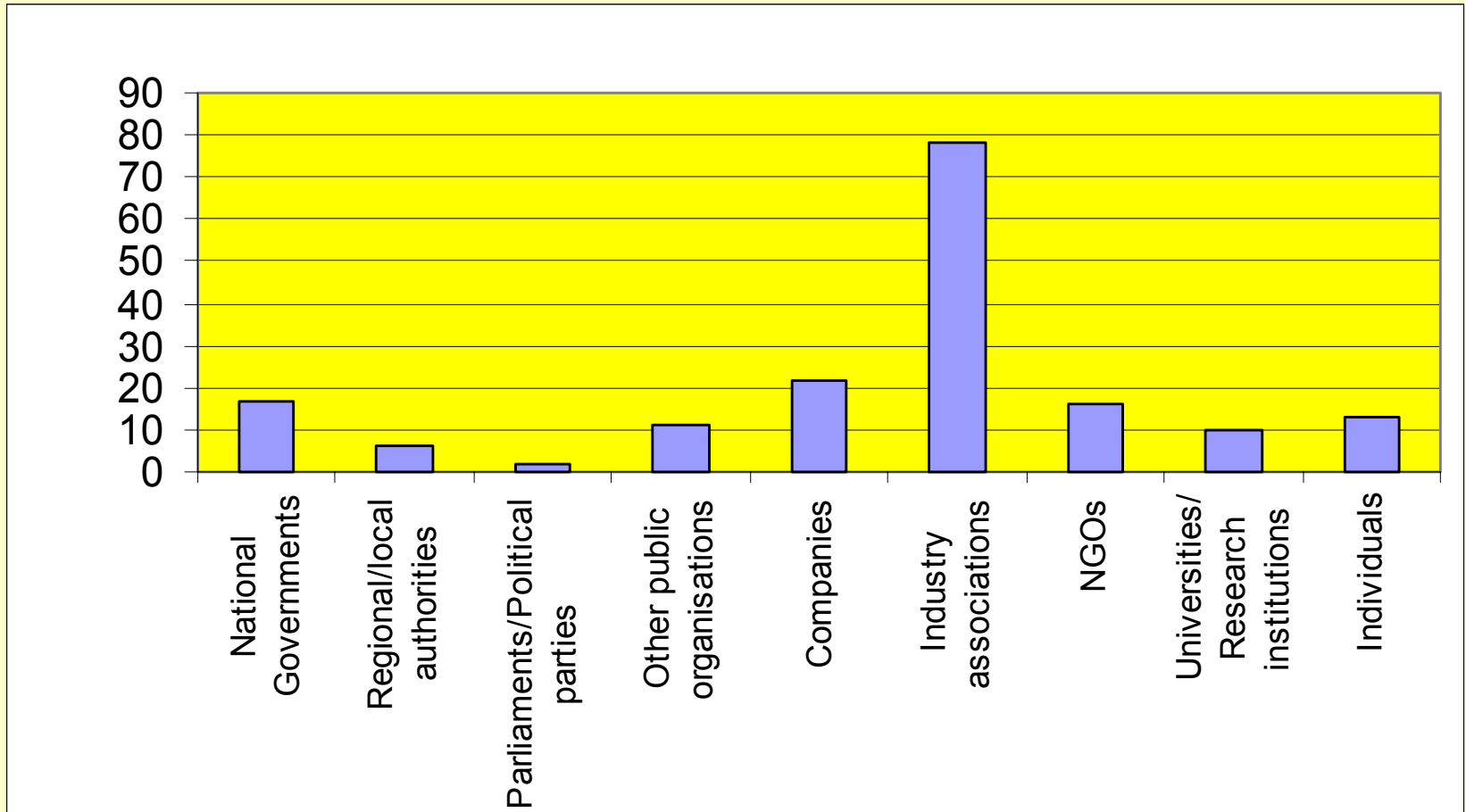


Consultation process

- Green paper **adopted** 28 March 2007
- **Consultation** process ended 31 July 2007 but further replies in August taken into account:
http://ec.europa.eu/environment/enveco/green_paper.htm
or http://ec.europa.eu/taxation_customs/article_3849_en.htm
- **Around 175 replies**, incl. small number from outside the EU
- Largest single **group of respondents** were industry associations. Apart from that, individual companies, NGOs, governments, academia, public organisations.



Responses to consultation





First analysis of reactions – general

- Generally **positive** to intensify use of MBI. Emphasis on need for **policy mix**, based on impact assessments.
- Reference to existing **instruments at national level**. Variety of areas with potential for further action mentioned, inter alia green public procurement.
- Concerns about impact on **competitiveness and distribution**. Address i.a. by recycling revenues to support R&D&I
- **Division of responsibilities**: EU to intervene when cross-border environmental concern or national measures undermined in internal market. EU to develop guiding principles, then adaptation to national circumstances



First analysis of reactions – cross-cutting MBI Forum

- Generally positive. Good to have regular meetings to exchange experiences. Different **views about setup**:
 - Use existing forums, plus ad-hoc conferences of experts?
 - Or separate institution to make „environmental economists talk to tax lawyers“? Type of Green Tax Commission with own secretariat and homepage with info on current MS projects?
 - Only Member States or also stakeholders?
- Commission to accompany, co-ordinate, inform MS. Do evaluation and exploratory studies, make suggestions for progress.



First analysis of responses – Reform of environmentally-harmful subsidies

- Subsidies had initial **non-environmental objectives** with trade-offs between different interests. Analyse whether these still apply and possibly continue subsidies.
- Balance 3 dimensions of **sustainable development**:
- Need for **accomodating measures**, e.g. gradual phasing out to allow adaptation. Action at EU level might be politically easier.
- Priority **sectors** suggested: agriculture, transport, energy.
- Need to **integrate environmental considerations** in subsidy design, including Community funding. Have sunset clauses, degressiveness and effectiveness control.



First analysis of reactions – Environmental Tax Reforms

- Objective for tax shift of specified magnitude
- Common framework at EU level, maybe binding guidelines, to ensure reaching objectives and level playing field.
- Softer co-ordination through highlighting best practices, technical assistance => MBI Forum.
- Alternative position: Exclusive MS competence for taxation. Leave use of revenue in national hands alone.
- Double dividend not reached, eroding tax base of env taxes
- Need for shift on expenditure side as well. Need for reform of labour markets. Alternative use of revenues.



MBI in energy consumption

- Energy consumption – key area of Community interest
- Energy taxes – one of the MBI in the energy field.
 - Harmonised in the EU under the Energy Taxation Directive (Directive 2003/96/EC)
 - Specific taxes on the quantity of energy, labeled as excise duties, energy taxes, CO2 taxes....
- Review of the Energy Taxation Directive: division of the minimum levels of taxation
 - **Higher effectiveness and more support of the EU policy objectives**
 - More coherent and uniform energy taxation
 - No distortions of competition
 - More effective tax differentiation where justified
 - **Easier applicability alongside other market-based instruments, e.g. the EU emission trading scheme**



First analysis of reactions - MBI in energy consumption

- Strong emphasis on “one instrument approach”, cost-effectiveness, competitiveness in most of the responses
- Call to avoid “double regulation“ (energy taxation and EU ETS)
- Energy taxation is not seen as environmental instrument only (cost-effective environmental policy vs. other policy objectives)
- Need to maintain flexibility in using energy taxes
- Options for revision of the Energy Taxation Directive – support for their further exploration, in particular in relation to the division of the minima as a means to address “double regulation“ issue



MBI in Environment Policy

- Green Paper discusses various policy areas where MBI are mainly **used at national level**: transport, water & waste management, biodiversity, air pollution.
 - *Useful to have Community approaches or exchanges of experience between MS? Adequate institutional structures?.*
 - *E.g. possible creation of the MBI Forum.*



Environmental aspects of transport

- Important and growing **source** of CO₂ emissions and of air pollution, noise and congestion.
- **Community instruments:** Proposals on car taxation, professional diesel and inclusion of aviation in EU-ETS.
- **Eurovignette directive** on infrastructure charges permits pollution-related differentiation of rates.
 - *How to include environment costs for various modes?*
- Local systems of **congestion charges**, e.g. in London. Green paper *Towards a new culture for urban mobility* – COM(2007) 551 of 25.9.2007.
 - *Need for general guidance or framework?*



First analysis of reactions – Transport

- Some support for vehicle tax, aviation and diesel **proposals**
- Diverging opinions on **extension of ETS** to road transport.
- Varied suggestions for extension of **Eurovignette**: no change, other roads, passenger transport, congestion, emissions, health. Reference to need for forthcoming COM model. Objective modal shift or compensate hauliers?
- Use **revenue** to support clean vehicle purchase, prevent and repair damage.
- **Congestion charging**: Successful introduction in UK and SV. Have plans for sustainable urban transport. Other view: No charging, build ring roads and subsidise fleet renewal.



Water management policies

- **Water Framework Directive** requires water pricing by 2010. Essential for reaching objectives. Rules on economic analysis.
- Successful use in some MS with impact on consumption and leakages. Discussions between Member States in *Group of water directors*.
 - *Ways to improve implementation? Options for link between use of pricing and financial support?*



First analysis of reactions – Water

- Develop **guidelines** for calculation method to set water price and to assess external costs. Have information platform to exchange info on best practice
- Ensure that pricing systems provide right **incentives**
- Ensure that **all groups** pay for water use
- MS to tailor pricing to **national and regional circumstances** to safeguard affordability
- Link **grants from EU funds** to water management agreements which define pricing approaches.
- Other view: Use of **MBI not useful**. More important to ensure competition in water supply market.



Protection of biodiversity

- **Use of various types** of MBI. Elements of agricultural and fisheries policies.
 - **Support instruments:** *Payments for Environmental services* for conservation of habitats etc. and to compensate for losses of income.
 - **Wetland banking:** trading instrument to prevent net loss of protected areas. Efficiency advantages.
 - *Useful instruments, the further application of which should be supported?*



First analysis of reactions – Biodiversity

- Positive experiences with **PES** in MS, mainly in agriculture. Question of availability of cofinancing. Integrate biodiversity more strongly in CAP reform
 - **Biodiversity offsets:**
 - Seen as useful, limited experience in EU, e.g. in DE. Interest in further studies, UK launching them.
 - Good way to involve business sector in biodiversity protection.
 - Should only apply to residual damage after prevention and mitigation on site.
 - Problems of imperfect substitution of areas and of measurement and valuation.
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Next steps

- Analytical paper based on replies to consultation
- Review of **energy tax directive** with horizon 2008
- Creation of **MBI Forum**: Possible areas to be addressed first:
 - Environmental tax reforms?
 - Reform of environmentally-harmful subsidies?
 - Others?
- Study on potential for use of **biodiversity offsets**.