



European expert platform on environmental taxation and green fiscal reform

MINUTES

Greening the European Semester Expert Group Side Event

Never let a good crisis to go waste: Windows of opportunity for Environmental Fiscal Reform within the European Semester

28th January 2015 • 13:00h-17:30h

European Commission • DG Environment • Avenue de Beaulieu 5 • Room C • 1160 Brussels

Participants

About 33 participants, including representatives of 11 Member States, representatives of the European Commission (DG Environment) and two NGOs (Green Budget Europe and the Danish Ecological Council).

Minutes: Nathalie Schmit and Constanze Adolf

A. Welcome and Introduction

Louis Meuleman (DG ENV) opened the event by welcoming everyone and introducing [Green Budget Europe \(GBE\)](#), who organised the discussion round. He restated that in the matters of Environmental Fiscal Reform (EFR), the European Commission (EC) cannot only give recommendations, but also help foster dialogue on greening the economy. The EC has (co-)organised events in Italy and Belgium, and in Latvia, next week they will be in Hungary, and another one in March in Belgium. He pointed out that they are open to do this kind of events in every Member State (MS), should the MS be interested.

James Nix (Director GBE) and **Constanze Adolf (Vice Director GBE)** welcomed the participants and pointed out how encouraging it is that representatives from so many MS were present and interested in the topic. This affirms that EFR can widely be agreed upon, and that there is sufficient room to create alliances, but implementation work needs to become quicker, better and more comprehensive, working closely together with ministries of finance and environment, Europe-wide and world-wide. Key for this is to understand specific needs of MS and barriers to implementation as well as first movers on this issue.

GREEN BUDGET EUROPE (GBE) • FORUM ÖKOLOGISCH-SOZIALE MARKTWIRTSCHAFT e.V.

Rue du Trône 4 (postal address) • Avenue Marnix 28 (visitor's entrance) • B-1000 Brussels
T: +32-2 58 85 760 • F: +32-2 58 85 766 • info@green-budget.eu • www.green-budget.eu
GLS Gemeinschaftsbank eG · IBAN DE87430609678043713000 · BIC GENO DEM1 GLS
Gemeinnützig zur Förderung wissenschaftlicher Zwecke laut Finanzamt München für Körperschaften

B. Presentation by Paul Ekins

The event started off with an [introduction](#) by Professor **Paul Ekins**, Director of the University College London (UCL) Institute for Sustainable Resources and Chair of the advisory committee of GBE. He presented the rationale behind EFR, its potential and the experiences of MS that already introduced green taxes, as well as an in-depth analysis of the hurdles for effective communication of EFR.

His presentation was sent to all participants after the event. Listed below are only those points of his presentation that were not part of the slides.

The increase of energy efficiency leads to **rebound effects**: however these are hard to estimate. The wide range of estimations goes from 20% to over 100% (called the backfire phenomenon).

Environmental taxes make up 10% of **tax revenues** in the MS with the highest and 3-4% in the MS with the lowest share of environmental taxes.

Environmental taxes are not unstable revenues. Modelling shows that for decades, there will be increasing and then stable revenues from environmental taxes. Up to 2040, they will not be a problem for public finances. From then onwards, revenues by environmental taxes might diminish and ministries will have to think of new forms to generate revenues; if this arises the carbon problem will be solved, or on the way to being solved.

In closing Paul Ekins issued the recommendation to have **a Green Tax Commission in every MS** to foster debate (as exists in Portugal), make solid national evidence available and induce changes.

Questions to Paul Ekins

As the research presented is from 2007 and thus based on possibly outdated data, don't we need up-to-date data to argue effectively with the EC and national governments?

For the modelling presented during his presentation, this indeed used historic data, making a forecast for the coming years up to 2012. But as far as the then introduced taxes are concerned, these numbers stay valid. Since then, unfortunately only very few countries have introduced new environmental taxes, so there are no real newer cases that could be analysed, except for Portugal. It would be great to do new modelling for new countries!

As for the presented tax curves, these can easily be updated. When presented to the ministries of finance, they were quite well received.

What about areas for taxation other than carbon/energy taxes?

In the presentation, Paul Ekins mainly focused on carbon and/or energy taxes, because they are central in terms of revenues that can be raised. But of course, there is a lot of other important tax bases. The Green Fiscal Commissions have historically worked through all of them.

Landfill taxes are very important and efficient, **resource taxes** are important to be discussed as well (see for example the Irish discussion about pricing water. It would be best

to use pricing systems based on volumetric charges, and then target social issues by separate means instead), **product taxes** might have potentials as well (e.g. as used previously in Belgium), **fertilizer taxes**, **pesticides taxes** etc.

The Danish Ecological Council pointed out that Denmark has introduced all of these taxes already, and offered to make available, together with GBE, the existing impact stories to all interested MS. Some of these were sent to all participants after the event.
In case you are interested in additional information, please contact GBE.

Representatives added that in the Danish case, the public is very much in favour of all these kind of taxes, as long as they are not socially unfair and the underlying modelling has been done in a scientific sound way. The numbers need to be right.

Another issue is related to the possibility of an increase in landfill taxes leading to illegal dumping in some MS with a history of waste management and governance problems. Hence **enforcement / compliance problems need attention by Governments, and also the regional and local levels!** There is an urgent need to take into account the particular situations of each MS, including the trust of the people in their government.

Would it not be better to put taxes on upstream activities instead of downstream ones?

This would be ideal in the sense that companies need to take care of their own pollution. However, it requires regulation to make sure this is done in a proper way. On the other hand, upstream taxes will have bigger impacts on cross-border trading. The psychological effects of these kind of taxes needs also to be considered. Downstream taxes will have a better effect on behavioural changes.

Could it be more efficient to talk about health issues rather than climate change to communicate EFR?

From an academic point of view, it is best to stick to the truth: **if it is a tax, it should be called a tax**. Of course, cleaning up the atmosphere will benefit human health, but if the whole story is sold primarily as a health issue, it might create confusion. But this is ultimately up to politicians to decide.

Do you see a role for nudging in EFR?

In general, behavioural economics has a lot to say on the subject, especially on the ways of communication, but it is not sure whether nudging can be of help in this case. Have there been many really effective policy measures coming out of this approach (e.g. The UK Cabinet Office has a Nudging Unit)? There is the example of a pilot project for roof insulation in UK, which suggested that a grant for householders to clear out their attic could significantly boost the laying of material to reduce heat loss. However, based on the pilot study grant this could be seen as a straight-out subsidy and less an example for effective nudging.

C. Discussion Round

The second part of the event was structured around six main questions, to be discussed freely among the participants.

1 What are the most obvious entry points and opportunities for green fiscal reform in your country?

In some MS, there is no consistency in waste management on the regional or the national level, which is very difficult for implementing the circular economy. **Harmonisation, at the very least on the national level**, would help not only citizens, but businesses as well.

For some of the newer MS, effective instruments are already on the table, as **conditionality through the Cohesion Policy 2014-20** still applies for elements such as water pricing and waste management. These principles are being introduced through gradual reforms.

In one MS, there is now a debate because the **overall tax burden in proportion to GDP is getting too low**, and it would be better to increase green taxes rather than labour taxes, so this might be a good window of opportunity.

Do MS have strong enough governance structures to ensure proper implementation of such systems?

There are some MS with implementation problems. At the same time, even when governance structures are strong enough, **changes may need to be gradual**, so that people and polluters have a chance to get used to new rules, adapt and comply. Otherwise, there might be problems with civil disobedience.

In a number of MS, **taxing energy consumption** through fossil fuel taxes and energy taxes is a good entry point. Households and small companies usually pay much more per unit than energy-intensive industries, and diesel is less taxed than petrol. This shows the urgency of aligning not only tax rates at EU level but also to harmonise the tax base at national level.

Could Member States agree on phasing this difference in taxation between petrol and diesel out?

The EC last year proposed a CSR to one MS that diesel and petrol taxes should be equalised, but it was taken out in the Council. They deemed it unfair that it was recommended only to one single country. An important point is that the number of CSRs per MS is small, which implies quite some 'competition' between topics.

The 'diesel differentiation' is a classic example of an EHS that is very hard to dismantle: it was originally introduced to help the truck industry of a given country but it is very harmful to the environment, as trucks can easily go fuel in another country (and this is far easier than before). Hence, few MSs are willing to move alone.

Can we take advantage of falling oil prices to phase out subsidies?

In one MS, the ministry of finance decided to take half of the decrease in taxes through a **reversed indexation system**: if the market price goes down, the tax take will automatically go up. However, there is a certain danger because there is no security in this kind of revenue.

Overall, only six Member States have an indexation system for environmental taxes (EC: [Tax reforms in EU Member States 2014](#), p.97).

Experiences from different MS show that without any indexation, the benefits are now eaten up by inflation, and the revenues are lost.

The current period with **low oil prices** is ideal to introducing new environmental taxes or removing EHS as they will not be noticed.

2 What is the best way to talk about green fiscal reform?

In some MS, the best way is to **show a clear link between these taxes and benefits to the environment**. The revenues should be used to invest in improvements for the environment rather than reducing income taxes. In the case of some MS, this would otherwise link them to municipal budgets, bring more players and contradictory interests in the game, and make it a more complicated story to sell.

Some newer MS created a system of national funds for environmental protection (that finances energy efficiency for example and/or cohesion policy) in place. Environmental taxes and fees go directly to this fund, and thus provide a clear link to benefitting the environment. This one-stop-shop approach has a long tradition in these MSs and is well received.

However, there can also be downsides related to relying too much on such a system. While people are happy if money comes out from these funds, they are not when the tax systems are changed to get more money for these funds.

In one MS, an EFR was started, but after the first stage, they stopped: **green taxes had been introduced, but the tax shift did not happen**. Now people feel that their tax burden only got heavier, without seeing an immediate environmental investment.

As old taxes are perceived as good taxes, while new taxes are bad taxes, **green taxes have to become old taxes quickly**.

In other MSs, the best way of communicating EFR is by focusing on the **Polluter-Pays Principle**. If revenues from EFR are getting bigger, it is also more important to answer the question of what happens with the revenues.

3 What are the main barriers to reform – and how can they be addressed?

One barrier is that in some MS, the ministry of finances perceives that **taxes are there to raise revenues for the general budget, not for changing behaviour**. Focusing communica-

tion on the Polluter Pays Principle, while **using sticks and carrots in implementation**, seems the best way to overcome this hurdle.

Is there a kind of institutionalised dialogue between the colleagues from the ministries of the environment and finance?

One national delegation was a very positive example, as a representative from both the energy and finance ministries were there. Some finance ministries might be opposed to the idea that other ministries, who are not tax / financial experts, become involved with what they see as 'their' issues. But many MSs now have **people dealing with green taxes in the finance ministry**.

Recommendation to the current trio presidency: it could take the great initiative of the Italian presidency to bring together the environmental and labour ministers as a precedent to **bring together environmental ministers and finance ministers**. This could be organised either under a future presidency.

One thing that strikes is that in countries where environmental ministries have historically been more active, the **dialogue can be very difficult**. This needs to turn around. It is also a problem of political culture: until now, only one indicator was deemed important - GDP.

International cooperation is very important to have a level-playing field. Increasing petrol taxes is one example; otherwise, people just get fuel over the border. Coordination is essential here. The first question that ministries always ask is: **what is happening in the neighbouring countries?** It is the central and most important question. For a small MS with an open economy, it is very difficult to change taxes. It is also an issue of **big companies who say no** to such tax shifts for their own reasons, even if these are important for the country.

What if a neighbouring country said it would mirror tax changes of its neighbours?

This could entail high political risks: If countries would agree to raise their fuel taxes in parallel this is good. However, if such a proposal would be refused in the political decision-making process it could become an excuse not to move anymore at all. So **this kind of policy can also backfire**.

Especially for fuel taxes, this is a sensitive issue. Turning to waste: similar **landfill taxes** among neighbouring countries are easier to introduce; they are politically more savvy and have better success chances **for coalitions of the willing**.

Other barriers

Existing policies are also major barriers: prior agreements are hindering new politics (e.g. in one MS, the national agreement on energy is now hindering fiscal consolidation).

Another hurdle is that politics and science are two different things; and that **for politicians, introducing new taxes contains high risks**. In one instance, a tax on big cars which use more fuel, was accepted very badly by the public. The Minister in charge lost votes, although studies showed that the policy had positive effects on the environment.

4 Which design features can improve acceptance?

Distributional effects are politically very important. Income distribution, but also regional distribution is always an issue. The EU aims to even out regional disparities but higher fuel taxes are usually seen negatively in peripheral locations: For example, in Canary Islands there is no VAT. The answers to these questions need to be ready. Design is very central and important, and there are better chances of success if a well-thought design is implemented.

What is very helpful when discussing about raising taxes, is to **have a reliable and comprehensive model and robust data**. However, models do not work for every economy, and numbers are also not objective. Models do not take away the need to make hard political choices.

In some political cultures, taxes are not accepted by the public in general. Impact assessments thus need to first convince politicians, and they need to convince citizens. If citizens do not **see clear links to benefits**, why should they want to pay?

5 What key inputs are needed to make progress?

The EC should help getting accurate data to compare and estimate different reform options and **include sociological insights better into predictions**. Future – and especially public behaviour - cannot be predicted. Therefore, we need comprehensive approaches that are able to include complexity.

Another key input is **organising substantial political support**. Not only Ministers for environment, or finance, but also other public figures need to support the ideas. Important is also to convince journalists, get EFR into the newspapers and help to destroy myths about taxation.

6 What can the European Commission do to foster EFR in MS?

The EC can help to organise seminars, events etc. to work together with the MS as already started. The EC underlined its willingness to work with MS i.e. by continuing workshops, etc.

D. Conclusions

This section highlights only the most relevant points mentioned for each question.

1. **What are the most obvious entry points and opportunities for green fiscal reform in your country?**
 - ▶ **Link to circular economy**
 - ▶ **Need for harmonisation at the national level**
 - ▶ **Capitalise on low oil prices? → Reversed indexation systems**
 - ▶ **Need for indexation**

2. What is the best way to talk about green fiscal reform?**▶ Revenue Use**

- a) For environmental protection & improvements → show direct link, PPP
- b) Tax Shift

▶ Need for transparency & clear structures**3. What are the main barriers to reform – and how can they be addressed?****▶ “Old taxes are good taxes - new taxes are bad taxes”****▶ “You can’t win an election by tax reform”****▶ Big industry is opposed****▶ Climate/ energy agreements not aligned with tax reforms****▶ Contacts to Ministries of Finance****▶ MOF: if it is about taxes****▶ MOE: if it is about the environment****▶ Unanimity required in Council → create alliances****4. Which design features can improve acceptance?****▶ Coalition of MS → build trust**

- Cross-border cooperation
- Capacity building for different stakeholders
- Starting with “easier” taxes (i.e. landfill, waste, etc.)

▶ Taking into account distributional effects (social, regional)**▶ Need for robust data/models****▶ Knowledge: how will people adapt to new law, behavioural changes****▶ → gradual changes to ease transition****5. What key inputs are needed to make progress?****▶ Organising broad political support and understanding****6. What can the European Commission do to foster EFR in MS?****▶ Neutral venue: Stakeholder events in EC Representation****▶ Make use of low oil prices**