2016

COUNTRY-SPECIFIC RECOMMENDATIONS IN SUPPORT OF THE EUROPEAN SEMESTER CYCLE

Strengthening Sustainability and fostering Accountability

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Aligning macro-economic reform with an enhanced Sustainable Development agenda

The sixth cycle of the European Semester kicked off with the publication of the 2016 Annual Growth Survey (COM/2015/690) on 25 November 2015. This is part of a continuous effort to improve economic policy coordination in order to ensure the implementation of the EU's macro-economic rules in relation to the Stability and Growth Pact and the Europe 2020 strategy (COM/2010/2020).

Taking stock of the first year of the "streamlined" EU Semester approach, we conclude that the European Semester should be further reformed to become an effective governance and enforcement mechanism that can ensure coherence between national fiscal policies and overarching sustainable development objectives.

To further this, national Environmental Fiscal Reforms (EFR) should be accelerated via the European Semester; and Member States national public spending and investment plans should be checked against their delivery on sustainable development.

Environmental Fiscal Reform is commonly understood as a package of measures combining an increase of taxes on energy or natural resources, the elimination of environmentally harmful subsidies and targeted government spending towards environmental sustainability with a revenue-redistribution component to protect and/or enhance social equity. Social Security Contributions or labour taxes that are considered to have a particularly negative effect on growth and employment, can be lowered.

Outlined below are the key takeaways from our analysis, including a list of alternative recommendations for the European Commission and Member States to take into considerations.

1. The adoption in September 2015 of the 'Transforming our world, a 2030 agenda for sustainable development' is both an opportunity and an obligation for the EU to revise and align its main political strategy, including Juncker's political priorities and the Europe 2020 Strategy. This will allow the EU to address its many challenges with a big picture perspective that will resolve the environmental crisis looming behind its economic crisis.

2. There is an enormous opportunity to realise the double dividend of an Environmental Fiscal Reform in order to consolidate national budgets in a cost-efficient way and to lower the persistent high unemployment rate of 10.8% in September 2015 (Eurostat, 2015a) and the excessive average energy dependence of 53.2% of the EU-28 (Eurostat, 2015 b).

3. We are concerned that the 2016 AGS does not see environmental and climate policies as an important part of the solution to overcome the multiple crises outlined in the 2016 Annual Growth Survey.

4. In the 2015 Country Reports the European Commission recommends 23 Member States to undertake a green tax shift in 2015. But only one of these made it into the final CSR's, Luxembourg. 11 countries should be given a recommendation to tackle environmentally

harmful subsidies which resulted in zero such CSRs in 2015. 17 Member States were asked to enhance renewable energy, strengthen their national grids or boost efficiency in 2015. In the CSRs, the equivalent figure is zero. Vital reform opportunities are being missed.

5. While Commission recommendations claim to focus more on investment, Europe must be clear where investment is most needed: in re-configuring our economies to foster low carbon sustainable development and the employment, societal and health gains which flow from this.

6. The focus on fewer priorities in 2015 has meant that recommendations aimed at tackling climate change through greener taxation and increased investment in energy efficiency and renewable energy have almost entirely disappeared from the CSRs, to be "taken up via other policy processes" whose objectives and governance are yet to be defined.

7. If the EU Commission translates "streamlining" into complete inaction when it comes to climate and environment, it will risk locking Europe further into fossil fuel dependence, failing to tackle reliance on imported energy in the process.

8. A substantial shift of taxation from labour and income towards resource use in Europe is less detrimental from a macro-economic perspective and is more socially equitable than other taxes, such as VAT or income taxes (Vivid Economics, 2012).

9. Moreover, by not shifting tax from labour on to pollution, the Commission's policy recommendations have left a disproportionate tax burden on households that are less well-off and on taxpayers as a whole.

10. The European Commission has already highlighted the urgency to act now stating that delaying the transition to a low-carbon economy "raises overall costs and narrows the options for effectively reducing emissions and preparing for the impacts of climate change" (European Commission, 2015b).

11. Currently, the Commission knows that four Member States (Luxembourg, Ireland, Belgium and Austria) cannot realistically meet their agreed domestic CO2 emissions reduction targets with existing policies and measures (COM/2015/576,p.4) and it is imperative that this reality is reflected in the 2016 Country Reports and subsequent CSRs to be issued in May 2016 in order to encourage those MS to step up their efforts.

12. There is no evidence that Member States started to report on their Environmentally Harmful subsidies and national plans to phase them out as they agreed in 2013.

13. Guidelines on Environmental Fiscal Reform and Environmentally Harmful Subsidies need to be reintegrated and more encompassing indicators, such as a resource-efficiency indicator, have to be added to the macro-economic scoreboard. Essential components of the Semester should not be omitted ambiguously or transferred to other policy projects still under negotiation, such as the Energy Union. Any watering down of environmental, climate or social CSRs towards a rhetoric of "still monitoring them" damages the integrity of the entire Semester process.

14. As long as resource consumption is not integrated into the main tool to measure "jobs and growth" - the European Semester -, it will not bring us on the path of sustainable development.

15. Both investments from the EU budget and national Country-Specific Recommendations of the European Semester need to be made to work together to help achieve the EU overarching social and environmental sustainability objectives.

16. The "Investment plan for growth and jobs", an EU budget-based investment initiative aiming at mobilizing investments worth €315 billion into energy, transport and environmental infrastructure, as well as

education and research and development, should only finance projects that deliver on the EU's long-term sustainable development objectives. And in line with the EU pledge on inclusive and participatory decision-making, all relevant stakeholders should be involved.

17. The European Commission needs to ensure an adequate involvement of CSOs in the Semester as well as to grant a meaningful oversight and control function to the European Parliament to avoid a growing disconnection between the Union and its citizens.

Given the high benefits of Environmental Fiscal Reform and better EU spending by Member States to achieve key EU objectives in the area of climate, energy, resource efficiency and biodiversity and foster innovative low-carbon investments for sustainable economies, we urge the Commission and the Member States to strongly embed in the European Semester process and reflect in Country-Specific Recommendations:

- **Phase-out all market-distorting environmentally harmful subsidies as soon as possible and by 2020 at the latest;**
- **Increase the share of environmental taxes in proportion of the overall tax revenue – i.e. by shifting taxes away from labour to polluting activities by 5% by 2020;**
- **Ensure that a revised Europe 2020 Strategy will be in line with the global 'Transforming our world, a 2030 agenda for sustainable development' and its European implementation.**
- **Link the Country-Specific Recommendations with the use of EU funds by Member States to ensure better spending and maximise benefits;**
- **Improve the links between European Semester and European Funds, particularly Structural Funds;**
- **Ensure structured dialogue with stakeholders and partnership with Parliament by means of EU Guidelines to reinforce ownership and accountability.**

Putting Europe firmly back on a path of sustainable job creation and economic prosperity

The traditional growth model couldn´t avoid the biggest economic and financial crisis of the EU since its existence. The adoption in September 2015 of the 'Transforming our world, a 2030 agenda for sustainable development' is both an opportunity and an obligation for the EU to revise and align its main political strategy, including Juncker's political priorities and the Europe 2020 Strategy. This will allow the EU to address its many challenges with a big picture perspective that will resolve the environmental crisis looming behind its economic crisis. To further this, national Environmental Fiscal Reforms (EFR) should be accelerated via the European Semester; and Member States' national public spending and investment plans should be checked against their delivery on sustainable development.

The European Semester should fully exploit fiscal space

EU Member States current fiscal systems are far from optimal. Labour taxes account for 53.3% of total tax revenue in the Eurozone Area (Eurostat, 2014). Eurozone Area taxes on environment declined from 5.98% in 2011 to 5.8% in 2013 (Eurostat, 2015). There is an enormous opportunity to realise the double dividend of an Environmental Fiscal Reform in order to consolidate national budgets in a cost-efficient way and to lower the persistent high unemployment rate of 10.8% in September 2015 (Eurostat, 2015a) and the excessive energy dependence of 53.2% EU-28 average (Eurostat, 2015 b).

More than 30 years of experience with successfully implemented Environmental Fiscal Reforms clearly shows that they can correct market failures, improve the price signals by internalising external costs, offer more flexibility, and thus, improve economic efficiency, help develop new industries that provide sustainable and local jobs, create a clear and predictable environment for eco-innovative investments, and contribute to restoring fiscal stability.

We are seriously concerned that the 2016 AGS does not see environmental and climate policies as an important part of the solution to overcome the multiple crises outlined in the 2016 Annual Growth Survey. The overall positive linkage between environmental fiscal reforms, social and sustainable fiscal consolidation, and structural reforms that were recognised in the last Annual Growth Surveys have been overlooked.

The European Commission's own analysis (European Commission, 2015) found a group of around a third of Member States where there is particular scope for improving the design of environmental taxes. They could, in particular, consider restructuring vehicle taxation, indexing environmental taxes to inflation and adjusting fuel excise duties so as to reflect the carbon and energy content of different fuels.

In the 2015 Country Reports the European Commission recommends 23 Member States to undertake a green tax shift in 2015. Only Luxembourg got one such CSR in 2015. 11 countries should be given a CSR to tackle environmentally harmful subsidies which resulted in zero such CSRs in 2015. 17 Member States were asked to enhance renewable energy, strengthen their national grids or boost efficiency in 2015. In the CSRs, the equivalent figure is zero. Vital reform opportunities are being missed.

Fossil fuels are subsidised up to € 329 billion annually (IMF, 2015) in the EU, hence, more than twice than the entire EU budget, including up to € 42.8 billion that Member States and citizens have to pay to compensate for the negative social and health impacts (HEAL, 2013). These subsidies come in the form of tax breaks, reduced prices and state contributions that result in the increased use of coal, oil and gas and should be reformed.

"Streamlining" has a cost

The 2015 CSRs are driven by macroeconomic priorities resulting in inconsistent policy recommendations and an overly dominant focus on fiscal consolidation and competitiveness. While the European Commission recommendations claim to focus more on investment, Europe must be clear where investment is most needed: in re-configuring our economies to foster low carbon development and the employment, societal and health gains which flow from this. The supposedly 'fair' structural reforms result in decreasing public investments, increased inequalities, all of which damage social cohesion and harm our climate and environment.

This new streamlining approach of only using short-term recommendations will not ensure investors the certainty they need for their investment decisions which might be detrimental for the Investment Package. Without a long-term signal, finance will not be sufficiently re-directed to low-carbon projects that can put the EU back on a world innovation leader path.

Furthermore, the focus on fewer priorities has meant that recommendations aimed at tackling climate change through greener taxation and increased investment in energy efficiency and renewables have almost entirely disappeared from the CSRs, to be 'taken up via other policy processes' whose objectives and governance are yet to be defined.

If the EU Commission translates "streamlining" into complete inaction when it comes to climate and environment, it is locking Europe further into fossil fuel dependence, failing to tackle reliance on imported energy in the process.

This inaction has a high societal cost as polluters do not pay for the damage they cause. Such measures along with a de-regulatory approach to environmental and climate policies are also contrary to the creation of quality jobs which will severely impact on in-work poverty, bringing Europe further off-track to meet its 2020 Strategy objectives.

Moreover, by not shifting tax from labour on to pollution, the Commission's policy recommendations have left a disproportionate tax burden on households that are less well-off and on taxpayers as a whole.

How can the EU afford this retrograde step in the year of the COP21?

The EU risks to lose its credibility with regards to international climate policy if it fails to position its member states on a transition path towards a low-carbon society. Europe is in the spotlight to deliver encompassing and comprehensive policies to account for its international responsibility. The European Commission has already highlighted the urgency to act now stating that delaying the transition to a low-carbon economy "raises overall costs and narrows the options for effectively reducing emissions and preparing for the impacts of climate change" (European Commission, 2015b). Furthermore, in light of the Sustainable Development Goals recently endorsed by the UN General Assembly, the EU has the opportunity to give strong signals to the international community that transition is possible by coherently adhering to its own environmental and climate objectives.

Now is an opportune time to set a price for carbon that reflects its true costs

Environmental taxes are doubly attractive because they more growth-friendly than other forms of taxation and can help countries achieve their environmental policy objectives in a socially equitable way. A substantial shift of taxation from labour and income towards resource use in Europe is less detrimental from a macro-economic perspective and is more socially equitable than other taxes, such as VAT or income taxes (Vivid Economics, 2012). Experiences from implemented EFRs show that the measures are associated with lower unemployment. Increasing environmental taxes is, in particular, often seen as a way to make the structure of a country's tax system more growth friendly while at the same time helping to achieve environmental objectives.

Because CSRs on the environment disappear does not mean environmental problems disappear

At the last common hearing between the ECON and EMPL Committee on 23 June 2015, Vice-President Dombrovskis, referring to CSRs on the environment and climate, confirmed that "if we see that there are significant deviations or problems, it is always possible to bring issues back to the table."

Currently, the European Commission knows that 4 Member States (Luxembourg, Ireland, Belgium and Austria) cannot realistically meet their agreed domestic CO_2 emissions reduction targets (COM/2015/576, p 4) and it is imperative that this reality is reflected in the 2016 Country Reports and subsequent CSRs to be issued in May 2016.

The EU has repeatedly committed itself to the gradual phase-out of environmentally-harmful subsidies, for instance in the Europe 2020 Strategy (COM/2010/2020), in the 7th Environment Action Programme (EU/1386/2013) or the Roadmap to a resource-efficient Europe (COM/2011/571). The European Council of 22 May 2013 concluded that to facilitate investments, priority will be given to phasing out environmentally or economically harmful subsidies, including for fossil fuels. The October 2014 Environment Council pointed to the phasing out of environmentally harmful subsidies as one of the instruments to smooth the transition to a more sustainable low carbon and resource efficient economy

There is no evidence that Member States started to report on their Environmentally Harmful subsidies and national plans to phase them out as they agreed in 2013.

Immediate action is needed to bring the Europe 2020 back on track with all its initial goals

Despite its important role, the 2016 Annual Growth survey (COM/2015/690, p.5) covers Europe 2020 only in a text box. It acknowledges that "The Europe 2020 strategy has guided the strategic choices of the Commission's work. These strategic choices are also guiding the EU's expenditure: they provided direction in preparing the 2014-2020 Multiannual Financial Framework (MFF), in programming the European Structural and Investment Funds, and in launching new funding programmes at the EU level."

Using the European Semester purely as an instrument to ensure macro-economic and monetary stability will not help the EU Commission to bring the EU closer to its citizens. Only by using the Semester to support a reform agenda that helps the EU become more democratic, sustainable, social and inclusive and make progress towards the related Europe 2020 targets can the gap with EU citizens be closed.

This means to draw lessons from the recent past, to renew the founding values of the EU in accordance with Article 3 of the Treaties and to meet the promise for a democratic, social and sustainable Europe. This is particularly the case regarding the Commission's priority to develop a deeper and fairer Economic and Monetary Union by making governance in this area more democratically legitimate and apply social impact assessments to reform programmes.

Guidelines on Environmental Fiscal Reform and Environmentally Harmful Subsidies need to be reintegrated and more encompassing indicators, such as a resource-efficiency indicator, have to be added to the macro-economic scoreboard. Essential components of the Semester like environmental fiscal policies should not be omitted ambiguously or transferred to other policy projects still under negotiation, such as the Energy Union. Any watering down of environmental, climate or social CSRs towards a rhetoric of "still monitoring them" damages the integrity of the entire Semester process.

The European Semester can contribute to better spending of EU funds by Member States. It should be used to strongly link Country-Specific Recommendations and the performance framework of Member States EU funds spending plans to ensure a better contribution to the Europe 2020 Strategy's environmental and social targets.

Beyond the European Semester, our organisations have produced recommendations for the Europe 2020 Strategy review, based on our analysis of the current shortcomings and untapped / new opportunities. They focus on the following main issues:

- Set a resource efficiency headline target in the strategy and related indicators in the European Semester;
- Embed the post-2015 Sustainable Development Goals in the strategy;
- Use the European Semester more ambitiously to phase out environmentally harmful subsidies and foster environmental fiscal reform;
- Link the European Semester's Country-Specific Recommendations and the EU Budget spending by Member States;
- Build the strategy on a new overarching EU goal and a long term economic roadmap; and
- Improve transparency and stakeholder involvement.

Circular Economy as a wide ranging programme for all Member States to embrace a transition

The Semester process should be a key tool to achieve the transition that is supposed to transform Europe into a more competitive resource–efficient economy. All Member States should re-orient their economies, noting the multiple benefits this will have for sustainable growth, quality jobs, energy security, health and environment.

Despite the announcement of First Vice President Timmermans that a new Circular Economy package, presented on 2 December 2015, will be more ambitious as its predecessor, the Communication (COM(2015)614/2) shows that the new Circular Economy package will have weaker targets for recycling and landfill than its predecessor. It lacks a clear enforcement mechanism and integration into the macro-economic policy coordination via the European Semester and emphasises waste management instead of prevention by smart design, more reuse and recycling.

While the slightly more comprehensive 'product side' approach is a first step in the right direction, it lacks crucial elements that were present in the withdrawn proposal, such as a target to increase resource efficiency at EU level by 30% by 2030 compared with 2014 levels, and the monitoring of this in the context of the European Semester.

Binding targets on resource efficiency and measures on sustainable sourcing of raw materials are crucially needed to reduce the EU´s massive footprint. As long as circular economy does not contribute to an effective and absolute reduction of resource consumption, and as long as resource consumption is not integrated into the main tool to measure "jobs and growth" - the European Semester - it will not bring us on the path of sustainable development.

Huge opportunities for transforming our unsustainable economy seem to be missed.

Linking Country-Specific Recommendations and better EU budget spending by Member States

Decarbonizing Europe's energy and transport infrastructure, making its industry and its production patterns more efficient, requires large amounts of investment; the scarcity of public money requires that it is spent more effectively with better outcomes. It is critically important that public funding from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) further mainstreams and promotes cross-cutting environmental sustainability, notably regarding infrastructure projects.

Finding a way to ensure consistency between investment from EU public finance and national Country-Specific Recommendations of the European Semester is needed to maximise joint delivery towards the EU overarching social and environmental sustainability objectives.

The European Semester can contribute to better spending of EU funds by Member States. It should be used to strongly link Country-Specific Recommendations and the performance framework of Member States EU funds spending plans to ensure a better contribution to the Europe 2020 Strategy's environmental and social targets. The "Investment plan for growth and jobs", an EU budget-based investment initiative aiming at mobilizing investments worth €315 billion into energy, transport and environmental infrastructure, as well as education and research and development, should only finance projects that deliver on the EU's long-term sustainable development objectives. And in line with the EU pledge on inclusive and participatory decision-making, all relevant stakeholders should be involved.

Bringing the Semester closer to EU citizens and involving Civil Society

So far the Semester remains a closed club with negotiations taking place mainly between the European Commission and the national governments only. The European Parliament and civil society organisations (CSOs) only play a marginal role despite the direct effect fiscal measures in general and austerity policies in particular exert on European citizens. The European Commission needs to ensure an adequate involvement of CSOs in the Semester as well as to grant a meaningful oversight to the European parliament and national parliaments to avoid a growing disconnection between the Union and its citizens.

Conclusion

As environmental NGOs we have carried out a consultation among our network of members and national experts to assess the European Semester for their country and to develop recommendations in line with the following recommendations.

N.B.

In order to illustrate the shift of priorities within the European Semester regarding climate and energy policies and hence the loss of enforcement within the European Semester, we have divided the recommendations into two parts. Part one represents the European Semester recommendations and part two those policies that fall now under the - yet to be defined - Energy Union governance.

Please note that the Energy Union recommendations do not represent an assessment of the Country Fiches.

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FIRST PART -

EUROPEAN SEMESTER RECOMMENDATIONS

European Semester

Recommendations 2016	Justification
<u>Taxation</u> **Shift the tax burden from labour to environmentally harmful production and consumption (e.g. causing GHG emissions, increase water scarcity, loss of biodiversity). Every Eurozone Member State should shift 1% of their annual labour taxes towards environmental taxation.**	Labour taxes account for 53.3% of total tax revenue in the Eurozone Area (European Union, 2014). Eurozone Area taxes on environment declined from 5.98% in 2011 to 5.8% in 2013 (Eurostat, 2015). We call the realisation of a double dividend in order to consolidate national budgets in a cost-efficient way and to lower the persistent high unemployment rate of 10.8% in September 2015 (Eurostat, 2015a) and the average excessive energy dependence of the EU-28, namely 52–53% (European Commission, 2014). Since the early 1990s, numerous examples of well-designed reforms assuring socially equitable implementation yield environmental benefits with less detrimental macro-economic effects than other taxes, such as VAT or labour tax (Vivid Economics, 2015). The benefits include lower unemployment, enhanced competitiveness, innovation leadership and overall higher disposable income (e.g. EEA, 2011; the CETRiE and COMETR projects). The European Commission (European Commission, 2015b) identifies "(…) a group of around a third of Member States where there is particular scope for improving the design of environmental taxes." They could, "in particular, consider restructuring vehicle taxation, indexing environmental taxes to inflation and adjusting fuel excise duties so as to reflect the carbon and energy content of different fuels" (p.13). Thus, "(…) tax-shifting could lead to significant efficiency gains, as it reduces the total marginal cost of production, and could thus bring about an increase in productive efficiency. Environmentally friendly tax reforms also, therefore, have the potential to reduce the cost of doing business, in addition to offering the benefits for employment and for the environment traditionally discussed in the literature." (European Commission, 2015b, p.32) *Eurostat (2015).* *Environmental tax revenues, Last update: 20-11-2015.* *Eurostat (2015a):* *Unemployment statistics. September 2015* *European Commission (2015b).* *Tax reforms in EU Member States 2015 – Tax policy challenges for economic growth and fiscal sustainability* *Vivid Economics (2015).* *Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits.*

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CETRiE – Carbon and Energy Tax Reform in Europe.

COMETR – Competitiveness Effects of Environmental Fiscal Reforms

Circular Economy

Support the Circular Economy package as a wide ranging programme for all Eurozone Member States to embrace a transition towards a competitive global leadership, by introducing a resource productivity target of at least 30% by 2030 to be monitored through the Semester process.

According to the EU Commission, the Circular Economy package can boost GDP by up to 3.9% and create more than 180,000 direct jobs in the EU by 2030, in addition to the estimated 400,000 jobs that would follow the implementation of the waste legislation in force (European Commission, 2014).

Net savings would amount to EUR 600 billion for businesses in the EU, while annual GHG emissions would be reduced by 2.4% (European commission, 2014).

The Communication presented on 2 December 2015 (European Commission, 2015) lacks ambition to prevent resource use. As long as resource consumption is not integrated into and thus enforceable by the main tool to measure "jobs and growth" - the European Semester - it will not bring us on the path of sustainable development.

European Commission (2015). "Closing the loop - An EU action plan for the Circular Economy" (COM/2015/614/2)

European Commission (2014). "Towards a circular economy: A zero waste programme for Europe" (COM/2014/398 final/2)

A sustainable Stability and Growth Pact

Include a target to improve resource productivity by at least 30% until 2030 in the economic governance framework.

The current Stability and Growth pact does not take external costs into account.
Resource efficiency policies, including comprehensive environmental fiscal reform measures, will stimulate investment in desired alternatives (e.g. low-carbon technologies, waste management technologies, landfill tax) and in the most cost-efficient way. This way, it will help to achieve sustainable fiscal consolidation with the least collateral damage to the economy, particularly in terms of growth and employment.

The 7th Environmental Action Programme (European Union, 2013) requires the development of measurement and benchmarking methodologies by 2015 for resource efficiency of land, carbon, water and material use. Moreover, it recommends the assessment of the inclusion of a lead indicator and target in the European Semester.

European Union (2013). "Living well, within the limits of our planet" (EU/1386/2013)

Vivid Economics (2012). Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits.

Democratic Legitimacy, Ownership and Accountability

We urge the European Commission to adopt obligatory guidelines to ensure a meaningful partnership approach based on structured dialogue to deliver on Europe 2020 objectives in the Country Reports, NRPs and CSRs. This would involve support from multi-level governance, civil society organisations, and social partners.

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
<u>**Taxation**</u> **Phase out exemption for so-called fiscal trucks (light trucks, vans, flatbed minibuses are entitled to deduct tax) from NoVA.**	Shifting the calculation of the standard fuel consumption tax (NoVA) to a CO2 supplement to car registration tax is the right way. But further steps to greening and to increase the equity of traffic tax are necessary. *VCÖ (2014). Stellungnahme zum Entwurf des Abgabenänderungsgesetzes– AbgÄG 2014. Attachment 1* *BMF. Vorsteuerabzugsberechtigte Fahrzeuge. Fiskal LKW.*
Introduce kerosene tax to internalise environmental costs of air transport	Fuel for aviation continues to be exempt from Mineral Oil Tax (MÖSt), although air traffic still amounts to 2.5% of global CO2 emissions.
Harmonise fuel taxes to tackle blind spots in the Mineral Oil Tax Law	Currently, Austrian diesel tax is still significantly lower than fuel tax on ordinary gasoline with a difference of 8.5 cents/litre amounting to a tax gap of approximately EUR 650 million. This constitutes a distortive promotion of diesel engines which emit particularly harmful notorious oxides.
Shift the tax burden in a budgetary neutral way towards real estate taxes, and environmental taxes.	Despite a necessary fiscal consolidation, the tax burden on labour and entrepreneurship has not been reduced; in fact a reform on taxation on gains from sales of private real property has been implemented. In terms of commuting issues, the burden was reduced for both employees and employers. Among others public transportation costs borne by employers for commuting employees are tax exempted. The reduction of the effective tax rate in a budget-neutral way by relying more on other sources of taxation less detrimental to growth, such as recurrent property taxes, has gained in importance this year. Unfortunately, the 2012 recommendation, shifting the tax burden in a budgetary neutral way, towards environmental taxes, has not been renewed in the following years. *UWD (2013). Umweltpolitische Meilensteine für das neue Regierungsprogramm 2013. Positionspapier des Umweltdachverbandes.* *Ökosoziales Forum (2012). Ökosoziale Marktwirtschaft für eine zukunftsfähige Gesellschaftsordnung.*

The mineral oil tax should be index-linked.

The proportion of mineral oil tax (MÖSt; which has not been changed since 2011) has reached a record low of the total fuel price. Compared with neighbouring countries, Austria has the lowest proportion of mineral oil per litre of fuel. As mineral oil taxes are not adjusted to inflation, tax revenues are decreasing in absolute numbers for years; in particular, as new cars are becoming more efficient, and also as a general decline in traffic is observed.
The government is required to reduce the massive oil dependence in transport rapidly. Especially commuters urgently need more train and bus services, as well as more initiatives like the 'Österreichticket' (Ökosoziales Forum, p. 11).

Ökosoziales Forum (2012). Ökosoziale Marktwirtschaft für eine zukunftsfähige Gesellschaftsordnung.

BMF (2013). Budget Vollzugsteuer-Aufkommen.

Harmonize energy taxation based on energy content and external costs of different sources in order to set technology-neutral framework conditions for the competition (i.e. highest energy efficiency at lowest environmental and health costs.) Raise the diesel tax rate at least to the same level as the petrol rate. Regularly adjust the tax rates in line with inflation to ensure their incentive effect.

The current eco-tax is neither based on the carbon content of fuels nor on other environmental externalities. Diesel even benefits from a doubly reduced tax rate: the volume-based levy on diesel is lower than on petrol, despite its higher carbon content (16 per cent) and the higher levels of local air pollutants it generates. This tax structure did not only lead to annual revenue losses of about EUR 6.6 billion (2008), it also induced changes in the car fleet.

EEB, GBE & T&E (2012). On The Revision of the Energy Tax Directive.

OECD (2012). OECD Environmental Performance Reviews: Germany2012.

Reduce tax exemptions and environmentally harmful subsidies (company car taxation, commuting allowances/Pendlerpauschale) distorting competition (to the benefit of fossil energy sources) by 2015.

Car use and commuting is subsidized through the tax deductibility of commuting trips and the tax treatment of company cars as a low taxed fringe benefit. Commuting allowances are distance dependent, and higher if public transport is not available. Their eligibility has recently been widened to part-time workers. Removing the distorting effects of car usage subsidies would strengthen the incentives from pricing road externalities to reduce private transportation (OECD, p. 36).

OECD. Bericht Österreich.

Copenhagen Economics. Taxation papers Company Car Taxation (Attachment III).

VCÖ. Steuerliche Begünstigung von Firmenwagen (Attachment IV).

Ökosoziales Forum (2012). Ökosoziale Marktwirtschaft für eine zukunftsfähige Gesellschaftsordnung.

Water Pricing

Adjust the financial recovery of the costs of water services, including environmental and

The European Commission assessment of current water pricing policies in the Member States shows that current pricing schemes often fail to combine the objectives of water efficiency and fairness

resource costs; incentivise water pricing to increase efficiency and fulfil the 'polluter pays' principle.	(polluter pays) and do not ensure an adequate degree of cost recovery. A proper water pricing policy should apply the principle of cost recovery to all water services. In many cases, environmental and resource costs of other water services, such as self-abstraction (pumping from groundwater aquifers and surface waters), irrigation, water storage and impoundment for hydropower, energy production (cooling), in-land navigation are simply not recovered. *UWD (2013). [Wassergebührentagung.]()*

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Belgium

European Semester

Recommendations 2016	Justification
Taxation **Continue the good work of 2015 to further shift labour taxes to pollution / non-renewables and other harmful products / activities.** **Lower labour taxes in a neutral way, apply the standard VAT to environmentally harmful products such as fuel heating (coal) in households and set up a fuel-neutral energy tax which takes into account the CO2 content.**	While EU data shows Belgium has the highest implicit tax rate on labour (ITR) in Europe (55–58%), this is set to change with the tax shift reform announced on 10 October 2015. *European Commission (2013).Tax burden on labour.* *Eurostat (2013). Taxation trend in the European Union.*
Reach Belgium's 2020 climate targets, reduce greenhouse gas emissions in transport and address congestion by improving the public transportation system, raising road pricing or congestion charges, and scaling back tax exemptions for company cars and fuel cards.	Belgium will miss its non-ETS climate target. It is one of six Member States (Austria, Belgium, Finland, Ireland, Luxembourg and Spain) for which the latest European Environmental Agency projections indicate that "implementing additional measures is not expected to be sufficient for them to achieve their 2020 targets. All these Member States will have to implement additional measures or use flexibility mechanisms to comply with the ESD". Additionally, Belgium is the second most fragmented territory in the EU according to the European Environmental Agency. In a working paper on company cars and commuting expenses, the OECD highlighted in 2014 that "the total annual subsidy per car [due to the under-taxation of the benefit in kind] is highest in Belgium, at EUR 2,763 per year per car". Finally, according to the EU working paper 2013 of the EU Semester, congestion costs Belgium up to 2% of its GDP annually. More progressive companies in Belgium are now promoting the approach of a 'mobility budget', where employers can opt to use the money for a far wider range of benefits - bicycle and cycling equipment, fitness measures or pension payments, for example. BNP Paribas has gone a step further and transformed the benefit into 'units' which can be drawn down as the employee wishes. It remains clear, however, that such innovation from companies needs a push from central government to gain greater momentum. The best way to do this is to reduce the financial incentive to offer and receive a company car. We recommend treating legacy company cars (e.g. those in circulation before 1 Jan 2017) differently from those purchased from the start of 2017. This would allow for a new set of incentives from 2017, incentives which influence future decision-

making only, and which ensure the tax system better allocates benefits to transport modes according to their sustainability.

European Environmental Agency (2014). *Trends and projections 2014.*

European Environmental Agency (2011). *Landscape fragmentation in Europe.*

OECD (2014). *Personal Tax Treatment of Company Cars and Commuting Expenses. Estimating the Fiscal and Environmental Costs.*

European Commission (2013). *Commission Staff Working Document for Belgium.*

VIM (2015). *Project 'I-Mobility Budget'*

FlandersNews.be (2015), *"Would you prefer a company car, an electric bike or 'units'?"*

See also this article.

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Bulgaria

European Semester

Recommendations 2016	Justification
<u>**Subsidies**</u> **Phase out environmentally harmful subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.**	"Member States should identify the most significant environmentally harmful subsidies, prepare plans and timetables to phase them out and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571. Bulgaria has made little progress on this issue. It has not yet outlined its EHSs together with a time-bound plan to phase them out, a shortfall which should be remedied by all Member States in 2016.

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
Taxation	
Reduce the high level of taxation on labour, particularly for low-income earners. Shift taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes.	This part is a repetition of part of CSR 2 from 2014. No further steps to implement environmental tax reform were taken meaning this remains a valid and important recommendation.
Introduce an incineration fee in order to make recycling economically viable.	The Czech Republic needs to use fiscal instruments in order to achieve the targets set by the Waste Framework Directive and its own Waste Management Plan approved in 2014. These recommendations were formulated by the European Commission in the Roadmap for the Czech Republic regarding the WFD.
Introduce an air passenger tax.	The Czech Republic does not have a duty on air travel. More than six EU Member States have already introduced such a levy, including France, Germany and the UK, and it is suggested that the Czech Republic apply a similar duty. *T&E (2013). Does aviation pay its way?*
Set mining and extraction tax to reflect the real external costs and value of the minerals owned by the state.	While total revenue for extractions of minerals in 2012 reached CZK 71 billion, the fees collected by the state and municipalities were only CZK 596 million, or 0.8%. The fee needs to motivate the more efficient use of resources and substitution of non-renewable resources by renewable ones. The fees collected should reach at least 30% of the market value of the extracted mineral.
Land use	
Limit the number and scope of exceptions from fee for land use change from agricultural to non-agriculture in order to improve protection of land and curb urban sprawl.	The speed of land use change to built-up areas, especially road infrastructure, industrial and commercial zones in the Czech Republic is alarming. In 2013, 2900 ha of agricultural land was transformed to built-up areas and infrastructure, almost 8 ha per day. In only 13 years, surfacing for built-up areas increased by 28,700 ha (3.5%). Currently, infrastructure and other areas, including re-cultivations, represent 10.6% of area of the Czech Republic. Currently a number of exceptions substantially limit the effectivity of the tool.
Investments	
Boost employment and other social programmes in structurally disadvantaged regions, especially in areas with declining coal and lignite mining.	Northern Bohemia and Moravia-Silesia are two of the regions with the highest unemployment rates and acute structural and social problems. These problems are only compounded by the decline of mining operations in these regions. The state needs to prepare programmes to react to the decline in anthracite mining in Silesia,

where the private Paskov mine is only running thanks to a state subsidy, and prepare a strategy to phase out mining by 2030 while guaranteeing alternative employment options in Northern Bohemia.

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European Semester

Recommendations 2016	Justification
<u>Taxation</u>	
Reintroduce ordinary (full) taxation of energy used in the Trade and Service sector.	Energy taxes on energy used in the sector of Trade and Service only influenced competitiveness marginally. An enterprise or sector should only be able to achieve reduced taxes on energy if it is able to prove it is affected by real competitivenessloss that is related to energy taxes. A governmental working group has calculated that full taxation in Trade and Service would reduce the electricity consumption in Trade and Service by 20%. *Danish Energy Agency (2013). [Klimaplan. Mindsket reduction af elafgift I handels- og serviceerhverv.]*
Adjust car taxation to the newest technological developments and CO2 emissions standards of the most efficient vehicles on the market.	In 2007 Denmark changed its taxation of cars to reflect the energy efficiency of the car. This regulation boosted the sale of small and energy efficient cars and reduced the sale of big and inefficient cars. However, the regulation is not structured to follow technological development, as it has a static tipping point at 16 kilometres per litre of petrol and 18 kilometres per litre of diesel. Today most small cars run longer than these limits, due to technological development and EU requirements for new cars. An accidental consequence is that there is no longer a strong incentive to buy the most energy efficient cars based on new technologies. The average registration tax per new car is nearly 50% below the 2007 level, the total fleet of cars has increased by nearly 10% since 2007 and the revenues from registration tax has been reduced by 35% since 2007.
Reduce electricity tax on electricity used in heating-pumps.	A heat pump is an energy efficient technology and important in a wind based energy system – characterized by a fluctuating electricity production – because of the flexibility. However, the spread of heat pumps in the supply sector, in industry and in private houses is far from the plans of the Danish Energy Agency. The main problem is that there are no taxes on biomass in Denmark, while the tax on electricity for heating is considerably high. Nobody in Denmark, including the business sector, has access to tax reductions, when energy is used for room heating or room cooling. This tax situation creates unequal competition. The best solution is to introduce taxes on biomass or on the burning of biomass in private houses. Additionally, we need a reduced electricity tax for electricity used in heat-pumps, which is lower than the already existing reduced tax on electricity used in old-fashioned electric heating panels.
Introduce an air ticket tax.	Denmark does not have a duty on air travel. Currently, more than six EU Member States have such a levy, including France, Germany and the UK, and it is suggested that Denmark apply a similar duty. *T&E (2013). [Does aviation pay its way?]*

Subsidies

Phase out environmentally harmful subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.	"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase them out and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571. Denmark has made some progress on this issue. Denmark exercises the option to convert part of direct agricultural subsidy to the efforts in the schemes under the Danish Rural Development Programme. However, it has not yet outlined its EHSs together with a time-bound plan to phase them out, a shortfall which should be remedied by all Member States s in 2016.

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Taxation</u>	
Apply a CO2-based vehicle registration tax.	Estonia is among the few EU Member State which does not tax passenger cars. Therefore the energy intensity of Estonia's transport sector continues to be very high and the fleet of new cars in Estonia is the most energy intensive in the EU. These trends are not changing despite the increased fuel excise duties. In the absence of additional measures Estonia is unlikely to meet its greenhouse gas emission target for the non-ETS sector if no additional measures are taken in the field of transport.
Introduce an air passenger tax.	Estonia does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Estonia apply a similar duty. *T&E (2013). Does aviation pay its way?*
<u>Governance</u>	
Strengthen the institutional capacity of the Ministry of Economy and Communication in order to implement objectives set by the EU and new climate and energy policies by creating an independent competent agency dealing with energy efficiency and the low carbon economy.	The IEA recommended that the Government of Estonia to "consolidate existing energy efficiency activities into a single body with long-term funding and adequate capacity to improve the targeting, integration, effectiveness and profile of energy efficiency measures." This has not yet been done but clearly can yield multiple dividends. *IEA (2013). Estonia 2013. Energy policies beyond IEA countries.*
Strengthen the institutional capacity and administration of the transport and mobility sector, including governance structures and an organizational set-up that better integrates transport and land-use planning.	The Estonian Road Administration, the main national institution implementing transport policies, lacks the capacity to effectively implement sustainable mobility goals, as indicated in the road network development strategy. *Estonian Road Administration (2013). Strategy 2013-2015.*

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European Semester

Recommendations 2016	Justification
<u>Taxation</u>	
Increase resource taxes, such as for mining, freshwater and waste.	By introducing a mining tax, the Finnish state could build a fund or safety reserve through which it could cover emergency situations, such as leakages from mining sites to surrounding waters. This should be totally feasible as the Finnish mining sector is considered to be one of the most lucrative in the world due to its lack of extra costs. Fresh water is abundant in Finland, whereby its use has not been taxed as in many other countries. This should not be taken for granted as drinking water will be scarce in many parts of the globe in the next few decades. Consequently, it could be in the Finnish interest a) to regulate its consumption through the introduction of new taxes, and b) to prepare for the commercial sales of drinking water to third countries.
Increase tax on domestic and industrial waste.	This could act as an impetus to the further recycling of natural resources, whereby a minimum of recyclable material would end up in incineration plants.
Tax peat equal to other energy sources.	Subsidies to the peat industry (EUR 88 million in 2014) should be removed as the overall impact of energy production based on peat is worse than any other option (measured by CO2 emissions per produced energy unit, eutrophication caused to fresh waters and the sea, as well as permanent loss of biodiversity).
Introduce an air passenger tax.	Finland does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Finland apply a similar duty. *T&E (2013). Does aviation pay its way?*
Shift taxation towards resource and waste taxes.	The current resource taxation does not encourage saving and recycling the natural resources enough. Resource and waste taxes could be used to steer the economy towards circular economy.

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France

European Semester

Recommendations 2016	Justification
<u>Taxation</u>	
Increase the carbon price contained in energy taxes to at least 32 € in 2017, 40 € in 2018, 48 € in 2019, 56 € in 2020	President François Hollande has announced in January that the carbon price would be a condition of success for the COP21. This declaration is encouraging as the petrol price has decreased rapidly and needs to be compensated by a tax increase on energy and carbon. This would be to avoid delays in investments in energy efficiency and low carbon solutions for transport, despite their positive impact on jobs and energy security. The French government has implemented a carbon base in the energy taxes (TIC). The carbon price is 7 € in 2014, but compensated for most energy sources in 2014, 14.50 € in 2015 and 22 € in 2016. Compared to other countries, the price signal is too weak and very low, and it will not be sufficient to drive innovation and research and development in low carbon technologies, or reduce greenhouse gases emissions enough to reach national objectives (one quarter of GHG emissions by 2050). As a second step, the French parliament has adopted the target to reach 56 EUR/tCO_2 in 2020 and 100 EUR/tCO_2 in 2030 in the energy transition law but it has not yet paved the way for these ambitious objectives.
Decide on a calendar to phase-out all exemptions from the energy and carbon tax by 2020, starting in 2015 with the suppression of the TIC exemption in refineries.	The tax revenues will partly fund the CICE (tax credit for companies). The tax shift does not fairly benefit households and businesses. As the government plans a comprehensive fiscal reform, it should take these elements into account and give a better footing to carbon and energy taxation. Indeed, energy taxes are among the most efficient fiscal measures to curb emissions, but also to build a strong economy. Therefore, the carbon tax base should increase to save GHG emissions in a more efficient manner, as well as to build a low carbon technologies sector in France.
Apply a reduced VAT rate on public transport tickets and a normal rate on air transport tickets (20%), as in numerous other EU countries.	The VAT rate applies on transport tickets. Whether it is air transport or local buses, it stands today at 10%. The VAT system is ignoring the environmental impacts of these different services. While France could apply the full rate to air tickets (without negative social effect), the government could also reduce the VAT rate on public transport to 5.5% as a "service of first necessity". It's important to note that the VAT rate on public transport doubled in less than 3 years, at a time when the EU should reduce its energy consumption.

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
Taxation	
Shift 10% of the tax burden from labour to environmentally harmful conduct (e.g. causing CO2 emissions) and resource consumption in a budgetary neutral way.	Green taxation not only helps to achieve environmental goals cost-effectively, it also raises significant revenues with less detrimental macro-economic impacts than other forms of direct and indirect taxation. A tax shift could render Germany's economy more growth-friendly, foster green innovation and contribute to maintaining a balanced budget. *Aarhus/Eunomia/IEEP (2015).* *Study on Environmental Fiscal Reform Potential in 14 EU Member States.* *Vivid Economics (2012).* *Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits.* *FÖS (2014).* *Zuordnung der Steuern und Abgaben auf die Faktoren Arbeit, Kapital, Umwelt.*
Harmonise energy taxation based on energy content and external costs of different sources in order to set technology-neutral framework conditions for the competition for highest energy efficiency at lowest environmental and health costs. **Raise the diesel tax rate at least to the same level as the petrol rate. Regularly adjust the tax rates in line with inflation to ensure their incentive effect.**	The current eco-tax is neither based on the carbon content of fuels nor on other environmental externalities. Diesel benefits from a reduced tax rate compared to petrol, despite its higher carbon content (16%) and the higher levels of local air pollutants it generates. This tax structure did not only lead to annual revenue losses of about EUR 6.6 billion (2008), it also induced changes in the car fleet. *GBE and The Green 10 (2012).* *On The Revision of the Energy Tax Directive.* *Aarhus/Eunomia/IEEP (2015).* *Study on Environmental Fiscal Reform Potential in 14 EU Member States.* *OECD (2012).* *OECD Environmental Performance Reviews: Germany 2012.* *FÖS (2012).* *Für eine ambitionier te Revision der EU-Energiesteuerrichtlinie.*
Abolish reduced VAT rates (of currently 7% or full tax exemption) on goods and services that are deleterious for health or environment. The taxation of national flights was an important first step to tackle market	Research and experience have shown that a broad application of reduced VAT rates is inefficient. It distorts consumption behaviour and results in fiscal revenue losses and higher administrative costs. Distributional concerns could be addressed more effectively by more targeted expenditure programmes. Hence, simplification and greening of the VAT system could eliminate perverse incentives for

distortion in the German transport sector but should not diminish efforts to include international aviation as well.

consumption and strengthen price signals, encouraging more sustainable purchasing and consumption behaviour.

COM (2012). Assessment of the 2012 national reform programme and stability programme for Germany.

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Hungary

European Semester

Recommendations 2016	Justification
<u>Taxation</u> **Reduce distortive sector-specific corporate taxes; remove the unjustified entry barriers in the service sector, including in the retail sector; reduce the tax wedge for low-income earners, including by modifying the personal tax system and by shifting taxation to areas less distortive to long-term, economically, socially and environmentally sustainable growth; continue to fight tax evasion, reduce compliance costs and improve the efficiency of tax collection (first of all concerning VAT and car taxation).** **Strengthen structures in public procurement that promote competition and transparency.**	It is highly commendable that the Commission recommends alleviating the tax burden on low-wage earners and shifting taxation to areas less distortive to growth. However, it would be necessary to clarify that the Commission recommends measures which lead to long-term sustainable growth. At the same time it should be noted that the present personal income tax is very unjust as it represents an enormous subsidy to the richest part of Hungarian society. This measure has deprived the public budget from a sum equalling about 1.5% of the annual GDP. It improved neither the performance of the economy, nor the employment rate. *Napi.hu (2013). Kiderült: így kaptak százmilliárdokat a tehetőseka kormánytól.* Tax fraud and tax avoidance are the main obstacles for the proper functioning of the market. According to the Commission Staff working document for Hungary issued in 2012, "The Hungarian tax system is characterised by significant tax evasion as indicated by the large shadow economy and signs of undeclared work. The size of the shadow economy is estimated at nearly 24%, i.e. substantially above the EU average of 16%." The Hungarian Government still seems unwilling to implement any serious measures to combat the shadow economy, which is clearly shown by the recent multimillion euro VAT scam. A large part of the tax evasion and tax avoidance is also a stimulus for environmentally harmful activities (like excessive car use and truck transport). For example, it is estimated that the revenue foregone due to accounting the purchase and use of cars for private purposes as company car purchase and use amounts to more than 5% of the GDP. According to the study *Company Car Taxation*, commissioned by DG TAXUD, company car subsidies are among the highest in the EU. NGOs (among others the Clean Air Action Group) already prepared a number of concrete proposals to reduce tax fraud, however these were not implemented by the government. *Levego Munkacsoport (2014). VAT fraud and corruption scandal in Hungary.* *Levego Munkacsoport (2011). Letter to Hungarian minister Ur (in Hungarian).* *Lukács et al (2011). The social balance of road and rail transport in Hungary.*

Introduce an air ticket tax in Hungary.

Hungary does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Hungary apply a similar duty.

T&E (2013). Does aviation pay its way?

<u>**Governance**</u>

Work out, in consultation with social partners and civil society, and implement without delay an action plan to substantially reduce corruption. Revoke all legislation reducing transparency and facilitating corruption that has been introduced during the last 12 years.

In recent years corruption became one of the gravest problems of Hungarian society, substantially increasing social tensions and reducing the efficiency of the economy (and relating not only to public corruption).

According to estimates by experts at the Hungarian Academy of Sciences, "the direct damage arising from corruption in Hungary is about 1,000 billion HUF annually [more than 3% of the GDP]; the indirect damages are much greater." Experts (including experts of several NGOs, e.g. Transparency International Hungary, Hungarian Civil Liberties Union, Clean Air Action Group) already prepared a number of concrete proposals to reduce corruption, however, these were not implemented by the government. On the contrary, many measures were taken by the government and the Parliament, which, in fact, facilitated corruption practices. Corruption is often linked to environmental harmful activities as in the case of illegal or economically unjustified real estate and other developments.

Corruption is also enhanced by the fact that consultation with social partners and civil society has been much weaker during the present government than during the previous ones. Proper consultation with the stakeholders would lead to more stable public administration and better legislation. Foreign investors and also the Hungarian business sector regularly complain about unstable legislation and the malfunctioning of public administration, referring to them as the cause of uncertainty and market distortion.

At present, Hungary has no real action plan to combat corruption. Even the rather weak "Government Decision No. 1104/2012. (IV. 6.) on governmental actions against corruption and the adoption of the Corruption Prevention Programme of the Public Administration" has not been implemented.

Varga Szabolcs. A korrupció és a védekezés lehetőségei.

NGOs (2015). Letter to the Commission on the use of European Structural and Investment Funds.

How EU money has contributed to the dismantling of democracy in Hungary,

Substantially modify the use of EU funds as soon as possible: use public funds only for public goods, and not for subsidies distorting the market.

Quite a number of experts are of the opinion that EU funding has had a devastating effect on Hungarian society, its economy and the environment. Inappropriate rules concerning the use of EU money, coupled with weak or non-existent enforcement of the EU acquis and national commitments, led to the result that

Use most of the EU funds for the development of human resources. In order to fully comply with Article 8 of Regulation No 1303/2013 of the European Parliament and the Council of 17 December 2013, strengthen the institutional framework, set better specific requirements for the project selection criteria, and ensure proper involvement of environmental NGOs in the whole process of using EU funds.	EU money in Hungary is reducing economic competitiveness, increasing social inequalities and undermining democracy – thus acting against the Europe 2020 targets. In order to change this situation, a radical reform of EU funding is necessary. *CAAG (2014). Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014–2020 submitted to the European Commission.* The present institutional setup and the requirements in the calls for proposals do not guarantee the proper integration of 26 environmental aspects in the selection and implementation of projects. Furthermore, the involvement of environmental NGOs in the whole process (preparation of calls of proposals, progress reports, monitoring and evaluation of programs) became substantially weaker during the last few years due to the measures described above. Currently, the involvement of NGOs does not conform to the requirements laid down in the European code of conduct on partnership in the framework of the European Structural and Investment Funds.
Prepare an action plan with concrete measures and deadlines to ensure implementation of all recommendations of "Guideline 5: Improving resource efficiency and reducing greenhouse gases" of the Council Recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU).	It would be beneficial both for improving competitiveness and reducing environmental pollution to implement "Guideline 5: Improving resource efficiency and reducing greenhouse gases" of the Council Recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU). A number of studies (including several commissioned by the European Commission) have proven that the proper implementation of the recommendation in Guideline 5 might substantially contribute to achieving fiscal consolidation as well as the other goals set forth by the EU 2020 Strategy.
Reform the entire transport system to make it more cost efficient. Remove all direct and indirect subsidies to car and truck transport.	There are disproportionate indirect (hidden) subsidies in transport. The indirect subsidies to car and truck transport are much larger than the direct subsidies for public transport: according to one study they might even reach almost 10% of the Hungarian GDP. The CSR must not be silent concerning a transport subsidy 10 times larger than that of public transport. *Lukács et al (2011). The social balance of road and rail transport in Hungary. (p.76)*
Prepare and implement a roadmap for gradually increasing the R&D expenditure in Hungary to 1.8% of GDP in 2020, with special attention to environmental Research and Development (R&D). Take measures to substantially increase the efficiency of R&D, and monitor the results using the indicators of the Innovation Union Scoreboard.	Increasing expenditures for R&D, and improving the efficiency of R&D is one of the main priorities of the EU. Hungary committed itself to increasing the R&D expenditure in Hungary to 1.8% of GDP in 2020, but in fact the Government has taken measures which seriously harm R&D. Environmental R&D has been hit especially hard. The official figures do not reflect the real life situation. Firstly, the efficiency of the use of R&D expenditures is often very low. Secondly, this sector is one of the most affected by corruption. This means that a substantial part of the money allocated for R&D appears only in the

statistics as R&D expenditure, but in reality it is financing criminal activities. Therefore using R&D expenditure as an indicator is extremely misleading. It would be much more appropriate to use Innovation Union Scoreboard indicators.

Substantially improve health care services, among others by increasing health care state expenditures.

Among others each year as many or more doctors leave the country as finish medical university. The vast majority of family doctors have already reached or are very near to pension age. Coupled with the dismantling of the authorities responsible for the protection of health and environment, the downgrading of the health care system might soon lead to a humanitarian disaster in Hungary.

Strengthen the capacity of all authorities so that their performance attains at least the average EU level.

Hungarian authorities (including environmental authorities and the national public health service) were weakened during recent years to such an extent that they are not able to fulfil the tasks required by EU and Hungarian legislation. This is detrimental also to the competitiveness of the Hungarian economy. This also has a negative influence on the efficiency of public spending as well as tax revenues. There are good indicators for measuring the performance of authorities which would make it possible to measure progress in this field.

IMPEL (2010). Developing performance indicators for environmental inspection systems.

Substantially improve the consultative role of social partners and civil society, and in all cases prepare well-documented assessments for the bills concerning the budget and taxation.

Corruption and mismanagement on both national and local level is also worsened by the fact that consultation with social partners and civil society has been much weaker during the present government than during the previous ones. Some facts about the diminishing role of civil society during the present government include:

- Civil society representatives were excluded from a number of bodies where they had a seat earlier. The present government either directly denied their representation or substituted it with false representatives (an example of this practice is the National Economic and Social Council where the genuine representatives of the civil society were replaced by persons appointed by the government);
- Funding to NGOs was substantially reduced, first of all to national NGOs which were capable of assessing government documents. Furthermore funding for NGOs to produce studies, analyses of issues of national importance practically disappeared. Today NGOs have much less capacity to seriously take part in consultations with the government than five years ago;
- It became much more difficult for NGOs to make their voice heard. Their opinion appears in the press (especially in the television and radio) much less than e.g. five years ago. This is partly due to the reduced capacity of the NGOs, but mainly to the change of the attitude of the press towards NGOs, which in turn is a clear reflection of

the present government's domination of the great majority of the media;
- Quite often the deadline given for the consultation is too short to make it possible to offer a thorough evaluation. It is not uncommon that important changes in legislation are approved within a few days or even a few hours following their submission to the Parliament;
- Generally no background studies, impact assessments, or calculations accompany the government proposals, and this often makes it impossible to properly evaluate these proposals. The budget bill is compiled in a way that makes it extremely difficult to compare its data with those of the previous years.

Often individual Members of Parliament submit bills, and the present laws in such cases require neither assessments, nor public consultation. The government's replies to the NGO's comments are generally vague and lacking substantive information. In quite a number of instances no reply is given at all. Proper consultation with the stakeholders would lead to more stable public administration and better legislation. Foreign investors and also the Hungarian business sector regularly complain about unstable legislation and the malfunctioning of public administration, referring to them as causing unnecessary uncertainty and market distortion.

Levego Munkacsoport (2011). *A Mockage of Democracy in the Hungarian National Civil Fund Council*

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European Semester

Recommendations 2016	Justification
Taxation	
Implement a comprehensive environmental fiscal reform as part of the proposed reform of the tax system. Remove special tax provisions that are environmentally harmful and economically inefficient; restructure energy and vehicle taxes so that they better reflect environmental externalities including greenhouse gas emissions; consider reforming existing, or introducing new, environmental taxes on resource use and pollution (e.g. on water abstraction, wastewater discharges, pesticides, fertilisers and packaging materials). At the same time, reduce the huge fiscal pressure on income and labour.	These are the recommendations from OECD in its Environmental Performance Review for Italy in 2013. Up to now no political action followed. In the next month, the Italian government should present a fiscal reform and these principles should be included. *OECD (2013). OECD Environmental Performance Review: Italy 2013.*
Redefine local real estate taxation proportianally to energy performance of buildings and allocate revenues to provide energy-efficiency incentives.	The average age of buildings in Italy is among the highest in Europe and their energy performances are relatively poor.
Introduce a tax on boilers proportional to their emissions and allocate revenues to encourage their replacement with efficient boilers or solar thermal systems.	Old boilers are a relevant source of emissions.
Differentiate taxation on property of vehicles on the basis of emissions.	This would accelerate the substitution of old polluting cars with cleaner vehicles or public transport.
Subsidies	
Phase out environmentally harmful subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.	"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571.

Italy has made little progress on this issue. There are plans to "analyse and evaluate" current EHS, but further measures will be considered and eventually approved in 2015 / 2016.

At the moment, Italy has not yet outlined its EHSs together with a time-bound plan to phase them out, a shortfall which should be remedied by all Member States in 2016.

Investment

Promote congestion charging and low emission zones in urban and metropolitan areas to reduce air pollution and foster modal shift from private motorized vehicles to non-motorized modes and public transport.	Italian cities are among the most polluted in Europe, which has serious consequences for health and congestion. Traffic bears the main responsibility in urban areas. Italy also has one of the highest motorization rates in Europe (about 60%).

Circular Economy

Reintroduce a tariff on domestic waste collection based on the quantity of indifferentiated waste.	This mechanism, which incentivises separated collection, has been suppressed and needs to be reinstituted.

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European Semester

Recommendations 2016	Justification
<u>Taxation</u> **Take the necessary steps to broaden the tax base away from taxation on income in particular for those on lower incomes, e.g. by introducing environmental taxes and increase tax levels towards the EU average, while safeguarding progressivity.**	Changes to taxation must • involve protection against environmental harm, e.g. an effective carbon tax, • promote wise use of natural resources, e,g. a water charge based on usage (with exemptions below a certain income level) and • protect environmental goods e.g. a site value tax, which supports and promotes sustainable land use. Changes should also focus on strengthening the fairness and progressivity of the taxation system, and reduce inequality. This is necessary to fund accessible, quality and essential public services. Ireland faces significant demographic pressures in the coming years across all stages of the life cycle. This will increase pressures and demand on public services. By broadening the tax base the government can ensure that it has sufficient revenue to provide the necessary public services that will be required in the future. *Government of Ireland (2013). Population and Labour Force Projections 2016–2046.*
Increase taxes on diesel in order to bridge the tax gap to petrol tax.	In Ireland diesel is taxed significantly less than petrol, a gap that we urged be closed. *T&E (2015). Europe's tax deals for diesel.* Benefits can also be obtained by reviewing purchase taxes to incentivise vehicles having lower emissions of both NOx / particulates and gases harmful to climate.
<u>Subsidies</u> **Phase out environmentally harmfull subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.**	"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571. Ireland has made little progress on this issue. At the moment, Ireland has not yet outlined its EHSs together with a time-bound plan to phase them out, a shortfall which should be remedied by all Member States in 2016.

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION

<u>Taxation</u>

Introduce ecological tax reform in Latvia.

Most of the revenue from environmentally related taxes in Latvia comes from taxes on energy (e.g. fuel) and transport (e.g. motor vehicle purchase and annual use taxes). Latvia has a higher excise tax burden than most other EU Member States compared by purchasing power. However, it is recommended that Latvia:

1. Develop a long term fiscal policy strategy including the plan to increase the share of environmental taxes as a proportion of the overall tax revenue – i.e. by shifting taxes away from labour to polluting activities;
2. Gradually reduce environmental tax exemptions and cut market-distorting and environmentally harmful subsidies, and provide adequate social support systems for low income earners;
3. Adjust the structure of environmental taxation to better reflect environmental externalities, including those related to climate change and air pollution. The use of environmental taxes can be expanded in 2 main ways:
   - Increasing existing tax rates to better reflect environmental externalities, e.g. NRT on NO2, parking fees in Riga city;
   - Developing new tax bases, increasingly based on input materials as well as on emissions, and extended to new or expanded tax bases such as air and maritime transport, advertisement;
4. Evaluate the necessity to renew special state budgets for environmental tax revenues and ensure that revenues are recycled to:
   - Tax payers, e.g. for environmental measures, via rebates or investment incentives, provision of information and training;
   - Related sectors (e.g. some revenues of a waste tax going to the waste sector);
   - Reduce other taxes such as taxes on labour.

A more scientific-based approach to decision-making when planning for environmental taxes should be used and supported by academic and scientific research on the changes in the household and company behaviour as a response to fiscal incentives (tax and subsidies).

Introduce an air ticket tax.

Latvia does not have a duty on air travel. More than six memer states now have such a levy, including France, Germany and the UK, and it is suggested that Latvia apply a similar duty.

T&E (2013). Does aviation pay its way?

<u>Subsidies</u>

Phase out environmentally harmful subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.

"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571.

Latvia has made little progress on this issue. The country introduced a new subsidised electricity tax and has not yet outlined its EHSs together with a time-bound plan to phase out fossil fuel subsidies, a shortfall which should be remedied by all Member States in 2016.

<u>Investment</u>

Continue to enhance energy efficiency (EE) measures in residential buildings and facilitate availability of EU funds for EE measures in residential buildings.

In Latvia, the current average annual specific heat consumption in multi-apartment buildings is at around 157 kwh/m2, which is close to class F according to the evaluation and classification system for energy efficiency of comparative buildings approved by the Cabinet of Ministers of Latvia in 2013. Class F corresponds to indicators of the most ineffective heat consumption in residential buildings. There is still a way to go to improve EE in residential buildings.

Lessons learned in managing EU Funds in the previous period, following specific recommendations for promoting full use of the funds, should be taken into account for the 2014-2020 period. In particular:

- ESCOs (Energy Service Companies) have to be encouraged to participate in the implementation of renovation projects to improve EE performance and more efficient returns on investment;
- New amendments in the regulation for public procurement should be adopted that are appropriate for long term service contracts in EE projects;
- A new real estate tax policy should be introduced for increasing the building owners' interest in energy efficiency improvements. At the moment, increasing EE of a building increases also its value, which in turn leads to higher real estate tax burdens for the owner.
- Support programs for low-income families (which cannot access loans for housing EE improvements) should be developed;
- Energy poverty has to be faced as one of the crucial aspects in improving the EE of residential buildings. Different kinds of support schemes should be developed to minimize the risk of energy poverty.

To successfully attract funding for regions and municipalities, a well-coordinated information campaign is needed to promote public awareness and motivate participation in activities related to energy efficiency.

EE measures introduced during the previous EU funding period show that there is still not enough time devoted to the development of technical documentation, which then contributes to delays in project implementation and significant cost increases.

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European Semester

Recommendations 2016	Justification
Taxation	
Broaden the tax base, in particular on consumption, recurrent property taxation and environmental taxation.	Since 2012 Luxembourg has repeatedly received recommendations on implementing a tax shift in favour of environmental taxation, but has so far not acted upon it.
Introduce an air passenger tax.	Luxembourg does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Luxembourg apply a similar duty. *T&E (2013). Does aviation pay its way?*
Increase taxes on diesel in order to bridge the tax gap to petrol tax.	In Luxembourg diesel is taxed significantly less than petrol, a gap that we urged be closed. *T&E (2015). Europe's tax deals for diesel.* Benefits can also be obtained by reviewing purchase taxes to incentivise vehicles having lower emissions of both NOx / particulates and gases harmful to climate.
Subsidies	
Phase-out all environmentally-harmful subsidies (EHS).	Luxembourg has made only little progress on phasing out environmentally harmful subsidies. Additionally, it has not yet outlined its EHSs together with a time-bound plan to phase them out, a shortfall which should be remedied by all Member States in 2016. The Roadmap to a Resource-efficient Europe, COM (2011) 571 states that "Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and Prepare plans and timetables to phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)".

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The Netherlands

European Semester

Recommendations 2016	Justification
<u>Taxation</u>	
Continue to reduce tax disincentives on labour and consider a substantial shift of the tax burden from labour to the environment.	The tax burden should be reduced. This will help lower the crisis-induced unemployment rate of 8.1% (January 2015) in the short term and create optimal conditions for a more efficient allocation of labour and of natural resources in the Dutch industrial sector in the long term.
Reintroduce an air passenger tax (terminated on 1-1-2010).	The former air passenger duty increased budgetary revenues and led to a reduction in air tickets sales. It thus proved effective in terms of fiscal consolidation and positive green impacts.
Introduce a NOx-tax for large combustion installations (the NOx-tradeble emission system has been terminated by 1-1-2014).	Despite a more stringent standard of 37g/GJ in 2013 (from 40g/GJ before), the expectation is that NOx emissions in the industry and energy sector will increase up to 2020 due to higher energy consumption. A NOx tax can help to curb this increase.
Reintroduce the ground water tax (terminated on 1-1-2012).	This may help to further a more sustainable vision on the managing of groundwater, e.g. as regards draining in the construction sector.
Reconsidering reintroducing a packaging tax (terminated on 1-1-2013), with a much higher rate than in the old system.	Research shows that a sizeable tax on single-use packaging can have a significant effect on a shift to reusable packaging and thus lower the environmental effects of packaging use.
Terminate the tax waiver for (partly) reimbursement to employees of costs of home-work trips made by cars.	More fiscal incentives are needed to reduce company car mileage.
<u>Circular Economy</u>	
Increase the tariff of the re-introduced waste tax (plus expanding the pay-per-bag system, or similar, for household waste) and introduce a positive tax rate differential for waste to landfills. **Expand pay-per-bag systems.**	As of 1 January 2015, the actual tax rate on waste to incineration plants has been increased from nil to EUR 13 per tonne. The rate on tax to landfills was, however, reduced to the same level. A higher tax rate charging more for waste to landfills could help further divert waste from landfills and incineration to other destinations, i.e. reuse and recycling, and help to reduce waste generation. However, bringing such incentives directly to the household level requires a further expansion of pay-per-bag systems or similar.
<u>Subsidies</u>	
Phase out environmentally harmful subsidies (EHS) and	

prepare plans and timetables for the implementation of relevant policies.

"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571.

The Netherlands have made little progress on this issue. The country NRP has not yet outlined its EHSs together with a time-bound plan to phase out fossil fuel subsidies, a shortfall which should be remedied by all Member States in 2016.

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Poland

European Semester

Recommendations 2016	Justification
Taxation	
Introduce an air passenger tax.	Poland does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Poland apply a similar duty. *T&E (2013). Does aviation pay its way?*
Ensure effective investment and tax incentives for the development of community and cooperative renewable energy. **Exclude co-firing of coal and biomass from receiving any subsidies intended to support renewable energy sources.** **Step up construction and modernisation of electricity grids and the development of smart energy metering.**	The newly adopted Renewable Energy Act overlooks the potential to develop decentralised community-based and cooperative renewable energy sources. Tax incentives as well as operational support (such as feed-in-tariffs) should be made available not only to owners of the smallest micro-installations, but also to bigger installations to reduce investment risk and stimulate development No further operational support should be granted to the generation of energy in the process of co-firing of coal and biomass. Poland should revise the new Renewable Energy Act and exclude co-firing from any public-funded support. . Improving the efficiency of energy transmissions by modernizing grids, adopting and implementing smart metering regulations are necessary to reduce energy losses and improve energy security, particularly in remote and rural areas.
Investment	
Increase investment in railway infrastructure, including by utilising the EU Cohesion Policy funds. **Ensure compliance of road investments with the environmental acquis, particularly with biodiversity conservation requirements.**	Investments are needed to improve connection frequency and quality of rail service for rail transport to become a viable alternative to more carbon-intensive modes of transportation (89% of Poland's passenger transport is currently car transport [Eurostat]). To increase the use of low-carbon railway transport, Poland should ensure that this priority is reflected in the transport-related investments from EU funds. Given the number of planned road investments, and the instances of EU environmental regulations infringement related to road construction, Polish authorities should ensure that the investments do not have a negative impact on protected habitats and species.
Subsidies	
Phase out environmentally harmful subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.	"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase out environmentally harmful subsidies and report on

these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571.

Poland has made little progress on this issue. The country has not yet outlined its EHSs together with a time-bound plan to phase out fossil fuel subsidies, a shortfall which should be remedied by all Member States in 2016.

Poland explicitly mentions continuation of EHSs in its National Reform Programme.

<u>Governance</u>

Adapt educational and training programmes to increase employment in green sectors, improve transition between schools and labour market to reduce unemployment. **Take steps to stimulate eco-innovation by better reflecting R&D spending in national strategies.**	The green jobs sector in Poland, now accounting for a fraction of the labour market, has the potential for rapid growth. It is estimated that the renewable energy sector alone could create an additional 100,000 new jobs by 2030. A focus on creating resource efficient jobs would support the transition to sustainable development, offering alternative employment in regions traditionally supported by high-carbon industries, such as mining. (Greenpeace 2013; WISE, ISD 2013)
Adopt dedicated energy efficiency law.	Stable legal and administrative regulations concerning improvements in energy efficiency across all sectors of the economy are urgently needed to stimulate investments and ensure that Poland reaches its Europe 2020 targets. The European Commission recently began an infringement procedure against Poland for non-transposition of the 2012 Energy Efficiency directive (the deadline was June 2014). Current support system based on white certificates will expire at the end of 2015.
Improve the European funds governance structure to ensure good implementation and monitoring.	Poland is the biggest beneficiary of European Structural and Investment funds in 2014–2020. Improving the implementation and monitoring of EU funds, in particular the quality of multi-sectorial partnerships, is a necessary condition to ensure transparency and environmental sustainability of investments. As problems have been identified with the application of the partnership principle, measures should be taken to better engage civil society partners in decision-making and oversight.

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Portugal

EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Taxation</u>	
Eliminate fuel tax rebates for industry and transportation. The elimination of such rebates should be enough to finance appropriate energy efficiency measures.	Existing tax rebates are a powerful incentive to energy inefficiency in industry and transportation. In the long run, the elimination of those rebates combined with efficiency incentives should improve economic efficiency dramatically. There is however a difficulty regarding competitiveness. This problem should be faced by (i) incentives to industry incentives by other means, e.g. energy efficiency, and (ii) challenging illegal subsidies in other countries before the European Commission and the European Court of Justice.
Introduce an air ticket tax.	Portugal does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Portugal apply a similar duty. *T&E (2013). Does aviation pay its way?*
Increase taxes on diesel in order to bridge the tax gap to petrol tax	In Portugal diesel is taxed significantly less than petrol, a gap that we urged be closed. *T&E (2015). Europe's tax deals for diesel.* Benefits can also be obtained by reviewing purchase taxes to incentivise vehicles having lower emissions of both NOx / particulates and gases harmful to climate.

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
Taxation **Introduce an air ticket tax.**	Romania does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Romania apply a similar duty. *T&E (2013). Does aviation pay its way?*
Governance **Ensure adoption and implementation of Natura 2000 management plans, considering public financial support from EU funds (Cohesion Policy and Rural Development) and the re-organization of the decision-making process and the governance system.**	*European Commission. Position of the Commission Services on the development of Partnership Agreement and programmes in ROMANIA for the period 2014–2020.*
Ensure proper implementation of the recommendations of the International Commission for the Protection of the Danube River (ICPDR) in relation to the designation of exclusion areas and pre-planning mechanisms for hydropower development, in a transparent process involving the participation of all relevant stakeholders.	Romania has major problems with regards to authorization, construction and operation of hydropower, an increasing number of such infrastructure continuing to negatively impact protected areas of all types, including N2000 sites designated for the protection of certain endangered species and habitats such as otter, cray-fish, fish, etc. Following a request by the Danube Ministerial Conference 2010, the ICPDR has become active in initiating a dialogue with representatives from the hydropower sector. As an essential step in this process, "Guiding Principles on Sustainable Hydropower Development in the Danube Basin" have been developed by an interdisciplinary team and were finalised and adopted in June 2013 and endorsed also by the European Commission. Proper implementation of the ICPDR's Guidelines would reduce the pressure on river ecosystems on sections that still have good and high ecological status as well as on those from protected areas. Unfortunately, after almost two years since its adoption, Romania continues to lack the political will to implement the ICPDR recommendations. *ICPDR. Guiding principles: sustainable hydropower development in DRB.*
Subsidies **Phase out environmentally harmful subsidies (EHS) and prepare plans and**	"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to

timetables for the implementation of relevant policies.	phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571. Romania has made little progress on this issue. The country has not yet outlined its EHSs together with a time-bound plan to phase out fossil fuel subsidies, a shortfall which should be remedied by all Member States in 2016.

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European Semester

Recommendations 2016	Justification
<u>Taxation</u>	
Introduce an air ticket tax.	Slovakia does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Slovakia apply a similar duty. *T&E (2013). Does aviation pay its way?*
<u>Governance</u>	
Ensure independent control and effective participation of external subjects during policy and legislative processes by creating mechanisms for expert involvement during all phases.	This proposition is widening an existing CSR from 2014. Not all analytical capacities need to be internal within ministries. Externalization would have several positive impacts, including increased independence, transparency and inclusion of more ambitious policy making targets and innovative methods.
Increase capacities of local and regional administrations in respect to resource and asset management to stabilise public finances and minimise capital outflow from the regions.	Increasing the capacities of local and regional decision-makers and public institutions in areas of managing their own resources (natural, human, financial) is crucial to stop the present huge capital outflow, stabilise local public budgets and create space for income generation through utilisation of own resources. This applies to energy and other material resources, natural assets, cultural heritage. Focus should be placed on self-sufficiency and internalization of economic and production processes such as the energy production/consumption cycle.
Decrease long term unemployment and social exclusion through economic activation of citizens and support of community-driven initiatives.	Cooperatives and other forms of community driven initiatives can, together with strengthened relations to municipalities, lead to high levels of economic activation of citizens. This is crucial for regions that are not able to benefit from large scale economic processes because of geographical, demographic or other barriers. Support schemes for the creation of cooperative and other forms of community initiatives, including incubators and financial instruments (including those connected to the new Cohesion Policy), play a decisive role.

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European Semester

Recommendations 2016	Justification

Governance

There is a need for a stronger commitment to the transition towards green economy, which includes a green budget reform.

The document already issued, "Proposal for a framework for transition to a green economy with an action plan 2015 – 2016"and the document in preparation: "Slovenian Development Strategy" need to be synchronised and demonstrate a strong commitment to a green fiscal reform. This would also mean taking more ambitious steps than anticipated in the "Proposal for a framework for transition to a green economy with an action plan 2015 – 2016".

In 2011, a government working group on green tax reform was formed. However, only small steps have been taken so far. These include a CO_2 tax (1997) and motor vehicle tax (2010). In 2013, the NGO Umanotera issued a report "Green Budget reform in Slovenia". It is a comprehensive study on the possibilities of rising environmental taxes, reducing environmentally harmful subsidies and greening public spending. Environmentally harmful subsidies are regarded as key contributors to the Slovenia's budget deficit. The government has endorsed none of the proposed actions yet.

Umanotera Report (2013).

On 21st of October, the Government issued a "Proposal for a framework for transition to a green economy with an action plan 2015 – 2016" including a part dedicated to a "Green budget reform". The action plan provides merely "examination of options to eliminate environmentally harmful subsidies and changes in other measures that have positive or negative environmental impacts" by the end of 2016.

Government of the Republic of Slovenia (2015).

"The Proposal of a framework for transition to a green economy" has been issued before the document "Slovenian Development Strategy" has been finished. The latter is still in the phase of preparation. The old document 'Slovenian Development Strategy' expired in 2013 demonstrating lack of long term planning and coordination, both essential for a successful green reform.

The Slovenian authorities are invited to prepare and implement a well-articulated strategy for reducing the number of municipalities and improving their capacity to absorb EU cohesion funds.	The absorption of EU cohesion funds by local authorities is insufficient and leads to delays in meeting relevant directive requirements (waste & waste water etc.). Many of the Slovenian municipalities are extremely small and do not have the capacity to develop adequate projects. Reforming the inefficient structure of the municipal sector, which certainly has to include a reduction of the number of municipalities, will also ensure better use of public finance and secure stronger local development in the future. Corruption issues at the local level will also be better tackled with such a reform.
<u>Taxation</u>	
Shift the burden of taxes and contributions from labour to environmentally harmful activity (e.g. CO2 emissions) and resource consumption in a budgetary neutral way.	A tax shift is needed to boost the Slovenian labour market following the economic crisis and austerity measures.
Increase the diesel excise duty to the same level as the petrol excise duty (and regularly adjust the rates with inflation rate to ensure their incentive effect).	Excise duties on energy products account for more than 80% of the revenues from the environmental taxation. There is a potential for a substantial budget income from diesel excise duty. The European Commission stated in their 2012 report that "the EU average for the diesel vs petrol tax ratio has increased slightly in 2012 compared to last year. Several Member States have increased their tax on diesel more than their tax on petrol, namely Belgium, Bulgaria, Denmark, Hungary, Poland and Finland. In a few other cases (Latvia and Slovenia) the ratio has fallen, potentially pointing towards a larger tax subsidy to diesel". *European Commission (2012). Tax reforms in EU Member States 2012.*
Phase out the reduced VAT rate (9.5%, the general VAT is 22%) %) or VAT exemption on environmentally harmful activities.	Efforts to phase out exemptions and reduced excise duties for industry on energy consumption are needed (remaining reductions have to be linked to binding targets for improving energy efficiency). There is still a reduced VAT or VAT exemption applied to some environmentally harmful activities: • Phytopharmaceuticals (8.5 %); • International transport, i.e. aviation and sea transport (exempt); • Certain transport services (exempt); • Certain reductions in real estate (8.5%); • Energy and water consumption (8.5%).
Introduce an air ticket tax.	Slovenia does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Slovenia apply a similar duty. *T&E (2013). Does aviation pay its way?*

<u>Subsidies</u> **Remove all direct and indirect subsidies to car and truck transport.**	Refunds for diesel excise duties for transport companies should be phased out. A European solution should be pursued, e.g. in the context of the revision of the Energy Tax Directive.
<u>Investment</u> **Take dedicated steps to harvest the potential of green jobs in Slovenia, especially in the context of rising rates of youth unemployment.**	Ad hoc employment measures are not sufficient to tackle structural unemployment. Dedicated support is needed in sectors that have large employment potential and offer the opportunity for long-term sustainable economic development, such as: • Forestry: Slovenian forestry is sustainable, but the wood value chain is underdeveloped. Raw timber is mainly exported; • Waste: domestic waste treatment is still too much focused on landfilling rather than recycling; • Tourism: Slovenian major attraction is the natural environment. Therefore, extensive, green and active tourism has large employment potential in Slovenia; • Housing: The energetic refurbishment of the Slovenian housing stock is progressing (too) slowly. There is large employment potential in accelerating the renovation rate – both in public and private buildings. The energy service contracting has no immediate effect on the budget. *Government of the Republic of Slovenia (2015).* *Umanotera (2013).* *Odyssee-Mure (2012). Energy Efficiency Trends in Policies in Buildings.*

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EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Taxation</u>	
Shift a relevant percentage of tax burden from labour to environmentally harmful conduct (e.g. causing CO2 emissions), possibly in a budgetary neutral way.	In the case of Spain, the high unemployment (22.2% compared to EU28-average 9.5%, in August 2015 [Eurostat]) and the excessive energy dependence (70.5% Spain vs. 53.2% EU-28 average, in 2013 [Eurostat]) make this approach most reasonable. In reality, energy dependence is even higher than estimated as Eurostat figures consider nuclear generation as a domestic source.
Harmonise energy taxation based on energy content and external costs of different sources.	This would set technology-neutral framework conditions to ensure competition in the energy sector. This could raise revenues to more than EUR 10 billion by 2020 and secure a reduction in CO2 emissions of 1.5–2.5%. This proposal is similar to that included in the report of the fiscal experts committee appointed by the Government (in Spanish, proposal 86.a, p. 323). *Vivid Economics (2012). Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficit.* *Comisión de expertos para la reforma del sistema tributario español (2014). Informe.*
Advance towards the convergence of the tax rates for petrol and diesel, and use the additional revenue to reduce social security contributions.	This proposal is included in the report of the fiscal experts committee appointed by the Government (in Spanish, proposal 86.b, p. 323). This is one of the proposals with the highest impact in terms of revenue, since the very low tax rates for diesel compared to petrol is the main reason why Spain ranks next to last in the EU-28 as regards the percentage of environmental taxes related to GDP (1.83% compared to EU28-average 2.45%, in 2013 [Eurostat]). The additional revenue could be used to lower social security contributions, as proposed in the report of the fiscal experts committee appointed by the Government (proposal 86.c, p. 323). *Comisión de expertos para la reforma del sistema tributario español (2014). Informe.*

Advance towards a greater harmonization of energy and environmental taxes in the Autonomous Communities.	Environmental externalities generated by the activities subject to energy and environmental taxes are quite similar within the whole Spanish territory. Some regional taxes that could potentially be harmonised are for example those on air pollution, consumption of plastic bags or waste disposal. This progress towards harmonisation is supported by the report of the fiscal experts committee appointed by the Government (p. 344). *Comisión de expertos para la reforma del sistema tributario español (2014). Informe.*
Suppress exemption of aviation fuel used in domestic flights (Ley 38/1992) and advance bilateral negotiations towards suppression exemption of aviation fuel used in transnational flights. **Apply full VAT rate for inland flights.**	Although aviation is the most environmentally harmful transport, it profits from immense tax breaks: international flights are exempted from the value-added tax (VAT) and flight fuel is exempted from energy taxation. No international agreement obliges an exemption of fuel taxes on kerosene for its use on domestic flights, and this tax should be therefore adopted. As a second-best option, national ticket taxes could be considered to lower these environmental harmful subsidies. This would help transferring passengers to the vast new high-speed rail network.
Change the tax base of the electricity tax from price to consumption, and suppress several of the existing exemptions.	This proposal is supported by the report of the fiscal experts committee appointed by the Government (proposal 88, p. 324). Currently, the tax base for electricity is directly proportional to the price of the electricity. This creates very little incentive to efficiency, since: a) the price varies very dramatically between users, and so does the tax paid in relation to the consumed electricity; b) an important and increasing part of the price is independent from actual consumption. Adopting consumption as the tax base would not only increase incentives towards efficiency, but will also make the effective tax rates much more transparent (and comparable among users, in case different tax rates apply to large consumers, which could be acceptable during a transitional phase). *Comisión de expertos para la reforma del sistema tributario español (2014). Informe.*
Reform the vehicle registration tax (Ley 38/1992). In particular: • **Reduce the limit that vehicles need to comply to in order to benefit from an exemption in this tax;** • **Make the tax rate dependent on the emissions of other pollutants besides CO2;** • **Suppress or reduce tax exemptions for company cars.**	The reform of the vehicle registration tax that entered into force in 2008 has created a positive incentive towards the registration of more environmentally friendly vehicles. However, whereas the technology has continued to improve, the tax has remained untouched, which means that a high percentage of vehicles now benefit from tax exemption (for vehicles below 120 gCO2/km) if compared to exemptions in 2008. This has also had a significant impact on revenue. Besides, the impact of vehicles on local air conditions is caused by other gases rather than CO2, which at present are not considered in the definition of the tax rate. Finally, company cars can benefit from exemptions in the tax, which in fact is an environmentally harmful subsidy.

	Freire-González, J. & Puig Ventosa, I. (2013). Efectos económicos y ambientales del impuesto especial sobre determinados medios de transporte.
Reform the vehicle circulation tax (Real Decreto Legislativo 2/2004), so it also becomes dependent on the environmental performance of the vehicle, similar to the reform followed by the vehicle registration tax.	The vehicle circulation tax – which is levied at municipal level – depends on the category of vehicle and on some characteristics (e.g. power or number of seats) which are not directly related to its environmental performance.

Governance

Conceive an integral reform of the legal electricity framework, particularly suppressing the huge existing windfall profits for the nuclear and hydroelectric industry, which derive in an unreal deficit between recognized costs and actual costs.	Several initiatives have been allegedly adopted to solve the deficit in the electricity system (déficit tarifario) (e.g. some measures in Ley 15/2012). However the main causes for this deficit remain untouched, that is the difference between recognized and actual costs due to a wrongly conceived mechanism of formation and recognition of electricity prices.

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Sweden

EUROPEAN SEMESTER

RECOMMENDATIONS 2016	JUSTIFICATION
<u>EU-ETS</u>	
Permanently retire excess emission space under the Effort Sharing Decision (ESD).	In 2013 & 2014, Swedish GHG emissions covered by the Effort-Sharing Decision were 5–6 million tons per year below the Annual Emission Allocation (AEA) according to the decision. In 2015, the overachievement is likely to be just as big. Sweden can transfer (=sell) approx. 1.9 mill. of the AEA space annually to "underperformers" among the EU Member States. If Sweden does so, the Swedish emission reductions will partly be neutralized." *Nilsson, M. (2014). Uppdatera klimatpolitiken. Klimatpolitisk handbok för en ny regering.*
<u>Taxation</u>	
Raise energy taxes, at least temporarily, to balance the impact of cheaper oil and electricity.	Sweden is again facing budget deficits. Meanwhile, market prices on energy, in particular oil and electricity, have fallen sharply. A number of reasons support raising energy taxes, at least temporarily: 1. The revenues are needed to limit the budget deficit. 2. The phasing out of fossil fuels will in the longer term lead to considerably higher energy prices. In order to prevent investment decisions by business and consumers during the next years from being taken on the basis of the present low energy prices, the State needs to intervene and adjust the final prices through higher energy taxes. 3. Higher energy prices are needed to incentivize further energy efficiency.
Replace reduced fuel taxes for agriculture, fishing and forestry with other, environmentally neutral, types of subsidies.	To preserve the competitiveness of those sectors, their fuel taxes are currently reduced. Competitiveness issues should instead be addressed by other, environmentally neutral, measures.
Introduce an air ticket tax.	Sweden does not have a duty on air travel. More than six Member States now have such a levy, including France, Germany and the UK, and it is suggested that Sweden apply a similar duty. *T&E (2013). Does aviation pay its way?*
<u>Governance</u>	
Set a date when the sales of fossil petrol and diesel will not be permitted anymore.	Taxes are well suited to limit the use of fossil fuels, but in order to fully prevent CO2 emissions in the long term, a ban on fossil fuels is needed. In order to give sufficient time for industry and

Find a way to finance forest conservation that does not require Government money.

consumers to adapt, a final date for the phase out of fossil petrol and diesel should be set as soon as possible.

With improved management methods, the need to set aside forested areas as nature reserves, as part of a strategy to achieve the environmental goals, may be limited to (depending on part of the territory) 9–16% of the Swedish forested area with a potential yearly growth of 1 m3/ha/year. Financing this with tax money is unrealistic and also inefficient from a socioeconomic point of view since it gives no incentive to forestry to adapt its management methods in order to limit the need for nature reserves.

Angelstam, P. (2010). Landskapsansats för bevarande av skoglig biologisk mångfald – en uppföljning av 1997 års regionala bristanalys,
och om behovet av samverkan mellan aktörer.

Subsidies

Phase out environmentally harmful subsidies (EHS) and prepare plans and timetables for the implementation of relevant policies.

"Member States should identify the most significant environmentally harmful subsidies pursuant to established methodologies (by 2012), and prepare plans and timetables to phase out environmentally harmful subsidies and report on these as part of their [annual] National Reform Programmes (by 2012 / 2013)", states the Roadmap to a Resource-efficient Europe, COM (2011) 571.

Sweden has made little progress on this issue. While there are some commitments on energy efficiency and emissions reduction, there is no specific data on harmful subsidies. The country has not yet outlined its EHSs together with a time-bound plan to phase out fossil fuel subsidies, a shortfall which should be remedied by all Member States in 2016.

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United Kingdom

European Semester

Recommendations 2016	Justification
__Taxation__	
Shift the tax burden towards environmental taxes.	Moves to reduce green taxation on domestic energy run contrary to the recommendations of previous and current Annual Growth Surveys and should be reversed. Adjustments to the Energy Company Obligation Scheme – including reducing the Carbon Emissions Reduction Obligation by one third in 2015 and the decision to fund the warm home discount from general taxation in future – reduced average household energy bills by about 50 GBP annually. The move has been widely criticised by social and environmental organisations as a slow-down in the current programme to improve on the UK's poorly insulated housing stock and will result in poorer energy efficiency, higher energy bills and more GHG emissions. Delaying the transition to renewable energy and the introduction of energy-efficient technologies is clearly a retrograde step.
Fuel duties should be increased as soon as possible, in the window of opportunity afforded by falling oil prices.	Freezing fuel duties reduces the comparative cost of transport fuels over time and undermines incentives towards greater fuel efficiency in the transport sector. Fuel duties are also an important source of revenue: If frozen through to 2018–19, the policy will cost £4.2 billion (IFS 2014). The falling oil price gives policy-makers a window of opportunity to increase fuel excise with minimum consumer resistance, increasing revenues to the exchequer and upholding price incentives to reduce fuel consumption.
Change the definition of environmental taxes back to the internationally accepted definition.	The change of definition of environmental taxes by HM Treasury in 2012 (HM Treasury 2012), seemingly to meet a government commitment to increase the share of green taxes in total tax revenue, has led to the absurd situation of HM Treasury using a different definition to the UK's Office for National Statistics, which continues to use the internationally accepted definition. The definition should be changed back, and environmental taxes raised as above so that the commitment can be met using the accepted definition.

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SECOND PART -

ENERGY UNION RECOMMENDATIONS

ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Subsidies</u> **Each Member State should develop a concrete strategy by 2016 on how to phase out all Environmental Harmful Subsidies by 2020 at the latest.**	Environmentally harmful activities are still subsidised by public budgets. On the EU level fossil fuels are subsidised by up to EUR 329 billion annually (IMF, 2015). This represents more than double of the EU Annual Budget and includes up to EUR 42.8 billion that Member States and citizens have to pay to compensate for the negative social and health impacts (HEAL, 2013). A report commissioned by the European Commission (Ecofys, 2014) reveals that the subsidies and externalities of the fossil fuel and nuclear based power and heat represent a cost of EUR 262 billion per year, versus EUR 58 billion only for renewables and energy efficiency. The 7th Environmental Action Programme (European Commission, 2013) and the Roadmap towards a Resource-Efficient Europe (European Commission, 2011) both being enforced by the European Semester, ask Member States to set up initiatives and establish action plans to abolish Environmental Harmful Subsidies by 2020 which counteract central objectives of the EU, such as ensuring fair market conditions in the Single Market, environmental protection and social cohesion. *IMF (2015). Counting the Cost of Energy Subsidies* *Ecofys (2014). Subsidies and costs of EU energy* *European Union (2013). “Living well, within the limits of our planet” (EU/1386/2013)* *HEAL (2013). The unpaid health bill. How coal power plants make us sick.* *European Commission (2011). “Roadmap to a Resource Efficient Europe” (COM/2011/571)* It is of utmost importance that the upcoming legislative proposal on governance includes a template for national energy and climate plans. The European Parliament and Commission must work together to ensure a strong legislative framework on renewable energy and efficiency, with ambitious and binding targets. This is the only way to ensure the necessary convergence of national policies. However, there is need for clarity on what will be done if the sum of national commitments falls short of the EU's 2030 target for at least a 27% share of renewable energy. We should design a workable 'gap filler', building on the cooperation mechanisms foreseen by the existing EU renewable energy directive.

Ensure the 2030 Climate and Energy Framework is underpinned by a legally binding target of at least 40% efficiency and 40% renewable and 60% GHGs.	Well-designed EU policies could provide better results at lower cost than uncoordinated national approaches. Setting legally binding targets at national level for renewable and efficiency is the most tested and effective form of governance and should form the bed rock of the EU Energy Union Governance.

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Belgium

Energy Union

Recommendations 2016	Justification
Governance	
Belgium should urgently improve its climate and energy governance and decide on the division of its 2020 climate and energy targets between federal and regional level.	Projections for greenhouse gas emissions in 2020 indicate that Belgium will miss its 15% reduction target by 11 percentage points. It also remains unclear how isolated initiatives taken by the various authorities will ensure that the collective target is met. This general lack of coordination and effort-sharing agreement between authorities is also the main concern with regard to the national renewable energy target of 13% by 2020, together with the need to complete transposition of the Renewable Energy Directive. *European Commission (2014). Working paper on Belgium.*

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Energy Union

Recommendations 2016	Justification
Investments	
Improve energy efficiency to reach Bulgaria's 2020 target by stepping up efforts to improve energy efficiency of public and private buildings.	Bulgaria is the most energy- and carbon-intensive economy in the EU and has one of the highest energy trade deficits. Energy efficiency is seen as part of a long-term solution to lower energy bills, which have recently sparked widespread public discontent. There is a need to diversify the funding structure for energy efficiency projects, in particular for those focused on small scale renewables for heating and electricity in order to ensure that co-financing of house renovations are affordable. Funding from the clean air measures should not only be directed to clean public transport, but also to fund more efficient and modern stoves on biomass in areas with bad air quality due to heating. There is an obligation to include energy-efficiency as a key factor when owners want to renovate. Bulgaria should not fail to adopt proper indicators on CO_2 emissions to evaluate the efficiency of the spending on energy efficiency and renewable energy. *European Commission (2014).* *Working paper on Bulgaria.*
Renewables	
Step up efforts to increase renewable energy in the energy mix and reduce energy dependency on fossil fuels.	The current policy measures are insufficient to reach Bulgaria's renewable energy target for 2020. The second national progress report under paragraph 22 art.1 Directive 2009/28/EC for promoting RES usage is based on regular wood biomass consumption predominantly used in small towns and villages in Bulgaria. Yet, it has not been targeted as RES development, but is still reported in the data. In addition, the authorities have recently set temporary grid access tariffs exclusively for renewable energy producers, with a negative impact on the renewables sector. *European Commission (2014).* *Working paper on Bulgaria.*

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Czech Republic

Energy Union

Recommendations 2016	Justification
<u>Renewables</u>	
Adjust the State Energy Strategy to reflect increasing energy efficiency of the economy and real economy of renewable sources.	The State Energy Strategy was approved in 2015. The Strategy does not reflect the impacts of increasing energy efficiency on energy end-use consumption after 2015 and its scenarios do not properly take into account economic potential of renewable resources, reduction of costs and trajectory of technological change. The State Energy Strategy needs to set a basis for a much needed stabilisation and long-term planning in the energy sector.
Set financial incentives for renewable sources, especially for wind energy, and remove administrative obstacles in order to ensure fulfilment of the increased renewable energy target set by the new Renewable Energy Action Plan.	The Czech Republic is preparing a new Renewable Energy Action Plan which increased the national target from 13% to 15.9%. However, the plan does not include appropriate measures to ensure the target is reached. Especially in wind and solar energy sectors, administrative barriers and lack of operating support is hindering the development.
<u>Energy Efficiency</u>	
Take steps to enable Energy Performance Contracting in the central authorities' buildings and ensure Energy Efficiency Directive Article 5 obligations are not financed on the detriment of efficiency in the housing sector.	The Czech Republic was so far not able to identify proper mechanisms to ensure that Energy Efficiency Directive Article 5 obligations are fulfilled. The government is now proposing to take away funds from the successful New Green for Savings Programme for energy efficiency in residential buildings to finance the central authorities' buildings. Energy Performance Contracting would be an ideal way to carry out these measures, however fiscal rules do not allow the state authorities to use the EPC.
<u>Subsidies</u>	
Remove subsidies from energy sources with high external environmental impacts such as coal-biomass co-incineration and biological waste incineration.	The current support scheme is targeted to support heat and power production from co-incineration of biomass and biodegradable waste in coal power plants and waste incinerators. Although these options are considered as renewable energy in the EU, these technologies have very low energy efficiency and use the scare resource – biomass – wastefully. Incentives for biodegradable waste incineration represent a subsidy to unsorted municipal waste incineration, undermining the efforts to reduce, reuse and recycle and to use biodegradable waste in better ways, such as composting or biogas stations.

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ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Subsidies</u>	
Phase out all subsidies to fossil fuels, e.g. reduced excise for fuels used for non-road purposes, as well as tax exemptions and investment supports to the fossil fuel including oil-shale based activities.	Estonia started to reform environmentally harmful subsidies by lifting excise exemptions for the non-road use of fuels for the forestry, construction and mining sectors in 2012 and for the heating sector, but since there has been little or no progress towards eliminating exemptions for the agricultural and fisheries sectors, market distortions and an unequal treatment of the sectors are continuing.
<u>Investment</u>	
Consider support schemes for investments into decentralized renewable energy production and increase support of the public sector for energy efficiency measures.	The IEA also saw the need for increased subsidies to support energy efficiency measures. *IEA (2013). Estonia 2013. Energy policies beyond IEA countries.*

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Finland

ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
Subsidies	
Phase-out environmentally harmful subsidies, especially in the transport, agriculture and energy sectors.	In Finland there are over EUR 2 billion of harmful subsidies to transportation, EUR 1.4 billion to agriculture and around EUR 1 billion to fossil fuels (Finnish Ministry of Finance 2013, Finnish Ministry for the Environment 2013). These subsidies could be used instead for budgetary consolidation or earmarking. *Finnish Association for Nature Conservation (2014). Harmful subsidies as barriers to sustainable development. The price of subsidy policy in Finland and the developing world. Executive Summary* *Finnish Association for Nature Conservation (2014). Harmful subsidies as barriers to sustainable development. The price of subsidy policy in Finland and the developing world. Report in Finnish*

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Energy Union

Recommendations 2016	Justification
Subsidies	
Commit to a calendar to phase out all subsidies and tax exemptions benefitting to fossil energy by 2020, and to kerosene in particular.	Every year in France, more than EUR 20 billion is foregone due to fossil energy tax exemptions or related taxes. This is not efficient from an environmental (increasing GHG emissions) and economic perspective (as it supports importation of fossil energy and contains technology innovation). The sectors which are exempt (totally or partially) from energy taxes are also exempt from the carbon tax as the carbon component is included in the energy taxes.
Phase-out public support to local and regional airports.	High levels of subsidies to airports have negative effects on other less supported transport sectors such as rail. The French state and regions give generous subsidies to local airports that would not be profitable without them. As the Commission reviews its state aid rules, French public authorities should decide to phase out public support to airports very early. The new regional councils (France will merge 22 regions into 13 larger regions) have a new opportunity to rethink the use of public money used to pamper carbon intensive transport.
Taxation	
Progressively increase the diesel tax level to the level of the petrol tax rate.	The shortfall is almost EUR 6.9 billion for the under-taxation of diesel. The increase in diesel taxes will be coherent with health policies regarding cancer. It could also raise significant revenues for the deficit in the health care system. The French government has increased the tax on the litre of diesel by two cents, but the effect is very weak given the current decrease in oil price and the gap is still too wide. The budget law for 2016 establishes a 1cent/year increase on diesel fuel and a decrease of 1ct/year on petrol fuel to progressively close the gap within 5 years. However, the government itself announced that such measure will not be sufficient to close. A greater increase on diesel tax is needed. Moreover, decreasing the tax on petrol sends the wrong signal in the context of energy transition and is not necessary given the current decrease of the oil price.
Phase out the diesel tax rebate to lorries.	The tax rebate given to lorries costs EUR 350 million. Road transport should be less subsidized to enable the transition to energy efficiency. 85% of freight in France is on road, making it one of the most oil-dependent countries with regards to freight transport in Europe. *T&E (2015). Europe's tax deals for diesel.*
A new measure needs to be implemented to replace the "ecotax on lorries" to internalize the road transport externalities and find new	Five years after its adoption in the Grenelle law and after many delays, the French government decided not to implement such measure. This has resulted in a high cost for the public budget and a severe lack of resources for funding of transport, notably because of the breaking of the contract with Ecomouv. Externalities are still paid by the taxpayers

resources for transport funding.	and society as a whole. France should facilitate the implementation of the Eurovignette on all roads.
The tax rebate to taxis should be phased out.	Taxis are paying a diesel price which is below the EU legal minimum price. France risks penalties should it not increase the price.

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Energy Union

Recommendations 2016	Justification
Subsidies	
Reduce tax exemptions/reductions and environmentally harmful subsidies.	Tax exemptions/reductions and environmentally harmful subsidies distort competition for the benefit of fossil energy sources that in 2015 alone, amount to more than EUR 52 billion per year. *UBA (2014). Environmentally Harmful Subsidies In Germany.*
Reduce indirect and hidden subsidies for fossil energy sources.	While the costs of renewable energy are reflected in the EEG surcharge on private energy bills, direct and indirect subsidies for fossil fuel sources remain non-transparent (e.g. EUR 2.5 billion for coal in 2014), making the energy transition appear costly. *FÖS (2015). Was Strom wirklich kostet.* *FÖS (2013). Was die Energiewende wirklich kostet.* *FÖS (2010). Staatliche Förderungen der Stein- und Braunkohle im Zeitraum 1950–2008.*
Phase out exemptions and reduced tariffs for industry on energy consumption concerning electricity tax, EEG apportionment and network charges, amounting to revenue losses of approximately EUR 16 billion in 2014.	Defended by maintaining international competitiveness, these financial benefits of approximately EUR 16 billion in 2014 keep energy costs low for industry while the financial burden is on consumers and national budgets. For the industry, the fiscal incentive to improve energy efficiency is weakened. The laws are complex, costly in administration and inconsistent as they are not based on a uniform definition of energy intensive businesses exposed to international competition. *FÖS (2013). Ausnahmeregelungen für die Industrie bei Energie- und Strompreisen.* *FÖS (2013). Reform der Begünstigung der Industrie bei der EEG-Umlage.* *FÖS/DIW/Arepo/FAU (2013). Vorschlag für die zukünftige Ausgestaltung der Ausnahmen für die Industrie bei der EEG-Umlage.*
Taxation	
Reform company car taxation: the levy should be based on ecological effects and thereby reduce perverse incentives for higher car usage and more polluting vehicles. Tax deductibility	State creates a subsidy of about EUR 4.6 billion per year, undermining the effectiveness of environmental taxation. As only 40% of annual registrations of new vehicles are private cars, company cars that are sold after a short time on the used car market have significant influence on the total German car fleet. *FÖS (2012). Steuerliche Behandlung von Dienst- und Firmenwagen – Ökologische und soziale Fehlanreize beseitigen.*

of purchase and running costs must depend on increasingly strict CO2 emission standards per kilometre. Instead of taxing private use of company cars at a flat rate, the levy should be based on usage.	*FiFo, FÖS, Klinski, S. (2010).* [Steuerliche Behandlung von Firmenwagen – Analyse von Handlungsoptionen zur Novellierung.] *OECD (2014).* [Personal Tax Treatment of Company Cars and Commuting Expenses: Estimating the Fiscal and Environmental Costs.]
Phase out tax exemptions for aviation and improve the ticket tax.	Although aviation is the most environmentally harmful mode of transportation, it profits from immense tax breaks: international flights are exempted from the value added tax (VAT) and flight fuel is exempted from energy taxation. In Germany, these subsidies add up to approximately EUR 10.5 billion annually, while the total revenue of the ticket tax and the auction of CO2-certificates is less than EUR 1 billion. As these tax breaks cannot easily be abolished due to international treaties and there is no effective ETS, national ticket taxes are needed to lower these environmental harmful subsidies. *Universität Chemnitz (2013).* [Die Luftverkehrsteuer – Auswirkungen auf die Entwicklung des Luftverkehrs in Deutschland.]
Implement Pollution and Resource Taxes	Extraction of minerals for use as aggregates causes harm to the environment. An aggregates tax (e.g. on marble, chalk, sand, gravel) helps to reduce the environmental burden by increasing the price of raw materials, and so stimulates the market for recyclable materials. This ultimately reduces costs for businesses, but also is in-line with the flagship initiative 'A Resource Efficient Europe'. *Aarhus/Eunomia/IEEP (2015).* [Study on Environmental Fiscal Reform Potential in 14 EU Member States.]
Implement nitrogen tax on mineral fertilisers	A tax on the use of nitrogen in mineral fertilisers would support the prevention of groundwater contamination, ammonia evaporation, emissions of greenhouse gases and surface water eutrophication. *Aarhus/Eunomia/IEEP (2015).* [Study on Environmental Fiscal Reform Potential in 14 EU Member States.] *SRU (2015).* [Stickstoff: Lösungsstrategien für ein drängendes Umweltproblem.]

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Energy Union

Recommendations 2016	Justification
Prohibit without delay the use of lignite for household heating.	In 2013, 325 tons of lignite was sold to households in Hungary. This causes enormous air pollution, contributes to climate change, and at the same time lignite is a very inefficient energy source, especially in households.
Take immediate and serious measures against illegal burnings.	Burning of plastic and other waste in households is widespread in Hungary, causing enormous air pollution and contributing to climate change.
Review the impact of energy price regulation on incentives to invest and on competition in the electricity and gas markets. Take further steps to ensure the autonomy of the national regulator in establishing network tariffs and conditions. Take measures to increase energy efficiency in particular in the residential sector.	The forced reduction of the prices of energy and other utility services by the Hungarian government in 2013 and 2014 leads to more wasteful consumption and it increases social inequities (in absolute terms, the rich generally benefit much more from this measure than the poor). It also distorts the market, and makes business for energy production and distribution companies unprofitable. Social problems and possible excessive profits due to the natural monopoly of certain companies must be tackled by other means, not by artificial price reduction. The energy characteristics of buildings in Hungary is generally very poor, and the process of improving their energy efficiency is extremely slow.
Take measures to substantially reduce pollution from wood burning in households.	Due to high gas prices, many households switched to wood burning for heating. They often use improper wood (e.g. with high water content) and burn wood in obsolete stoves. This causes enormous air pollution and inefficient use of wood.

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ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Energy Efficiency</u>	
Promote energy efficiency of buildings through the adoption of a national scheme for municipal “building codes” including the adoption of high standards and the institution of national rotation funds for energy efficiency with easy access to private and public bodies.	The average age of buildings in Italy is elevated and buildings are responsible for about 50% of GHG emissions. Revised municipal rules could improve new building; for existing buildings the availability of financing is the main obstacle.

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Energy Union

Recommendations 2016	Justification
Investment	
Immediately develop a comprehensive framework and start taking concrete measures to meet the 2020 target for reducing greenhouse gas emissions from non-ETS activities. To reach this goal, improve energy efficiency, further develop renewable energy production and invest in de-carbonisation of the transport sector.	Progress in relation to improving energy efficiency, in particular the efficiency of the existing building stock, has slowed when it should be accelerated. Improving building energy efficiency would have multiple benefits in addition to reducing greenhouse gas emissions; such as improved housing conditions, securing long term return on investment, improve energy security and reduce energy imports. The development of renewable energy needs to be prioritised and increased. Ireland should open opportunities for household-level and other renewable energy micro-generation. Finally, Ireland's GHG targets for 2020 and beyond are not being effectively integrated into transport, agriculture, forestry and peatlands policy. A new approach to policy and planning consistent with long-term decarbonisation is urgently required.
Promote and adopt the 'Resource Efficient Europe' principles contained in Europe 2020, which can be advanced through the phasing out of environmentally harmful subsidies, adopting market-based instruments to affect behavioural change and upgrading and installing smart interconnected transport and energy infrastructure.	Resource efficiency is a cross-cutting principle which promotes the decoupling of our economic growth from resource and energy use, and as such, should be a vibrant factor in tax reform, job creation and business growth and development. Such market-based instruments to encourage investment in resource efficient businesses and technologies include removing tax incentives for peat-fired power plants, increasing the REFIT rate for anaerobic digesters to encourage the development of this renewable energy technology, adopting new economic instruments (including deposit/refund schemes) to enforce the polluter pays principle, encouraging waste prevention and recovering valuable resources, pursuing a more aggressive green procurement policy within all government departments, on both a national and local level, and finally creating a fund for waste prevention initiatives and new SME ventures using innovative solutions to reduce the use of raw materials, reusing/repairing products or recycling products into new commercial commodities. *Environmental Pillar (2012).* Greening the Economy and Creating Sustainable Employment. *ZeroWasteScotland (2014).* Funding.

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ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
Put in place additional measures to meet 2020 targets for non-ETS sectors	The European Commission has identified Luxembourg to be among the four countries who will not meet their 2020 targets on non-ETS sectors if no immediate actions are undertaken. *European Commission (2015a). Climate Action progress report COM(2015) 576 final, p.6.* *European Commission (2015b). State of the Energy Union, p.4.*

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Energy Union

Recommendations 2016	Justification
<u>Taxation</u> **Reconsider the proposed termination of the coal tax by 2016 (as arranged in the framework of 2013 the Energy Accord).**	The coal tax helps to better include negative effects of coal fuelled power generation in the electricity price. It therefore helps preparing better market conditions for renewable energy. The proportion of RES will climb from 5.6% in 2014 to almost 12% by 2020. The EU-target of 14% will thus not be met, although the Dutch target of 16% by 2023 is achievable. *Netherlands Environmental Assessment Agency (2015). National Energy Report.*
Start adjusting the energy tax tariffs for natural gas, electricity, mineral oils and coal to a more balanced – as regards type of fuel (coal, oil, gas) and type of activity (business, households, transport) - implicit taxation of carbon content.	The implicit CO2 tax rate on coal is substantially lower than the implicit tax rates on oil and natural gas. The implicit CO2 tax rate on natural gas and electricity of small-scale use (households, SME) is substantially higher than the rate on use in large-scale use. The implicit tax rate on gasoline is much higher than the tax rate on diesel. The Netherlands is probably missing its EU-target as regards the share of RES by 2020. Electricity production was less green in 2014 than it was in 2013, as the share of cheap coal increased, whilst the share of more expensive natural gas decreased. The share of RES in electricity generation in 2014 was with 10.11% about equal to the share in 2013 (10.05%), but lower than in 2012 (10.45%). *Netherlands Environmental Assessment Agency (2014). Environmental hazards and Green Growth.* *Greenpeace (2015). Ranglijst groene stroomleveranciers* *Compendium (2015). Hernieuwbare elektriciteit, 1990-2014.*

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Portugal

Energy Union

Recommendations 2016	Justification
<u>Subsidies</u>	
Cut down "guarantee subsidies" and "investment subsidies" for the electric utilities. The subsidy for large dams should be revoked entirely.	Current electrical power capacity in Portugal is well beyond demand; the coverage index stands now at over 1.3 and will increase to at least 1.5 if on-going and pending projects, namely the dam program, go ahead. The current energy mix only requires a coverage index about 1.1, and will require even less if linkage at the Pyrenees is improved. The more general "guarantee subsidies" should be reassessed based on actual system security needs; additional studies will be required to define the appropriate value, but based on past coverage indexes, it can be estimated that this expenditure should be downsized by about two thirds. Subsidies to large dams are harmful for the environment and local development, and are not a contractual obligation, so they should be dispensed.
Redefine the tariff system, decreasing the so called "general interest costs" (most of which are actually harmful subsidies) and the grid costs, if necessary increasing the power and energy terms of the equation.	Existing "general interest costs" are mostly harmful subsidies, e.g. to subsidize fossil fuel co-generation, conventional and biomass thermoelectric, and large dams. Grid costs should be based on service provided rather than investments. Grid costs are inflated because most of the grid has excess capacity, due to the twin trends of efficiency-related demand reduction, and the increase of decentralized production, which will happen even more with falling photovoltaic cost.
The electric car subsidies should be abandoned.	Although they are certainly a coming technology, electric cars are a luxury item at present price and performance levels. They are not expected to have a significant share of the market for at least the next 10–15 years. Regarding urban transportation, they are incomparably less cost-effective than public transportation. Therefore, these subsidies are a useless burden for the taxpayers.
<u>Investment</u>	
Create strong incentives for investments in energy efficiency, targeting industry, services and other business, and housing. Specific technologies deserving support are well known, e.g. housing insulation or electronic speed variators for industrial equipment. Incentives should be in the form of tax benefits (for families and	Economically feasible energy efficiency potential in Portugal is estimated at 20–30% of total consumption by field environmental audits and official targets. Major reasons for the lack of investment are high return periods and unavailable financing. A tax rebate of 25–30%, or an equivalent subsidy to banking interest rates, should increase investment and overall system efficiency, cutting return periods of investment from 5–6 years to 3–4 years.

institutions) or lower interest rates, rather than inefficient subsidies.

Financial stability of public transportation requires an altogether different approach:

- **a) Create unified mandatory tariffs for the metropolitan areas;**
- **b) Define mandatory service quality standards;**
- **c) Financial balance should be met chiefly by getting more revenue through better service and more customers.**
- **d) Operating costs should be balanced with operation revenues, reducing energy costs through better efficiency, higher occupation rates and gradual transition to electric traction;**
- **e) Investment costs should be mostly covered by dedicated state budget revenues, linked to the transportation system, e.g. carbon tax from auto fuels;**
- **f) Old debt incurred under orders from political leadership should be taken away from public transport companies and assumed by the State;**

Only when these conditions are met should the private concession of public transport service be contemplated.

In the past twenty years the share of public transport in the metropolitan area of Lisbon fell from 50% to 25%. Due to deregulation, at one point the number of types of tickets increased to 3,008.
The Government tried to cut costs by decreasing service standards while increasing tariffs. This tactic failed miserably, resulting in significant loss of customers and revenue, in a downward vicious cycle. Despite the economic crisis, the share of public transportation has not improved, due to a combination of low inter-modality, low reliability and increasing costs.
The cut on small ticket benefits for poorer people, like students and seniors, may also have contributed to school drop-off and increasing mortality rate amongst elder citizens (they go out less, socialize less, and have less money available for food and medicine).

Mandate full cost-effectiveness to be conducted and published, included or in parallel with strategic environmental assessment or environmental impact assessment as appropriate, for all major infrastructure projects. One key indicator should be the total cost for consumers/taxpayers.

Past investments and decisions in infrastructure such as highways, large dams, railway and others, have been systematically based on poor technical studies and inflated "predictions" of future demand. At least 40% of the current highway network and the whole large dam program are over-specified or plain useless.

Create a national transport plan whose backbone should be the ERTMS standard electric railway network, to be implemented in tiers. This network should link major cities, major ports (not all ports), international airports and major logistic platforms. It should be implemented in tiers with the goal of creating a robust network.
Notwithstanding the operational convenience to have lines dedicated preferably to passenger or freight traffic,

For decades to come, Portugal will have to operate two major rail networks: Iberian gauge and European (standard) gauge.
The ERTMS standard sets a lot more than the gauge: it defines traction, signals, communication and vehicle characteristics.
Clear priorities must be defined for the creation of new lines or refitting of old ones, because it will be impossible to do all at once. Those priorities must be based upon careful cost-benefit analysis, something hardly ever done in the past — certainly not under the so-called "strategic transport plan".

the new network should be planned as fully inter-operable under the ERTMS standard.
The last few remaining metric-gauge mountain rail tracks should be saved, both for touristic value and because they can be an important part of the rail system. The mountain track with most potential is the Tua line, currently threatened by the construction of the Foz Tua dam.

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Energy Union

Recommendations 2016	Justification
<u>**Investment**</u>	
Extend the use of cost-effective green infrastructures, in particular regarding flood management, in order to reduce the expenses related to flood protection.	Traditional measures to reduce the negative impacts of floods include constructing new, or reinforcing existing, flood defence infrastructure, such as dykes and dams. There are, however, alternative and potentially very cost-effective ways of achieving flood protection, which profit from nature's own capacity to absorb large quantities of excess waters: large scale floodplain restoration is such an alternative, and first lessons learned from field experience show that it is very cost effective. Such green infrastructure measures can play a major role in sustainable flood risk management: Win-win solutions should be the focus of flood risk management. *European Commission (2015). Towards better environmental options in flood risk management.* *European Commission (2011). Environmental Flood Risk Management.*
<u>**Energy Efficiency**</u>	
Improve energy efficiency as a first priority to enhance energy security. Energy efficiency of industrial operators and the housing sector require substantial investments.	Increasing energy efficiency in businesses is key to improving Romania's competitiveness and contributing to job creation, with particular potential in agriculture and food processing and through the promotion of eco-innovation in SMEs. Enhancing carbon sequestration, emission reduction and improvement of air quality through agro-forestry systems, forest planting and maintenance should also be promoted. An efficient use of energy in public and private housing is also essential to improve air quality and public health in urban areas. The energy intensity of GDP in Romania is much higher than the EU average and the second highest per capita in the EU, with a negative impact contributing to high greenhouse gas emission levels. Romania has reached its average 2011–2012 indicative trajectory for both the Renewable Energy Directive and the National Renewable Energy Action Plan, but limited progress is made so far in improving energy efficiency and further efforts are needed to develop policies across the relevant sectors (housing, public buildings and infrastructure, SMEs and the agricultural sector) and to implement them. *European Commission. Position of the Commission Services on the development of Partnership Agreement and programmes in ROMANIA for the period 2014–2020.* *European Environmental Agency (2013). Trends and projections.*

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ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Subsidies</u>	
Submit all subsidies for renewable energy sources to strict and binding sustainability criteria to prevent negative impacts on the environment, society and economy.	Especially in the case of bioenergy, it is important to set up and implement strict rules and sustainability conditions for state aid or any other public subsidies, whether from the State budget or the EU budget. Slovakia should rule out subsidies and state aid to energy sources and energy producers that do not present an added value to the transformation of the energy sector towards low carbon production methods. Only innovative projects with a clearly identifiable added value to the transformation of the energy sector should be subsidised or supported. This condition would prohibit subsidising fossil fuels and large scale centralised energy production.
Ensure real application of climate mainstreaming within the Cohesion Policy including introduction of sound and robust evaluation processes both within individual Operational Programmes as well as for the whole Partnership Agreement.	Although Slovakia fulfilled its climate mainstreaming goal formally without a clear evaluation process, it will be impossible to prove efficiency and impact of Cohesion and Structural Funds investments bound to climate action targets. Bound to climate action are measures that cannot be by any means automatically considered beneficial to decreasing carbon intensity of the economy, including transport infrastructure and energy producing installations.

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ENERGY UNION

RECOMMENDATIONS 2016	JUSTIFICATION
<u>Subsidies</u>	
Suppress exemption of navigation fuels (Ley 38/1992), including fuel used for fishing.	Suppressing environmental harmful subsidies and favouring most efficient transportation and fishing boats is important. If necessary to facilitate transition, support ecological transformation of these activities.
Reduce the existing refund rate in the fuel tax to diesel used in agriculture (Ley 38/1992).	If necessary to facilitate transition, support ecological transformation of these activities.
Reduce public subsidies to national coal and increase tax rates for the use of coal, regulated in Ley 38/1992.	Although there has been some progress, subsidies to the use of national coal are still excessive in Spain (EUR 636 MM in 2011). The proposal to suppress exemptions to the use of coal is also included in the report of the fiscal experts committee appointed by the Government (proposal 87, p. 323). *OECD (2013). España: Inventario sobre el apoyo presupuestario estimado y el gasto fiscal relativo a los combustibles fósiles.* *Comisión de expertos para la reforma del sistema tributario español (2014). Informe.*

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Energy Union

Recommendations 2016	Justification
<u>Subsidies</u>	
The UK government should reduce subsidies for the oil industry and for unconventional gas extraction, currently worth well over 1 billion GBP annually (EUR 1.3 billion), and foster the transition to a low-carbon economy through permitted support for and higher rates of investment in renewable energy.	Government spending on fossil fuels is not in line with the goals of the Europe 2020 strategy and undermines low-carbon investment. For facts and figures on fossil fuel subsidies in the UK see: *Scottish Greens (2014). Oil & Gas.* *OCI (2014).The Fossil Fuel Bailout: G20 Subsidies for Oil, Gas and Coal Exploration.*
'Make more use of the standard rate of VAT to raise revenue' was included in CSR 1 for the UK in 2014. In the light of this, the lower VAT rate on domestic energy should be re-examined and critically analysed with a view to reform. Revenues raised should be used for energy-efficiency measures and to protect vulnerable households from the impact of higher energy prices.	Reduced rates of VAT on domestic energy use have been estimated to cost the UK treasury the equivalent of 0.25% of GDP annually (OECD 2010). The UK has a 5% reduced rate of VAT for domestic energy (full-rated products are taxed at 17.5%). This tax relief creates false incentives for domestic consumers and undermines the value of energy efficiency investments for households. The reduced rate should be gradually phased out with due regard for potentially regressive impacts and protection measures for those most vulnerable to the impact of energy price rises. A comment on fuel poverty: Although energy prices are politicized in the UK, energy prices in the UK are comparatively low in comparison to the EU-15 (DECC 2014) – and while fuel poverty is a concern, the volume of revenues foregone is substantial. If a proportion of these revenues were targeted to protect those most vulnerable to energy price increases, a gradual increase in the VAT rate could generate revenues for targeted energy efficiency investments in inefficient housing stock while also generating substantial revenues for the exchequer.
Subsidies for renewable energy in the UK should be reviewed and reinstated to maintain a stable investment environment for low-carbon energy sources and to ensure that the UK meets the EU's legally binding targets to produce 30% of electricity from renewable energy sources by 2020.	A range of subsidies for renewable energy, such as feed-in tariffs and the renewables obligation, are set to be phased out in the UK from 2016. This will destabilise the investment climate in the country, slow the deployment of renewable energy and put the UK's achievement of its renewable energy targets in doubt. This is all the more concerning in view of the European Commission's concerns that the UK will miss its 2020 target to produce 30% of electricity from renewable energy sources.

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