From Challenge to Opportunity: Shadow Country Reports in Support of the European Semester Cycle
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December 2016
Introduction

Assessment of Country Reports

Belgium
Bulgaria
Croatia
Cyprus
Denmark
Estonia
Finland
Germany
Hungary
Italy
Ireland
Latvia
Lithuania
Luxembourg
Malta
The Netherlands
Poland
Portugal
Romania
Slovakia
Slovenia
Spain
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United Kingdom
Aligning macro-economic performance with an enhanced Sustainable Development agenda

The seventh cycle of the European Semester kicked off with the publication of the 2017 Annual Growth Survey (COM/2016/725) on 16 November 2016. 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 (European Commission, 2015b) and the Europe 2020 strategy (COM/2010/2020).

As environmental NGOs we have carried out an assessment of the 2016 European Semester Country Reports among our network of members and national experts for their country.

We used a traffic light approach to assess the analysis done by the European Commission with

GREEN: We fully agree with the analysis of the EU Commission

YELLOW: We partly agree with the EU Commission’s analysis and see scope for improvement

RED: We disagree with the EU Commission’s analysis. There is significant need for improvement

On the basis of this analysis, we’ve developed recommendations that would make the European Semester consistent with this trajectory to a sustainable economy and low-carbon society by stimulating investment, innovation and creating new jobs.

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.

Is the EU Semester fit for purpose?

2016 marked a turning point in the global policy agenda. The EU’s decision to fast-track the ratification of the Paris Agreement proved that member states and the EU Commission can work together and show international leadership. By helping to reach the threshold for entry into force, the EU and its member states commit to keeping temperature rises to “well below” 2°C and to pursuing efforts to limit increases to 1.5°C by cutting greenhouse gas emissions to net zero in the second half of the century.

The European Semester could be a game changer, encouraging Member States and the EU to develop more cost-effective transformative investment frameworks needed to make the EU “fit for Paris”, or in other words, to implement article 2 of the Paris Agreement and make “finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”.

Systemic risks of late action

In its report “Too late, too sudden: Transition to a low-carbon economy and systemic risk”, the European Systemic Risk Board (2016, p. 6) concludes that “in the absence of stable price signals and decisive global political commitment to limit climate change, a hard landing is more likely”.

The EU Semester needs to ensure a “soft landing”, i.e. a decisive transition towards a low-carbon economy with an overall positive effect on...
the economy. A timely investment in alternative energy, climate adaptation and infrastructure could stimulate innovation in new technology and increased energy efficiency, create new jobs and lower production costs.

In order to achieve this, national Environmental Fiscal Reforms 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 opportunity: Environmental Fiscal Reform

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.

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

The traditional growth model could not avoid the biggest economic and financial crisis of the EU since its existence. The adoption in September 2015 of “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.

However, the European Semester is currently not adequately monitoring Member States’ efforts to reach their existing environmental, climate and energy targets. The Country-Specific Recommendations of 2016 neglect to qualify efforts or propose concrete actions to address Member State shortcomings in relation to climate action, environment and energy.

The latter becomes important as the new Energy Union governance proposal (COM/2016/759) explicitly mentions that “where energy and climate specific policy issues have macroeconomic or structural reform relevance, they should still be part of the European Semester” (p. 4), and “Member States should ensure that integrated national energy and climate plans take into consideration the latest country-specific recommendations issued in the context of the European Semester” (p. 20).

We are concerned that the 2017 Annual Growth Survey (COM/2016/725), despite mentioning the link to the Energy Union, the Paris Agreement and circular economy, does not see environmental and climate policies as an important part of the solution to overcome the multiple crises outlined in the 2017 Annual Growth Survey.

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 consideration.
The European Semester should fully exploit fiscal space

EU Member States’ current fiscal systems are far from optimal. Labour taxes account for 51% of total tax revenue in the Eurozone Area (Eurostat, 2016). EU-28 taxes on environment declined from 6.8% in 2004 to 6.3% in 2014 (Eurostat, 2016c), because tax shifts have stagnated over the past 10 years. On average, the ratio between environmental and labour tax has even worsened. In 2000 revenues from labour taxes were on average about 6.2 times higher than revenues from environmental taxes, while in 2011 they were 8 times higher, clearly running against the EU’s commitment to enhance the “greening of the taxation systems” (see figure 1).

Figure 2: Breakdown of tax revenue by country and by main tax categories (percentage of GDP) 2015.


The reality - Less than 2% of tax revenue from environmental taxes in 2016

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 9.8% in October 2016 (Eurostat, 2016b) and the excessive average energy dependence of 53.2% of the EU-28 (Eurostat, 2015). However, when looking at the breakdown of tax revenue in percentage of GDP (figure 2), environmental taxes are not visible. They decreased in percentage of GDP over the last decade and remain a small source of tax revenues at around 2.5% of GDP (European Commission, 2015c).

Environmental taxes are doubly attractive because they are 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.
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 2017 Annual Growth Survey (AGS) does not see environmental and climate policies as an important part of the solution to overcome the multiple crises outlined in the 2017 AGS. 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, 2015a) found a group of around a third of member states where there is particular scope for improving the design of environmental taxes.

Investor certainty is crucial

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 and 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.

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, and 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 from meeting 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.

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

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” (COM/2015/81). 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.

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

The EU has repeatedly committed itself to the gradual phase-out of environmentally harmful subsidies, for instance in the Europe 2020 Strategy.

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2 For further information see our factsheets on Green tax shift boosts employment here, Environmental taxation without damaging competitiveness here, Environmental fiscal reform and social equity here, Communicating Green Own Resources: A New Narrative for the EU Budget here.
(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 have started to report on their environmentally harmful subsidies and national plans to phase them out as agreed in 2013.

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

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 the Semester supporting 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 drawing 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 of developing a deeper and fairer Economic and Monetary Union by making governance in this area more democratically legitimate and applying 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.

**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.

The Circular Economy package, presented on 2 December 2015 (COM/2015/614) 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.

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”, i.e. in the scoreboard of the Macroeconomic Imbalance Procedure, it will not bring us onto the path of sustainable development.

Huge opportunities for transforming our unsustainable economy seem to be missed. We therefore call on the EU and Member States to ensure:

- A higher share of environmental taxes in order to achieve at least the 10% of total revenues envisaged in the Europe 2020 strategy;
• A tax shift away from labour and onto resources and pollution at the national level;
• Reduced rates or exemptions on VAT for recycled products as well as reuse and repair activities;
• The mapping and phase-out of direct subsidies and tax breaks to products and services which hinder reuse, recycling and innovation, and
• The inclusion of legally binding targets for reuse, recycling, sharing, food waste, marine litter and resource efficiency. More ambitious indicators within the framework of the European Semester are also needed.

From recommendations to actions

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, and the next Multiannual Financial Framework;

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 to 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 the following aims 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 to 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, the Energy Union 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.

Sources


Assessment of Country Reports and Proposals for Country-Specific Recommendations

COUNTRY CHAPTERS
ENVIRONMENTAL TAXATION

Analysis:
Update of a new tax measure that was not included in the Commission’s country report yet: The national road pricing (kilometre charge) for heavy goods vehicles (GVW + 3.5 t), in effect since 1 April 2016.

Recommendations:
As road pricing is strictly a competence of the regional governments, a collaboration agreement was signed (in 2011) by the Flemish Region, the Walloon Region and the Brussels Capital Region.

The annual revenues of this levy is estimated at EUR 700 to 900 million (1), which is a significant increase on the revenues for environmentally related taxes in Belgium (around 10% (2)).

For passenger cars, the social and political support for road pricing turned out to be insufficient. However, in 2016, the heavily congested country reached new congestion heights, which has relaunched the public debate on road pricing for passenger vehicles. Given the need for a new collaboration agreement between the three regions, such a system is not to be expected in the first three years.

Sources:

Analysis:
Update of a new tax measure that was not included in the Commission’s country report yet: the “Increased Contribution Energy Fund”.

In the Flemish Region, in effect since March 1 2016.

Recommendations:
This new levy in Flanders is a response to the oversubsidisation of green certificates for photovoltaic solar panels and CHP in the period 2006–2014 (3).

The expected revenues are EUR 500 million annually when fully operational, which is a significant amount for Flemish environmentally related taxation. However, the greening effect of the measure is limited, because of the strongly degressive character. Most households pay 100 EUR/y which cannot be reduced by saving energy. Moreover, companies pay (per MWh) much less than households, and the largest consumer, the high-voltage segment, is exempt from the new levy.
Analysis:

Consumption is the main source of new tax revenues. First, excise duties on alcohol, tobacco, diesel and soft drinks will increase gradually between 2016 and 2018.

Recommendations:

The 2015 tax shift has an element of environmental tax reform (ETR). However, the greening element is so limited that it is more a missed opportunity than a real step forward. Four arguments can be given for this evaluation (4):

- The tax reform is limited to diesel taxation, while other energy products, such as heating oil and natural gas, remain taxed at a very low level;
- Excise duties on diesel will go up by 14 cent/l between 2015 and 2018, but this effect is partly counteracted by the fact that excise duties on petrol will decrease by 7.8 cent/l in the same period.
- The diesel excise taxation increase will not apply to the transport sector. The existing repayments for “professional diesel” will be extended to include the full excise tax increase from 2015–2018, which increases the environmental harmfulness of the existing repayment scheme, as the revenue forgone could rise from EUR 80 million euro in 2015 to over EUR 200 million by 2018.
- The opportunity to reform the harmful tax exemptions for company cars was not taken.

Sources:


Analysis:

A striking example is the favourable tax treatment of company cars and fuel cards.

Recommendations:

Belgium indeed has one of the most favourable tax treatments for company cars and fuel cards. However, as a result of the federal budget effort for 2017, the federal government decided to introduce a new levy on fuel cards, projected to raise EUR 100 million per year (5). This levy can be regarded as a decrease of the perverse subsidies for company cars, although it remains very favourable even after the introduction of this new levy.

Sources:


Analysis:

The reduced VAT rate of 6% on electricity, introduced in 2014, has been brought back to the standard rate of 21% since September 2015. This reduced rate had a high budgetary cost and was a harmful environmental incentive.

Recommendations:

The reduced VAT rate was a temporary measure that was planned to apply until the end of 2015. It was stopped earlier because of budgetary reasons. The measure significantly counteracted climate policy measures.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

No mention of an important exception for the diesel tax increase as part of the federal “tax shift”.

Recommendations:

The diesel excise taxation increase that is part of the “tax shift” (see higher) will not apply to the transport sector. The existing repayments for “professional diesel” will be extended to include the full excise tax increase from 2015–2018, which increases the environmental harmfulness of the existing repayment scheme, as the revenue forgone may rise from EUR 80 million euro in 2015 to over EUR 200 million by 2018. Moreover, these numbers may even turn out to be underestimations, as the repayment schemes are also open to foreign transport companies. Now that the repayment amounts are gaining importance, many foreign companies, also affected by the new road pricing scheme (see above), may start claiming repayments although they did not make the effort in the past.

Analysis:

Phasing out favourable tax treatment for company cars and fuel cards, by better reflecting the full value of the benefit and the negative external costs, could thus have multiple benefits. The additional tax revenues could be used to reduce the overall tax burden on labour. Alternatively, a mobility budget available to employees to use as they wished could remove some of the perverse incentives of the existing framework for company car taxation.

Recommendations:

Belgium still has an overly generous tax treatment for company cars and fuel cards. Moreover, leasing cars are out of the scope of recent (green) reforms of the car registration taxes (2012 and 2015) and the annual circulation tax (2016). As a result, the gap between the environmentally harmful tax treatment of the company cars and the increasingly environmentally-friendly tax treatment of all other vehicles is widening instead of shrinking. The only positive point is the newly announced 2017 levy on fuel cards (see above).
INVESTMENT

Analysis:

To meet its indicative primary and final energy consumption target by 2020, Belgium will have to take stronger measures.

Share of renewable energy in gross final energy consumption: 7.4% in 2012; 7.9% in 2013; 8.0% in 2014. Belgium has made good progress on developing renewables, exceeding the 2013/2014 interim targets. However, the distance to the target remains considerable. With a 4.9% share of renewables in transport in 2014, Belgium is halfway to achieving the binding 2020 target of 10% in transport.

Recommendations:

The investments in renewables and energy efficiency, especially in the sectors of housing, need to be accelerated.

The progress made until 2014 was partly due to the oversubsidisation of photovoltaic solar panels. After its (justified) removal, no clear strategy has replaced the subsidies. Moreover, in 2016, the subsidies for a couple of large-scale biomass power plants were reduced or even removed (6). Again, this decision may be justified for sustainability reasons, but the removal of the planned investments in renewable energy has not been replaced (yet) by a clear alternative. As a result, a strategy triggering additional investments in renewables is urgently needed.

Sources:


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ENVIRONMENTAL TAXATION

Analysis:

Bulgaria has taken measures to improve the functioning of the energy sector. Bulgaria has set up an Electricity System Security Fund to guarantee the financial stability of the system. The Fund is to be generated from sales of ETS allowances and contributions from power generators amounting to 5% of the monthly revenues of these companies.

Recommendations:

Indeed, the case represents an anti-environmental tax. The stabilisation of the National Electricity Company with a 5% tax from all electricity producers poses a huge financial and administrative burden on the small- and medium-scale RES.

The use of ETS money for the same purpose reduces options for the encouragement of climate-friendly investments as well.

Due to the derogations under the ETS directive (2003/87/ЕО) art. 10C, which Bulgaria was granted in 2011, the national investment action plan does not bring any changes to the conventional energy system. What’s more, Bulgarian energy operators have reported some measures and investments carried out under the derogation so far that have not changed the overall level of their emissions.

Sources:

(2) ICF Consulting Limited (2015). Assessment of climate change policies as part of the European Semester. Monthly Progress Update for the 28 Member States, page 5. Publication for DG CLIMA.
Analysis:

Bulgaria's resource productivity in 2014 – in terms of value produced per kg of resources used – was EUR 0.2912/kg, well below the EU average of EUR 1.9492/kg. Improving resource efficiency could stimulate investment, with both short-term and long-term benefits for the economy, the environment and employment.

Recommendations:

Bulgaria has to improve its legislation on public-private partnership and concessions in order to increase the possibilities for proper taxation of natural resources. Non-taxation binding measures for operators should also be promoted and included in the contracts for resource exploration and processing.

The campaigns on Sofia water concession, concession for the ski-resort at Pirin National park and on gold mining and cyanides provides examples for low taxation of the concessions on natural resources (raw materials and forestry). However, the discussions in Bulgarian media on the issue were focused mostly on the “fairness” of the taxes rather than on their economic meaning. The Bulgarian Parliament adopted a new Concession Law in June 2016 but only at first reading and therefore the heavily criticized old legislation (Public Private Partnership Act and the Concessions Act (old)) is still in force.
Environmental Harmful Subsidies

Analysis:

Bulgaria tops the EU negative chart when it comes to levels of energy poverty. At the same time Bulgaria subsidises the heating of 260,000 households on average annually with EUR 200 to help their heating bill. Usually people buy the cheapest fuels – coal and wood or inefficient electric heating, as 58% of the population heats with hard fuels and 40% use electricity compared to an 11% EU average (according to the latest census in the country). Some of those households are long term subscribers to those heating aids (5–10 years and more), which means that the energy poverty of these households is not being alleviated.

Recommendations:

Phase out the households’ heating subsidies and substitute them with a programme to improve energy efficiency and replace inefficient stoves with modern, clean-burning, highly efficient ones that use renewable sources such as dry wood, pellets, wood chips.

Sources:


Analysis:

Bulgaria has a significant energy-saving potential that can be achieved through the full and effective implementation of the energy efficiency legislation (Energy Efficiency Directive, Energy Performance of Buildings Directive, buildings codes, energy market rules). The most important challenges remain in energy renovation of multi-flat family buildings, the modernisation of the district heating networks and the energy intensity of industry and SMEs.

Recommendations:

Full and effective implementation of the energy efficiency legislation requires Bulgaria to reassess its energy pricing to include all externalities of fossil fuel and nuclear energy.

Sources:

Analysis:

In terms of progress in reaching its national targets under the Europe 2020 Strategy, Bulgaria already appears to be well ahead in reducing greenhouse gas emissions and increasing the share of renewable energy, and is progressing well in regard to energy efficiency.

Recommendations:

- EC should request Bulgaria to recalculate its RES data particularly regarding energy production from biomass.
- In the light of the above, EC should ask Bulgaria to envisage new measures for further encouragement of RES, and in particular small-scale RES.

Sources:

(6) Climatebg (2016). Complaint of the Climate Coalition to the EC regarding incorrect data used by the NSI and MoE in the National Reports for progress of RES. Publication from April 2016.
FURTHER COMMENTS

There is a significant discrepancy in the data for the official RES reporting periods. Both national RES reports (2011 and 2013) include data which cannot be explained by statistical error, nor with additional information received since they have been prepared. Thus, the First National Report (p. 43) indicates that for 2010 3,305 million m$^3$ of timber is produced and marketed, while in the Second National Report (p. 72) the figure amounts to 7,961,150 m$^3$ for 2012. The quantity is doubled artificially, increasing the share of the production of electricity/energy from biomass in order to obtain a greater share of production from RES in the final score.

Based on the incorrect data, the Second national RES report states that Bulgaria has already fulfilled its mandatory national target of 16% share of energy from renewable sources in gross final consumption of energy in 2012. As a result, pursuant to art. 18, para 2, the RES Act ceased promoting the production of electricity from renewable sources.

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ENVIRONMENTAL TAXATION

Analysis:

Although the report acknowledges that lack of investment in separate collection and recycling infrastructure is a crucial issue, it fails to identify that landfill tax should be introduced in order to divert waste from landfills. The landfill tax is already established in legislation but after 2.5 years it still hasn’t come into force.

According to the IEEP study, a fairly clear and linear correlation was observed between the total landfill charge and the percentage of municipal waste recycled and composted in the MS (1).

Recommendations:

The landfill tax should be put in force as soon as possible, as Croatia has difficulties reaching both the EU landfill directive and the Waste Framework directive. Currently, landfilling is cheaper than any other operation and this discourages local authorities from any significant improvement (although legally binding!). The recommendation is based on increasing tax rates for landflling to a level of EUR 50 per tonne where they are below this level (2).

Sources:

(2) Eunomia et al. (2016). Study on assessing the environmental fiscal reform potential for the EU28. Study prepared by Eunomia, Aarhus University, IEEP, Denkstatt, ENT. European Commission DG ENVI Publication.
INVESTMENT

Analysis:

A) A lack of investment in separate collection and recycling infrastructure is a crucial issue.

B) At the same time, despite a recent decline in prices and increase in efficiency of photovoltaic systems, the potential of this power source remains relatively unexploited in Croatia, in part due to an unadjusted policy framework featuring small quotas for solar power.

Recommendations:

A) Since 2016 Croatia stopped using national funds (from Fund for Environmental Protection and Energy efficiency) and shifted to investments through the EU cohesion and ERDF funds. However, since Croatia hasn’t met the ex-ante conditionalities in this sector, these funds are locked, and no serious investments have been made. Croatia should, in order to bridge the time gap, reopen national funds for financing recycling and separate collection infrastructure.

B) Indeed, Croatia has created certain self-lock-in situations with its regulatory policy frame. The only increase of quotas happened in September 2015 when new quotas were awarded, but only for the projects which, due to administration issues, received the contracts before the initial quotas were spent.

There is an urgent need for new energy strategy development which will consider new RES market demand, lower energy consumption and encourage technology advancement. The new strategy should also have a stronger vision towards 2030 and 2050, creating an energy-efficient, renewable energy-based economy in Croatia.

Sources:


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ENVIRONMENTAL TAXATION

Analysis:

Environmental tax revenues in Cyprus amounted to 3.1% of national GDP in 2014, compared to an EU average of 2.5%. This gives the impression that Cyprus fares quite well in terms of environmental taxes. However, environmental taxes contributed notably less to total tax revenues than some years ago (9% in 2014 compared to 12.3% in 2005) (1). (See also Country Report, p. 85.)

Recommendations:

Decarbonisation of the Cypriot economy is a very serious challenge for the coming 15 years. Although the 2020 greenhouse gas reduction and renewable energy penetration targets are likely to be met, this is primarily due to the economic downturn of 2013–2015. Emission reductions to which Cyprus has committed for 2030 are very difficult to achieve.

Furthermore, Cyprus almost entirely satisfies its energy needs with imported oil products. This leads to a great energy import dependency, which threatens the security of energy supply and entails large macroeconomic risks (Country Report, pp. 8–9, 37, 73).

Thus, stronger environmental taxation can play an extremely important role in enabling energy and greenhouse gas emission savings and reducing energy import dependency by encouraging energy efficiency improvements and renewable energy deployment.

Moreover, the country’s performance in resource efficiency is quite poor (Country Report, p. 74). There are currently no environmental taxes in Cyprus applying to the consumption of resources or pollutant emissions (2). Therefore, a gradual introduction of environmental taxes (especially related to water use, waste production, and use of fertilisers or pesticides) would induce behavioural change and lead to clear environmental improvements.

Sources:


(2) Eunomia et al. (2016). Study on assessing the environmental fiscal reform potential for the EU28. Study prepared by Eunomia, Aarhus University, IEEP, Denkstatt, ENT. European Commission DG ENVI Publication.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

As Cyprus does not have a local fossil fuel production industry, there is a relatively limited number of environmentally harmful subsidies. They mainly comprise:

- Lower excise taxes on automotive diesel compared to petrol;
- No excise taxes on fossil fuels used for power generation and in agriculture;
- No taxes on air transport;
- Irrigation water prices that are low and do not allow for full recovery of the cost of water supply.

It is estimated that these subsidies amount to around EUR 30–40 million per year, corresponding to around 5% of annual revenues from environmental taxes (3).

Recommendations:

As in other countries, some of the environmentally harmful subsidies mentioned above are difficult to remove because of political considerations. However, it should be possible to proceed gradually with the abolishment of some of them, namely by equalising the excise taxes on petrol and diesel fuel, and removing the preferential tax treatment of fuels used for power generation. This will discourage the use of diesel vehicles and help improve urban air quality, and level the playing field for renewable power generation.

Sources:

Analysis:

Cyprus is making progress towards its 2020 targets on reducing greenhouse gas emissions, increasing the share of renewable energy and improving energy efficiency (Country Report, pp. 73–75).

However, a part of this progress is not sustainable: the country will face serious challenges in meeting its 2030 greenhouse gas emission targets, especially for those sectors which are not subject to the EU Emissions Trading System.

Moreover, progress in energy efficiency is not impressive, and authorities find it difficult to encourage energy efficiency investments both in industry and in the broader buildings sector.

Resource efficiency is also below EU average (Country Report, p. 74), and substantial investments are needed in order to meet the EU’s circular economy objectives.

Recommendations:

Proper financial instruments should be employed in order to encourage energy efficiency investments in the residential, industrial and commercial sectors, thereby enabling refurbishment of buildings and substitution of outdated machinery and equipment. The current financial position of Cypriot banks, although clearly better since 2013, makes banks cautious in financing energy projects. Technical and financial assistance from development banks such as EIB and EBRD for the provision of appropriate instruments (e.g. “soft loans”, guarantees, support to ESCOs, etc.) is therefore necessary.

Green energy investments – particularly those related to efficiency improvements – are labour-intensive and can alleviate unemployment in the construction sector of Cyprus, which was particularly hit during the financial crisis of years 2013–2015.

National energy and environmental authorities need to develop a vision for the transition of Cyprus to a low-carbon and resource-efficient economy by 2050. Currently this vision is lacking, and the government merely attempts to comply with the country’s energy and environmental obligations of 2020 and 2030 (4). A more pro-active approach is needed, and the assistance of the European Commission’s Structural Reform Support Service can play a crucial positive role.

Sources:

ENIRONMENTAL TAXATION

Analysis:
No comment from the Commission on the outdated nature of the energy taxation system and delay in expected reform.

Recommendations:
The current energy taxation framework for Denmark is largely outdated and doesn’t support the medium- and long-term political goals of a transition to a decarbonised economy and a renewable-based, flexible and highly electrified energy system.

As part of the cross-party political agreement on energy in 2012, it was decided that an inter-ministerial working group led by the Ministry of Taxation should carry out a thorough and comprehensive review of the acquis to assess whether the existing energy taxation framework and subsidies for RE provide the right incentives to ensure a green transition of the Danish energy system. To date (4 years later), only part of the analysis has been conducted and published and although there seems to be agreement among external stakeholders that update of the framework is overdue, the remaining analysis (for example on electricity taxation) and development of the process at stakeholder and political level seems to have stalled.

Sources:

Analysis:
Per capita road transport emissions in Denmark are among the highest in the EU. This suggests that the structure of car taxation in Denmark [...] does not meet its environmental objectives. To counter the resulting disincentives to purchase newer and more efficient cars, car registration taxes have been lowered.

Recommendations:
While we agree about the high transport emissions being a very problematic issue and concur with the conclusion that the current car registration system is dysfunctional, we strongly disagree with the causality put forward by the Commission, both with regard to the design features and with reference to the recent change of tax. The primary reason for the current regime not delivering on the environmental performance is that it has remained static with regard to technological development when it comes to fuel efficiency improvements of new
passenger cars since 2007, when the system was introduced. The current tax system rewards car owners with an “environmental discount” for every km/l fuel their car performs (on paper) above a threshold of 16 km/l and 18 km/l for petrol and diesel cars respectively. For cars performing below the thresholds an extra charge to the registration tax is in place, but this is only ¼ of the value rewarded km/l, creating relatively weaker incentives to move away from the very fuel-inefficient cars. Because of the static nature of the thresholds and the rapid efficiency improvements in passenger cars (a dynamic further enhanced by unfortunate test cycle issues) in 2015 96% of newly registered diesel passenger cars are above the threshold. For newly registered petrol cars the share is 94% – it significantly weakens incentives for the environmentally best performing cars and has undermined government revenues as well.

The Commission points in their assessment to the recent changes in the registration, which were introduced in November 2015. It should be noted that this change was a reduction in registration tax specifically targeting the bigger and more expensive cars, and that this has in practice – according to the car retailers themselves; in combination with leasing options – resulted in growth in sales of the larger cars, SUVs, etc. Hence it seems inappropriate that the Commission present this change as an endeavour to align the taxation with environmental objectives.

It can further be noted that 2016 is set to be the year where the most cars ever will be sold in Denmark. This underlines the need for a rapid update of the system in a way that does not increase the total number of cars and reward state-of-the-art performance only.

Sources:

Analysis:
To incentivise the use of hydrogen or electric cars, a 52% increase in the diesel “countervailing charge” has been set, but trucks, buses and tractors are exempt.

Recommendation:
While it is factually correct that the charge – on average – was increased by the stated percentage, the link between low-emission vehicles and the countervailing charge should be slightly more carefully drafted. The charge was indeed increased to provide financing for exemptions on registration tax on EVs (which was then indirectly incentivised). But the link is not direct and the political agreement on introducing registration tax does not alter the countervailing charge. The direct argument for the countervailing tax on passenger cars has been to level out the difference in tax load on fuels for car owners, where diesel is taxed significantly lower than petrol – not least due to considerations on border trade/export issues. It should be noted in this regard that it seems as if the current design and level of the countervailing charge still gives the diesel car owner an indirect tax discount compared to petrol cars unless he/she has a very fuel-inefficient car (new registered diesel cars in DK have an official efficiency of 26km/l) or only drive short distances (new passenger cars drive in DK typically between 20,000-30,000 km/year) – see table in first source. Considering the adverse environmental effects of diesel in the form of local air pollution (particles + NOx) and some climate pollutants, this seems unfortunate from an environmental taxation point of view [could also be considered as “environmentally harmful subsidies”].

Also it should be noted that under current tax rules the different “transport fuels” have significantly different tax loads per unit of energy. The total amount of tax (excl. VAT) for diesel and petrol respectively is around 60% and 40% lower per energy unit than for electricity used for EVs. Exemptions for some types of EV charging have been in place and just got prolonged for another year (was to be abolish end of 2016) but even if continued, the uneven treatment of fuel types in the system underlines the need for an energy tax reform that takes into account new technologies and supports a green transition.

Source:
Analysis:

Steps have been taken to extend car registration taxes to hydrogen and electric cars to be phased in over a five-year period.

Recommendation:

While this is factually correct, it appears a bit unclear how the Commission assesses this development. Is it a positive step in terms of environmental taxation that Denmark has started taxing “zero emissions vehicles”?

With less than a year’s experience with the application of the new tax regimes for EVs, it is still too soon to draw any final conclusions on the long-term impact of this change. It could however be noted, that when calculating the impact of the new political agreement, it was assumed that 1,800 new EVs would be registered in 2016 and that sales would increase in the range of an extra 1,300–1,900 cars each year until 2020, when in total 8,300 new EVs were expected. However, when looking to the impact on the market so far, the development in sales figures shows a negative market reaction. Over the period January to September 2016 a total number of 672 new EVs were registered – in the same period 2015 the number was 2110 new EVs. While it was expected – and even politically intended – that a notable decrease in sales of the large and expensive EVs (Teslas) would occur, it seems to come as a surprise to the policy makers how dramatically the market as a whole reacted. This is in spite of the gradual phase-in of the system and the somewhat milder approach to the smaller/medium and cheaper EVs (i.e. a 2016/17 deduction in overall tax and the fact that the impact is relatively smaller on these models). This suggest that the psychological effect the adverse change had on the consumers was underestimated by the policy makers and the administration.

Sources:


Analysis:

Environmental tax revenues relative to GDP are the highest in the EU but there is room to better align their design with their environmental objectives.

Recommendations:

While this is correct, we note that the relative Danish ranking on environmental taxation differs if one looks to the share of environmental taxes as a part of total taxes, which for 2014 placed Denmark only at place number 12. Also it will be interesting to see if the Danish rankings will change as a result of the current government’s changes to legislation (in 2015 and 2016).

Source:


Analysis:

The Commission does not mention the Danish tax on pesticides, which seems to have triggered positive development although it’s too early to draw final conclusions.

Recommendations:

The tax was increased and reshaped in 2013 as the main instrument to achieve a goal of 40% reduction of the “pesticide load” in 2015 compared to 2011. This goal seems to have been fulfilled – thanks to the increased and reshaped pesticide tax. It is however still uncertain whether it is too early to conclude that the goal has been reached. The 40% goal was adopted by the previous government and was not changed/weakened by the present government.

It is worth noticing that the agriculture sector states it is too early to conclude whether the decrease in pesticide consumption will be permanent.

The pesticide tax was changed from being based on “Application frequency” to “Pesticide load”, meaning that now not only the amount of spraying will be assessed, but also the hazardousness of the single active ingredients. There is still a need to check that application frequency is also reduced though, because the pesticide load is based on incomplete knowledge and might turn out later to be misleading.

Sources:

Analysis:

Previous increases in the duty on the emission of nitrogen oxides have also been rolled back.

Recommendation:

We suggest that the Commission reviews this further. The massive reduction of the NOx-tax reduces the incentives to reduce NOx-emissions. In fact the technology is available for further reductions. The government’s motivation for the tax reduction stemmed from competitiveness problems of Danish companies. But this could have been solved by a model like the Swedish one with recycling of revenue for enhancement of cleaner technology.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

The commission does not mention the agricultural sector’s exemption from the diesel tax.

Recommendation:

The exemption reduces the incentive for energy conservation including the purchase of more efficient machinery. This leads to extra CO₂ emission and probably also extra air pollution. If the exemption was removed, food prices would increase slightly. It might also harm the competitiveness of Danish agriculture, but in this case it would be possible to recycle the revenue from a diesel tax on agriculture. Denmark had a system like this before 2002, where industry and agriculture paid energy taxes, but the revenue was recycled as subsidies for energy conservation initiatives. The diesel tax on agriculture is exceptionally low in Denmark – 50 oere (7 euro cent)/litre, compared to the normal diesel tax of 3.30 DKK (44 euro cent)/litre. Only Belgium and Romania have a lower tax on diesel for agriculture. Sweden has a tax on diesel for agriculture which is around half of the normal diesel tax.

The Commission should pay attention to the exemption of diesel tax for agriculture, as this is one of the clearest Danish examples of environmentally harmful indirect subsidies.

Sources:

(15) Professor Mikael Skov Andersen, University of Aarhus, E-mails from January 2013.

Analysis:

No comment from the Commission on adverse effects of exempting biomass of taxation.

Recommendation:

Attention should be drawn to the inter-technology dynamic created by the fact that biomass is the only energy source currently not subject to any energy (or CO₂) taxation. This creates an unfortunate situation where biomass is indirectly subsidised at the expense of other sustainable, efficient and systemically advantageous energy solutions – specifically heat pumps powered by renewable electricity. This is the case for individual heating as well as for more centralised production.

An additional argument against tax exemption on biomass for heating purposes is the need for prioritisation in such a way that the limited sustainable biomass resource is utilised in those places in the economy...
where it gives highest value and where it is most difficult to use alternative technologies.

A tax should be laid on biomass used for energy purposes to create a level playing field for heat pumps and avoid lock-in to installations and infrastructure for “low quality” biomass usage for many years to come. To avoid adverse effects in the competition with coal on the centralised production plants, the taxation on coal should be adjusted accordingly (in the absence of a sufficient ETS price for many years to come). As an alternative approach, it has been suggested to decrease the tax on electricity used for heating purposes.

Sources:

INVESTMENT

Analysis:

“Denmark has made progress regarding investment in climate-friendly technologies to support growth and employment”.

Recommendations:

We generally agree with the Commission that it is of paramount importance to bridge the “valley of death” between research and demonstration/commercialisation. Therefore, it is with great concern it should be noted that political commitment to funding for development and demonstration in the field of energy technologies programmes has been highly uncertain in recent years. This is despite high co-finance requirements for participating companies and evaluations highlighting the significance of this area. For the EUDP programme it has been evaluated that for every DKK put into the programme, participating companies have on average increased turnover by 2,5 DKK (1,7 DKK of which is in the form of exports).

Also, current developments seem out of line with Denmark joining the so-called “mission innovation” initiative in the context of COP21 in Paris 2015, where Denmark committed itself to delivering a 580 million DKK budget in 2020. After some negotiations back and forth it was decided, with the political agreement of Draft Budget 2017 of 18 November 2016, that the budget of the EUDP programme will be increased by DKK 130 million to 321 million for 2017, but this is still lower than previous years (except 2016, which was a record low) and also, as part of the same political agreement it was decided to scrap the so-called ForskEL program amounting to DKK 130 million, suggesting merely an accounting exercise masked as an increase in funding.

Sources:


Assessment of the construction sector

Analysis:
The number of foreign EU construction service providers established in Denmark is the third lowest of all Member States. This is evaluated to be a negative effect of high regulatory barriers.

Recommendations:
The Commission’s evaluation should take into consideration the size of Denmark, which makes it easy for foreign construction operators to operate from abroad. The Commission should further investigate the persistence of regulatory barriers in Denmark. In doing so the Commission needs to take into account the existence of trade unions and a regulated “arbejdsmarked” (labour market concept where agreement is reached on wages so that they are sufficiently high to provide construction workers adequate means for the relatively high cost of living in Denmark).

The Commission should also take into consideration the workforce skills needed to achieve the ambitious energy consumption and insulation targets (especially in the building sector, cf. EPBD).

Assessment of the construction sector

Analysis:
The Danish system requiring authorisation, e.g. by having a certified management system, is a barrier to foreign construction companies working in Denmark.

Recommendations:
The Commission should also look at the benefits of having high standards in the Danish construction sector, and thereby requiring authorisations etc., to document that the construction companies and the workforce have the skills needed to construct high quality state-of-the art buildings in Denmark. It could also be noticed by the Commission that the Danish definition of “nearly zero energy buildings” is the most ambitious in the EU, due to continuous strengthening of the national mandatory building codes.

To have such ambitious building codes – and to build according to future energy demands – requires a strong and well educated workforce. And it has a definite payback, since strong and ambitious requirements, and the possibility of knowing these requirements for the future, is a strong driver for very efficient Danish building components. On the one hand this helps the EU to implement stricter requirements and on the other hand it increases the competiveness of building components exporters.

The acceptance of this approach and a wish to build for the future, even if it requires more investment from building owners, is clearly documented by the fact that in 2015 more than half of all new buildings were constructed according to one of the two voluntary ambitious
building classes – better than the BR10, which was mandatory at that time.

Retail

Analysis:
The Danish retail establishment regulations are among the most restrictive in the EU. This limits the Danish retail sector in achieving economies of scale.

Recommendations:
Regulation of the size and location of very large retail stores in Denmark keeps Danish city centres alive, it allows Danish citizens without access to a car to do shopping, and it restrict the use of cars, thus reducing CO₂ emissions. Furthermore the restrictions allow relatively small communities to keep open their last retail store, making living in these areas much more socially attractive even for elderly people.

These huge benefits of not allowing big shopping centres, which can be seen in many Member States, should also be assessed as benefits to the smaller retail stores in Denmark.

Support for RES

Analysis:
Denmark generally supports the generation of electricity from wind turbines – but has reduced support for small wind turbines.

Recommendations:
With the current electricity prices in the Nordic area, no new electricity production can be built without support – at least without the EU having fixed the EU-ETS system by taking out about 3 billion tons of emissions allowances.

Denmark strives to shift the overall energy system to be based on renewables in the most cost-effective way possible. This implies supporting the cheapest production capacity, which at the moment is wind on shore. Small wind turbines (household turbines) are too costly and the reduction of subsidies in this respect can be seen as a reduction of over subsiding non-compatible micro scale wind power.

Recently two tenders for off-shore wind parks came out as very cost-effective, breaking the records for achieving the lowest cost per kWh hour produced from off-shore wind by several lengths.

If Denmark wants to be able to produce most of its electricity nationally there have to be subsidies involved, at least as long as externalities such as greenhouse gas emissions are not priced properly due to the ill-functioning EU ETS.
**Transmission capacities**

**Analysis:**
Good interconnection capacity – but signs of underinvestment in energy infrastructure.

**Recommendation:**
Grid connectivity, especially for electricity, is strong in Denmark. But there are problems. One of the problems is that even though Denmark is very well connected to Schleswig-Holstein, the connections do not continue all the way into Germany south of Hamburg. This reduces the value for the EU of the interconnections from Denmark, and reduces Danish (Nordic) electricity prices, thus also reducing the incentives for constructing new wind turbines in a very wind-intensive member state – and increases the need for subsidies due to the unnaturally low electricity prices.

The Commission should take several more things into consideration in this respect: one is the effect of poor grid connections in neighbouring countries on the Danish RES electricity production. The other is the aim to achieve more flexibility in the use of the electricity produced in Denmark, shifting transport fuels and heating fuels from fossil fuels to ever more RES-based electricity. Another is to improve the conversion of excess wind power into useable and easily stored forms of energy, such as hot water for the district heating sector.

The Commission might also take into account the enhancement of this effect in order to focus on the complementary national user side to establishing more international grid connections.

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**Overview table – 2020 climate and energy targets**

**Analysis:**
Denmark has to continue its current ambitious efforts regarding energy efficiency to keep its primary energy consumption at this level for the coming years to meet its 2020 targets.

**Recommendations:**
The Danish energy efficiency target and especially the central instrument to achieve energy savings, the Energy Companies Energy Savings Obligations, has come under pressure in Denmark in 2015 and 2016.

There is a risk that the Danish energy savings will not fulfil the requirements in the EED in the future because of political turbulence and lack of political will to keep pace.

The Danish EEO is based on voluntary agreements with 4 sectors, electricity, gas, district heating and domestic heating oil. The voluntary agreement leaves out about 17% of final energy supply – mainly biomass and oil products for industry. The four types of energy companies covered now refuse to cover the remaining 17%, leaving a gap. Furthermore, more and more of the efforts for savings in energy covered by the EEO is moved from final consumption savings to production saving.
by adding heat pumps and large solar heat plants in district heating as savings. This means that Denmark is very close to not being able to keep its obligation to save final energy according to the requirements in the EED. Furthermore it should be noted that the recent political agreement to scrap the so-called PSO-charge is expected to lead to an increase in electricity consumption, which will affect both the climate mitigation and EE efforts.

Sources:

Assessment of Competitiveness and exports

Analysis:
Denmark faces challenges in the area of external competitiveness.

Recommendations:
Due to the fact that Denmark has a high social welfare system with high wages – and high prices – Danish competitiveness is challenged all the time.

This implies that Denmark must always strive to improve products and goods by having a strong and well educated work force, to focus on creativeness, to have stable and trustworthy authorities and to be active in research and development, as well as setting strong and ambitious requirements nationally to incentivise Danish-based companies to improve their products, thus also making them ready for the export market.

We can call this Danish investment in the form of establishing a market-driven incentive for always doing better tomorrow than yesterday. This might be the best way of running society to maintain high social and welfare standards in a globalising world.

A survey some years ago stated that the countries with the most ambitious environment regulations were also the countries that were most positive for foreign investments.

It is currently a daily struggle for Denmark and the other Nordic countries to maintain both their social welfare system and industrial competitiveness. Nonetheless these countries consistently achieve high positions on the OECD lists of countries that are most beneficial to invest in.
**Assessment of Competitiveness and exports**

**Analysis:**

The geographical orientation of exports has contributed to losses in market shares.

**Recommendations:**

It is true that Denmark is dependent on the positive economic situation in neighbouring EU countries in particular. This is especially the case for technology exports – except for the export of wind turbines where Denmark is the hub for export of turbines on land and off-shore.

In order to import state-of-the-art products, the receiving country must be able to pay a higher up-front price – to harvest the long-term benefits of the better products. Such stable markets exist only in parts of the world and are focused in the EU.

For many years Danish export strategies have been tested in other parts of the world, but conditions tend to change in these areas, and the benefit of cheaper and lower quality products is valued more than quality and cost assessment.

It can further be noted that the Danish government is increasing efforts to enhance exports to focus countries (Germany, USA and UK) and cooperation with growing economies (China, Vietnam, South Africa and Mexico). Financing of such efforts was included in political agreement on the 2017 budget.

When assessing export potentials, scope should be broadened to the importance of interplay between strategic research and development funding (ref. point on investment), a strong political commitment and favourable home market conditions for green energy technologies and clean tech. We express concerns regarding current political commitments, despite current competitive advantages and exports achieved. We fear that lack of political commitment to strategic research funding and enabling national political frameworks will put Denmark’s current position as No. 1 in the EU at risk, and jeopardise opportunities for exports of green technologies to growing economies.

**Sources:**


Overview table – 2020 climate and energy targets

Analysis:
Denmark is on track to meet its 3% R&D target, its GHG reduction target in 2020, its non-ETS reduction target in 2014, its 30% RES target in 2020, its 10% RES target in transport and its 2020 EE target.

Recommendation:
We suggest that the Commission take a closer look at the current and future perspectives, since Denmark, since its change of government in 2015, has taken a rather different approach (not being as ambitious as before) – for example several ambitious national targets have been scrapped (coal phase out + target on 100% RE in heating and electricity sectors) or called into question (40% CO₂ reduction by 2020). With the recent change in government a new objective of 50% RE in 2030 has been introduced, but there is still risk that achievements up to 2014 will not be maintained or continued. Several specific policy actions taken by the current Danish government have also made it harder for Denmark to reach the future EU-2030 targets for the non-ETS sectors like transport. Nothing has been done to lower CO₂ emissions from the transport sector; on the contrary, several political initiatives have been taken that increase the CO₂ emissions from this sector, e.g. lowering taxes on ICE cars while raising taxes on EVs.

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ENVIRONMENTAL TAXATION

Analysis:
The Commission’s analysis and recommendations do not address environmental taxation in Estonia. On 16.06.2016, acting on a proposal of the Government, the Estonian Parliament adopted changes to the Environmental Charges Act lowering the charges for the use of shale oil (from 1.57 EUR/t to 0.27 EUR/t) and peat for energy production starting from 01.07.2015, creating beneficial conditions in the electricity market for fossil-fuel producers. Since 2006 electricity producers are exempted from paying the CO₂ emission fee.

The Estonian car fleet is among the oldest and most energy inefficient in the EU 27. Estonia is one of two MS not applying differentiated purchase or registry taxes on cars based on their efficiency and emission levels.

Recommendations:
- Abolish exemptions for paying reduced environmental use fees granted to the companies mining and using shale oil, and apply CO₂ emission fee to all emitters without exemptions.
- Encourage use of low-emission cars by introducing differentiated vehicle purchase and/or registry tax.

Sources:
INVESTMENT

Analysis:

Estonia has the highest gender pay gap in the EU, at 28.3% in 2014. This creates a risk of not making full use of the potential of women. The gender pay gap is attributed, among other factors, to occupational and sectoral gender segregation in the labour market. In Estonia, access to public services is not guaranteed in all municipalities and the local provision of quality services in areas such as transport, education, long-term care for the elderly and other social services at local level remains a challenge. Business research and technology investment decreased to 0.6% of GDP in 2014 and Estonia is unlikely to reach its 3% of GDP research, development and innovation target in 2020.

Recommendations:

- Ensure the provision and accessibility of high quality public services, especially social services, at local level, inter alia by adopting and implementing the proposed local government reform. Adopt and implement measures to narrow the gender pay gap, including those foreseen in the Welfare Plan.
- Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.

Sources:

FURTHER COMMENTS

The Commission’s analysis does not address at all the fact that there has not been any progress in recent years addressing GHG emissions from the transport sector despite specific CSR recommendations in the past.

Recent decisions of the Estonian government have locked the Estonian energy sector into the use of shale oil until 2030, thus undermining the EU energy and climate policy goals.

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ENIRONMENTAL TAXATION

Analysis:

Tax base and revenues from the environmental taxes

The total revenue from environmental taxes in 2014 was EUR 6.0 billion, which was 1.3 per cent higher than in 2013. The share of environmental taxes of Finland’s entire tax revenue is around seven per cent, and it has been fluctuating below and above seven per cent for the last 20 years. However, the share has been slightly higher than the average for EU countries (1, 2).

Environmental taxes in Finland are made up of energy taxes, transport taxes, emission taxes and resource taxes. Energy taxes represent the majority, about two-thirds, of environmental tax revenues. One-third of environmental taxes are transport taxes levied from different kinds of vehicles. The other environmental taxes have a minor role from a fiscal point of view. The only emission tax is waste tax, as taxes paid on carbon dioxide emissions are included in the energy taxes. Licence fees for hunting and fishing are the only resource taxes in Finland at the moment (1).

The amount of environmental taxes grew in particular in the industries of manufacturing and energy supply. The growth is explained by the auction of emission allowances being recorded as part of energy taxes for the first time in 2014. This raised, in particular, the environmental taxes paid by the energy supply industry, and they amounted to EUR 104 million in 2014 (1).

In water supply, sewerage and waste management, environmental taxes paid decreased by around eight per cent due to a drop in the accrual of waste tax. Waste tax is paid on waste deposited at landfills, the amount of which has declined as combustion of waste has become more commonplace (1).

Tax policy and policy objectives related to it

The Prime Minister Sipilä’s government’s objective is to bring the Finnish economy onto a path of sustainable growth and rising employment, and to secure the funding of public services and social security (3). In addition to the employment, economic and environmental policy goals, one important objective of the Finnish Government is the promotion of the circular economy together with energy and climate policy goals, like the intention of becoming a carbon-free society by 2050. The new National Energy and Climate Strategy, Energy and Climate Roadmap 2050, will be adopted at the Government plenary session on 24 November. The strategy will specify concrete actions that will enable Finland to achieve the EU energy and climate objectives by 2030. The main objective is to lead Finland towards a coal-free, clean and renewable energy-based society by 2050 (5, 6). This ambitious objective of cutting CO₂ emissions
needs to be supported by all appropriate policy instruments, like taxation.

Tax policy has an important role in achieving all these policy objectives in the Government Programme and other documents. According to the Government Programme (3) the total tax rate will not rise during the government term and labour taxes will be relieved to support work and employment. This tax relief will be funded by increasing excise duties on environmentally harmful and unhealthy consumption patterns, and on some specific products. Thus, according to the Government programme, the focus of taxation will be shifted from taxation on labour and business to excise duties, and partly to environmental taxes. The package consists of, among others, the following measures related to environmental taxation and policy objectives:

- The waste tax will be increased. However, the incineration of waste will not be subject to the tax.
- The motor vehicle tax will be tightened, but the car tax (according to the CO₂ emissions) will be lowered in favour of low-emission cars.
- The CO₂ component of tax on fuels used for heating and by working machines will be increased.
- Combined production of electricity and heat will be steered towards lower emission.
- The removal in stages of the CO₂ tax reduction.
- An annual tax will be imposed on registered boats and motor vehicles.
- A heavy transport road use fee (vignette) will be introduced. The cost will be compensated for commercial transport in accordance with the EU maximum (3).

In addition, in the National Roadmap to Circular Economy (7) the shift from labour taxes to environmental taxes together with other economic instruments are defined as important policy instruments to promote a sustainable circular economy. The resource taxes and a tax shift have been identified as a necessary policy instrument also in a report by the Government’s analysis, assessment and research activities, Circular economy in Finland – operational environment, policy instruments and modelled impacts by 2030 (8). The role of economic instruments in promoting circular economy has been underlined in a report published by the Confederation of Finnish Industries as well (9).

Nevertheless, at the moment the current taxation and other policy instruments are working against many of these policy objectives, e.g. the circular economy policy, and energy and climate policy objectives. For example, the energy taxation and its reductions are favouring energy-intensive industry instead of circular economy and service-based industry (10). See also environmentally harmful subsidies section below.

According to the Draft State Budget 2017 (4) there will be a shift from labour taxes to environmental taxes, especially to emission and other environmentally motivated taxes. The labour taxes will be decreased by EUR 415 million. The energy taxes on fuels used in transport and for heating, power plants, and by working machines will be increased. The motor vehicle tax will be increased, but the car tax according to CO₂
emissions will be relieved. A new tax base, an annual tax on registered boats and motor vehicles, will be imposed. (4).

To summarise, the Government of Finland has committed to a tax shift from labour, at least partly, to environmental taxation. There are several policy objectives and reasons why the tax shift, together with increased use of environmental taxation and other economic instruments, is necessary. These reasons are, among others, climate change policy, a carbon-neutral society, nutrient recycling and other circular economy policy goals. One way to achieve all these is the implementation of a green fiscal reform. According to the study published by the EU COM (11), Study on assessing the environmental fiscal reform potential for the EU28, there is a high potential to raise revenue and secure environmental benefits by implementing an environmental tax reform in Finland. In the report many new tax bases and amendments to existing taxes were made (11).

**Recommendations:**

Shifting the taxation from labour towards environmental taxation would promote environmental policy, carbon-free society and circular economy goals. Gradually increasing taxes on natural resources is necessary to promote resource-efficient use of natural resources, to shift the use from scarce resources to sustainable use of renewable resources, and from products to a service-based economy. In addition, the environmentally harmful subsidies are at the moment hindering many environmental and circular economy policy goals. The removal of them would be important together with the implementation of a socially inclusive green fiscal reform. The total tax ratio is already quite high in Finland, thus a revenue-neutral green fiscal reform would be an appropriate choice as a fiscal policy. The green fiscal reform could include, e.g.:

- A tax shift from labour taxes to taxes on resources and pollution;
- Increasing the share of environmental taxes in order to achieve at least 10% of total revenues.
- Implementing new environmental taxes e.g.: tax on aggregates and other resources, tax on mineral fertilizers, waste water charge according to its contaminants and passenger aviation tax.
- Removing subsidies and tax reliefs to environmentally harmful products and services which hinder reuse, recycling and innovation.

**Sources:**


ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:
There are many environmentally harmful subsidies (EHS) in Finland. These EHS are working against the commitments and intentions of Finland, e.g. the greenhouse gas emissions, biodiversity, and circular economy goals and the fiscal needs of the state budget, together with the intention of becoming a carbon-free society by 2050.

According to the report by the Ministry of Environment (2013, source 1, 2 and 3), most of these EHS are tax subsidies, and they exist mainly in the energy, transport and agricultural sectors.

Energy sector
In 2014, the greenhouse gas emissions produced by the energy sector (together with fuels used in transportation) accounted for 76% of Finland’s total greenhouse gas emissions (Tilastokeskus, Statistics Finland, source 4). The total amount of GHG emissions reduced 5% from the previous year, 2013, and they reduced by 16% altogether from 1990. Finland is on track to reach its Europe 2020 targets to reduce GHG emissions. In addition, a new National Energy and Climate Strategy, Energy and Climate Roadmap 2050, will be adopted at the Government plenary session on 24 November. The strategy will specify concrete actions that will enable Finland to achieve the EU energy and climate objectives by 2030. The main objective is to lead Finland towards a coal-free, clean and renewable energy-based society by 2050 (2016, source 5). In order to achieve these targets, there is an evident need for phasing out subsidies for fossil fuels, which still exist – and whose use have actually been increased (source further below). The most significant EHS in the energy sectors are:
- The reduced electricity tax rate for industry and greenhouse production (EUR 400 million estimated in 2013 report). Machine rooms were also included in the scope of the reduced electricity tax rate in 2014.
- The reduced tax rate on peat (EUR 86 million in the year 2015, source 6). This tax relief has the most detrimental effects to the biodiversity in Finland according the report by the Ministry of the Environment (2015, source 6).
- The tax relief of energy tax for energy intensive industries (EUR 205 million in the year 2015, Ministry of Finance, source 7).

Transport sector
According to the report by the Ministry of the Environment (2013, source 1), the transport sector accounts for more than half of the emissions into the air regulated by directives and for approximately 20% of greenhouse gas emissions. The most significant subsidies in the transport sector are (estimations of the values made in 2013):
- a tax rate on diesel fuel lower than the normal rate (EUR 505 million);
- a tax rate on light fuel oil lower than the normal rate for machinery (EUR 409 million);
- a mileage allowance (the amount of excess compensation) (EUR 170 million); and
- the commuting cost deduction (EUR 630 million).

The total amount of the EHS is about EUR 1.8 billion (estimated in 2013, source 1). In addition, company car and parking benefits are significant incentives (administrative support) for private car use. The estimated amount of the company car benefit is EUR 300–800 million. (source 1)

**Agriculture sector**

In Finland, agriculture is the largest single contributor to nutrient loads on lakes, rivers and the Baltic Sea. It accounts for approximately 55% of the total nitrogen load and for 65% of the total phosphorus load on water bodies. In addition, agriculture affects biodiversity. According to the report by the Ministry of the Environment (2013, source 1), in the agricultural sector, the amount of the EHS is more than EUR 1.1 billion. The most significant of these subsidies are:

- national support for agriculture and horticulture (EUR 559 million);
- natural handicap payments (LFA) (EUR 422 million); and
- structural assistance for agriculture (EUR 96 million) (2013, source 1)

The total amount of EHS in Finland was estimated to be up to EUR 3–4 billion annually (estimated in 2013, source 1). In addition, in recent years there have been some changes in legislation, which – on the contrary – have increased the scope and money spent on EHS rather than decreased it. These changes have been:

- The widening of the scope for the relief of energy tax for the energy-intensive industry in 2012. Now the relief covers many more companies, and the amount spent was increased from EUR 10 million to 205 million in 2015. However, according to a study made by the VATT (governmental) Institute for Economic Research, this tax relief does not have any effect on the international competitiveness of the energy-intensive industries. Thus, the tax relief has no positive effects, though this was its intention. On the other hand, it has serious environmentally harmful effects, and it prevents climate policy goals from being achieved. In summary, the government spends EUR 200 million per year to no positive effect, only negative ones (2016, source 8).

- The widening of the scope of the reduced electricity tax rate, when machine rooms were also included in the reduced tax rate in 2014, in addition to industry and greenhouse production.

The reduction of EHS has gained attention in recent years in Finland. In the Programme of Prime Minister Jyrki Katainen’s Government (2011, source 8), the re-allocation of environmentally harmful subsidies was mentioned to support a wider objective of promoting ecologically sustainable growth and employment. According to the programme, the cutting of harmful subsidies would encourage investment in low-emission, resource-efficient production methods and modes of transport, and promote structural change in the society. It was partly because of the government programme that EHS have been investigated by the Ministry of the Environment in the recent years. In addition, there are fiscal policy reasons to reduce the harmful subsidies.
In Finland, the main environmental and development NGOs have pressed for EHS to be removed, and pointed out the detrimental effects EHS have in environment. They emphasised in particular subsidies for fossil fuels and their harmful effect on climate change (2015, source 9).

There is also research evaluating the overall costs and effects of some of the subsidies. According to a study made by the VATT (governmental) Institute for Economic Research, the energy tax relief for energy-intensive industry does not have any positive effects on the international competitiveness of energy-intensive industries. Thus, the tax relief has no positive effects, though this was its intention, and in particular the widening of the scope of the relief. On the other hand, it has serious environmentally harmful effects, and prevents climate policy goals being achieved. To summarise, the government spends EUR 200 million a year to no positive effect, and achieves only environmentally negative ones (2016, source 10).

**Recommendations:**

Environmentally harmful subsidies are working severely against the attainment of many environmental commitments and other intentions in Finland. They are supporting the old fossil fuel-based and linear economy, and thus preventing the transition towards a circular economy. In addition, the Finnish government has intentions to gradually remove or re-allocate them, but there is a lack of clear commitment, priorities for taking action, and an action plan with a schedule. Therefore, there is a need for:

- A clear commitment at high policy level to the phasing out of these environmentally – and also for the circular economy – harmful subsidies.

- A systematic action plan and/or a roadmap with a schedule on how these EHS will be phased out in the next ten years.

- A communication project to increase the transparency of subsidies and its overall costs to society. In order to gain acceptability in public, political and business spheres for the phasing out of EHS, it would be useful to point out the alternative ways of using the money spent on EHS, and the benefits of this change. This trade-off could be cast as part of a green budget reform, and its benefits for the environment and also for the circular economy-based production and services pointed out.

- A monitoring system to assess the progress of the phasing out and its affects.

- Co-operation with other EU-member states and a clear signal from the EU to phase out subsidies for fossil fuels at least.

**Sources:**


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ENVIRONMENTAL TAXATION

Analysis:

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%) and the higher levels of local air pollutants it generates (2). In fact, the effective tax rate on gasoline (expressed per unit of energy) is 1.5 times higher than the diesel tax rate (3).

This tax structure leads to annual revenue losses of about EUR 7.8 billion and also induces a higher diesel share in the car fleet.

Additionally, Germany has not adjusted its fuel tax rates since 2003. Due to inflation, the real value of the rates — and hence fuel tax revenues — are decreasing in real terms every year (4)(5).

Recommendations:

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.

Sources:

Analysis:
The “Kernbrennstoffsteuer”, a nuclear fuel tax in Germany, expires by the end of 2016. It was introduced in 2011 in order to make operators of nuclear power plants contribute to the social costs of nuclear power generation and to even out windfall profits from the EU-ETS. In recent years the tax generated revenues of around EUR 1 to 1.6 billion per year (6).

Recommendations:
Continue the tax until the nuclear phase-out is completed in 2022.

Sources:

Analysis:
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”.

Recommendations:
Implement Pollution and Resource Taxes.

Sources:
Analysis:
The level of environmental taxes in Germany is already relatively low and decreasing: the share of environmental taxes in total revenues from taxes and social contributions fell from 6.5% in 2003 to 4.6% in 2016, and is projected to decrease to less than 4% in 2020 (10). Even when accounting for the EEG-surcharge (which technically is not a tax), the share of environmental taxes stays well below 10% (ibid). A share of 10% is the objective of the flagship initiative for a resource-efficient Europe under the Europe 2020 strategy.

Recommendations:
Shift the tax burden from labour to environmentally harmful activities and resource consumption, aiming for an environmental tax share of 10% in 2020. Green taxation helps to achieve environmental goals cost-effectively and may additionally raise significant revenue 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.

Sources:
(10) FÖS (2016). Die Finanzierung Deutschlands über Steuern auf Arbeit, Kapital und Umweltverschmutzung. The role of labour, capital and environmental tax in financing the German budget. Background paper by Green Budget Germany. In German.

Analysis:
A reduced VAT tax rate reduces the gross price that customers have to pay. This may distort price competition between products. In some cases, environmentally harmful products are treated preferentially. For example, animal products like meat and milk benefit from a reduced tax rate (7%) while competing alternative products like soy milk are taxed at the standard rate (19%). Another example is the exemption of international airline tickets.

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

It has to be considered though that many VAT reductions have been implemented in order to relieve low-income households.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

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 10.4 billion annually (13), 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.

Recommendations:

Phase out tax exemptions for aviation and improve the ticket tax.

Sources:

(12) Universität Chemnitz (2013). Die Luftverkehrsteuer – Auswirkungen auf die Entwicklung des Luftverkehrs in Deutschland. Aviation tax – Implications for the German air traffic. Report by the Technical University Chemnitz. In German.

Analysis:

Environmentally harmful subsidies have been extended: a "coal reserve" will pay brown coal plant operators EUR 1.61 billion to shut down 2.7 gigawatts of capacity, while keeping them on standby for emergencies. Companies are now getting money rather than paying for high emissions. Germany has just three years left to achieve its goal of cutting emissions by 40 percent from 1990 levels, as pledged. Analyses show it cannot do so without extra efforts (14).

Recommendations:

Phase out electricity generation from coal-fired power plants, grant no extra subsidies to this CO₂-intensive technology.

Sources:

Environmentally harmful tax expenditure persists, such as energy tax reductions, exemptions for businesses, the favourable tax treatment of diesel relative to petrol, and the favourable taxation of company cars.

Some of these important subsidies are not included in the German official government subsidy report. Since 2015, the report contains an evaluation whether the measures are “sustainable” – but the sustainability evaluation is not comprehensive and does not give information about harmful effects.

**Recommendations:**

Reduce tax exemptions/reductions and environmentally harmful subsidies. They distort competition for the benefit of fossil energy sources, which, in 2015 alone, amount to more than EUR 52 billion per year (15).

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 (15). Defended on the grounds that they maintain international competitiveness, these financial benefits of approximately EUR 16 billion in 2014 keep energy costs low for industry while the financial burden is carried by consumers and national budgets. For industry, the fiscal incentive to improve energy efficiency is weakened. The legal rules are complex, costly in administration and inconsistent as they are not based on a uniform definition of energy-intensive businesses exposed to international competition (17), (18).

Reform the commuting allowances and decrease its environmentally harmful impact. Use higher tax revenues to improve public transport (15).

The German official government report on subsidies should be extended to further subsidies. The evaluation of different sustainability indicators should be comprehensive and give information why and in which way subsidies might harm the environment (19).

**Sources:**


(16) FÖS (2013). Ausnahmeregelungen für die Industrie bei Energie- und Strompreisen. Regulation on energy and electricity price exemptions for German industry. Green Budget Germany Background paper for the German Green Party. In German.

(17) FÖS (2013). Reform der Begünstigung der Industrie bei der EEG-Umlage. Reforming the preferential treatment of industry under the energy feed-in tariff. Green Budget Germany Background paper. In German.


assessment of subsidies must not remain merely symbolic. Press Release of Green Budget Europe. In German.

Analysis:

Company car taxation in Germany encourages high car usage and favours large, more polluting vehicles. The environmentally harmful subsidy of EUR 2.4 to 6.3 billion per year (20), (23) undermines the effectiveness of environmental taxation. In 2015, 66% of new passenger car registrations were commercial. Company cars on average emit more CO₂ than private cars (21). Since they are usually sold after a short period of time on the used car market, they significantly influence the composition of the German car fleet. Additionally, the subsidy favours high-income households. People without a job (e.g. the unemployed, students, pensioners) do not benefit.

Recommendations:

Company car taxation should be based on ecological effects and thereby reduce perverse incentives for higher car usage and more polluting vehicles. Tax deductibility 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.

Sources:


FURTHER COMMENTS

Analysis:

Contrary to what is stated in the Country Report, Germany is at risk of not achieving its GHG reduction target. Germany has just three years left to achieve its goal of cutting emissions by 40 percent from 1990 levels, as pledged. Analyses show it cannot do so without extra efforts (14).

Recommendations:

Implement further policy measures to reach the GHG reduction target, such as reducing environmentally harmful subsidies, implementing a stable pricing signal and reforming environmental taxation.

Sources:

ENVIROMENTALLY HARMFUL SUBSIDIES

Analysis:

The Funds will contribute to the Europe 2020 objectives, and focus on priorities and challenges identified in recent years in the context of the European Semester and under the Europe 2020 strategy. [...] The stability of the implementation system of European Structural and Investment Funds' management improved in 2015 and resulted in an increased absorption of funds. However, limited transparency of decision-making processes impedes assessing the effectiveness of the delivery system.

Recommendations:

Substantially modify the use of EU funds as soon as possible: use public funds only for public goods, and not to subsidise market distortions. Use most of the EU funds for the development of human resources.

Justification: 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 (1). Inappropriate rules concerning the use of EU money, coupled with weak or non-existent enforcement of the EU acquis and national commitments, lead to the result that EU money in Hungary is reducing the country’s economic competitiveness, increasing social inequalities, worsening the environment and undermining democracy – thus working against the Europe 2020 targets (2). In order to change this situation, a radical reform of EU funding is necessary (3).

Sources:

(3) Ibid., pp. 9-14.

Analysis:

The survey recommends three priorities for the EU's economic and social policy in 2016: re-launching investment, pursuing structural reforms to modernise Member States' economies, and responsible fiscal policies. [...] Hungary is on a balanced albeit still relatively moderate growth path, gradually working off its macroeconomic imbalances.
**Recommendations:**

Suspend all planned significant public investments which are not needed to achieve the targets of Europe 2020 strategy and might increase macroeconomic imbalances as well as social tensions.

**Justification:** The Hungarian government is planning, and in some cases has even started to implement, extremely costly projects for which there is absolutely no need in view of the Europe 2020 Strategy. Moreover these projects are environmentally harmful, and opposed by a large part of the Hungarian population. Examples of such projects are the following:

- Construction of 5 new museums in the City Park, including the new National Gallery building (the National Gallery is now in the former Royal Castle, and the only reason for emptying it is to make place there for the Prime Minister) (4)
- The moving of the Prime Minister’s Office and several ministries to the Castle District. (According to public opinion polls (5, 6), both these projects are opposed by more than 80% of the people in Budapest.)
- The application for the 2024 Olympic Games in Budapest.
- The extremely costly renewal of the Kelebia railway line (7).
- The nuclear power plant Paks II.
- Several new motorways and main roads, on which low traffic is projected (8).
- A railway line to Budapest International Airport. (Today there is not even a proper express bus to the airport.)
- The construction of unneeded new stadiums (9,10).

**Sources:**


(6) Greenpeace Magyarország (2016). Friss közvélemény-kutatás bizonyítja: a budapestiek több mint 80%-a azt szeretné, hogy a tervezett múzeumok ne a Városligetben, hanem zöldterületeket nem veszélyeztető helyszíneken kapjanak helyet. Recent opinion polls show that more than 80% of Budapest inhabitants support the planned museum in City Park, but want the green areas protected. Article published 04 July 2016. In Hungarian.


(8) Napi.hu (important economic news portal) 2015): Itt az újabb kormányzati pénzszórás - Orbánt nem érdeklők a szakértők. Here is the new governmental extravagancy, the [the opinions of] experts do not interest Orbán. Article published on 23 April 2016. In Hungarian.

Analysis:

There is a potential to shift tax away from labour. Hungary is heavily reliant on consumption taxes, with revenues from consumption taxes the second highest in the EU according to the latest figures. Revenues from recurrent property taxes are however relatively low at 0.6% of GDP compared to an EU average of 1.6%. While revenues from environmental taxes as a percentage of GDP are around EU average, the implicit tax rate on energy is relatively low. A recent study suggests considerable revenue potential from environmental taxes. However, despite persistently low energy market prices, Hungary does not levy excise duties on the supply of gas and electricity to non-business customers. The respective excise rates on unleaded petrol and gas oil are among the lowest in the EU. Environmentally harmful tax allowances (including the low taxation of company cars) persist in Hungary.

Recommendations:

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).

Justification: Implementing this guideline would be beneficial both for improving competitiveness and reducing environmental pollution. A number of studies (for example 12) 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 Europe 2020 Strategy.

Sources:


Analysis:

Significant bottlenecks remain in the Hungarian Research and Innovation (R&I) system including the instability of the public R&I funding and of the R&I institutional framework, as well as skills shortages. [...] In the period 2007–2013, thanks to a continuous increase in business R&D expenditures, overall Hungarian R&D intensity showed a significant growth, with a compound annual growth of 6.5%, and reached a peak of 1.41% in 2013. However, this trend reversed in 2014 with a decrease down to 1.38%. The contrasting trends in public and private R&D intensities put into question the sustainability of the overall growth of the R&D intensity, as the diminishing public R&D intensity undermines the availability of highly skilled human resources in science and technology.

Recommendations:

Take measures to significantly reduce corruption related to R&I. Use the Innovation Union Scoreboard indicators to assess the efficiency of R&I.

Justification: This this sector is one of those most affected by corruption (13, 14, 15). In the case of publicly funded R&I, a large part of the money is (re)directed to persons and companies which perform no work at all on the R&I project concerned. 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. In the case of privately funded R&I, it is not rare that companies account non-R&I activities as R&I ones in order to receive tax deductions. Therefore, using R&I expenditure as an indicator of progress is extremely misleading. It would be much more appropriate to use Innovation Union Scoreboard indicators.

Sources:


Analysis:

The long-distance rail network and the navigability of the Danube require continuous improvement. In particular, multimodal transhipment possibilities in the main ports along the Danube constitute significant bottlenecks.

Recommendations:
Continuously improve the rail network.

*Justification:* Not only the long-distance rail network, but the whole rail network needs continuous improvement, including a number of short-distance lines (especially suburban lines at Budapest).

Improving the navigability of the Danube might cause serious environmental damage. Moreover, as rail network in Hungary has ample room for more freight, developing its competitor would be a waste of public resources.

**Analysis:**

While there is a high-quality motorway network in Hungary, the secondary road network has been lacking adequate maintenance. In this context, the development of new infrastructure or widening of existing expressways appears to be less warranted than the maintenance of the existing network, taking into account the life-cycle costs of new investments. In terms of infrastructure financing, the introduction of network-wide distance-based electronic tolling of heavy goods vehicles in 2013 was a positive development.

**Recommendations:**

In the coming years construct no new motorways and main roads. Use the available funds for maintaining the existing infrastructure.

*Justification:* Besides the reason expounded in the analysis, it should be mentioned, that in a number of cases, the projected traffic does not justify the construction of the planned new infrastructure (16).

**Sources:**


**Analysis:**

“Urban congestion may become a barrier to productivity in Hungary as the employment rate and motorisation restarted to grow. Air pollution causes human-health diseases and leads to total external costs in the range of up to EUR 17 billion/year in Hungary. Half of the costs are related to road traffic. With regard to the planned road access charging in Budapest, although alternatives have been studied, the introduction of simple yearly and monthly vignettes risks to raise revenues without significant effect on congestion”.

**Recommendation:**

Implement distance- and pollution-based urban road pricing in Budapest (10).

**Source:**
Clean Air Action Group (2015). It is time to implement congestion charging in Budapest. Publication of Clean Air Action Group, Levegő Munkacsoport.
FURTHER COMMENTS

Analysis:
“Regarding the progress in reaching the national targets under the Europe 2020 Strategy, Hungary is performing well in reducing the greenhouse gases, increasing renewable energy and tertiary education, while more effort is needed to increase the employment rate, R&D expenditure, reduce early school leaving and poverty.”

Recommendations:
Regarding the progress in reaching the national targets under the Europe 2020 Strategy, more effort is needed to reduce climate pollutants, increase renewable energy and tertiary education, the employment rate, improve the whole education and health care system, increase efficiency of R&D expenditure, reduce early school-leaving and poverty.

Take immediate measures to substantially reduce air pollution from household solid fuel burning.

Justification: These solid fuel heating systems must be given special attention in the analysis as they constitute Hungary’s biggest environmental health problem (18), and it contribute to climate change at the same time.

Sources:
(18) Clean Air Action Group (2016):
– Governmental program for reducing air pollution – only on paper. Article and report (in Hungarian) published on 10 October 2016.
– Suffocating in the smoke of waste burning. Article published on 05 May 2016.
– Natural disaster in our fireplaces. Article published on 10 March 2016.
– Air pollution discussed by the Parliamentary Committee. Article published 10 February 2016.
– Fresh air or smog in the mountains? Article published on 21 January 2016.

Analysis:
“No progress has been registered in improving the anti-corruption framework.”

Recommendations:
Develop, in consultation with the 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 since 2004 (the year of EU accession).

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.

Justification: In recent years corruption (both in the public and private sector) became one of the gravest (if not the gravest) problems of Hungarian society, substantially increasing social tensions and reducing the efficiency of the economy. According to the Hungarian people corruption is an increasingly serious problem (19).

Several NGOs, e.g. Transparency International Hungary, Hungarian Civil Liberties Union and Clean Air Action Group have 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, made corruption practices easier. Corruption is often linked to environmentally harmful activities (e.g. illegal and/or economically unjustified constructions) (20).

Proper stakeholder consultation would lead to more stable public administration and better legislation. Corruption and mismanagement on both a national and a 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 practically appointed by the government (20).

- Funding to NGOs was substantially reduced, first of all to national NGOs which were capable of commenting on government documents. Furthermore, public funding for NGOs to produce studies and analyses of issues of national importance practically disappeared. Today NGOs have much less capacity to effectively take part in consultations with the government than six years ago.

- It became much more difficult for NGOs to make their voice heard. Press coverage on NGOs (especially in the television and radio) is much less than e.g. six years ago. This is partly due to the reduced capacity of the NGOs, but mainly due 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 make well-founded comments. 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, government proposals are not accompanied by background studies, impact assessments, or projections, and this
often makes the proper evaluation of these proposals impossible. The budget bill is now compiled in such a way that makes comparison to previous years’ budgets extremely difficult.

- 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 NGOs’ comments are generally vague and lacking substantive information. In quite a number of instances no reply is given at all.

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.

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.

Hungarian authorities (including environmental authorities and the national public health service) have been 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 also detrimental to the competitiveness of the Hungarian economy. It 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; therefore it would be possible to measure progress in this field (21).

Sources:


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ENVIRONMENTAL TAXATION

Analysis:

Indeed the high level of environmental taxation in Italy almost entirely depends on tax on fuels (accise) paid by final consumers. These taxes proved to be quite inelastic and didn’t really bring to behavioural changes. Their main goal is to raise public revenues. The application of other environmental taxes, especially at the local level, is very limited.

Various attempts to promote a comprehensive green fiscal reform with the last three governments failed, basically because the government didn’t execute the mandate received by the Parliament to present the reform.

Recommendations:

To design a comprehensive green fiscal reform, moving taxation from income to pollution. The reform should also be implemented at the regional and local level, with regard to transport emissions, through road pricing, heating emissions, through carbon taxes or carbon trading systems, resource consumption (water use) and waste generation, through quasi taxes beyond the level of tariff related to standard consumptions or waste generation. For waste some positive indications are coming from art. 34, 35, 36 of the “Collegato ambientale alla legge di stabilità 2015”. Moreover PES (payment for ecosystem services) should be introduced to maintain natural capital, following the indications (to be translated into specific norms) of art. 70 of “Collegato ambientale alla legge di stabilità 2015”.

Sources:

Environmentally Harmful Subsidies

Analysis:
Successful lobbying activities by energy intensive sectors led to the proliferation of environmentally harmful subsidies (sometimes in form of tax exemptions) over time. Among the main beneficiaries: oil industry, road logistics and other sectors with strong political influence.

Recommendations:
The “Collegato ambientale alla legge di stabilità” requires a relevant first step: the implementation of a catalogue of environmentally harmful subsidies, which the Minister of Environment is expected to present in the next months, collecting all the data needed to offer a full picture of the situation. Next steps will be necessary in order to progressively eliminate these subsidies or transferring them to green activities generating positive externalities.
INVESTMENT

Analysis:

The economic crisis affected Italy more severely than other European Countries, due to historic private sector inefficiencies and public sector deficiencies.

The infrastructure and construction sector has been the most affected and almost halved employment over the last 10 years.

With the exceptions of a few specific very successful measures (incentives on renewables and tax rebate on energy efficiency interventions, Italy has never adopted a green package to stimulate economy.

Recommendations:

To adopt a comprehensive green economy package (which has been solicited by several environmental associations).

To fully implement through implementation norms the “Collegato ambientale alla legge di stabilità 2015”.

To fully implement the “Nuovo codice degli appalti” (D.lgs. 50/2016) which innovate public procurement, envisioning the consideration of externalities among costs and the adoption of life cycle costing methodologies.

To reform energy efficiency incentives in order to give priority to deep renovations interventions to reduce energy inefficiency of older buildings.

Sources:

ENVIRONMENTAL TAXATION

Analysis:

The Commission correctly identifies the scope for a shift towards environmental taxes. However, recent positive developments are noted but negative developments are not. An Air Travel Tax was introduced in 2009, reduced in 2011 and abolished in 2014 (1). A Parking Levy in Urban Areas, provided for in the 2009 Budget (2) has never been implemented (3).

Irish environmental NGOs have made a cogent case for the application of a tax on aggregates similar to that operating in Northern Ireland and the rest of the UK as well as for a pesticides levy similar to those applied in Denmark, Mexico and Norway. They have also highlighted the anomaly in the lower taxation of diesel than of petrol (4).

A range of potential further environmental tax reforms in Ireland including land value tax has been identified by EEA (5).

Recommendations:

Ireland should
- implement the urban parking levy;
- reintroduce an air travel tax;
- equalise the taxation of diesel and petrol
- progress the taxation of aggregate extraction on the UK model;
- progress the further environmental tax reforms identified in the EEA Briefing note and in the Environmental Pillar's budget submission.

Sources:

(4) Environmental Pillar (2016). Putting the Environment to the Heart of the Economy: Environmental Pillar proposals for placing the 2017 Budget in the context of Sustainable Development. Publication from 01 September 2016.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

The combustion of peat for electricity generation is subsidised by means of a Public Service Obligation (PSO) for two of the three peat-fired power plants. The PSO is a cross subsidy which compensates for the cost of ETS credits and the other elements of economic loss by means of a levy on all electricity consumers (6). The third plant operated until recently under the PSO but now operates under a renewable energy feed-in tariff for the co-firing of biomass. This feed-in tariff is limited to 30% biomass co-firing. In other words, in order to receive a renewable energy subsidy it must burn 70% peat (7).

Although NGOs have consistently expressed their concerns about the non-compliance of these subsidy arrangements with climate policy and legal obligations, the EU and Ireland continue to maintain them (8, 9).

Fuel for aviation continues to be exempt from Mineral Oil Tax and from VAT, although air traffic still amounts to 2.5% of global CO₂ emissions (10).

Recommendations:

- Immediately end subsidies to peat-fired electricity generation, including “co-firing” subsidies designed to support peat combustion (11).
- End subsidies to aviation including tax exemptions (12).

Sources:

INVESTMENT

Analysis:

The Commission's report correctly identifies a severe decline in public capital expenditure: “Seven years of sharply reduced government investment have taken a toll on the quality and adequacy of infrastructure and on support for intangible investments. This includes weaknesses in housing, water, public transport and climate change mitigation capacity” (p.4); “Tensions regarding housing supply in Dublin are coupled with traffic congestion and the relative inadequacy of the city's transport infrastructure, prompting concerns as to their negative impacts on the quality of life and competitiveness” (p.12).

As demonstrated in these quotations, there is a flexibility in the analysis by the Commission, (and in similar analysis by Ireland) as to whether the required investment is in transport or public transport. From a climate point of view this is very concerning. During the economic boom, steep increases in greenhouse gas emissions from transport resulted from extensive investment in roads, while public transport investment fell behind. With the massive reduction in investment, most planned public transport investments have been deferred or cancelled; roads remain the primary transport investment in Ireland as set out in the Capital Investment Plan 2016 to 2021 (13).

Both the Capital Investment Plan and the Greater Dublin Area Transport Strategy 2016–2035 (14) should have taken account of the obligations on all public bodies to further the national objective of transition to a low-carbon climate-resilient economy. However this obligation has not been complied with. The Greater Dublin Area Strategy envisages an increase in transport emissions to 2035 (15).

As a result, none of the targets (for emissions reduction and modal shift) set in the national Smarter Travel policy is being met (16).

A reduction in capital investment in building energy efficiency has meant that the goal, set in 2009, of retrofitting 1 million homes by 2020 (17) will now not be met, with 330,000 units having been upgraded by 2016 (18).

Recommendations:

Ensure that transport investment is directed at walking, cycling and public transport in order to achieve a rapid modal shift and reduction in emissions.

Ensure investment in housing retrofit to address fuel poverty and building energy efficiency.

Sources:

(18) Irish Times (2016). Budget 2017: Climate change addressed for the first time in seven years. Article from 11 October 2016.

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ENVIRONMENTAL TAXATION

Analysis:
Environmental tax revenue is similar to the EU average, at 2.4 % of GDP (2013). Taxes on energy, mostly excise on fuel, accounted for 74% of environmental tax revenue in 2013, with the rest coming from taxes on transport and pollution.

Recommendations:
There is a new regulation on Natural Resource Tax (NRT) agreed to come into force by 2017. This may result in some changes in most resource rates, including CO₂ emissions to 29%, as well as tax on first vehicle registration to 38%. It is estimated that these changes will bring in an extra EUR 9 million each year (1).
- Apply NRT also to hydrocarbons collected in Latvia (using the same methodology for calculation as in other Baltic States).

However NRT constitutes only a small share of the fiscal effect, therefore it is recommended to:
- Ensure the implementation of the “polluter pays” principle in a long-term fiscal policy strategy in order to increase the share of environmental tax.
- Ensure that revenues from environmental taxes are recycled to relevant sectors (CO₂ to ensure cleaner air, training for citizens on waste, etc.).
- Reduce environmental tax exemptions and cut environmentally harmful subsidies.
- Adjust the structure of environmental taxation to better reflect environmental externalities (air pollution).

Sources:
Analysis:

Transport vehicle registration tax is linked to CO₂ emissions, but has a limited effect on consumers.

Recommendations:

The purpose of a CO₂ tax is to achieve behavioural changes in the pattern of fossil fuel consumption from a long-term perspective, as price increase tends to have no immediate effect on the pattern of consumption. Policy intervention is therefore required in order to provide clear incentives:

- Choose means of transportation with more effective power to mass ratio, and smaller CO₂ emissions.
- Choose RES solutions that can replace use of fossil fuel.

The solution is to combine annual fixed tax on engines with high fuel consumption with a variable CO₂ tax paid for actual fuel consumption regardless of engine parameters, as this is the only way to implement the "polluter pays" principle (2).

- Ideally such a tax system should be in line with that of all neighbouring countries (already in place in Estonia) in order to avoid fuel purchase outside the country of residence.

Sources:

(2) Interview with Reinis Aboltins, member of the Energy Security Commission under the auspices of the State President, Latvia.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:
The support framework for renewable energy has become increasingly complex over the years. Electricity generation from renewable energy sources and in efficient co-generation is supported by feed-in tariffs based on quotas on generation capacity [page 37 Country Report].

In fact the support system aiming to support electricity generation from RES is benefiting fossil fuel use instead. More than two thirds of the co-generation plants use imported natural gas and they are major beneficiaries of the current support scheme (3).

Recommendations:
- Instead of subsidising fossil fuels, the polluter pays principle must be respected.
- Submit all investments for renewable energy sources to strict and binding sustainability criteria to prevent negative impacts on the environment, society and economy.
- Only innovative projects with a clearly identifiable added value to the transformation of the energy sector should be subsidised or supported - this necessitates a prohibition on subsidising fossil fuels.
- Regarding the support to renewables, there is a need to develop policy that considers full life-cycle impacts as well as direct and preferably indirect effects of the use of biomass and biofuels.
- “It is inappropriate to subsidise energy production from fossil fuels. However, if the aim of any support to a fossil fuel power plant is to ensure energy security, then the support should be channelled through a capacity payment or capex payment, either of which is a more appropriate form. Subsidy for energy security / capacity should in no way be associated with RES subsidies” (5).

Sources:
(5) Interview with Reinis Aboltins, member of the Energy Security Commission under the auspices of the State President, Latvia
INVESTMENT

Analysis:

However, the 3.2 % share of renewable energy in transport (2014) is well below the progress level needed to achieve the binding 10% renewable energy target in transport by 2020.

Recommendations:

In order to make the transport sector greener, experts doubt that it will be ambitious enough to replace the existing fuel with RES, especially since biofuel itself is not the most sustainable solution [6]:

- Policy development should consider full life-cycle impacts as well as direct and preferably indirect effects of biofuels.
- Introduce mandatory sustainability requirements based on internationally aligned certification schemes in order to reduce land use change and ensure biofuels’ sustainability [6].
- Incentivise use of residues and wastes as biofuel feedstock.
- A sound policy framework is needed, including internationally aligned certification schemes, to promote the use of residues and wastes, along with sustainable production of energy crops and avoid competition for land and feedstocks with growing food demand and fibre production (6).
- A long-term plan is needed in order to motivate the electrification of personal cars (as there are investments planned for the charging infrastructure in Latvia).

Sources:


Analysis:

There is room for further energy efficiency gains in residential and non-residential buildings. Latvia is late with its transposition of the Energy Efficiency Directive.

Only 3% (800 buildings) of residential buildings were renovated and heat-insulated in 2009–2013 and it is estimated that the EU Funds 2014–2020 for co-financing (EUR 1,66 billion ) will only contribute to around 1030 buildings, which again is only a small portion (7).

The aim to renovate public buildings (3% annually) is also serving only to meet the targets of the Energy Efficiency Directive, and fails to unlock the higher potential that exists (8).

Recommendations:

As investment from EU funds will not address all the potential for Energy Efficiency measures in residential buildings there is a need to:
- Ensure the implementation and integration into existing regulations of the EE Directive and to follow up on the progress of the implementation;

- Develop different kinds of support schemes for low income households in order to minimise the risk of energy poverty.

- Develop a better regulation and environment for the Energy Service Companies (ESCOs) to get involved in the implementation of the renovation projects in order to attract more finance and ensure efficient implementation of EE measures.

- Energy performance contracting principles should be applied in order to achieve more efficient returns of investments – EPCs can be used effectively for extensive renovations of apartment buildings despite the fact that only up to 22% of ESCOs’ activities are targeted in the residential sector across Europe (9).

- Development of Municipal ESCO schemes – so far Latvia does not have experience in establishing state or municipal ESCOs. However, the creation of such a model would be possible at the municipal level in cases where financial resources were offered for the development of PICO.

Sources:

(7) Likumi (2016). Darbības programmas "Izaugsme un nodarbinātība" 4.2.1. specifiskā atbalsta mērķa "Veicināt energoefektivitātes paaugstināšanu valsts un dzīvojamās ēkās" 4.2.1.1. specifiskā atbalsta mērķa pasākuma "Veicināt energoefektivitātes paaugstināšanu dzīvojamās ēkās" īstenošanas noteikumi. Ministru Kabineta noteikumi Nr.160.Rules of the Cabinet of Ministers of Latvia Nr.160 on ES Funds Specific Thematic Objective Nr. 4.2.1.1. 4.2.1. To increase energy efficiency in residential buildings. Publication of the Cabinet of Ministers from 15 March 2016.


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ENVIRONMENTAL TAXATION

Analysis:
Revenues from environmental taxation, as a percentage of GDP, stood at 1.7% in 2014, noticeably below the EU average of 2.5% in 2014. Lithuania is among the few Member States without any form of private passenger car taxation or road-use tax for private passenger vehicles. In addition, the emissions of newly registered cars in Lithuania are well above the EU average and Lithuania has a large proportion of old cars in its existing car fleet.

Recommendations:
Agree with Commission analysis.

Analysis:
In 2013, the main method of waste treatment was disposal in landfills. Although the figure fell significantly (from 78% in 2012 to 62% in 2013), Lithuania remains behind the EU recycling average of 30% in 2013. Moreover, the government has significantly weakened a landfill tax reform envisaged for 2016. Initially adopted in November 2014, the tax was supposed to reach EUR 27 per tonne from January 2016, but it was reduced to EUR 3 in the last parliamentary session of 2015. The partial withdrawal of the tax reform was based on the argument that a large part of the tax burden would fall on households, making the reform socially sensitive. This short-notice move could discourage investment in waste processing and sorting.

Recommendations:
Agree with Commission analysis.
INVESTMENT

Analysis:
The Rail Baltic project is scheduled to be completed in the mid-2020s. It is expected to provide a strong stimulus for economic growth and the reduction of greenhouse gas emissions through a shift towards more rail transport of freight and passengers.

Recommendations:
Comprehensive cost-benefit assessment and business projects are required to get The Rail Baltic project close to economic reality. Construction is very expensive but maintenance will be even more expensive (1).

The Rail Baltic could reduce carriage time from Kaunas to Warsaw by one hour. This achievement is unlikely to be a sufficient stimulus to shift freight from current routes to the Rail Baltic given that the track is laid down in parallel to the existing one (2).

The Rail Baltic will have to compete with cheap flights companies and it is unlikely to start to play a significant transportation role for passengers soon, if ever (3).

Sources:
(2) Šimėnas A. (2009). Rail Baltica projektas: kada turėsime greitajį traukinį į Varšuvą. Rail Baltica project: when will we have a high-speed train to Warsaw. Transportas publication. In Lithuanian.

Analysis:
The new bi-directional gas interconnector with Poland (GIPL) under construction will be the first gas interconnector between the eastern Baltic region and the continental European gas network. If completed as planned at the end of 2019, this project will further strengthen security of energy supply.

Recommendations:
Gas consumption is decreasing drastically in the Baltic States Region: about 20 percent per year (4). It is expected that maximum gas consumption in Lithuania by 2021 will be 8–10 cubic metres per day compared to all installed gas supply capacities equal to 24 cubic metres per day, excluding Gazprom. The over-investment is obvious (5).
Sources:

Analysis:
With a renewable energy share of 23% in 2013 and an expected share of 23.5% in 2014, Lithuania has already met its binding Europe 2020 target for renewable energy. Active support policies for renewable energy, especially in the electricity and heating and cooling sector, contributed to energy supply diversification and fossil fuel displacement.

Recommendations:
Despite progress in the development of a national climate change policy, climate change mitigation efforts are driven by sectoral policies and are therefore fragmented; a pathway to the long-term decarbonisation objective is missing, and funds from the EU are not aligned with long-term climate change mitigation strategies. Whereas EU 2020 targets are in reach, the EU funds do not address the GHG emissions increase from the transport and agriculture sectors (6).

Sources:

Analysis:
Over the 2014–2020 period, EU structural and investment funds will provide the basis for further investments to improve energy efficiency in around 1,300 houses in Lithuania. Despite these efforts roughly 24,000 multi-apartment buildings require renovation.

Recommendations:
The potential to decrease energy consumption for heating and the lifetime expectancy should be considered before a decision on whether to renovate or to rebuild. If similar energy consumption for heating can be achieved in both alternatives for renovation and new building, then renovation will result in a better environmental performance. If the expected energy saving for heating is significantly larger for the new building option than for the renovation option and the lifetime expectancy is large, then demolition and new building will result in a better environmental performance (6, 7).

Sources:
Analysis:
Moreover, more investments in recycling will be needed to implement fully the waste hierarchy and to meet the objectives of the resource efficiency roadmap. Consulting relevant stakeholders to ensure appropriate funding for the separation of collection, sorting and waste recycling is important as well as considering separate collection schemes and pay-as-you-throw schemes at local level.

Recommendations:
Further significant improvement of hazardous and biodegradable waste collection infrastructures is needed (9).

Sources:
Analysis:
Primary energy intensity continues to stand well above the EU average, but shows no improvement over the period 2005 to 2013.

Recommendations:
Primary energy intensity has decreased significantly over the period 2005 to 2013. According to International Energy Agency data, energy intensity is shown always far above EU average in Eastern and Central European countries. This is because of calculation methodology used then national GDP is recalculated to US dollars based on prices of 2005.

This methodology does not consider neither purchasing power parity, nor GDP calculation differences in countries. Correspondingly high primary energy intensity figures are determined primarily by lower GDP level in CEE countries. Because of lower prices and differences in GDP calculation added value of the same products and services in CEE countries is significantly lower than in WE countries. Therefore primary energy consumption per GDP unit (calculated according to currency exchange rate) always lower in CEE countries than in WE countries despite the fact that energy efficiency has increased significantly in these countries during the last decade. In order to evaluate countries potential for energy efficiency improvement GDP has to be calculated based on purchasing power parity. Assessment based on purchasing power parity calculations reveals that already in 2011 energy intensity in Lithuania was just above EU average (by 15,5%) (10)

Sources:

Analysis:
Regarding progress in reaching the national targets under the Europe 2020 strategy, Lithuania is performing well on reducing greenhouse gas emissions

Recommendations:
GHG emissions have decreased significantly since 1990 (by more than 50%). This decrease was due to the collapse of high-energy and resource-consuming heavy industries. (11)

Sources:
ENVIROMENTAL TAXATION

Analysis:
No mention in the Commission’s analysis.

Recommendations:
There is no duty on air travel in Luxembourg. Aviation is exempted from VAT and fuel taxation which distorts competition between different modes of transport. The shortfall in collected taxes due to these exemptions is estimated to amount to EUR 39.1 billion per year for the entire EU 28 (1). Several countries, including France, Austria and Germany have introduced air passenger duties. Carbon-based air ticket taxes can partially compensate for the negative climate externalities associated with air travel. Although aviation is covered under the ETS since 2012, 82% of allowances will be allocated for free between 2013 and 2020, leaving considerable room for a carbon-based flight duty in the medium-term future (2).

- Introduce a carbon-based duty on air tickets in order to internalise negative environmental impacts of aviation.

Sources:

Analysis:
In 2014 environmental taxes amounted to 2% of GDP. This is the lowest share since 2000 and compares with an EU average of 2.5% of GDP. Energy taxes make up the largest proportion of environmental taxes (1.8% of GDP in 2014) in spite of the low level of excise duties. Low excise duties on transport fuels encourage both non-residents and transit operators to travel to Luxembourg to take advantage of lower fuel prices. Diesel taxation in particular is only slightly above the European minimum rate, below the EU average. It is also low relative to rates applied in neighbouring countries. Consequently, the share of new diesel cars in total car registrations reached 73% in 2013, the highest among the EU-15 and EFTA countries.

Overall, Luxembourg has made limited progress in addressing the three country specific recommendations issued by the Council in 2015. First, there has been no progress in relation to the broadening of the tax base for consumption, recurrent property and environmental taxation. [...] No progress has been made as regards a reform of the wage setting system to ensure that wages evolve in line with productivity.
A recent study examined the potential of environmental fiscal reform in the EU (3). The potential in terms of additional revenues in 2018 and 2030 is estimated by reference to good practices in different Member States on a range of energy, transport, and pollution and resources taxes. This study would suggest that there is a theoretical potential for additional revenue from environmental taxes in EU Member States, including Luxembourg.

**Recommendations:**

With its preferential tax and subsidy system favouring the exportation of fuel, and diesel in particular, Luxembourg is boosting “fuel tourism” entailing net negative effects on the economy, national climate and energy targets as well as public health. Currently, 75% of fuel sold in Luxembourg is being exported or used by vehicles in transit (4)

**Reference source not found.** A recent study commissioned by the Luxembourg Ministry of Sustainable Development and Infrastructure has estimated that quantifiable total negative effects of fuel tourism accounting for EUR 3.5 billion per year outweigh the overall benefits estimated as EUR 2.1 billion per year (5).

These external costs are not attributed to the price of diesel and constitute indirect subsidies, for example through the burden on the public health system due to poorer air quality.

- Shift taxation in a socially equitable way away from labour taxation towards environmental taxes, particularly targeting the low tax rates on road fuel.
- Increase the tax rate of diesel to at least the same level as petrol and provide for adjustments for inflation-induced fluctuations.

**Sources:**


**Analysis:**

In general, transport taxes in Luxembourg are low in comparison with other Member States. A fixed vehicle registration fee of EUR 50 is
applied, irrespective of vehicle type or emissions. It is one of the lowest vehicle registration charges in the EU and has no impact on a driver’s choice of vehicle given the lack of discrimination.

Recommendations:

Low registration fees incentivise the use of private cars and impede the development of public transport and low-carbon mobility if they do not account for different carbon-intensity. The European Commission should recommend Luxembourg to change its car registration fee regime in order to make better use of its incentive effects towards more sustainable transportation, as other countries have successfully done in the past (6).

- Raise the fixed vehicle registration fee to approximate the levels in neighbouring countries.
- Differentiate registration fees according to the environmental footprint of the vehicle.

Sources:

ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

The tax regime applicable to company cars is attractive. As a result, these in-kind benefits are often included in employees’ remuneration packages. Because it encourages both professional and private use of the car, this system creates harmful environmental and economic effects in terms of congestion and pollution.

Luxembourg does not seem to be on a path to meet its Europe 2020 targets concerning non-ETS greenhouse gas emissions. This may be due in part to the current policy approach: on the one hand, relatively low excise duties on fuels attract demand from neighbouring countries. On the other hand, company cars, a major element of in-kind payments in the wage bill, encourage the use of private cars instead of public transport.

Recommendations:

The current system, which allows in-kind benefits for company cars, constitutes a twofold distortion of the transport sector: First, the amount of in-kind payments does not differentiate between a car’s CO₂ impact and does therefore not incentivise the use of more efficient or hybrid cars. Second, as the Commission correctly highlights, the system encourages the use of private cars to the detriment of public transport. Other countries, such as the Netherlands, which differentiate company car taxation according to CO₂ emissions, underline the successful use of company car tax regimes as an environmental policy tool (5). A more fine-tuned policy approach to company cars can help Luxembourg to reduce the use of private cars and curb associated negative environmental impacts (6).

In order to better incentivise low-carbon mobility, the Commission should continue to highlight Luxembourg’s current distortive policy approach, but should put more emphasis on urging the Grand Duchy to:

- Provide concrete policy steps accompanying the National Climate Action Plan to abolish or reform the in-kind benefit regime for company cars in order to better stimulate low-carbon mobility.

Sources:

ENVIRONMENTAL TAXATION

Analysis:

The complete dependence on imported fossil fuel for transport has a negative impact on the environment. Concrete measures to reduce this dependency are too limited in scale and scope. This is particularly pressing in road transport, considering the high modal share of private cars, the aged car fleet, and the fact that transport is the largest greenhouse-gas emitting sector outside the Emissions Trading System. The authorities have yet to tackle those issues.

Recommendations:

While government has started to tackle issues, intervention, especially in the domain of vehicles has come too little and too late, with a limited impact to date. Vehicle numbers continue to rise and the shift to smaller alternatively fuelled vehicles is slow. There continues to be an urgent need to discontinue car use and to offer viable and attractive alternatives. Positive efforts have been made: Malta’s National Reform Programme mentions the goal of promoting the use of scheduled public transport and reducing congestion, the use of European Regional Development Fund (ERDF) to finance 143 Euro VI buses, modifications to existing bus routes, additional frequencies in certain locations and revised timetables. A number of positive incentives have been rolled out over the last two budgets, including a tax rebate offered to parents whose children make use of school transport, incentives for replacement of vehicles with electric or hybrid vehicles and for the conversion of vehicles to autogas, a grant for the purchase of bicycles and a grant for the installation of bicycle racks by companies. Annual circulation license fees for motorcycles with engines up to 125cc and the removal of registration tax on electric motorcycles have been put in place to incentivise motorcycles. But while these incentives encourage alternatives, none of them get to the heart of the matter, tackling the negative external cost of cars on the road with a view to achieving their reduction, and making room for modal shifts.

Sources:

1. Institute for Climate Change and Sustainable Development (2014). The external costs of passenger and commercial vehicles use in Malta. Publication from May 2014.
Analysis:

The potential for achieving a circular economy and improving resource efficiency remains to be tapped. In terms of resource productivity, Malta is around 30% below the EU average (with 1.34 EUR/kg compared with an EU average of 1.95 in 2014) (61). Moreover, Malta ranks only 17th within the EU (2013) on the eco-innovation scoreboard (62). While revenues from environmental taxes are relatively high (2.9% of GDP compared to 2.5% of GDP for the EU in 2014), energy taxes are comparatively low. Certain characteristics of the tax system hinder its potential fiscal and environmental impact, such as the subsidies for company cars and the lack of indexation for environmental taxes.

Recommendations:

Certainly the potential for environmental charges/taxes remains underexplored in several fields in Malta, ranging from water abstraction, to encroachment on land, from vehicle circulation/parking to coastal/marine area use. The Circular Economy Action Plan for Malta is a relevant document for an outline review of what the Government intends to do to address this. Malta is also participating (through the University of Malta) in a Horizon 2020 project (R2PI) which aims at exploiting a Circular Economy Business Model. A number of infrastructural projects are envisaged for urgent traffic bottlenecks and Government is introducing Closed Circuit Television Cameras and Automatic Number Plate Recognition Cameras across critical road sections in order to monitor real time traffic. But, as mentioned earlier, action to remove cars from the road remains weak.

Sources:


(6) University of Malta (2016). EU-funded project on research and innovation in economics and business. Publication from July 2016.


INVESTMENT

Analysis:

Competitiveness could further benefit from the removal of structural bottlenecks in network industries and the public administration. The authorities aim to diversify the energy mix and bring an end to oil dependency in electricity generation. The reform, however, has yet to be finalised. Import dependency will remain a challenge in the absence of more focused efforts to boost domestic production of renewable energy and raise energy efficiency. The transport system continues to be characterised by high economic costs caused by significant road traffic congestion. The authorities have yet to present their strategy to tackle the issue. The low efficiency of government administration and of the judicial system continues to pose challenges to Malta’s attractiveness to investors. A relatively young and underdeveloped framework for research and innovation constrains the potential for knowledge-driven growth.

Recommendations:

This is broadly correct although it is worth considering some of the policy actions targeting the issues of diversifying energy mix. Some efforts have been made to address R&D, including the sciences centre aimed at incentivising students to pursue science-related degrees and to increase the number of scientists in Malta. There has also been considerable interest and uptake of Horizon 2020 financial schemes by academics. Various new schools and educational facilities have been constructed and there have been reforms announced in skills needs analysis, teacher training and secondary education. Justice reforms have also been launched with SMEs in mind. There are new incentives relating to auditing fees to new start-ups, credit to enterprises which require finance, risk investment schemes in SMEs and fiscal incentives for firms selling their shares on the Malta stock exchange to encourage investment. The development bank is also a related initiative. Other competitiveness issues worthy of attention include skills gaps and rental market boom.

Sources:


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ENVIRONMENTAL TAXATION

Analysis:
A tax shift from labour to environment and resources, not mentioned in the Country Report, will improve employment conditions and help with the abatement of emissions and saving of virgin materials. An “ambitious reform of the Netherlands’ tax system” (Executive summary of the NL Country Report) is due since 2013, but no proposals have been elaborated so far, except on the labour tax side, where a € 5 billion tax reduction has resulted in a 2%-point decrease of the wedge in 2016. The income from environmentally related taxes has more or less remained constant (1, 3).

Recommendations:
The energy tax system as far as energy carriers are concerned is fundamentally flawed by a lack of proper taxation of the carbon content of fossil fuels, in particular coal.

Reconsider, as part of the “ambitious reform of the Netherlands’ tax system” (Executive summary of the NL Country Report), the energy tax system, including the termination of the coal tax in 2016, and adjust it to achieve a more appropriate taxation of carbon. This is supported by the Energy Agenda 2016 (4) that aims at “possibly less degressivity in the energy taxation” as one of the measures to prevent CO₂ emissions. The additional tax revenue could be used to lower labour taxation (1, 3).

Sources:
(3) Eunomia (2016). Study on assessing the environmental fiscal reform potential for the EU28. Study prepared by Eunomia, Aarhus University, IEEP, Denkstatt, ENT.
Analysis:
The target of reducing the amount of waste to landfills and incineration plants by 50% by 2022 (compared to 2012) will probably not be met (2).

Recommendations:
- Increase the tax on waste to landfills and to incineration plants.
- Promote further penetration of pay-per-bag systems in local community waste collection.

Analysis:
The target of increasing the share of household waste collected separately from 55% (2015) to 75% by 2020 will probably not be met (2).

Recommendations:
Research dedicated to the option of (re)introducing financial instruments (taxes, charges, deposit-refund systems) to support existing policies is recommended.

Analysis:
The target of reducing CO$_2$ emissions from the transport sector from 33.9 Mt in 2014 to 25 Mt by 2030 is unattainable (2).

Recommendations:
- Reinforcing existing policies by introducing a diversified pay-per-kilometre tax for all cars and lorries.
- Terminating the tax waiver for (partial) reimbursement to employees of costs of home–work trips made by cars.

Analysis:
Air traffic is an important contributor to greenhouse gas emissions, air pollution and noise annoyance. Relatively little regulation is aimed at tackling the negative environmental consequences of this sector. A growing number of European countries are applying air passenger taxes.

Recommendation:
Reintroducing the air passenger tax (abolished in 2010) to include some of the negative external effects of flying into the price of air tickets, and to contribute to a level playing field across Europe in this respect.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:
The target of reducing the CO₂ emissions by the transport sector from 33.9 Mt in 2014 to 25 Mt by 2030 is unattainable.

Recommendations:
Terminating the tax waiver for (partial) reimbursement to employees of costs of home–work trips made by cars.

Source:

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ENVIRONMENTAL TAXATION

Analysis:
The Country Report correctly observes that “environmental taxes do not provide sufficient incentives for a more efficient energy usage and for reducing greenhouse gas emissions”. However, it does not delve sufficiently deep into the consequences for Poland’s development, which are serious. Poland’s air quality is one of the worst in Europe as a result of the country’s heavy reliance on coal and its strong policy preference for road transport. The WHO currently attributes more than 40,000 premature deaths per year to poor air quality, which constitutes a massive additional pressure on the already seriously strained healthcare system (the condition of which is also identified as a source of concern in the EC Country Report) (1, 2, 3). The CR should therefore strongly emphasise the need for Poland to take measures to address this problem. A more robust model of environmental taxation is the right way to go also in view of the “need to broaden the tax base”, as stated in the Country Report (also articulated in the 2015 CSR1, on which “no progress has been made”).

Moreover, introducing more ambitious environmental taxes could also be a way to stimulate innovation by encouraging, through fiscal means, a shift towards innovation-driving greener solutions. That would be important given Poland’s poor performance on innovation, as observed in the Country Report.

As a side note, Poland has recently decided to change the rules on excise tax on cars, the rate of which will depend on the age of the vehicle and the engine capacity (i.e. will reflect environmental performance to some extent) as of 2017 (4). It may be worthwhile to suggest other green tax solutions instead of focusing on reduced VAT rates, as the Country Report does now.

Recommendations:
In view of the scale of environmental problems faced by Poland, and especially the air quality problem, the question of environmental taxes should be given much more prominence in the Country Report.

Sources:
(2) WHO (2015). Economic cost of the health impact of air pollution in Europe: Clean air, health and wealth. Publication of the WHO Regional Office for Europe.
(4) Polskieradio (2016). Akcyza od aut: od 2017 r. 32 stawki, im starszy pojazd, tym większy podatek. Excise duty on cars from 2017. 32 rates, the older the vehicle, the larger the tax. Article published on 2 November 2016. In Polish.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

The CR devotes only half a sentence to environmentally harmful subsidies in Poland, which fails to do justice to the significance of the problem. Poland has handed out EUR 16.8 billion in subsidies to the coal sector between 1990 and 2012 (5) and continues to subsidise the sector in order to save the uncompetitive mining industry. This has very serious consequences in terms of air quality and its impact on public health and the strained healthcare system (6), but adverse consequences go beyond the environment and health.

Most importantly, the money spent on coal subsidies represents a missed opportunity to invest elsewhere (and the CR identifies a number of areas where more investment is needed, including railways, energy efficiency and renewables). The coal subsidies conserve the incumbent obsolete coal-based energy system and thereby suppress the development of renewables, especially since they come with regulatory measures biased in favour of coal and against renewables, most notably onshore wind (7). They also distort the operation of the energy market (8).

The most serious consequence for Poland’s long-term development concerns the risk of a lock-in of obsolete and costly energy generation technology that will suppress the competitiveness of Poland’s economy due to high and rising energy prices for industry and households (9) (10).

Another, equally important, problem related to coal subsidies concerns the missed opportunities to boost innovation – the energy transition being one of the most important drivers of innovation (Poland’s poor performance on R&D and innovation, especially private R&D investment, is identified as a source of concern in the CR, and the Report should not overlook the impediments to innovation and R&D investment stemming from the pro-coal and anti-renewable government policy).

Finally, the involvement of Poland’s energy companies (partly owned by the state) in the plans to save the mines has seen their shares plummeting in the stock exchange.

Recommendations:

The CR should devote much more attention to the question of coal subsidies and examine in more detail the long-term consequences of Poland’s reluctance to move away from coal for the competitiveness of the Polish economy.

Sources:


INVESTMENT

Analysis:

The CR finds that Poland’s private investment to GDP ratio is below EU average. It also states that little or no progress was made last year on investment barriers identified such as the (un)predictability of future national energy policy and the lack of clear strategic vision for future development of the energy sector (of which the new onshore wind rules and the unclear and unfavourable rules for prosumers are a case in point (12) (13)). The CR also identifies energy as one of the sectors with the largest investment needs and points to insufficient investment in R&D and innovation as one of the main challenges to Poland’s development.

The development of green technologies being one of the main drivers of innovation today, these findings should lead to the conclusion that a reasonable way for Poland to address its investment issues identified in the CR would be to give a more consistent political and regulatory push to the development of energy efficiency and renewables, or in any case define a clear strategy for the development of the energy sector, bearing in mind global trends in energy, the effect of overreliance on coal on the country’s competitiveness and the costs of lagging behind on energy transition (14).

In this context it is crucial how the EFSI guarantees will be used in Poland, and whether the Investment Plan for Europe will actually stimulate investments boosting innovation in Poland and putting the country on a more sustainable path. The trends so far are not particularly optimistic, with Poland and other CEE countries receiving less support under the EFSI than EU-15 countries and few if any guarantees going to genuinely innovative green projects (15) (and with a large number of unsustainable undertakings in the government-proposed list of potential EFSI projects (16), including coal power plant retrofitting, gasification of coal and canalisation of rivers as part of the inland waterways plans).

Recommendations:

The CR should more clearly emphasise the link between the investment problems identified in the Report and Poland’s energy policy, because a stronger commitment to energy transition seems to be one of the most rational ways of addressing those problems.

Sources:


On the administrative burden of dealing with construction permits the CR identifies lengthy procedures as a challenge and seems to point to elimination of permitting requirements as the way to go. In the current political environment this may encourage the authorities to take shortcuts, i.e. speed up procedures while also loosening environmental safeguards. Poland already has two special bills in place which allow developers of roads and gas pipelines to use fast-track procedures which often compromise environmental protection of the areas affected and override concerns and protests of local people, in many cases leading to conflicts between local communities and developers of infrastructure projects supported with EU money (17).

The CR should emphasise that any reforms of the permitting procedures should not compromise environmental protection standards or the public’s right to participate.

Sources:

(18) TVN Warszawa (2016). Gazociąg przez las, drzewa pod topór. "Spodziewamy się protestów". Gaz pipeline through the forest, trees to be chopped. "We are expecting protest". Article published on 19 October 2016. In Polish.

On energy efficiency, the CR states in the executive summary that Poland is “performing well”, while deeper in the text it admits that Poland remains one of the most “energy intensive economies in the EU, with a significant potential for EE gains”. Considering the challenges that Poland is facing with regard to ageing generation capacity, an insufficiently interconnected grid and heavy reliance on coal, speeding up progress on EE should be a top priority. Given the needs and the scale of potential gains, Poland is in fact underperforming on EE. For instance, the CR states that 70% of houses are poorly insulated and 70% of single family houses are heated with coal. Meanwhile, Poland’s program for thermomodernisation of single-family houses (Ryś) has been in disarray (18) and the potential for energy savings in this sector largely remains untapped.

The recommendation would be to give more prominence to faster progress on energy efficiency in the CR.

Sources:


The CR identifies several major challenges to the development of railways in Poland, which the EC found significant enough to make the removal of obstacles to railway investment one of the four country-specific recommendations for Poland last year. The CR notes that Poland has since made limited progress on this recommendation. This analysis is correct and should be highlighted more in the CR because the current situation, with the national rail and road strategies to 2023 allocating
nearly three times as much money to roads (EUR 40 billion) as to railways (EUR 16 billion) risks locking-in unsustainable and carbon-intensive road transport, with serious economic and social consequences. Some of those consequences are named in the CR (investors deterred by poor availability of rail transport, congestion, high road fatality rate), but it is also worth noting the impact on public health, with car emissions accounting for a large portion of smog in some cities such as Warsaw (19), and the impact on poverty levels and social cohesion of the phenomenon of “forced motorisation” outside big cities in places without access to rail connections and poor availability of public transport in general.

What the CR also fails to mention is the government’s controversial plans to develop inland waterways, which envisage spending billions of PLN on projects with disastrous environmental consequences (destruction of the last near-natural rivers in Europe), when the same transport effects can be achieved at a fraction of the cost with railways. The CR should advise against implementing those plans because their costs far outweigh the (questionable) benefits (20).

The recommendation is therefore to emphasise the importance of promoting the development of railways even more strongly this time.

Sources:


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ENVIRO\textsc{nmental} T\textsc{axation}

\textbf{Analysis:}

The Commission’s analysis refers to the revisions made in the Portuguese tax system between 2011 and 2015. Nevertheless, it does not provide information about the implementation of the Green Tax Reform (GTR) (\textit{Reforma da Fiscalidade Verde}) in 2014. The GTR focused on various environmental market-based instruments, including the Waste Management Tax (\textit{Taxa de Gestão de Resíduos – TGR}), the Water Resources Fee (\textit{Taxa de Recursos Hídricos – TRH}), and the Plastic Bag Fee.

Moreover, the XXI Constitutional Government of Portugal made some changes to the tax system in 2016. These include, inter alia, the revision of the personal income tax, VAT, and the ISV (\textit{Imposto sobre veículos – Taxation for vehicles}), the latter aiming at encouraging the purchase of less polluting vehicles (1).

The State’s budget for 2017 considers other measures such as the introduction of the IABA (\textit{Imposto sobre o álcool e as bebidas alcoólicas - Tax on alcohol and alcoholic beverages}), and an additional component for the IMI (\textit{Imposto Municipal sobre Imóveis – Municipal Property Tax}) (2).

The set of proposals focusing on environmental taxation includes: the possibility of municipalities reducing the IMI applied to urban buildings with 25\% energy efficiency; the increase in the value of the IUC (\textit{Imposto Único de Circulação – Unique Circulation Tax}) for the more polluting vehicles; the modification in the ISP (\textit{Imposto sobre Produtos Petrolíferos – Tax on oil products}), through a positive discrimination for petrol in comparison with diesel products; and the maintenance of the incentive for the purchase of new hybrid vehicles through the reduction in the value of the ISV. Nevertheless, the incentive will correspond to half of the reduction of the ISV currently applied (3; 4).

\textbf{Recommendations:}

Increase in the value of the TGR (\textit{Taxa de Gestão de Resíduos – Waste management tax}), in order to represent a true incentive for the reduction of waste with the destination of landfill or incineration (4; 5).

Guarantee an equitable balance between the values of the fee corresponding to the various sectors. Currently, the domestic users hold a higher burden in comparison with other sectors (e.g. agriculture, industry).

\textbf{Sources:}


ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

The Commission’s analysis does not provide information about the relevance of environmentally harmful subsidies in Portugal. Nevertheless, the report provides some information about the compliance of renewable energy targets by this country. A closer analysis of the renewable energy sources shows that hydropower is very relevant, holding a 47% share of total production in 2014 (6). Large hydropower plants were a priority investment, and were therefore subsidised.

Recommendations:

There is space for the promotion of other sources of renewable energy, which are associated with a lower environmental impact than hydropower. Some measures may include tax incentives for the purchase and installation of solar energy equipment and the promotion of decentralised production of renewable energy at the household level. Moreover, projects for new large hydropower plants may need to be re-evaluated (7; 8).

Sources:

ENVIRONMENTAL TAXATION

Analysis:
Regarding the progress in reaching the national targets under the Europe 2020 Strategy, Romania is performing well in national greenhouse gas emission, renewable energy, energy efficiency, tertiary education, and reduction of population at risk of poverty or social exclusion, while more effort is needed in employment rate, R&D intensity, and early school leaving (p. 2, Country Report Romania).

Recommendations:
The National Strategy for Climate Change (Part I on Mitigation) mentions the capacity of Romanian forests to sequester carbon as well as the fact that water ecosystems from forest habitats (e.g. floodplains along river sectors, lakes, swamps, peat bogs, marshes) deliver ecosystems goods and services that are important in forest ecology. Although the biodiversity Action Plan foresees the development of instruments such as payments for ecosystem services in the context of climate change to support adaptation; national bonifications scheme for afforestation, re-afforestation and conservation of virgin forests (a need foreseen in the National Biodiversity Strategy), there is no progress in implementing such measures.

Sources:
Analysis:

With a renewable energy share of 24.9% in 2014, Romania has already achieved its target for 2020. However, the substantial lack of clarity and stability in renewable support schemes might jeopardise the development of the sector and possibly prevent it from meeting the targets (p. 73, Country Report Romania).

Recommendations:

The 2011–2020 Energy Strategy for Romania included the following instruments: Green Certificates (Law nr. 220/2008 for establishing the system to promote energy production from renewable sources); Certificates for the emissions of GHG; the Romanian market and related platform for the transaction of Green Certificates and Certificates for GHG emissions (OPCOM – Operatorul Piete de Energia Electrica si Gaze Naturale din Romania).

Green Certificates focus on reducing pollution and are foreseen in national legislation to encourage energy production from renewable sources (sun, wind, hydro, geothermal), but they do not integrate biodiversity-proofing in the exploitation of renewable energy sources.

Sources:

INVESTMENT

Analysis:
Enhancing public investment, especially in infrastructure, inter alia by increasing EU funds absorption, improving total factor productivity by investing in research and innovation, and increasing energy efficiency are decisive for boosting potential growth, which would bring about a more balanced economic expansion (p. 32, Country Report Romania).

Recommendations:
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 negative impacts of floods include constructing new, or reinforcing existing, flood defence infrastructure such as dykes and dams. There are, however, alternative, 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.

Moreover, ensure the implementation and revision (where needed) of Natura 2000 management plans, taking into account public financial support from EU funds (Regional Development and Rural Development Policies) and the reorganisation of the decision-making process and the governance system.

Sources:
(7) WWF (2016). Implementarea deficitară a legislației de conservare a naturii vulnerabilizează ariile naturale protejate din România. Article from WWF website. In Romanian.

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ENVIRONMENTAL TAXATION

Analysis:

The Commission states that water charges do not sufficiently reflect environmental costs, and the current price of water in Slovakia does not reflect the full costs of distributing and treating it, so there is scope for greater cost coverage in water and wastewater tariffs (1). Concerns have been raised about barriers to access to clean, safe sources of drinking water, especially in segregated communities in Eastern regions (2). Despite investments from public funds, the current state of our rivers and waters is not improving appropriately. These essential natural values are threatened by excessive expansion of grey infrastructure, construction of dams, and pollution (3). Current problematic areas related to water protection include (4):

- Construction of small hydro power plants with short separations between them, damming the whole river, no or low efforts to minimise impacts on the status of water, habitats and local residents.
- Felling of bank vegetation, often complete removal of trees and bushes on long stretches of rivers and streams.
- Reservoir and dam clogged with sediments with the risk of contamination by toxic substances.

Recommendations:

Tax incentives to help meet environmental goals should be strengthened in general. Social factors, such as costs for low-income families should be taken into account. Industry, agriculture and services have the highest potential for savings and increasing prices as a stimulus for introducing new technologies and management systems (5). This should be taken into account and utilised.

In order to tackle current problematic areas related to water protection, Slovakia should ensure (3):

- Processing of the new water policy in Slovakia;
- Thorough implementation of the Framework Directive 2000/60/EC on water in all policies of all relevant ministries and reprocessing of strategic water planning documents in line with European water policy;
- The independence of the process of assessing environmental impacts;
- Development of a green infrastructure programme and its integration into water planning documents as a part of the climate change adaptation plan;
- Development of an entirely new concept of using hydropower potential of Slovak watercourses based on the best available scientific knowledge about the impacts of hydropower facilities on
the environment, and also including reliable assessment of their cumulative impact on the status of water, habitats and landscapes;
- Active and effective public participation.

Sources:
Analysis:
The electricity price includes several discretionary components such as a levy to support mining of domestic lignite. A feed-in tariff to support electricity production from domestic coal has a very negative environmental impact since it largely offsets the reduction in emissions thanks to renewable sources and pollutes the air. The Slovak government’s decision to subsidise 1584 GWh (6) of electricity production from lignite in 2016 leads in general to approx. 51 deaths and 472 serious illnesses annually (7). The government has declared its support for the extraction of lignite and for its use in electricity production until 2030. In previous years, the extension was announced only for 1–2 years, but the government unusually extended it for 14 years in 2015. This policy promotes the use of an environmentally harmful energy source and can act as a distortive subsidy. Moreover, a corruption scandal is linked to the coal subsidies in Prievidza region (8). The costs for directly paying workers their wage from the state budget might be significantly lower than current subsidies for electricity from inefficient and polluting lignite (9).

Recommendations:
The currently active coal-mining regions have to prepare for the phasing-out of coal production to be in line with EU energy and climate policy decisions on fossil fuel use, and for economic reasons. Even in the regions with longer-term prospects for coal mining, the priority must be to prepare for the end of coal mining and the restructuring of the coal-mining regions (10).

Shifting the overall allocation of almost EUR 100 million annually (11, 12) into creating a framework for sustainable jobs, which do not undermine EU’s climate and energy targets, is crucial.

The corruption should be properly investigated.

Sources:
(12) Energia.sk (2015). Na menej elektriny z domáceho uhlia bude vyšší doplatok. There would be higher additional payment for less electricity from domestic lignite. Article from April 2015.
Analysis:

Slovakia had an 11.6% share of renewable energy in gross final consumption in 2014 (13). This was above the indicative goal for 2013/2014 of 9% needed to stay on track towards its 2020 target.

Biomass has the biggest share of renewable energy both in the EU with 43.8% of solid biomass and Slovakia with 52.7% in 2014 (13). Solid biomass in particular, and, of the solid biomass, wooden biomass is on the top. Biomass can be considered renewable only if its utilisation doesn't jeopardise its regeneration potential and the ecological stability of the area (14). A number of biomass pathways can lead to negligible or negative GHG savings (16). The current trend of increase of salvage logging in Slovakia together with the growth of the solid biofuels market are signalling future problems for stable production of wooden biomass and ecosystem services provided by forests and all woody vegetation. Already unsustainable logging in forests and outside the forests is increasing, together with wood exports from the country. This is due to the growing demand for biomass provoked by public subsidies, construction of new energy facilities and the export of energetic biomass (14).

Recommendations:

Slovakia should be more ambitious on its targets on renewable energy expansion in order to enhance energy independence, support local economy and decrease its GHG emissions.

But it is necessary to improve policies related to biomass (15). In particular, to develop policies and plans for use of biomass for energy production at all levels (country, regions, micro-regions, municipalities) as integral part of overall strategy for decrease of need and consumption of energy. Policies and plans for use of biomass for energy purposes have to respect the whole life-cycle, set the regulatory limits and to include procedures for control of these regulations. It is necessary in this sense to modify sustainability criteria for liquid biofuels and to introduce specific criteria for sustainability of solid biofuels. Criteria for EU-funded solid biomass project selection and evaluation should serve as a basis so that (14, 15):

- All buildings supplied with heat produced from bioenergy installations using wood-based fuel have to reach B class of energy efficiency for the energy needs of heating in the time set.
- Bioenergetic installations based on wood producing hot water or steam that are financed from public funds must guarantee their minimum nominal efficiency at 85%, or in the case of individually constructed radiant tiled stove, 78%.
- Raw material for production of fuels or energy can come only from wood of class VI according to technical standards, from the waste from the wood processing industry, or from plantations for energetic purposes, or from otherwise unused spots. The raw material for fuels or energy production shall not be obtained from land with high...
biological diversity, land with high carbon stock or from peat land as defined in the Directive 2009/28/EC.

- Maximum transport distance within the whole cycle of energy production from wood shall not exceed 50 km.

Other recommendations (14):

- Harmonise the policies of public authorities relevant for utilisation of biomass;
- Support integrated regional energy planning;
- Complete necessary data for decision-making and ensure access to information for all stakeholders;
- Evaluate and propose changes in existing support measures so that they are in line with the sustainability criteria;
- Give preference to projects in marginalised regions within the public support schemes;
- Provide “start-up” financial support.

Sources:


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ENVIRONMENTAL TAXATION

Analysis:
Slovenia is on track to achieve its greenhouse gas emission reduction target for 2020. Road transport remains an important source of emissions, explaining its high share of overall emissions in Slovenia. The Energy Concept document to be prepared by the end of 2016 will propose mid-term and long-term greenhouse gas emission reduction targets in order to reduce the emissions related to energy use by at least 40% in 2035 and at least 80% in 2055 (compared to 1990), while providing opportunities for business development and job creation.

Recommendations:
Current trends do not mean long-term control of emissions. The transport sector represents by far the largest source of GHG emissions, accounting for 50% of all GHG emissions in 2013 (according to figures in the Decision 406/2009/EC, mostly from road traffic). In 2005, the share of the sector was 38 percent. Transport is the only sector where emissions have increased in the period 2005–2013, namely to 1,032 kt CO₂ eq., representing an increase of 23% (3). Because of the variability in emissions from this sector, even a short-lived, but very strong growth in the use of transport fuels, could seriously jeopardise the fulfilment of the national target.

Better environmental taxation is important to reduce emissions related to energy. The reason for relatively high environmental taxes (environmental taxes in total revenues from taxes and social contributions in Slovenia is the highest among Member States with 10.6%) is not due to the high tax rate (EU average) (1), but rather stems from the high level of energy consumption. 80% of environmental taxes are excise duties on energy products (6).
- Exemptions from / refunds of excise duties on energy amounted to EUR 110 million in 2014 (15% more than in 2013) (3) and need to be eliminated.
- There is potential for a substantial budget income from diesel excise duty. The diesel vs petrol tax ratio has to increase in Slovenia. Disparity is a tax subsidy to diesel (4).
- Other recommendations: see investments.

Sources:
(1) Eurostat (2016). Environmental taxes in the EU-Environmental taxes made up 6.3% of tax revenues in the EU in 2014-Taxes on energy contributed most in all Member States. Pressrelease from 22 April 2016.


(6) RS Surs (2016). Environmental taxes by Year and Environmental taxes by Type. Publication of the Slovenian Statistical Office. Statistični urad Republike Slovenije.
ENVIRONMENTALLY HARMFUL SUBSIDIES

Missing analysis:
There has been no progress in the reduction of environmentally harmful subsidies: 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 activities in the construction and property sector (8.5%) (2).

Recommendations:
- Phase out the reduced VAT rate (9.5%, the general VAT is 22%) or VAT exemption on environmentally harmful activities.
- Introduce an air ticket tax (7).
- Step up work on green budget reform. A government working group on green tax reform was established in 2011, but only small steps have been taken so far.

Sources:

Recommendations:
Subsidies that are contrary to the achievement of the objective of reducing GHG emissions have been increasing over the years. The indicator is moving away from the ambitious long-term objective of the TGP-2020: a "gradual significant reduction." In the past year, the subsidy has increased in all sectors and in all fuels other than natural gas. Together, in 2014, GHG emissions increased by 15%; a larger increase was only observed in the years 2009 and 2010 (3).

- There is a need to establish monitoring of fiscal measures and environmentally harmful subsidies in relation to their impact on GHG, as a basis for decision-making.

The GHG-2020 Action Plan needs a quantitative target, in addition to an indicative direction (3).

- Step up decision-making in the area of harmful subsidies and address the additional costs of additional measures taken to achieve the objectives (that neutralise the effect of subventions) (3).

- Eliminate the refund of excise duty on diesel for commercial vehicles and exemption of excise duty for the use of fossil fuels used for cogeneration of electricity and heat (3).

Sources:
INVESTMENT

Analysis:
The energy market is well interconnected with neighbouring markets. Ongoing work on projects of common interest in the supply of gas and electricity will further improve market integration, competitiveness and security of supply. The ownership of power supply in Slovenia is more concentrated than the EU average, but the retail gas and electricity markets are fully liberalised and consumers seem to be broadly satisfied with their options for changing supplier.

Recommendations:
Ongoing work on projects of common interest in the supply of gas does not mean less dependency of Slovenian market on gas, which is contrary to the Slovenian aim of developing greater energy independency. Small-scale renewables installations that offer both more flexibility and more security (9, 10) with accelerated work on decentralised electricity systems is the only way towards one of the main goals outlined in the proposed framework for transition to a green economy: greater energy independency.

Sources:

Analysis:
The share of renewable energy has been rising steadily and has more than doubled since 1995. In 2014, it was 21.9%, putting the country on track to reach its overall 25% target in 2020, thanks to planned hydropower investments. Major barriers to further investments in renewable electricity are the lengthy spatial and environmental planning procedures and the lack of a general renewable energy development strategy in the transport sector.

Recommendations:
In 2014 the share of RES in transport decreased and amounted to only 2.6%. This was significantly lower than the annual target in the NEEAP and represents a growing gap in relation to achieving the 2020 target under Directive 2009/28 / EU (11, 3).

- It is important to ensure the full implementation of the measures in NEEAP to achieve the target share of RES in transport (3).
Analysis:

The development of rail infrastructure is seen as a priority. Bottlenecks in railways represent a hindrance to the multimodality between maritime and rail transport and an obstacle to the country’s competitiveness. Modernising the TEN-T core network on the Mediterranean and Baltic-Adriatic Corridors, in particular for rail infrastructure, is important. Competition in the railway market remains minimal with the incumbent operator covering more than 90% of the market in both passengers and freight services.

Public transport could be further developed. The positive experience of Ljubljana can provide a basis for further development in other cities, which should be implemented in the context of sustainable urban mobility plans at the level of municipalities and regions. This will also help reduce the high share of transport emissions and improve air quality in urban areas. Mobility plans would also help establish a strategic basis for the integrated territorial investments, which are a significant tool for sustainable urban development and are an important element of the 2014–2020 cohesion policy.

Recommendations:

In 2013 transport represented 50% of total emissions according to Decision 406/2009/EC. The share of the sector is still growing; emissions are rising in transport and diminishing in other sectors.

Indicators show the greatest delays in the implementation of policies and measures in the transport sector where the Action Plan GHG 2020 planned maximum emission savings (3).

The number of passenger-kilometres in public transport is decreasing and is thus going in the opposite direction to the significant growth target by 2020 (3).

- Strengthen the measures in the field of public transport and ensure that they are given priority (3).

Analysis:

Additional efforts seem to be needed to improve energy efficiency and keep Slovenia on track for its 2020 target. There is room for realising further potential macroeconomic benefits through energy efficiency improvements in the building and industrial sector (including the use of European Structural and Investment Funds), where energy intensity is higher than the EU average. So far, no decoupling between primary energy consumption and GDP has been observed, therefore primary energy consumption must be kept at the current level, or its increase minimised when there is a rise in GDP.
Recommendations:

Buildings:

- To achieve the 2020 target, it is essential to ensure sufficient investment in energy rehabilitation of public buildings, with a focus on comprehensive refurbishment (3).

- The lifetime costs criteria should be included in public procurement (3). Other:

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ENVIRONMENTAL TAXATION

Analysis:

Since the issuing of the report on tax reforms commissioned by the Spanish government (1), none of the fifteen specific recommendations on environmental taxation made by the experts has been adopted nor has there been any evidence of progress towards their implementation. The Spanish commitment to reducing the deficit fully justifies the urgent implementation of environmental fiscal reforms.

Recommendations:

The EU has already noted that in order for Spain to reduce its deficit, further reforms are necessary. Several of the measures regarding environmental taxation included in the report might serve as a first draft for an ecological fiscal reform in Spain:

- Reforming the taxes on fuels and coal (proposals 86 and 87).
- Reforming the taxes on electricity (proposals 88 and 89).
- Reforming the taxes on fresh water (proposals 90 and 95).
- Reforming taxes on private transport (proposals 92 to 95).
- Adopting national taxes on GHG emissions different from CO₂ (proposal 101).
- Adopting national taxes on landfilling/incineration of waste (proposal 100 and 101).

Sources:

ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:

There is no mention of the magnitude of the environmentally harmful subsidies in Spain. In 2014 harmful subsidies related to coal and fossil fuels for transport added up to EUR 1,230 million. Since 2005, these subsidies have accumulated to EUR 18,879 million. In a context in which the EU is asking for a budgetary cut-off of close to EUR 5,000 million, removing or reducing harmful subsidies would alleviate the weight of these “reforms” over other sectors (2).

Moreover, other environmentally harmful subsidies should be studied at the national, regional and local level.

Figure: Transfers related to fossil fuels sectors from the Spanish budget, 2005-2014.

Source: OCDE 2015, and OECD stats. OECD Inventory of Support Measures for Fossil Fuels.

Recommendations:

Environmental fiscal reform based on the principles of the report on tax reforms commissioned by the Spanish government should be adopted, with a particular focus on removing direct and indirect subsidies on fossil fuels, particularly diesel, and ensuring a coherent carbon pricing framework in all relevant sectors, notably transport and electricity.

A comprehensive identification and evaluation of other environmentally harmful subsidies should be conducted at national and regional levels.

Sources:


FURTHER COMMENTS

Analysis:

There is no reference to resource efficiency.

Spain has no strategy on resource efficiency. It has been demonstrated that on the resource side, all Spanish regions show a coupling of GDP with resource extraction and use, waste production and emissions (Sastre et al, 2015).

Regarding waste management, Spain is a long way from the EU’s 2020 target on recycling (i.e. 50% preparing for re-use and recycling) defined in the Waste Framework Directive. Moreover, if the targets for 2030 as included in the EU Circular Economy Strategy are confirmed, Spain will face an even more challenging horizon.

Efforts on waste management at the regional level so far are uneven. Several regions will probably comply with the 2020 target. Of these, only Catalonia has made a tangible effort on the separate collection of the organic fraction of municipal waste. Therefore, compliance in the best performing regions relies upon the mechanical-biological treatment plant results, which will definitely not be enough to achieve the proposed targets for 2030.


Recommendations:

- Adopting landfill and incineration taxes.
- Tracking material flows and material efficiency at the regional level for designing regional strategies on resource efficiency.
- Reviewing all regional waste plans in order to identify the most cost-efficient way of complying with 2020 targets without compromising (i.e. avoiding technological lock-in) further improvement on the way towards 2030.
- Implementing the separate collection of biowaste in large cities.

Sources:

ENVIRONMENTAL TAXATION

Analysis:
Sweden is again facing budget deficits. Meanwhile, market prices for energy, in particular oil and electricity, have fallen sharply. There are a number of reasons to increase energy taxes, at least temporarily:

- The revenues are needed to limit the budget deficit.
- The phasing out of fossil fuels is likely to lead to considerably higher energy prices in the long term. In order to prevent investment decisions by business and consumers over the coming years from being taken on the basis of the present low energy prices, the State need to intervene and adjust the final prices through higher energy taxes.
- Higher energy prices are needed to incentivise further efficiency in the use of energy.

Recommendations:
Raise taxes on energy.
Introduce an air ticket tax.

Sources:
ENVIRONMENTALLY HARMFUL SUBSIDIES

Analysis:
Parts of the tax system incentivise environmentally harmful consumption and behavioural habits. One example is the company car taxation, another the deductibility of commuting trips. Those incentives unnecessarily – and at extra costs to the state – make it harder to comply with environmental targets.

Recommendations:
Reduce the possibilities of making tax deduction for commuting and link it not to mode of transport but to distance. Limit the extremely favourable tax treatment of company cars.

Sources:
INVESTMENT

Analysis:
“The Swedish railway system faces several challenges: in particular limited public funding for investment and maintenance together with organisation difficulties. Traffic volumes have outpaced investments over the last decade. Increased investments are needed in order to reduce delays and eliminate remaining bottlenecks (especially in urban areas, but affecting the entire network), particularly on cross-border rail traffic with continental Europe. Investment in road and railroad infrastructure to improve connectivity within and between urban areas could also help to alleviate some of the constraints caused by the housing shortage. The government has launched several initiatives to promote infrastructure investments in cooperation with municipalities, including the City Environment Agreements (Stadsmiljöavtal) and National Negotiation on Housing and Infrastructure (Sverigeförhandlingen)”.

Recommendations:
Expansion of the railway system is probably necessary to satisfy travel demands in a society where fossil fuels are banned and thus the cost of private car-driving is likely to go up. Still more urgent is to improve the maintenance of the existing railroad network.

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ENVIRONMENTAL TAXATION

Analysis:
The government announced a consultation for spring 2016 setting out proposals to close unabated coal-fired power plants by 2025 and restrict the use of coal from 2023, while shifting to new gas.

Recommendations:
If coal and gas prices continue along the UK government’s “central” projections, with low-carbon electricity capacity deployed at the rate currently sought by Government and with the UK’s unilateral Carbon Price Support (CPS) increasing after 2021, coal generation in the UK is projected to cease by 2022. However, if coal and gas prices are below the projected trajectory, and if low-carbon electricity deployment falls short, with the current CPS rate (GBP 18/tCO$_2$) maintained (in real terms), coal generation may continue to 2030 (1). The CPS should therefore, at a minimum, be maintained in real terms until the transition away from coal-fired generation is well established (e.g. around 2020), with the intention of increasing the CPS rate thereafter clearly signalled as soon as possible. This would strengthen investor confidence in alternative power generation capacity, and reduce the cost of renewable energy support mechanisms. The revenue generated may also be used to support the low-carbon transition (2).

Sources:

Analysis:
Air pollution causes substantial environment and health impacts, and has a high economic cost to society. Air pollution was responsible for more than 31,500 premature deaths in 2010, and sickness totalling health-related external costs in the range of EUR 28.7–81.3 billion/year. Those estimates include not only the intrinsic value of living a full health life but also direct costs to the economy.

Recommendations:
38 of the 43 areas of the UK are in breach of NO$_2$ limits set by the Air Quality Directive (3).

Two thirds of NOx emissions in these areas are from road transport, with a third of this from diesel cars (4). As EU-wide EURO regulations have
largely failed to reduce NOx emissions from diesel cars over time, the introduction of a NOx-based registration tax on diesel cars could incentivise against their purchase. If average lifetime marginal damage costs were internalised through such a tax, the average diesel car currently sold in the UK would be subject to an additional tax of GBP 1,100–1,700. This would initially raise additional revenue of the order of GBP 650 million, which could then be used to support further air pollution reduction measures (such as the promotion of walking and cycling infrastructure). This could be coupled with city-level road pricing to reduce the use of new and existing diesel where the damage caused is greatest, with any revenue generated also available for use to promote public welfare (5).

Sources:

ENVIRONMENTALLY HARMFUL SUBSIDIES

**Analysis:**

The government still applies reduced VAT rates for domestic fuel and power as well as preferential excise duties for other fossil fuels such as kerosene. This might stimulate the use of fossil fuels.

**Recommendations:**

The 5\% reduced rate VAT applied to domestic fuel and power consumption is an implicit subsidy worth over GBP 5 billion per year (6). This is an energy consumption subsidy rather than a direct fossil fuel subsidy (as, for example, the consumption of renewable power is incentivised to an equivalent degree as power generated from fossil fuels, excluding the influence of other instruments). However, less than 30\% of this implicit subsidy is taken by households in the bottom three income deciles. Analysis suggests that removing this subsidy, alongside reducing household energy consumption, could have progressive consequences through, for example, appropriate recycling of increase VAT revenue (7).

**Sources:**


Analysis:

Regarding the progress in reaching the national targets under the Europe 2020 Strategy, the United Kingdom is performing well on greenhouse gas emissions and renewable energy.

Recommendations:

The UK has a target of 15% of final energy consumption to be satisfied by renewable energy by 2020. Although the electricity sub-target (30% renewable) is likely to be surpassed, targets for renewables in heat production (12%) and transport (10%) are likely to be missed. This means that, on the current trajectory, it is likely that the overall 15% will not be achieved (8). Substantial additional investment is therefore required for the deployment of renewable heating and transport, and in efficiency measures to reduce total energy consumption in these sectors. Measures to encourage uptake of renewable heating could include the provision of consistent price signals coupled with focussed funding for appropriate technologies under the Renewable Heat Incentive (RHI) (9). To improve energy efficiency in buildings, a replacement for the cancelled Green Deal and Zero Carbon Homes instruments could be introduced (10). For transport, measures could include increasing the Renewable Transport Fuel Obligation (RTFO) from its current rate of 4.75%, and strengthening the CO₂-based Vehicle Excise Duty (VED) rates, for passenger cars (8).

Sources:


Analysis:

The UK’s principal schemes for addressing energy efficiency in buildings are currently the Green Deal and the Energy Companies Obligation. In 2014, the government improved the energy efficiency of 1 million homes through the Energy Companies Obligation and the Green Deal, and at the end of June 2015 over 1.5 million energy efficiency measures had been installed. The government announced in the summer that it would no longer fund the Green Deal scheme and initiatives to replace the scheme are yet to be announced. Concerning the Energy Companies Obligation, in late 2015, the government announced that the scheme will be replaced from April 2017 with a new domestic energy efficiency supplier obligation which will run for five years. The new scheme is meant to upgrade the energy efficiency of over 200 000 homes per year, saving up
to GBP 300 of the annual energy bills, helping to tackle fuel poverty. However, the new scheme might lead to less investment in energy efficiency projects in buildings than the Energy Companies Obligation.

**Recommendations:**

Despite the number of measures installed by the combination of the Energy Companies Obligation (ECO) and the Green Deal, it is estimated that the measures installed in 2014 will produce 74% less energy and 86% less CO2 lifetime savings than those installed annually on average between 2008 and 2012 under the previous CERT/CESP instrument package (11). Despite this, the planned annual budget for the new supplier obligation to run from 2017 to 2022 is GBP 640 million – lower than the GBP 800 million afforded to the current scheme (12). Rather than a reduction, the budget associated with such a scheme should be increased. As no instrument has yet been introduced to address the intended function of the Green Deal, the Government should move as soon as possible to design and introduce an instrument that draws on the lessons learned from the various design flaws of the Green Deal (13). Such an instrument would help improve energy efficiency in existing residential buildings. Alongside the Green Deal, the Zero Carbon Homes regulation, introduced in 2006 and which required new residential buildings to emit net-zero CO2 emissions from 2016, was cancelled in mid-2015 in order to “reduce net regulation on housebuilders” (14). An instrument to replace this regulation should be introduced as soon as possible, to prevent “lock-in” of relatively energy inefficient and high-CO2 new building infrastructure (13).

**Sources:**


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