

# **ETR in new EU Member States: Case Study of the Czech Republic**

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**Environmental Tax Reform in Europe: The Key to a  
Resource-Efficient, Low-Carbon Competitive Economy,  
London, July 15-16, 2009**

Final conference of the Anglo-German Foundation's project:  
Resource productivity, environmental tax reform and  
sustainable growth in Europe (petrE)

## **2. Economic Tools of Environmental Policy in the Czech Republic: The History in Brief**

- Using economic instruments of environmental policy has had a long tradition in the Czech Republic:
  - Pollution charges have been gradually introduced since the 1960s; air emission charges were levied first in 1967
  - Charges for effluent wastewater into surface waters were instituted in 1979
  - Since early 1990s –current system of environmental policy economic instruments  
*(charges: air emission, sewage, water pollution, municipal waste, solid waste disposal, water extraction, dispossession of agricultural and forest land, mining)*

### 3. History of implementing (explicit) ETR in the Czech Republic

- Environmental taxes **started to be discussed** in the first half of the 1990s
- Specific **paragraph on ET** (environmental taxes) was introduced in the Act on public finance reform (1993) – however no concrete ET were introduced
- Intellectual **shift from ET to ETR** – since the latter half of the 1990s
- **First policy concept** on ETR prepared by MoE in 2000 – process interrupted in 2001
- Revenue-neutral ETR was part of “**Proposal of a Public Finance Reform**” in 2002 - however, ETR was not included in its first phase in 2003
- **Since 2003** - several drafts of ETR developed mostly in the form of working materials; impact studies of ETR implementation were conducted

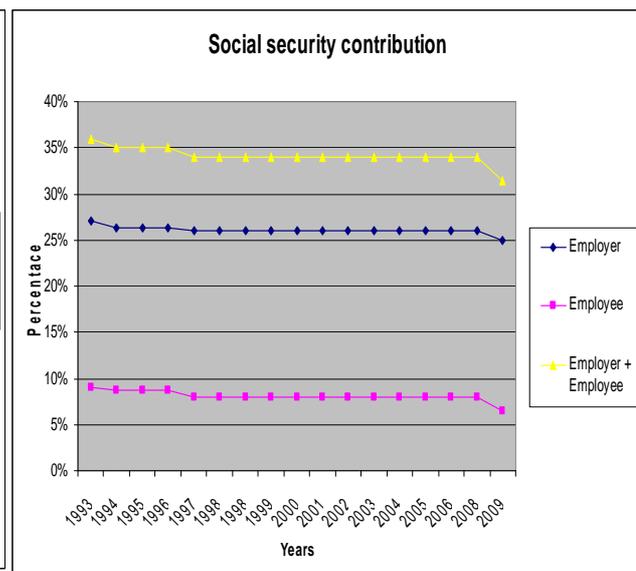
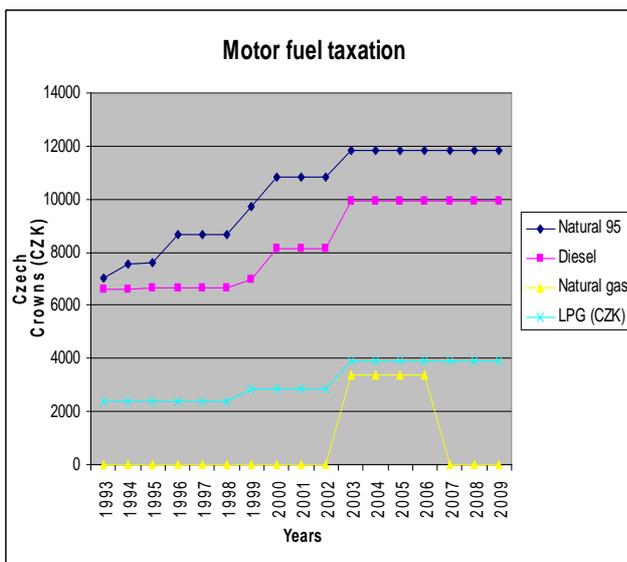
### 4. The model adopted according to 2003/96/EC (= Phase I - since January 2008)

	Tax introduced	Household price change
<b>Solid fossil fuels</b>	EURO 0.3/GJ	10%
<b>Natural gas</b>	EURO 1.1/MWh	exempted
<b>Electricity</b>	EURO 1/MWh	1%
Electricity generated from renewables, coal for electricity production and others are <b>exempted</b> from the taxation!!!		
<b>Revenues 2008: +2,8 billion</b>		
<b>Recycling: Social security contribution: -11 billion (1.5%)</b>		

## 5. Introducing ETR aspects into the Czech tax policy

Year	Environmentally related tax (CO2 related)	Labour tax burden lowering
1995	Increase of motor fuel excise tax rates	Decrease of profit and labour taxation
1998	Increase of motor fuel excise tax rates and many fuels shifted to the standard VAT rate	Significant profit tax rate cuts (from 39% to 35%)
1999	Excise tax rates on gasoline increased	Labour income tax bands appreciated
2004	Excises on motor fuels increased	Profit taxation decreased
2007	New energy taxes introduced	Cuts in private income tax and corporate profit taxation

## 6. Introducing (implicite) ETR in the Czech Republic



## 7. Ex-ante calculations of impacts of ETR (Phase I)

- **Three major studies elaborated:**
  - Prediction of social and economic impacts of the Phase I ETR in the Czech Republic (Ščasný & Brůha 2007, Charles University Prague)
  - Analysis of impact of Phase I ETR in the Czech Republic (Pur 2007, MoE CR)
  - Impact of energy, gas and solid fuel taxes on production and consumption branches in the Czech Republic (Zimmermannová 2008, University of Economics, Prague)

### A) Distribution and welfare effects on households

- Ščasný, Brůha (2007) – welfare mostly reduced of families/household heating with natural gas and solid fuels; relatively higher impact on families in small cities and villages
- Pur (2007) – increase of family expenditures by 607-845 CZK/year (23-33 EUR); most serious impact on families with only one parent

## 8. An overview of Czech ex-ante calculations of impacts/incidences of ETR suggestions

### B) Impacts on industry

- Brůha and Ščasný (2007) – impact on industry and its sectors relatively small (within statistical discrepancy); oil and gas price volatility more important than the tax
- Pur (2007) – impact will be very small, no significant risk on competitiveness (even if discussed exemptions not introduced)
- Zimmermannová (2008; includes indirect impacts) significant impact on prices of energy intensive sectors – if no exemption of fuels for power and coke production were adopted

## 9. Qualitative research on ETR results -

### Attitudes of business

- Business not well informed about the ETR idea (i.e. tax shift...) - understand it **only as new taxes**
- Prefer to use ET revenues **for environmental protection** (e.g. local pollution)
- Most preferred financial support of business **environmental innovations** in the right moment of the innovation cycle (10-30 years)
- Support **benchmarking idea** – payments for non-compliance
- Czech ETR proposals **doesn't give long term expectation**
- **Growth of energy prices** is more important driver for their decision making than the ETR as it is implemented

## 10. Qualitative research on ETR results -

### Other stakeholders I

- **Public administration bodies - different attitudes:**
  - **A) MoE** - no agreement about main goal of the ETR in CR (varies from taxation of externalities to improvement of energy efficiency and also to public health protection); in fact prefer env. charges to the env. taxes (**to secure revenues for State Environmental Fund**, which will co-finance Structural fund projects)
  - **B) MoF** - ETR only fiscal instrument providing additional income to the state budget
  - **C) MoSA** – the need to keep stable revenues to cover mandatory social expenditures
  - **D) MoIT** – similar preferences as business

## **11. Qualitative research on ETR results – Other stakeholders II**

- **Labour unions:**
  - do not support ETR – agree with its environmental impacts but do not agree with the social contribution reductions
  - Bad timing – several household expenditures increases beginning 2008 (e.g. Apartment rents deregulation; VAT increase of heat production)
- **NGOs**
  - those who are familiar with ETR welcome it
  - suggestions are more ambitious than current ETR model

## **12. Conclusions I**

1. ETR has to be seen in the light of the long history of environmental policy tools/institutions
2. Except for NGOs all interviewed stakeholders do not support ETR:
  - partly because they are not familiar with the ETR concept at all
  - partly because it is not in their economic interest
3. Double dividend idea known only to those being involved in its preparation
4. Understanding the political economy of the ETR implementation has at least the same importance as ex-ante ETR impact modeling
5. ETR implemented according to the EC directive (from outside) was an argument for those not supporting Czech ETR models

**Thank you for your attention**

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