ETR in Europe: experience to date

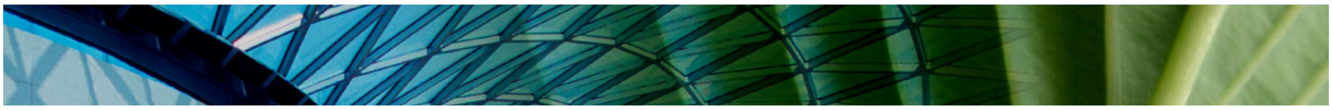
Stefan Speck

Final Conference of the Anglo-German Foundation's petrE project:

Environmental Tax Reform (ETR) in Europe: The Key to a Resource-Efficient and Low-Carbon Competitive Economy

King's College London, July 15/16, 2009

THE SPECIALIST IN PUBLIC CONSULTING



Setting the scene

Features of Environmental Tax Reform (ETR)

ETRs in Europe – design and policy objectives

Experiences with ETRs

- country examples
- some results of COMETR (competitiveness effects of ETR)

Summary

Features of ETR – What do we understand under ETR?

Environmental tax reform (EEA 2005):

reform proposal of the national tax system shifting the burden of taxes from conventional taxes to environmentally related activities – by keeping the tax burden constant ('revenue neutrality principle')

Environmental fiscal reform (EFR) is a broader approach – not only tax shifting programme but also subsidy reform

World Bank (2005) and OECD (2005):

Environmental fiscal reform refers to a range of taxation and pricing measures which can raise fiscal revenues while furthering environmental goals

Features of ETR's

The concept of ETR became prominent with the Delor's White Paper on Growth, Competitiveness and Employment of 1993:

"if the twin challenge of unemployment /environmental pollution is to be addressed, a swap can be envisaged between reducing labour costs through increased pollution charges" **(COM(93)700), Chapter 10.**

Energy Taxation Directive (2003)

"*…. Member States might decide not to increase the overall tax burden if they consider that the implementation of such a principle of tax neutrality could contribute to the restructuring and the modernisation of their tax systems by encouraging behaviour conducive to greater protection of the environment and increased labour use"* **(Council Directive 2003/96/EC)**

Features of ETR's

ETR and the 'double dividend' hypothesis (Pearce 1991)

ETR can trigger off both improvements in environment (eg. an environmental benefit) and in the economy, in particular by increasing employment given the reduction in the tax burden levied on labour (eg. an economic/ employment benefit)

EFR – environmental/fiscal/social benefit – in the context of poverty reduction / Millennium Development Goals – domestic resource mobilisation (OECD, 2005)

Features of ETRs – the question of designing ETRs

National ETR approaches differ widely in terms of:

- Environmental taxes – mainly energy taxes but levied on different energy products and different economic sectors (industry, households) are targeted
- Reduction in other taxes – taxes/charges levied on labour: income taxes, social security contributions, etc; capital taxes; subsidies for energy efficiency improvement (financial incentives);

→ large differences in recycling measures adopted!

→ scope of ETR in terms of revenues shifted differ!

Examples of ETR

ETRs implemented in Denmark, Finland, Germany, the Netherlands, Sweden and the UK - during the 1990s and early 2000

Switzerland, Estonia and Czech Republic – joined during recent years

Additional countries – no explicit acknowledgement of a tax shifting programme (Russia 2001)

ETRs in Europe

Sweden

First major ETR in Europe – early 1990s: ETR was part of a major fiscal reform process: 4.6% GDP - reduction in personal income taxes; ETR offset some of the shortfall within the national budget (1.2% of GDP)

UK

Three relatively modest ETRs (affecting businesses not households): 1996 **Landfill Tax**, tax shift 0.05% GDP; 2001 **Climate Change Levy**, tax shift 0.06% GDP, 2002 **Aggregates Tax**, tax shift 0.02% GDP; - all ETRs: reduction in employers’ SSCs

ETRs in Europe

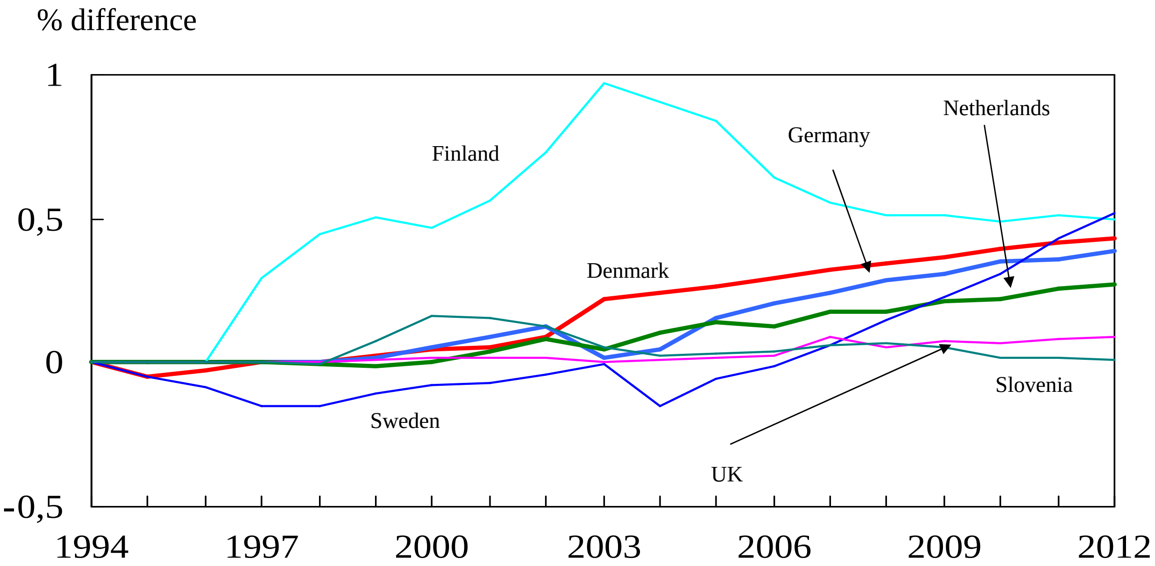
Germany

period 1999 – 2003 (targeted households and business): tax shift of around 0.8% GDP; reduction in employers' and employees' SSCs; increase in existing energy taxes (transport fuels) and introduction of an electricity tax

Switzerland

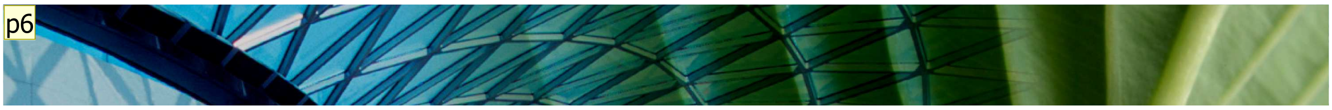
2008: introduction of a CO_2 tax levied on fuels (no transport fuels): recycling to households via lump-sum (reduction in health insurance premium); automatic mechanism (escalator) to increase CO_2 tax rates if CO_2 reduction targets are not achieved
2008: €7.8/t CO_2 → 2010: €23.4/t CO_2

The Effect of ETR on GDP (COMETR project)

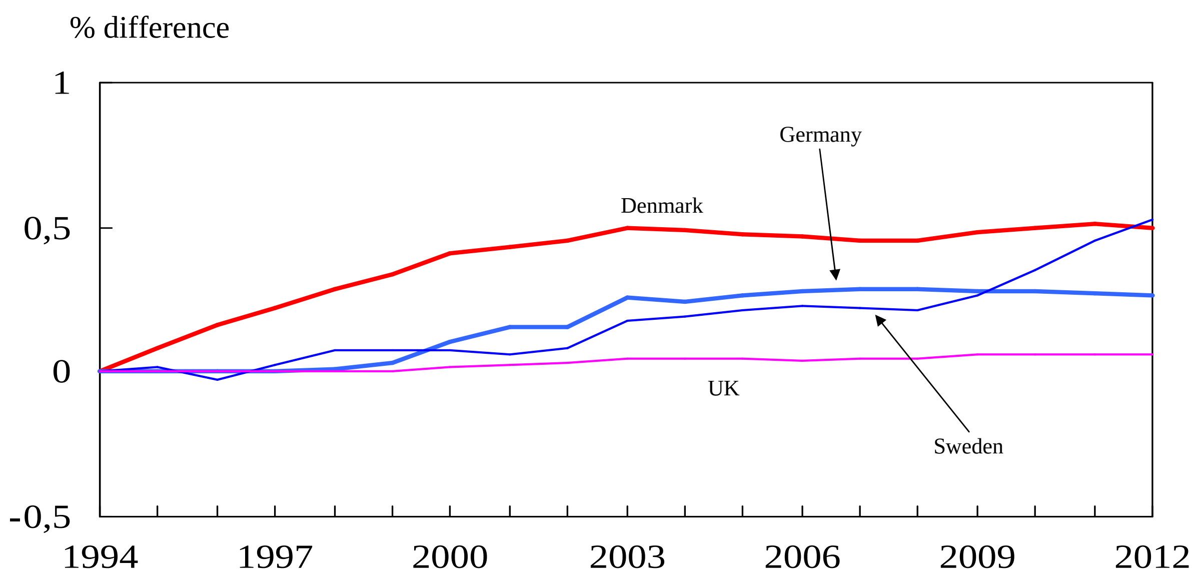


Note : % difference is the difference between the base case and the counterfactual reference case.
Source: CE.

p4 ps, 27/09/2006



The Effect of ETR on Employment (COMETR project)



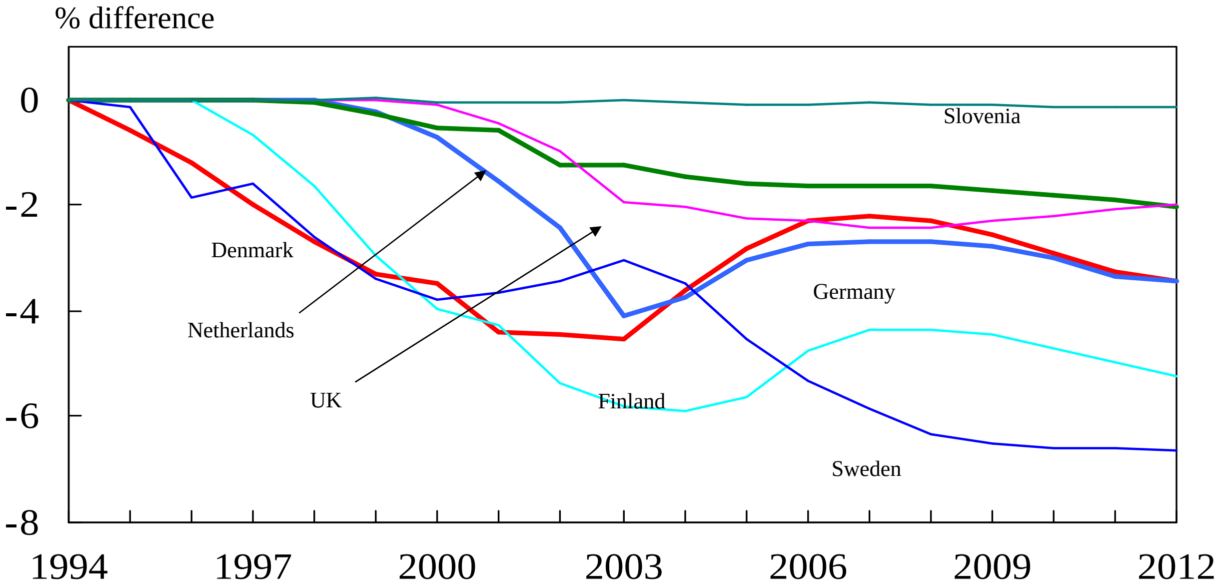
Note: % difference is the difference between the base case and the counterfactual reference case.
Source: CE.

p6 ps, 27/09/2006

p8

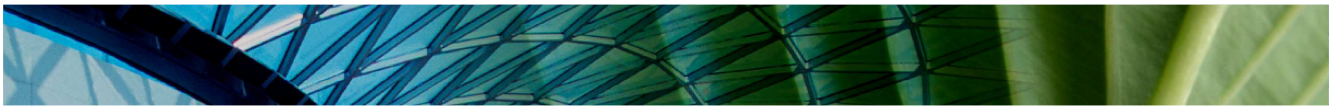
INTERNATIONAL CONSULTING THE SPECIALIST FOR PUBLIC CONSULTING

The Effect of ETR on GHG Emissions (COMETR project)



Note: % difference is the difference between the base case and the counterfactual reference case.
Source: CE.

p8 ps, 27/09/2006



Summary

Positive experiences with ETR in terms of environmental as well as economic objective

Recycling measures: more support for environmental investment programmes (also in the context of the revision of state aid rules; January 2008) instead of reduction of labour taxes → fostering other EU policies (renewable energy target, energy efficiency, etc)

Concept of ETR must be extended – EU ETS – as done in this project!

Thank you for your attention!

Kommunalkredit Public Consulting GmbH
Stefan Speck
Türkenstraße 9, 1092 Vienna
Phone +43 1 31631 248
Fax +43 1 31631 104
Email: s.speck@kommunalkredit.at, www.publicconsulting.at