

## Motivating progress on environmental tax reform through coalitions of like-minded countries

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Based on IEEP report for The Netherlands Ministry of Infrastructure and the Environment



# Introduction to the study

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## Aim:

- To assess the current state of play with environmental taxes in Europe, explore where **further greening taxation could be appropriate and how to drive this agenda forward.**

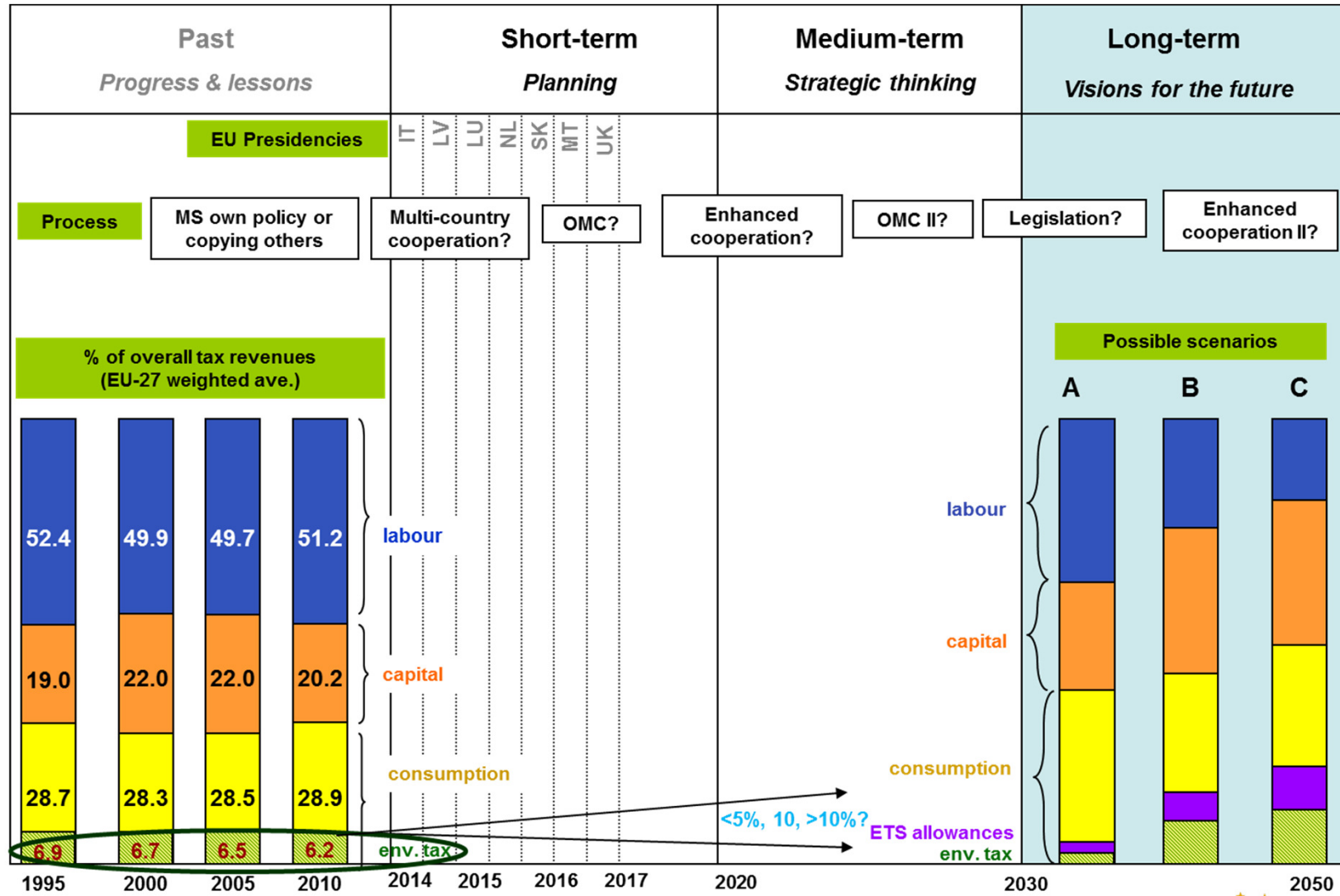
## Timing:

- December 2013-May 2014

## Basis:

- Review of relevant literature by EC, OECD, EEA, national agencies, research institutes, academics, NGOs etc.
- Insights from targeted interviews, a steering group which included representatives from the Ministries of Environment, Finance and Economy in the Netherlands, discussions at an international experts' workshop in Brussels in April 2014.

# Possible future scenarios for ETR in Europe



Source: Adapted from Bassi et al. (2010) Exploring the potential of harmonizing environmental tax reform in the European Union, in Soares et al (eds.) (2010) Critical issues in environmental taxation, International and comparative perspectives, Volume VIII, Oxford University Press, Oxford.

## Current approaches to ETR

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- To date, **countries have largely taken forward the ETR agenda unilaterally** according to their own needs, opportunities and political expediencies.
- In some cases, these actions have been **inspired by efforts in other** countries while sometimes they have been **held back or limited by a lack of action in others.**
- In certain cases **progress has been driven by EU legislation**, either explicitly (e.g. Energy Tax Directive) or implicitly (e.g. cost recovery under Water Framework Directive).
- This has led to a **significant diversity in practices** among countries. To some extent may be inevitable and appropriate given different circumstances; but can have implications for a level playing field, could lead to competitiveness problems or less effective results in certain areas.

# The role of multi-country cooperation & coordination

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- Given the fiscal unanimity rule on tax issues in the EU, some form of **'enhanced coordination'** or **'coalitions of like-minded countries'** could be explored
- Bring together groups of countries (and actors) with similar interests in a particular area to coordinate efforts on ETR.
- Voluntary approach which could lead to **more harmonised/synchronised approaches** (e.g. agreed minimum level) or support **sharing of information** (e.g. on experiences and plans with ETR).
- Scoping study indicates there is **appetite among certain European countries** for some form of voluntary cooperation on ETR, currently preferred to mandatory approaches (e.g. IE plastic bag levy being encouraged across EU).

# Potential benefits of 'coalitions of like-minded countries'

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- Facilitate **political & public support** (overcome reluctance to be first mover)
- **Avoid sub-optimal situations** (e.g. air passenger duties in NL and DE, incineration taxes in SE and NO, Fuel Duty Escalator in UK)
- **Overcome certain obstacles** to progress (i.e. competitiveness concerns, fiscal unanimity rule in EU) and **contribute to a level playing field**
- Support more **efficient** (e.g. compatible road pricing), **effective** (e.g. avoid leakage) and **ambitious** environmental taxes
- Support **informal exchanges of national experiences and plans**
- **Facilitate achievement of targets and objectives**

## When and what type of cooperation?

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- **Cooperation is likely to be more useful in certain circumstances**, depending on the ease with which an environmental tax can be avoided, e.g. through trade (e.g. waste exports) or movement of consumers (e.g. airline tax/fuel tax).
- **Different forms of cooperation are likely to be needed** for different resources, materials, pollutants and issues.
- Cooperation can be **structured according to the issue at hand**, i.e.:
  - **Neighbouring countries** (e.g. to reduce risk of fuel tourism across borders, leakage of products or activities),
  - **Multi-country or regional** (e.g. marine litter in Baltic Sea, North Sea or Mediterranean),
  - **Common challenges** (e.g. fiscal consolidation needs)
  - **Pan-European concerns** (e.g. climate, energy security, biodiversity)

## Potential themes for the coalitions

- **Fiscal consolidation** as a new window of opportunity for ETR
- Cooperating to avoid **competitiveness** concerns
- **Jobs, equity, social costs and benefits**
- **Resource efficiency & circular economy**
- **Climate change & energy**
- **Transport & mobility**
- **Pollution & pressures on environment, biodiversity & health**



## Fiscal consolidation

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- Environmental taxes and ETR increasingly promoted in the context of **economic recovery and growth-friendly fiscal consolidation**
- **Already taken up by some countries** as part of their response to the economic crisis and fiscal consolidation challenges (e.g. DK, IE, IT, PT)
- Fiscal consolidation needs can be a **useful driver of the ETR agenda**

**Coalition** of countries facing fiscal consolidation challenges to:

- Exchange information,
- Learn from each other's experiences
- Point at others' practice to facilitate domestic support.

**Windows of opportunity:** discussions on national budgets and European Semester.

## Cooperating to avoid competitiveness concerns

- Competitiveness impacts are a **key concern** when introducing ETR. Available literature not sufficient to clearly claim that ETR either supports or hinders competitiveness; however **little evidence of negative impacts to date**
- Common concerns about possible negative competitiveness impacts of ETR can act as a **driver for collaboration between countries.**

- **Coalitions** could support **more ambitious efforts** (may be easier to garner support if key competitor countries are working together).
- **Engage wider group of actors** (incl. ministries of economy, finance, environment, energy, employment).
- **Targeted working groups** on areas where competitiveness concerns may merit cooperation, e.g. neighbouring countries on aviation taxes, fuel pricing

## Jobs, equity, social costs and benefits

- Social impacts **sometimes presented as barriers to ETR**
- While carefully designed ETR can support social objectives (e.g. employment with gains dependent on relative labour intensity of affected sectors), there is a **need for more evidence** on the link.
- Given current levels of unemployment and other social concerns in Europe, arguments on the **potential of ETR to contribute to such objectives** can facilitate support for action.

- **Coalitions** could focus on areas where opportunities to address social objectives are more likely (e.g. landfill tax that encourages recycling and composting can lead to increased employment in these sectors).
- Some tax reforms can **combine social & environmental objectives** (e.g. car and airline taxes tend to benefit a certain (usually richer) segment of society)

# Resource efficiency & circular economy

- Resource efficiency and the circular economy are **increasingly important priorities** for policy-makers and business.
- Provides a **new window of opportunity** for action and potential cooperation constellations, e.g. between frontrunners (e.g. UK, NL) which could support more ambitious efforts or inspire/inform action in other countries.

Within coalition, targeted working groups could focus on:

- **Waste exports:** Cooperation (e.g. UK, NL, BE, NO, SE) in setting waste-related taxes and fees could deter export of waste for which recycling, reuse/prevention is environmentally preferable to use as fuel in energy-from-waste plants
- **Plastic bags:** encourage further through information exchange and sharing of lessons (e.g. between IE and PT on how to overcome retailers' opposition)
- **Water pricing:** encourage implementation of cost recovery principle through information exchange, sharing of lessons, development of guidelines

## Climate change & energy

- Climate change and energy will **remain a common challenge**, heightened by recent energy security concerns and decisions to phase out nuclear energy
- Cooperation between countries with carbon and/or energy taxes could **address competitiveness concerns and facilitate more ambitious reforms** to make these instruments more effective.

Within coalition, targeted working groups could focus on:

- **Effective carbon pricing:** A coalition could include frontrunners learning lessons from each other (e.g. how SE reduced exemptions for energy-intensive industries), inspire efforts in others discussing carbon taxes (e.g. PT, IT, CZ) and those contemplating how to achieve a phase out of nuclear energy (e.g. DE, CH).
- **Phasing out reduced VAT rates on energy:** Reduced VAT rates are applied in several MS (e.g. BE, FR, IE, IT, LU, UK) as allowed under current EU VAT legislation. Concerns about phasing out such subsidies can be addressed through smart design (e.g. targeted income support to vulnerable households) and lessons learnt from experiences in other countries.

## Transport & mobility

- Addressing growing emissions from the transport sector and improving the mobility of citizens remains a **challenge for several European countries**.
- Despite efforts, there remains **significant potential for ETR** in a number of areas including issues of fuel taxes.

Within coalition, targeted working groups could focus on:

- **Fuel taxation:** Collaboration between neighbours (e.g. BE, FR, DE, LU, NL) could help overcome opposition to diesel tax reform and avoid fuel tourism
- **Vehicle taxes:** Collaboration between countries with VRT that promote low-carbon vehicles (e.g. NL, ES, IE) could strengthen efforts and inspire progress (e.g. EE, SK, CZ, PL)
- **Infrastructure charging:** collaboration on road pricing, particularly between neighbours could help increase efficiency.
- **Air passenger taxes:** coordinated approach especially among neighbours could avoid concerns about passengers diverting to airports in other countries.
- **Kerosene tax exemptions** in aviation, shipping/fishing and agriculture sector: need EU/international cooperation (e.g. OECD), scope to learn from others experience

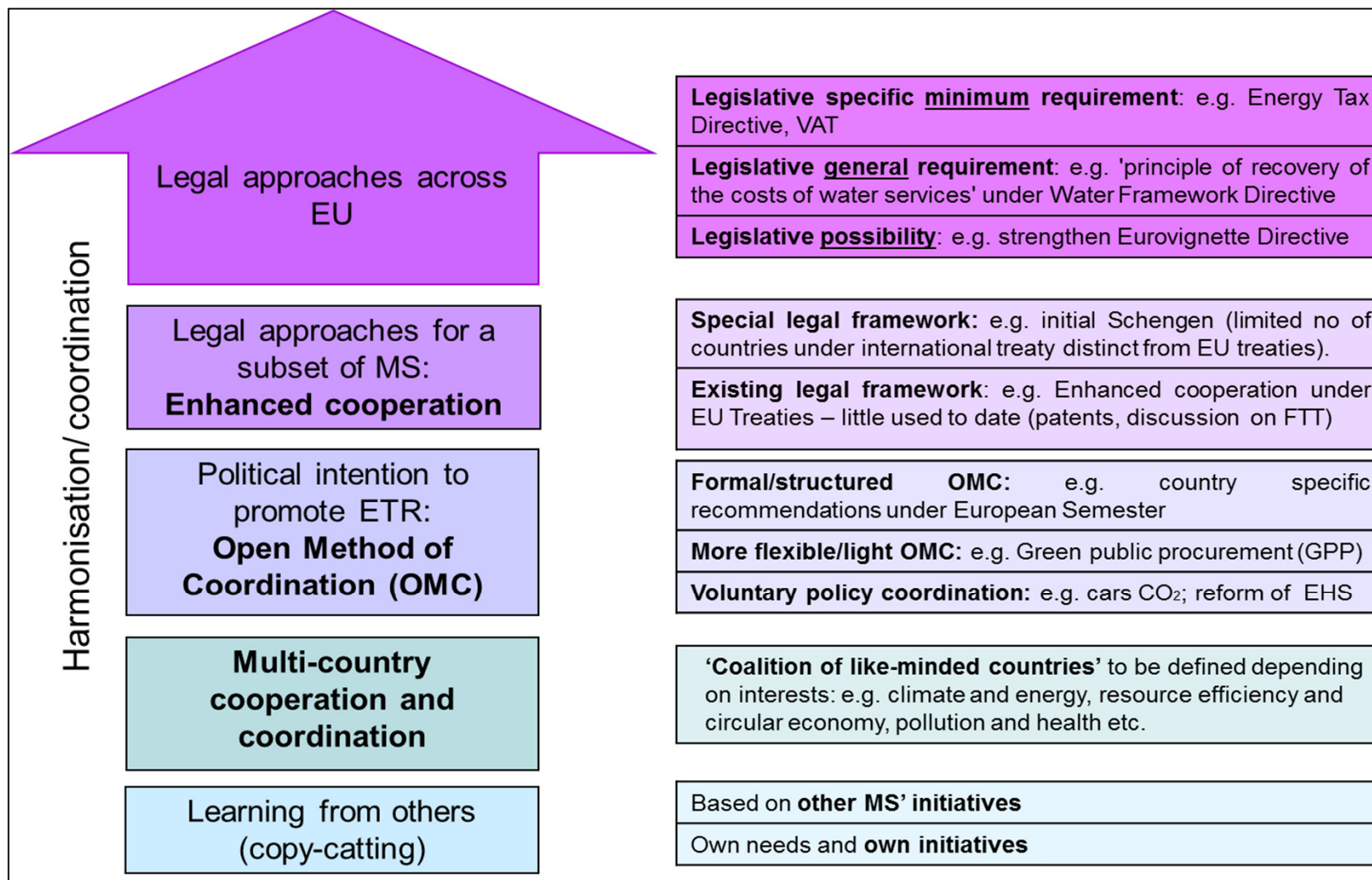
## Pollution & pressures on enviro., biodiversity & health

- Given **multiple pollution sources and pressures** on the **environment, biodiversity** and **health**, legislative requirements and commitments, likely to be **increasing interest in environmental taxes and incentive measures**.

Within coalitions, targeted working groups could focus on:

- **Marine litter:** can be addressed through various tools including deposit-refund schemes (e.g. DK, DE, MT) and plastic bag charges (e.g. IE). Regional approach could be considered, e.g. OSPAR Convention, Regional Action Plans under Marine Strategy Framework Directive in the Baltic Sea, North Sea or Mediterranean.
- **Sustainable use of pesticides:** Cooperation between countries could include frontrunners in application of pesticides taxes (e.g. DK, NO) learning lessons from each other and inspiring efforts in other countries. A related issue is the reform of lower VAT rates on pesticides (and fertilizers).
- Reform of **incentives harmful to biodiversity** to meet the **Aichi Target 3** (Strategic Plan for Biodiversity 2011-2020) and also the Resource Mobilisation target.

# Possible approaches for further ETR in Europe



Source: Adapted from P. ten Brink, M. Pallemarts and S. Bassi, IEEP (2007)



# Catalysing change - next steps for ETR in Europe

- Coalitions would **complement existing approaches** to ETR
- Need further analysis to **identify specific issues** on which coalitions would focus and **specific actors** to engage including drivers of different coalitions, e.g.
  - Individual countries (e.g. NL, DK,... ?)
  - Groups of countries (Nordic countries, Green Growth Group, ...?)
  - Other actors (e.g. European Commission, OECD, EEA, ...?)
- Engage **policy-makers from different areas** (finance, economics, tax, transport) and **wider stakeholders** (academics, business, civil society)
- Engage successive **EU Presidencies to** develop momentum and continuity
- Make use of **existing platforms / processes** (e.g. MBI Forum, OECD Env Tax Group)
- Own initiatives – interested nations offering to lead coalitions on specific priority themes

# Windows of opportunity to take the agenda forward

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Make use of **existing policy processes** and **windows of opportunity**:

- **National level** (e.g. budget announcements, legislative proposals),
- **European level** (e.g. European Semester, legislative processes such as Energy Tax Directive, Eurovignette Directive, Regulation on accounts, EHS reform initiatives, waste legislation, water framework directive),
- **International level** (e.g. relevant COPs to the CBD and UNFCCC, UNCSD, G-20 meetings, OECD working groups, events organised by NGOs, academics and other actors).

## Questions for discussion

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- Which issues are particularly suitable for coalitions of like-minded countries?
- What would you see as priorities for attention – in general and for you?
- Where are there important windows of opportunity for action?
- What do you see as the needed next steps? Who would you like to see do what?

**The full report can be downloaded from the IEEP website:**

<http://www.ieep.eu/work-areas/environmental-economics/market-based-instruments/2014/06/environmental-tax-reform-in-europe-opportunities-for-the-future>

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See also:

**New Book!** [Paying the Polluter - Environmentally Harmful Subsidies and their Reform](#)

[by F. Oosterhuis and P ten Brink \(eds\).](#)

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