

## ***Making prices work for the environment Environmental Fiscal Reform in Europe***

The European Environmental Bureau has decided to launch an European-wide campaign on Environmental Fiscal Reform. EFR is Environmental Taxation Reform supplemented by elements of Green Budget Reform. ETR is one of the main tools for moving towards sustainable development, through the internalisation of external costs and getting the prices right for the environment. The main element of Green Budget Reform we will also campaign on is the removal of environmentally adverse subsidies (as well as the reform of any other subsidies that have an impact on the environment), without which Environmental Taxation Reform would not be totally efficient nor coherent. The campaign is planned to run for one year and a half. It will involve all EU Member States as well as Accession countries. A working group made up of EEB members and experts has been constituted and will run this campaign at both European and national level. The campaign working group met for the first time in Brussels on October 26<sup>th</sup> and 27<sup>th</sup>.

The current EU Belgian Presidency is set to make what can be seen as the last attempts to get agreement on the 1997 Taxation of Energy Products directive proposal, that aims at establishing a Community framework with minimum energy tax levels. We believe it is time to put pressure on governments and institutions to see a breakthrough after years of deadlock. If unanimity cannot be reached, then other ways, including enhanced cooperation, should be contemplated in order to get progress for the ETR like-minded countries.

The 1997 “Monti proposal” would constitute a good basis to start some EU harmonisation. But we also believe we need more ambitious environmental/energy taxation than the 1997 EC proposal. Therefore, our objectives, at EU and national level, go further beyond the Monti proposal. The CO<sub>2</sub> content of fuel must be taxed too, as it is already in some Member States, so to reach the Kyoto greenhouse gases reduction targets and even reduce emissions further beyond. As a market-based instrument, environmental taxation is a pragmatic and efficient instrument that sets the right pricing for natural resources use. Environmental taxes add a price-signal to product cost. This extra cost aims at changing consumption patterns and at reducing environmental external costs (that is to say the cost of environmental use / damage usually not incorporated into products price).

Extra environmental tax revenue is to be used to ensure the fiscal neutrality of Environmental Tax Reform and to operate its “double-dividend”. The ecotaxes income goes towards a decrease of labour taxes: ETR helps to improve both the environment and employment. Part of the revenue can also be used towards social premiums to compensate those who do not benefit from tax decreases (for instance, unemployed people). Environmental Taxation Reform therefore has some economic and redistribution impacts: it is better implemented within a general fiscal overhaul. Governments can take

advantage of environmental taxation reform to improve the efficiency of their fiscal systems. Moreover, ETR is more efficient when accompanied by a removal of environmentally unfriendly subsidies, by energy market (supply and demand sides) reforms and by a greening of public procurement in order to ensure policy coherence and to get a real environmental impact. This is why we will campaign on Environmental Fiscal Reform, with ETR as a backbone. The EEB campaign will insist that adequate energy tax levels are indispensable to get real environmental impact.

**Campaign Objectives :**

- ▶ **Implementation of an ambitious and effective Environmental Taxation Reform throughout Europe**
- ▶ **Raising awareness about ETR among the public as well as among governments and private sector players**
- ▶ **Raising the quality of the political discourse on ETR and overcoming resistance**

**Campaign demands :**

- ▶ **A minimum 10% shift in tax base from labour to natural resources by 2010, at EU and national level**
- ▶ **Removal of all environmentally adverse subsidies and reform of all subsidies that have an impact on the environment by 2005**
- ▶ **Energy efficiency policies**
- ▶ **Financial incentives for environment protection**

The tax shift from labour to natural resource use is a key idea of Environmental Taxation Reform. We demand that environment related taxes represent an additional 10% of total tax revenue (ten percentage points additional to existing environmentally related taxes share, e.g. 17.5% instead of 7.5%). Correspondingly, labour tax share of total tax revenue goes down 10%. The implementation can be done gradually until 2010. Only such a level of changes can have a real impact on both the environment and employment. Once its implementation started, we will encourage the tax burden to be further shifted to a wider scope than 10%. Governments by then will have understood the beneficial effects of ETR and will be encouraged to shift further.

The EEB campaign sets these main objectives for the EU as a whole. The choice in priority actions and methods is left to EEB members to decide for their campaign according to the national situation. For instance, revenue recycling options will be chosen by national campaigns (some countries do not see the fight against unemployment as a priority), although the emphasis is on labour tax reductions. We will run a coordinated campaign at both national (EEB member organisations) and EU (EEB) levels.

We believe that **public awareness** is a key element for the **public acceptability** of Environmental Fiscal Reform. As such, our actions will include :

- public awareness campaigns at national level by the EEB members
- a campaign website
- open seminars
- outreach to the media
- a campaign bulletin
- publications
- workshops and conferences

There has been little progress so far at EU level because of the lack of pressure on decision-makers. Consequently, we will do a lot of lobbying through :

- pressure on national governments, EU institutions and private sector
- coalition building with other NGOs, trade-unions, “green” companies
- building-up of networks and alliances (academics, consumer organisations, firms etc...)