European
Environmental
Bureau

Environmental Fiscal Reform

Making Prices Work for the Environment

Campaign Newsletter 4

December 2002

Welcome to the fourth campaign newsletter of the EEB European campaign on Environmental Fiscal Reform (EFR)!

EDITORIAL

Our Annual Conference, on October 10th, of which theme this year was Environmental Fiscal Reform, was successful and convinced us further of the importance of EFR as a key instrument for sustainable development. Indeed, although the political context in the EU is currently generally not very favourable, the ministers present were positive about EFR. As for the only government representative who was rather negative, the conference panel and participants quite easily counter acted her arguments. These results, as well as the inspiring and forward looking speech of Mr Von Weizsacker, who opened the conference, comforted us in the fact that EFR stays an important and innovative environmental policy instrument for now and for the future.

The road for the implementation of EFR throughout Europe may be in ups and downs, as shown by the recent policy changes of some governments and by the difficulties at EU level to agree on minimal harmonisation on energy taxation. However, when governments realise that: 1) they do have to comply with their Kyoto commitments; 2) they cannot put off further efforts to reduce pollution and waste; 3) they have to reduce energy foreign dependency, notably on fossil fuels; 4) and that they ought to live up to all their talk of sustainable development and fight against climate change; then taxing polluting activities and the use of natural resources will come back as an obvious policy option to them. They will also know that the best way to do so from an economic efficiency point of view is to do it in a revenue neutral way by just shifting the tax burden from current tax bases, for instance labour, to environmental use. They will understand that with EFR, the greater sustainability everybody is talking about can be achieved at no cost for the general economy and for employment.

In the present time, however, the EU Danish Presidency is struggling to get some kind of minimum agreement on the EU Energy Taxation directive…. Whatever the outcome, it is unlikely that the final text will contain any recommendation, as in the original text, for governments to recycle the tax revenue in labour tax cuts. Moreover, the tax levels being discussed now are just an –long overdue- inflation update of the 1992 minimum Community rates, as well as the introduction of symbolic minimum rates for natural gas, coal and electricity. On the other hand, plenty of tax rebates possibilities are also being negotiated….

Yet many say that this is still environmentally positive when the enlargement is taken into consideration. This directive would have more impacts on the new Members than on the current ones. Furthermore, getting an agreement may be even more difficult after the enlargement.

The EEB will review its position on the EU directive after the outcome of the Danish Presidency. In the meantime, we campaign for real and much more ambitious Environmental Fiscal Reform for the future!

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Campaign Objectives:

- Implementation of an ambitious and effective Environmental Fiscal Reform throughout Europe.
- Changing consumption and production patterns towards greater sustainability.
- Raising awareness about EFR among the public as well as among governments and private sector players.
- Improving the quality of the political discourse on Environmental Taxation Reform and overcoming resistance.

Campaign Demands:

- An additional 10% shift in total tax revenue from labour to environmental use by 2010, at EU and national level
- Removal or reform of all environmentally adverse subsidies by 2005
- Measures to address any potential social impact
- Energy saving and efficiency policies
- Fiscal incentives for environment protection

see the campaign strategy and objectives in more details at http://www.ecotax.info/platform.pdf
the campaign platform is also available in French, German and Spanish on www.ecotax.info *(in "documents")*

CAMPAIGN NEWS

European Campaign

EU news in brief

- **Energy Taxation directive proposal**

There was an agreement at the Ecofin of October 8th on….the definition of energy intensive industries eligible for tax rebates. However, there was no progress at the Ecofin of November 5th, nor at the Ecofin of December 3rd. The rate for professional diesel, the transition periods and the possibility of setting national tax levels below the EU new minimum levels for some industries[1] still need to be agreed upon. Furthermore, the question of tax rebates and state aid guidelines is currently complicating the negotiations.

Yet some progress apparently occurred recently in Council meetings. The Presidency, on a proposal from the Commission, proposes to take some industrial processes (energy products not used for motor or heating purposes) out of the scope of the directive, in order to ease the problem of state aid guidelines. That means that taxation for these processes would not be compulsory anymore, which from an environmental point of view is a bit better too, since it means that Member States would be allowed to tax them.
The Presidency also hopes for an agreement on the possibility of taxing industry under minimum rates only against voluntary agreements to cut emissions or increase energy efficiency, or similar measures such as emissions trading. The issue of transition periods should be solved. But the problem of professional diesel, and notably the tax rebate extension for France and Italy, remains problematic. That brought considerable opposition from Germany at the Ecofin of December 3rd. The Danish Presidency is however optimistic a political agreement can be settled at the Ecofin of December11th.

<u>Any hope left from the "Monti proposal"?</u>

Would there be any environmental gain left in the directive if adopted in the present form?
An optimistic reading would be that, compared with the deadlock of 2/3 years ago, some progress has occurred, notably on the update of the 1992 rates and on the new rates for electricity, natural gas and coal. The environmental balance of such a text would still be somehow positive in several ways:

- the update of the 1992 minimum rates by 15-20% would imply tax increases in a few countries (GR, PO, IR, BE, SP) and would send an upwards signal to the others
- the new EU minimum rates for electricity (output), natural gas and coal. The rates are low (even symbolic), but positive: it can be a first step for increases in the future.
- if confirmed in the Ecofin negotiations, the final text would contain less compulsory tax exemptions, notably on some industrial processes
- adopting the directive before the **enlargement** and thus making it part of the *acquis* would entail environmental gains there: not only because that would increase energy taxation in the new Members, but also because the adoption of the directive after the enlargement may prove to be even more difficult than it is today.

However, the new Danish compromise text, elaborated from previous negotiations, is far away from the original text of 1997. It is also a **long list of tax exemptions** that tries to accommodate every Member State. Apart from the update of minimum rates, there is very little scope for real increases of energy taxation. Indeed, households, administrations, and energy intensive industries can be exempted. It seems that only non energy intensive business would be slightly more taxed, even if at ridiculously low levels with this business half rate of already low rates. And motorists would be taxed a bit more

[1] At least some Member States are resistaing against this demand from one Member State

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in few countries. Also, the proposal now contains new "specific policy considerations" for allowing tax breaks. This can be easily interpreted…

All in all, this text would still give an EU general energy taxation framework that includes electricity, natural gas and coal before the enlargement.

The EEB will review its position on EU Energy Taxation after the end and outcome of the Danish Presidency.
† see also EEB position paper presented at the Annual Conference on: www.ecotax.info/Confpositionpaper

The EEB campaign

? The campaign was officially launched with a Press Conference[2] in Brussels on November 27th 2001. The campaign website was launched in December 2001.
† www.ecotax.info

? The EFR European Working Group, made up of representatives of EEB member-organisations from 17 EU and Accession countries, already met four times to organise the campaign at European and national levels.

? the campaign platform *http://www.ecotax.info/platform.pdf* was published at the end of March 2002. Please contact sylvain.chevassus@eeb.org (full contacts below) if you want some paper copies. Electronic versions in English, French, German and Spanish are available on the website.

Upcoming main **campaign actions** include:

? **Follow up of EU negotiations on the energy taxation** directive proposal and lobbying continue, with special emphasis on those governments who are not in favour of the proposal

? **Follow up of new directive proposal on diesel fuel tax arrangements**: meeting with MEPs about the parliaments' upcoming opinion.

? **Increase of the dialogue with industry**: submission of a cooperation proposal to business coalition E5 (www.E5.org) with a view of defining common actions on EFR as a business-friendly tool for increasing energy efficiency and moving towards greater sustainability.

[2] see press release at: http://www.eeb.org/press/press_release_fiscal_eng_n27.htm

? **Adoption of a campaign position on emissions trading** (with special emphasis on the link between EFR and emissions trading)

? **New publication in 2003**

? **Conference on EFR in Warsaw** organised by EEB member Institute for Sustainable Development, January 16-17 2003. The EBB will be there and present the campaign. More information soon available on www.ecotax.info

? **Conference in Dublin** organised by EEB member An Taisce. The theme will be around EFR in Ireland and in Europe. The EBB will be there and present the campaign. Date (to be confirmed) : 27-02-03.
More information soon available on www.ecotax.info

Recent main **campaign actions** include:

? EEB Annual Conference : **« Making prices work for the environment / Environmental Fiscal Reform in Europe »** (October 10th 2002, Brussels)

We chose "Making prices work for the environment, Environmental Fiscal Reform (EFR) in Europe" as the theme for our Annual Conference of 2002, in order to present our campaign and to emphasise the potential of this market-based instrument for environment protection in Europe.
The EEB Conference began with a keynote speech by **Ernst von Weizsäcker**, member of the German Bundestag and founder of the Wuppertal Institute. Mr von Weizsäcker presented his vision of a gradual price corridor (factor 4) that would lead to a revolution in energy efficiency resource productivity.
Mr **Hans Christian Schmidt**, Environment minister of Denmark, was then the first speaker to open the morning Panel, chaired by EEB President Ralph Hallo. Mr Schmidt immediately stressed : "We need a green market economy". Danish taxes on SO2, nickel-cadmium batteries and on chlorinated solvents have been effective. But the current government of Mr Schmidt has pledged a tax freeze. The Danish government is therefore looking at a restructuring of green taxes rather than an increase of the overall tax burden, as well as at EU harmonisation.
Mr **Michael Meacher**, Environment minister of the UK, exposed the green tax policy of the British government. The key component of the government's climate change package is the climate change levy (CCL). It is a tax on the use of energy by business introduced in April 2001. The purpose of the levy is to provide an important price signal about the environmental costs associated with the consumption of electricity. The domestic sector is excluded from the CCL, because of the fuel poverty problem in the UK. Moreover, the government also launched a domestic emissions trading system in April this year.
Mrs **Carmen Martorell**, Secretary general in the Environment ministry of Spain, expressed doubts about the relevance of EU energy taxes as long as the EU energy market is not fully realised. She recognises the scope for double dividend in a revenue neutral EFR, but said that it is not EU competence. Thus, the Spanish government is more

in favour of "positive" fiscal instruments, as well as incentives for green technology development and emissions trading.
The EU Environment Commissioner **Margot Wallström** welcomed the fact that *environmental NGOs have moved away from their scepticism about market based instruments.* She stressed that the use of environmental economic instruments has been strongly encouraged by the Commission ever since the Bruntland Report of 1987. Mrs Wallström emphasised the effectiveness of some ecotaxes such as the NO_2 tax in Denmark that led to a 35% drop in emissions in one year, or the toxic waste tax in Germany with a 15% cut. The Commissioner pointed out at the contradiction in industry's attitude: they welcome market-based instruments but reject ecotaxes, even when they are revenue neutral. Partly for this reason, progress at national level has been patchy, and really bad at EU level. Ever-ongoing negotiations on the 1997 energy taxation proposal have seriously weakened the original text. Nevertheless, Mrs Wallström hopes the Danish Presidency will succeed in getting an agreement.
EEB Secretary General **John Hontelez** closed the panel's presentations by presenting the EEB campaign's objectives and demands for EFR. He deplored that EU energy taxation had become "a good example of non-integration of policies". Governments should listen to NGOs, that the public trusts more, rather than business. Politicians "shoot in their own foot", since EFR can offer opportunities for financing the services the public ask from them such as environment protection or health care. About the EU Energy Taxation directive, the EEB may have to re-consider its initial support, if the current discussions lead to a weak text of which, for instance, compulsory tax exemptions could be damaging for national policy. Should the negotiations fail, John Hontelez calls on EU governments to strengthen domestic policy and policy coordination, and consider the option of enhanced cooperation.

A participant in the public pointed out to the Spanish representative a study[3] that showed that the impacts of the EU energy taxation directive would not be negative on the Spanish economy. Mrs Martorell replied that she agrees with the concept of eco-taxation/EFR, but she warned against many bad designs or ill-implementation such as the Baleares' *ecotasa*. Yet Antonia Grifols I Monpel, from Spanish EEB member Eco-Mediterrania, said that the *ecotasa* not only is working well, but also benefits the tourism industry.
As for the public acceptance of the taxes, the public as well as the panel agreed on the importance of social measures and rewards such as ecobonuses. Mrs Wallstrom insisted transparency and communication are also key to this acceptance.

In the afternoon, we had interesting discussions on the issues of competitiveness and income distribution. **Yannis Paleocrassas** from EEB Greek member Elliniki Etairia presented the EEB views on the two issues. **Daniel Cloquet** from UNICE questioned the practicability of EFR and the validity of the double dividend, insisting that the competitiveness of European business must be seriously addressed in all environmental instruments. **Paul Metz**, from business organisation E5[4], challenged the abuse of the competitiveness issue, saying that unregulated competition can be both good and bad for business. The technologies for sustainable development are with us, but the economic

[3] made by the Spanish Finance Ministry itself
[4] European Business Council for a Sustainable Energy Future

framework cannot yet fully deliver them. We urgently need a *sustainable finance reform*, of which EFR would be a key component. Moreover, the question of the property of common commons such as the atmosphere must be addressed. **Peter Coldrick,** of ETUC, while recognising the need for an European sustainable model and for sustainability instruments, said that EFR may not be the "magic" instrument that will also help job creation. A different kind of growth is certainly needed, but a particular attention must be directed at those who may lose their jobs because of the important structural changes brought about by a reform such as EFR or "factor 4".

Terry Barker, researcher at the University of Cambridge, presented the potential regressive effect of EFR on vulnerable groups. Increasing the price of domestic fuels is regressive for these groups as energy bills represent a disproportionate part of their expenses. However, EFR as a whole is only weakly regressive, and accompanying measures such as tax credits can offset this problem.
In concluding the conference, **John Hontelez** pointed out that, as NGOs embark upon new environmental policies, they face new kinds of opposition. Right alliances are key to overcome these obstacles. It is also essential that our vision is communicated to the public enthusiastically. We have to increase the pressure on politicians and make EFR attractive to the public. Moreover, even if our first motivation is the environment, we must always ensure that the reforms we advocate are fair : social equity is also at the heart of sustainable development.

† *the conference report will be available soon*

? EFR campaign workshop, 11-12 October 2002

We held the fourth campaign workshop at the EEB offices in the days following the Annual Conference. The campaign is now scheduled to continue until July 2003, although the EEB coordinator will work only half time on it as from November 1st.
We discussed the following points: the lessons from the conference, the competitiveness issue, the new EC diesel proposals (Daniel Boeshertz from DG Taxud presented these proposals to us), emissions trading (the WG aims at adopting a campaign position on this other market-based instrument soon) and new actions for 2003. EEB members presented their national news and actions. We also discussed the possibility of future partnership with FÖS, the German Ecotax Association.

? Danish Ecological Council Conference, Copenhagen October 8th

"European Experience, Development and Opportunities with Environmental Tax and Budget Reforms in DK and the EU". There were many participants, including government representatives from the Netherlands, Germany and the UK, the OECD and the EEB. One of the lessons is that although the "new" Danish government has been criticising green taxes since thy got in office, they have not abolished them (just frozen). EFR can also provide them the funds they will need for these tax cuts that they have yet to deliver. The Danish Ecological Council presented its new Policy Paper of a Tax Shift

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proposal for Denmark. It is an additional 9% tax shift that is revenue neutral, non-regressive and that does not harm national industry's competitiveness.

? see www.ecotax.info/EnvBudgetReformInDK.pdf (in section "documents")

? **Charles University conference, Prague, November 1st**

The theme of the conference was "The Consolidation of Governance and Entrepreneurship in the Czech Republic and the European Union". The environmental section was about "Optimal fiscal policy or efficient environmental policy: political oxymoron" ? The EEB was there and presented the EFR campaign and our views regarding competitiveness and social equity. An overview of environmentally related taxes in the Czech republic was presented. Representatives from the OECD, universities and foreign governments presented the existing practical experiences or studies, while representatives of the Czech finance and environment ministries discussed the potential for EFR in the Czech republic.

† *the conference presentations are available on:*
http://www.czp.cuni.cz/ekoreforma/KONFERENCE/FSV%201-11-2002/Pozvánka.htm

? **Elliniki Etairia conference, Athens, November, 7-8**

EEB member Elliniki Etairia organised an international meeting on EFR in Greece. The EEB was there and presented the EFR campaign. The following themes were covered : the environment and the market, sustainable development ("a contradiction in terms or an economic necessity?"), land planning, and the impact of taxes and subsidies on environmental degradation and employment. Yannis Paleocrassas presented the motivation for a radical fiscal reform (shifting the tax burden from labour to environmental protection, including the abolition of harmful subsidies and measures to redress the regressive impact of environmental taxation) and developed a proposal for such a reform in Greece.

† *see Yannis Paleocrassas's paper on:* www.ecotax.info/YPradicalfiscalreform.pdf
(in section "documents")

? **ÖGUT Conference in Vienna, November 25th**

The conference was organised by EEB partner ÖGUT (Austrian Society for Environment and Technology www.oegut.at) and had as theme : "Networking for harmonisation of an European Environmental Fiscal Reform". The EEB was there and presented the campaign. Representatives from other countries and from the OECD presented practical experiences of EFR, and representatives from the Austrian Finance and Environment Ministries presented EFR elements in Austrian policy as well as the European context.

† *the conference proceedings will soon be available on:* www.oegut.at

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National campaigns

At national level, many new actions have been started by our participating members in Austria, the Czech Republic, Finland, France, Greece, Ireland, Portugal and Spain. Belgium, Denmark, Germany, Hungary, the Netherlands, Poland, Sweden, and the UK are carrying on with the actions they were already doing before joining the campaign, while adding this new European profile to their campaigns. Here is some national news from two of our Members.

☨ *you can find news from all participating countries at* www.ecotax.info

Poland

Campaign Participant:

Institute of Sustainable Development www.ine-isd.org.pl

In Poland, there are taxes on NOX, SOX, pesticides, fertilisers, water extraction.

But no Environmental Tax Reform. ETR is not in the public debate or a political party project. The Finance Ministry s reluctant to the ETR concept.

- January 2002: increases of environmental fees on water extraction and waste, gas and dust emissions, waste disposal

NGO :

? The Institute of Sustainable Development has published a study on the impact of EFR on to the Polish economy. A macro-economic simulation showed positive results. The simulation pointed out possibilities of improvement of macroeconomic, social and environmental indices in long-term period. First of all, EFR can to some extent affect the goals of social and income-distribution policy. Secondly, some positive economic and environmental effects can be observed in corporate sector. Thirdly, some macro-economic growth is likely to be achieved. Generally, positive effects of implementation of EFR in Poland are prevailing over the negative ones.

? A press conference for the launch of the Study (15-12-01) was an occasion to disseminate info and get press coverage.

? Diffusion of the study throughout 2002. Publication to be sent to government officials/ministers with letter on EFR.

? EFR study to be sent to other NGOs, this will constitute a basis for EFR campaigning. EFR NGO platform set up including the Institute for Sustainable Development and the Cracow Institute for Environmental Fiscal Reform.

- The Institute is planning a conference on EFR to show the results of the study, in Warsaw at the beginning of 2003. The government will be invited.

- An educational version of the Study is to be prepared by an NGO EFR Committee for diffusion to decision-makers and civil society.

- The Institute for Sustainable Development is organising a conference on EFR on January 16th-17th 2003.

  contact: Wojciech Stodulski w.stodulski@ine-isd.org.pl

United Kingdom

Campaign Participant:

Friends of the Earth England, Wales and Northern Ireland www.foe.co.uk

Overview:

- 1993: Road fuel duty escalator to combat Climate Change, up 5% p.a. in real terms. No earmarking of revenue for tax decreases or environmental expenditure.

  Public sees it as a revenue raising tax.

- 1995: Government increased VAT on domestic fuel (according to EU requirements) from 8 to 17.5%. Regressive impact on low income households: unpopular and rejected. Put back at 8%.

- 1996: Landfill tax introduced with very low rate; revenues to cut social security contributions

- 1997:
  - Road fuel duty escalator increased from 5% to 6% p.a. in real term
  - VAT on domestic fuel cut from 8 to 5% (along the new government's campaign manifesto)
  - Government publishes "Statement of intents on environmental taxation" which commits to the principle of ETR

- 1998: Landfill tax to be increased by £1 per tonne each year until 2002 with revenues used to cut employers' social contributions.

- 1999: Cuts in vehicle excise duty for low emission vehicles

- 2000: Road fuel duty escalator abandoned after truckers' protests

- 2001: Road fuel duty cut after truckers' protests.

Climate change levy (April 2001)**:**

- ? applies to gas, coal and electricity (oil is not covered) used by end-users in business and the public sector (households are not covered)
- ? The rates are: Electricity 0.43 p/kWh,Gas, coal 0.15 p/kWh, liquefied petroleum gas (LPG) 0.07 p/kWh.
- ? Oil products are covered by separate mineral oils taxes.
- ? Downstream: does not apply to electricity generating sector
- ? Broadly uniform rate for each fuel
- ? energy intensive firms can claim a 80% tax refund in exchange of energy use and emissions cuts, energy efficiency programmes (negotiated agreements). 20% of the tax still remains.
- ? firms can do emissions trading within their sector to meet their targets
- ? energy intensive sectors identified on basis of IPPC directive (not entirely satisfactory as it makes some sectors such as food and drinks eligible for tax rebates whereas they are not very energy intensive)
- ? all sectors have already signed voluntary agreements
- ? renewable energies are exempted, and, temporarily, horticulture and gas use in Northern Ireland
- ? CHP fuel input is exempted
- ? the CCL is revenue neutral
- ? revenue around 1 billion pounds a year (0.5 % of total tax revenue)
- ? it is estimated to increase by 10-20% the typical energy costs of business
- ? revenue goes into decreases of employers' social contributions (-0.3 % points), into tax breaks for energy efficiency investments and new programmes for energy efficiency and renewables (£50 m per year)
- ? compensation measures for business also include enhanced capital allowances (investments can be written off tax in year one, rather than being depreciated over time)
- ? industry attacked the levy with the argument of competitiveness loss, but they have all signed VAs. Protest remain from those non-eligible to the voluntary agreements and the tax refunds.

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2002:

- Budget 2002/ tax shifting : Contributions for the National Health System significantly increased. In doing so the government increased labour taxes by far more than they have been reduced through green tax reforms. There appears to be little chance of getting the Government to take a positive stance on tax shifting beyond agreeing with it in principle before the next election (probably 2006).

- Despite the retreat over tax shifting the Government remains keen on using green taxes. The new approach though is smaller more targeted taxes where some of the money is used to help achieve the aim of the tax. HM Treasury (the Finance Ministry) has held two meetings with both NGO's and business on how establish a more systematic and transparent approach to using and designing green taxes.

- But in Budget 2002 both Fuel Duty and the Climate Change Levy (the industrial energy tax) were frozen. The focus is now more on positive fiscal incentives for cleaner cars or fuels. The government is also thinking of doubling or trebling the landfill tax, of which rather low rates have been blamed to explain the little effectiveness of the tax.

NGO : Friends of the Earth England, Wales and Northern Ireland.

- Big public campaign on climate change.

- Friends of the Earth has campaigned for ETR for the past six years. FOE produces a briefing ahead of every Budget (March) and Pre-Budget Statement (November). Other NGOs are active on taxes of particular relevance to their issues. ETR measures such as the CCL and road fuel duty increases are under attack mainly from industry.

- New ETR measures on the agenda are an increase in Landfill tax and the introduction of a pesticides tax. FOE campaigns for the eradication of fuel poverty, as a condition for seeing any domestic energy taxation taking place in the future.

- FOE is trying to begin the public debate over options to introduce domestic energy taxation in a way that minimises negative social impacts.

- Friends of the Earth is now focusing on defending the measures and rates they were successful in getting – most importantly the high rate of fuel duty and the climate change levy.

- In the run-up to the next Budget (March 2003) the focus for NGO's is likely to be waste and agricultural chemicals, as well as positive tax incentives.

- FoE also intends to start to raise a proper debate on household energy taxation. This will be a slow process and not easy - but they want to start now.

http://www.foe.co.uk/campaigns/sustainable_development/publications/ecotax_reform/
contact: Tim Jenkins timj@foe.co.uk

IN-DEPTH TOPIC: ENVIRONMENTALLY HARMFUL SUBSIDIES

Environmental Fiscal Reform campaign: subsidies removal or reform

In its European campaign for Environmental Fiscal Reform (EFR)[5], the EEB demands as a second priority the "removal or reform of all environmentally adverse subsidies by 2005". Indeed, implementing Environmental Tax Reform (ETR)[6] while maintaining environmentally adverse subsidies would not offer much environmental, nor fiscal, coherence. Subsidy removal is an important condition for getting prices right for the environment and for making the market work for more sustainability.

All subsidies with a significant negative environmental impact must be identified in all sectors (energy, transport, industry, agriculture etc…) in the different EU and Accession countries. We target all types of support measures: direct payments as well as "fiscal subsidies" that constitute many "hidden subsidies". However, some subsidies need reforming rather than suppressing. It is the case notably for agricultural subsidies: phasing them out altogether would be too disruptive. The EEB demands that subsidies are shifted towards the development of a sustainable agriculture and the promotion of organic production.

Definition

The OECD defines subsidies as "any measure that keeps prices for consumers below market levels, or for producers above market levels". But a large definition could include the non-internalisation of external costs as a implicit subsidy. However, national governments often disagree, even with the OECD definition. And, given the wide range of possible support measures[7], a clear cut definition is difficult to establish. For instance, in the case of nuclear energy, governments may disagree that grants for research and development, or the government liability cover, are considered subsidies. The non-internalisation of external costs could be considered to be another huge subsidy.

There are many reasons why governments subsidise some economic activities. These include correction of market failures[8], protection of national production and employment, regional development, reduction of dependence on foreign imports, access to services or goods for all, stimulation of economic growth etc…Some subsidies are useful

[5] see www.ecotax.info
[6] tax burden shift from labour to the use natural resources
[7] direct financial interventions (transfers, grants, preferential loans and liability insurance), fiscal instruments (duties, levies, tariffs, credits, reliefs, accelerated depreciation allowances etc…), indirect administrative interventions (trade regulations and quotas, public ownership of energy assets, market access restrictions, price controls etc…)
[8] when the market is deeed unable to price "correctly" (or in a socially acceptable way) a public good such as water, food or energy

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(electrification in rural areas or poor countries, support for renewable energies and organic agriculture etc…) as long as they are implemented in a transparent and time-limited way. In the case of energy subsidies, the IEA justifies the recourse to subsidy only when "any gain in social welfare or environment improvement is judged to exceed the economic cost".

Scale of subsidies

Subsidies (either through direct payments or tax rebates) amounted in 1998 to 44 billion US $ for the industry, and 362 billion US $ for agriculture in OECD countries (OECD). Energy subsidies in the EU were estimated at 27 billion euros yearly[9]. Two studies[10] estimate the total amount of environmentally adverse subsidies at about a trillion USD per year. Van Beers and de Moor (2001) stress that the economic sectors with the largest share of global subsidies (agriculture/fisheries, transport and energy, industry : 87% of world subsidies) affect 97% of world trade. Moreover, the economic sectors involved are those most implicated in greenhouse gases emissions, as well as air and water pollution.

Adverse effects

Many subsidies have perverse side effects. They generally fail to correct market failures or to achieve sufficiently large social gains to outweigh the loss of economic efficiency. They many times actually create market failures, that lead to significant losses of economic and environmental efficiency.

Some subsidies that have income distributional goal also sometimes fail in their objectives. Water subsidies in the developing countries (about 45 billion $ per year, roughly equal to total official foreign aid[11], to protect the poor, actually have adverse effects on the later. Indeed, below-cost tariffs impede investment possibilities for the water utilities, which cannot develop their network and access to the poor. The rich, since they live in areas where the access is better, benefit from the subsidised prices whereas may poor have to resort to the higher cost vendors of water.

Energy subsidies to consumer or producers, by lowering end-use prices, reduce incentives to save energy. Artificially low prices boost energy demand, and therefore increase environmental impact as well as foreign imports. Moreover, subsided energy prices benefit the higher income groups more than the poor, as the former consume more.

EU agriculture subsidies have developed an intensive agriculture that has catastrophic impacts on the environment and on some poorer countries, as the subsidies and the over-production depress world prices. The World Bank (2002) estimates that the subsidy policies of Western countries impose costs of 100 billion $ annually on poor countries! In the West, those who gain most from agricultural subsidies tend to be the larger farmers (OECD, 1995).

Milazzo (1998) estimates global fishery subsidies to be between 14 and 21 billion $ per year, mostly from Western countries, of which 95% directly or indirectly encourage over-

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[9] Energy subsidies in the EU (Frans Oosterhuis, IVM), report commissioned by the European Parliament, 2001.

[10] Van Beers & de Moors, Myers & Kent, CBD; in OECD, 2000, p. 36. (ENV/EPOC/GEEI(2000)8)

[11] Van Beers & de Moors (2001)

exploitation, in the West as well as in the developing world. The EU, for instance, has agreements with many developing countries to fish in their waters. And payments for access are below the full value of that economic resource.

Subsidies to energy producers and other sectors, by protecting them from competitive market pressure, reduce incentives to minimise costs and to invest in new technologies. Many subsidies produce "lock in" effects that inhibit the development of innovation and of new technologies. As a result, production is less efficient, and the allocation of resources is not optimal. Also, subsidies represent a drain on public finances. All these factors limit economic efficiency and growth, and have negative impacts on the environment.

Some subsidies are beneficial

Some subsidies are clearly beneficial. For example, there is a case for subsidising green technologies and renewable energy producers when the market for these products is not yet profitable. Also, electrification processes can not happen in some developing countries without government support (but it is essential environmental criteria are associated with these subsidies). The development of public transport also needs subsidies in many cases.

Subsidy removal: obstacles

The main obstacle to subsidy removal is political : it stems from the strength of the subsidies lobbies. Beneficiaries will strongly oppose removal. They are well organised and have strong links with politicians and governments. This does not encourage change or even debate. On the contrary, the larger public, who bears the cost of subsidies through their taxes, is little aware of this "invisible" spending. The winners are politically well organised, the losers are unorganised and unaware. Many times, the only awareness is that subsidies benefit the poor and protect national jobs. On the environment side, European coal lobbies argue that national coal will just be replaced by foreign imports, thus with no effect on pollution.

Subsidy removal: perspectives

Removing subsidies offers a "win win" scenario: it helps the environment, and increase economic efficiency. The OECD estimates that removing coal producer grant and price supports (including market entry barriers) could save 100 m tons CO_2 per year by 2010 in OECD countries, and also reduce acid gas emissions. The study by Larsen and Shah (1994) showed that removing world energy subsidies of 230 billion $ could lead to a reduction of 21 % of CO_2 emissions. An IEA study (1999) simulated that the removal of consumer subsidies in Russia, China and 6 other countries could produce a reduction of 16 % of CO_2 emissions.
Agriculture subsidies can be reoriented away from intensive farming towards the promotion of organic farming or better environmental practise.

Energy and transport subsidy removal would help reflecting better real costs, thus pushing for more internalisation of environmental and social costs, notably in the road and air transport areas. A better allocation of resources resulting from subsidy removal will boost growth and eventually compensate for some short term sector losses. Moreover, the public money saved from removal can be better invested, or saved.

There are many ways to overcome the obstacles to change. Subsidies and their distorting impacts on the economy, the budgets and the environment can be made more visible, thus promoting awareness and bringing about public debate. Removal can be done smoothly in a "phase-in" gradual way over several years. All stakeholders interests must be considered carefully. Support may be needed during transition. Subsidies can be restructured: the funds can be used towards social and economic programmes, or business tax incentives to attract investment, in the areas such as coal mining regions, that may suffer from subsidy removal. Funds can also be used towards a restructuring of the energy market (shift to cleaner fuels, renewable energies, CHP etc…) that will decrease dependency on carbon intensive fuels, reduce pollution, and counter-act the coal lobby argument of the non-effect on pollution.

The EEB does not a take a political position on subsidies as such. Some subsidies are beneficial to the environment, to income distribution or to other policy purposes. But we want to tackle those many subsidies that are harmful to the environment. The environment and the economy can gain a lot from subsidy removal. Most international instances recognise that the majority of subsidies are obsolete, wasteful and inefficient. The Kyoto Protocol asks for the phasing out of fiscal exemptions and of subsidies in greenhouse gases emitting sectors. The EU must become more coherent towards subsidies, and follow the Göteborg European Summit call for a « progressive removal of harmful subsidies » by 2010 (not voted by the Council of the EU). We hope that the programme for subsidy identification and reform contained in the 6the Environmental Action Programme will be followed with concrete measures.

Further than working on the exact definition of subsidies (on which endless debates could be just an excuse to just talk and postpone action), governments can start now the process of identifying and reforming direct payments. But hidden subsidies must be tackled too, even before a definition is agreed on in international organisations. NGOs can also scrutinise public spending and campaign on the removal of specific environmentally harmful subsidies.

Subsidy removal is essential for better reflecting the true cost of environment use. But it is not enough for moving towards more effective internalisation and more sustainability. This is why we campaign for an Environmental Fiscal Reform that comprises both higher environmental taxation and subsidy removal, while decreasing other charges such as labour taxes.

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The European Environmental Bureau (EEB)

The EEB is a federation of 133 environmental citizens organisations based in all EU Member States and most Accession Countries, as well as a few neighbouring countries. They range from local and national to European and international. The aim of the EEB is to protect and improve the environment of Europe and to enable the citizens of Europe to play their part in achieving that goal The EEB office in Brussels was established in 1974 to provide as a focal point for its members to monitor and respond to the emerging EU environmental policy. It has an information service, it runs nine working groups of EEB-members, it produces position papers on topics that are, or should be, on the EU agenda and it represents the Membership in discussions with the Commission, European Parliament and the Council. It closely co-ordinates EU-oriented activities with its Members on the National levels. Furthermore it follows closely the EU enlargement process as well as some pan-european issues like the follow up of the Aarhus Convention.

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