



**European  
Environmental  
Bureau**



Environmental Fiscal Reform  
Making Prices Work for  
the Environment

Campaign Newsletter 3

September 2002

Welcome to the third bi-monthly campaign newsletter of the EEB European campaign on Environmental Fiscal Reform (EFR)!

EDITORIAL

The summer is only ending, and already the agenda is very busy! The coming months are indeed going to be crucial in terms of energy taxation in the EU. The Barcelona European Summit of March asked for an agreement on the Energy Taxation directive proposal by the end of the year. Therefore, the Danish Presidency is particularly active on the dossier...but it remains to be seen what kind of agreement the Presidency manages to get. We fear that if unanimity is eventually reached after 5 years of negotiations...it may only be on a long list of tax exemptions. Let's hope that the Danes, frontrunners in terms of green policies and Environmental Fiscal Reform, live up to their good environmental reputation by putting back some strength into this text!

During the summer, some interesting initiative has also been released by the Commission. This is a directive proposal aiming at harmonising diesel fuel excise duties. This text could actually mean, at least for the diesel fuels, higher environmental gains than the common framework for energy taxation being negotiated since 1997.

However, our campaign for Environmental Fiscal Reform goes much further than lobbying on these important but somehow environmentally modest Commission proposals (originally designed for reasons of internal market, by the way). We advocate significant tax increases on natural resources and polluting products, and a reform of our taxation systems so that they stop encouraging the squandering of natural resources and start helping job creation. It is time that the citizen can, through his/her taxes, penalise what is bad for society and help what is good. This is the double dividend we believe EFR can deliver: helping both the environment (higher taxes on polluting products) and employment (lower taxes on labour). In this issue we emphasise on the first dividend : environment protection.

In order to promote right prices for the environment, prices that will really make a difference on our consumption and production patterns, and thus on pollution and climate change, we have chosen EFR as the theme of our Annual Conference (October 10<sup>th</sup>, Brussels, Palais des Congrès). Important speakers are coming, attendance is free.

Please join us!

### **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](http://www.ecotax.info) (in “documents”)*

## **CAMPAIGN NEWS**

### **European Campaign**

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#### ***EU news in brief***

- **Energy Taxation directive proposal**

Under the Spanish Presidency, there have been some progress of which most remarkable one is the agreement on increasing by 15-20% the 1992 minimum rates. Also, low but positive rates are now being proposed for electricity, natural gas and coal.

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However, these rates are much lower than those of the original 1997 text and the Spanish have also put forward so many tax rebate or exemption possibilities that it led the Internal Market Commissioner Bolkestein to call their proposal “a gruyère cheese”.

The Danish have now taken over the Spanish for leading the negotiations in the Council. They have already organised three meetings in the Council on the matter, which indicates they take this dossier particularly seriously.

Many very technical issues still remain to be solved and, although some countries have smoothed their opposition, one country, that used to be in favour of the text is now creating new difficulties. We continue following the negotiations and lobbying for an agreement in the Council on an efficient text. Before the Ecofin of June 4<sup>th</sup>, we sent a letter to the EU Finance Ministers and issued a press release<sup>1</sup> calling for an ambitious agreement with the least tax exemptions as possible. We will increase our lobbying in the run-up to the Copenhagen European Council of December 2002, where, if the pledge of the Barcelona Council is respected, an agreement should be delivered on the directive.

- **Transport / Diesel fuel taxes**

We told you in our last issue that the Commission (DG Internal Market, Taxation and Customs) was preparing minimum harmonisation proposals concerning diesel fuel excise duties. The proposals came out on July 24<sup>th</sup>. This internal market initiative makes also sense from an environmental point of view. Indeed, the tax distortions, in a liberalised market, are so wide (245 euros per 1000 litres in Greece, the minimum, against 742 in the UK, the maximum; but also 253 euros in Luxembourg compared to 440 in neighbouring Germany) that it pushes lorry drivers to extend their journeys in order to buy the fuel where it's cheaper! They save on money in spite of the detours... Another absurd situation is that the price distortions have led lorry makers to install huge tanks of up to 1200/1300 litres for a higher autonomy of up to 3000-3500 km....

These problems will become even more acute with the enlargement to Eastern countries, where fuel taxes are even lower.

The first part of the proposal aims at establishing a harmonised EU rate (initially within a fluctuation band) for diesel used by the commercial transport (lorries of 16 tonnes and over), in order to create a level playing field within the single market by 2010. This would mean a slight increase of the EU average tax rate from the start. Then the minimum rate would gradually increase further, as the fluctuation band narrows, and also because the rate would be price-indexed (which is an interesting feature compared with the general Energy Taxation proposal). However, this proposal can have adverse effects for the environment (and for government's revenue!) in countries like the UK where duties are more than twice the EU average. But the text suggests to compensate this loss by increases in road charges.

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<sup>1</sup> available at [www.ecotax.info/PRESS RELEASE 03 June.pdf](http://www.ecotax.info/PRESS RELEASE 03 June.pdf)

The second part of the proposal aims at reducing the gap between petrol and diesel for non-commercial road fuel duties. This text would have positive impacts for the environment, and bring about new revenue to governments (that can be recycled in cuts of other taxes, notably labour, as we advocate). Indeed, there is no justification for this existing rebate on diesel oil, a fuel that releases more harmful particulates in the air than unleaded petrol. The Commission proposes a common minimum rate for non-professional diesel and unleaded petrol of 360 euros per 1000 litres by 2006.

Regarding diesel fuel, this text is more ambitious than the Energy Taxation proposal in its present form. Yet unanimity in the Council on this necessary harmonisation may prove particularly difficult to get. Also, in some cases, notably short journeys, the 16 tonnes limit may favour a substitution of big lorries with smaller ones, which could have the adverse effect of increasing the number of trips.

The Council fiscal affairs working group will have a separate meeting in September to discuss the linkages between this new proposal and the energy taxation one.

### ***The EEB campaign***

- The campaign was officially launched with a Press Conference<sup>2</sup> in Brussels on November 27<sup>th</sup> 2001. The campaign website was launched in December 2001.  
→ [www.ecotax.info](http://www.ecotax.info)
- The EFR European Working Group, made up of representatives of EEB member-organisations from 17 EU and Accession countries, already met three 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 2001. Please contact [sylvain.chevassus@eeb.org](mailto:sylvain.chevassus@eeb.org) (contact below) if you want some paper copies.

#### **Upcoming main campaign actions include:**

- Follow up of EU negotiations on the energy taxation Commission proposal and lobbying continue, with special emphasis on those governments who are not in favour of the proposal, and specific actions
- EEB Annual Conference : this year the theme is Environmental Fiscal Reform (Brussels October 10<sup>th</sup> see below)
- Fourth EFR workshop for the campaign Working Group (Brussels October 11-12)
- *Danish Ecological Council* Conference : “European Experience, Development and Opportunities with Environmental Tax and Budget Reforms in DK and the EU” (Copenhagen October 8<sup>th</sup>)  
→ [www.ecotax.info/programme.pdf](http://www.ecotax.info/programme.pdf)

<sup>2</sup> see press release at: [http://www.eeb.org/press/press\\_release\\_fiscal\\_eng\\_n27.htm](http://www.eeb.org/press/press_release_fiscal_eng_n27.htm)

- Increase of the dialogue with industry: submission of a cooperation proposal to business coalition E5 ([www.E5.org](http://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

Recent main **campaign actions** include:

- **OECD EPOC stakeholders meeting** (Paris, May 22<sup>nd</sup>) : the EEB participated to the Stakeholders Dialogue of the OECD Environmental Policy Committee (EPOC). The main topic was environmental taxes/EFR. Yannis Paleocrassas, the campaign Greek participant, former Finance Minister of Greece and former EU Environment Commissioner, presented the EEB campaign and clearly explained that EFR, while offering a great potential for a double dividend of environmental protection and job creation, does not affect the overall competitiveness of the economy. A good design can also offset any potential negative effect on income distribution. Mr Paleocrassas and John Hontelez, the EEB Secretary General, then engaged in a fruitful debate with representatives of OECD members, business and trade unions.  
*full report of meeting available on request*
- We presented the EEB campaign at the **conference on Environmental Fiscal Reform** organised by the OECD and by the German Federal Environment Ministry, in Berlin on June 27<sup>th</sup>. There, we also developed further our arguments regarding how to offset any potential negative impact of EFR on income distribution.
  - the EEB presentation at the conference is available on request
  - the EEB position presented at the conference is available at <http://www.ecotax.info/EEBposition.pdf/>
- We had our **third campaign workshop**<sup>3</sup> in Berlin on June 28-29. There, we decided to emphasise further the environmental effectiveness of EFR in our next works. The Tourism Minister of the Balears, Mr Celesti Alomar, in visit to Germany, presented to us the new tourism ecotax. This tax, although rejected by the central government and by the tour operators, is well accepted by tourists when they are properly explained the purpose of the tax: protecting the islands' environment. That reinforced our conviction that education and information are also key elements of the public acceptability of EFR.  
Following a presentation by Michael Thöne from the Fifo Institute of the University of Cologne, we had a discussion on the EU environmental state aid guidelines, that appear to sometimes be hindering the smooth implementation of ecotaxes in EU countries. We also debated on the current growing importance of emissions trading, as the EU proposal is being negotiated, and on what position to take regarding the links between these two market-based instruments. Furthermore, we defined new actions for the near future (including more direct lobbying at the governments of

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<sup>3</sup> we gratefully acknowledge the financial help of the German Federal Environment Ministry for the organisation of this workshop, and the logistical help of our friends and partners of BUND.

those EU countries that block the energy taxation negotiations in the Council and that are generally not in favour of EFR).

EEB Annual Conference : Environmental Fiscal Reform (October 10<sup>th</sup> 2002, Brussels)

The title of the Annual Conference is : « **Making prices work for the environment / Environmental Fiscal Reform in Europe** ».

Brussels, Palais des Congrès, October 10<sup>th</sup> 2002. Attendance is free. But please notify [sylvain.chevassus@eeb.org](mailto:sylvain.chevassus@eeb.org) if you wish to attend.

Discussion items at the Conference will include the environmental effectiveness of EFR, how to make progress at EU level on EFR, the "competitiveness argument" of some industry sectors and how to respond to it, and how a good policy design can avoid any negative impact on income distribution. EFR will also be the main theme of the EEB AGM (Annual General Meeting of the EEB members, October 11th-12th), during which a specific workshop will be organised on the matter.

→ The EEB launched its campaign on Environmental Fiscal Reform (EFR) on October 2001. The Danish EU Presidency is set to seek a long-awaited agreement on the energy taxation directive by the end of the year. EFR is a key economic instrument for going towards greater sustainability. These are some of the reasons why the EEB chose this theme for its Annual Conference.

The main features of the Conference will be a ministerial panel discussion, a keynote speech and debates with speakers and the public on several issues.

Confirmed speakers include : Mr Didier Reynders (Finance Minister of Belgium), Mr Michael Meacher (Environment Minister of the UK), Mr Hans Christian Schmidt (Environment Minister of Denmark), Margot Wallström (EU Environment Commissioner), Ernst von Weizsäcker (Member of the Bundestag), Wouter Bos (former Finance State Secretary of the Netherlands) and Yannis Paleocrassas (former EU Environment Commissioner and former Finance Minister of Greece).

draft programme → [www.ecotax.info/draftprogramme3.pdf](http://www.ecotax.info/draftprogramme3.pdf)

## National campaigns

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At national level, many new actions have been started by our participating members in Austria, the Czech Republic, Finland, 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 our Members.

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## ***Germany***

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EEB campaign participant: [BUND - Friends of the Earth Germany](#)

In Germany, environmental NGOs, and particularly BUND (Friends of the Earth Germany) have been lobbying hard for an ambitious Environmental Fiscal Reform (EFR). The “red-green” government of Mr Schroeder started implementing an EFR with an explicit tax shift from labour to pollution in 1999. Energy taxes have been raised yearly from 1999 until 2003, while social security contributions are correspondingly decreased. This reform has already shown some results in terms of car use. However numerous factors make it too early to properly assess the results of the “Ecotax” reform. NGOs are continuing the lobbying for the reform to be continued after 2003 and after the elections, whatever government is in office.

- BUND did a public-oriented EFR campaign (emphasis on public awareness). In 2001, they organised a fuel saving promotion with a low energy car going around 37 cities "Save more fuel and ecotax". They also started diffusing, from December 2001, with PC magazines, a CD-Rom (over 1,2 million copies) on household energy efficiency calculations (it shows how to calculate ecotax costs and how to reduce costs thanks to energy saving).

Regarding European energy tax harmonisation, BUND lobbies the German Finance Ministry (together with federation of German trade unions). They had a stand at the federal party conference of the social-democrats conference in Nuremberg (Nov. 2001). EFR is also one of the four priorities of the election manifesto of BUND (together with agriculture, climate change and transport). A petition is going on where people can vote for the BUND manifesto in a symbolic ballot box.

Special “ecotax” BUND website: [www.oeko-steuer.de](http://www.oeko-steuer.de)  
contact: Matthias Seiche [matthias.seiche@bund.net](mailto:matthias.seiche@bund.net)

## ***Hungary***

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EEB campaign participant: [Clean Air Action Group](#)

The Hungarian set of instruments consists mostly of fines covering a wide variety of pollutions (air pollution, hazardous waste, sewage etc.; the total annual value of fines amounts to about 6-8% of the annual expenditure on environmental investment in the country). Some of the revenue goes towards environmental programmes. But there is no EFR with explicit tax shift from labour to pollution.

In November 2001, the Green Budget Working Group at the Environmental Committee of the Hungarian Parliament discussed a new study by the Hungarian Centre for Environmental Economics on environmental tax reform. Green Budget Reform is more and more taken into consideration by the government

A new government has been formed since the elections of May, that is not more "pro-environment" than the previous one. Also, the new Prime Minister Péter Medgyessy signed a pre-election declaration of 12 points including one that calls for the identification and quantification of environmentally adverse subsidies.

The Clean Air Action Group campaigns on Green Budget Reform and transport issues (fuel tourism, foreign lorries etc.). CAAG went to the Constitutional Court to protest against the government's decision (before the elections...) to cut taxes on unleaded petrol.

CAAG published a study with policy proposals for Green Budget Reform (300 pages). The Parliament WG (see above) decided to use the results of the study to prepare concrete proposals together with CAAG for the gradual introduction of a Green Budget Reform/ EFR in Hungary. The English version will be available on the website before the end of the year. The proposal calls for a comprehensive environmental fiscal reform, the removal /reform of environmentally adverse subsidies and an increase of public transport.

→ document

[State subsidies for environmental pollution in Hungary](#)

(by Andras Luckas)

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*More information on all national campaigns is available at <http://www.ecotax.info/>*

IN-DEPTH TOPIC:  
THE ENVIRONMENTAL EFFECTIVENESS OF ENVIRONMENTAL  
FISCAL REFORM

## Introduction

The main objective of Environmental Fiscal Reform (EFR) is to increase environment protection thanks to new or higher environmental taxes. The environmental effectiveness of EFR is therefore closely linked to the effectiveness of environmental taxes, on which this article concentrates. EFR can raise all environmentally related taxes. Some are real ecotaxes : taxes levied for an environmental purpose. Others, such as motor fuel excise duties, are traditionally levied for fiscal reasons. Yet they can have a strong impact on natural resources demand, therefore on use and pollution. The latter actually represent the bulk of revenue from all environmentally related taxes in OECD countries. Environmental taxes introduce price signals into products to act as an incentive to save. They aim at changing consumption and production patterns. But their effectiveness very much depends on their level and structure.

### **1. Problems in assessing the effectiveness of taxes and EFR**

Many factors hinder a precise evaluation of the effectiveness of environmental taxes. First of all, the EEA<sup>4</sup> points out that environmental taxes are expected to achieve many objectives: environmental protection, internalisation of external costs, promotion of eco-efficiency, incentives for pollution abatement, push for innovation, raising of revenues, and, in the case of Environmental Fiscal Reform, revenue recycling and double dividend (environmental protection + job creation). Moreover, environmental taxes are often combined with other fiscal or economic instruments. Consequently, it is often difficult to clearly identify, and therefore assess, the precise effect of an environmental tax. Accurate data is lacking, and objectives of environmental taxation such as “internalisation” are wide and difficult to measure.

Also, environmental taxes are usually not implemented to their full scope. The EEA writes: “In theory environmental taxes can, in a perfect market, achieve any environmental target on their own if designed appropriately and if the tax rate is sufficiently high. In practise, high tax rates are politically not always feasible and an optimal tax design may be too costly.” Environmental taxes are usually set at inappropriate levels regarding environmental efficiency because of political and economical considerations. Because of lack of EU harmonisation, and in the name of preserving business competitiveness, European countries that have started Environmental Tax Reform have granted energy intensive industries generous tax rebates (most of them between 50 and 90%), or even total tax exemptions. This in itself pre-empts a clear evaluation of EFR effects that are even prevented from fully occurring.

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<sup>4</sup> EEA *Environmental taxes: recent developments in tools for integration*, November 2000

As a result of the political difficulties of raising taxes, existing ecotaxes are not implemented in an environmentally effective way. There are too many exemptions: tax bases often lack coherence and parallel harmful subsidies or tax rebates undermine environmental effectiveness. For instance, taxing electricity produced from coal or nuclear while at the same time subsidising coal production or civil nuclear research does not make much sense. Effectiveness really depends on tax levels, and there is a risk that governments never dare setting appropriate levels.

Apart from these considerations, one of the main problems regarding the environmental effectiveness of energy taxes is that the price elasticity<sup>5</sup> of energy sources is quite low in the short and medium terms (yet higher in the longer term). One of the reasons for this is that energy has become a basic necessity. The risk is that revenue increases, energy consumption only stagnates or decreases slightly, but environmental impact is quite low in short to medium term. Fuel is indeed a basic necessity, and transition investment towards cleaner technologies takes time. Car users without any transport alternative will save on other budget items rather than cutting on car use. As a result, environmental taxes' (or EFR's) results will not come out very visibly to the public or the politicians before a while. Especially when considering the scale of objectives such as internalisation, sustainable development, climate change or even just pollution reduction. Not only are these objective difficult to measure, but they are quite remote for the larger public (even in countries where the public environmental awareness is quite high) who bears the tax burden.

Some taxes have shown a limited effectiveness, in particular many product taxes. In Sweden for instance, experience has shown that taxes on batteries have not changed consumption patterns. Demand stagnated for a while, but eventually buyers just reacted to the tax as any other price increase and kept the same purchasing patterns. In the end, if they need batteries, they will buy them. Naturally, once again, consumer reaction depends on the tax levels, but no government, for political and economical reasons, would raise product taxes to such a level that would make normal products become luxury items, with the risk of cutting consumption...and becoming very unpopular.

## **2. Effectiveness**

The oil crisis and huge fossil fuel price increases of the Seventies showed mixed results. On the one hand, positive results came out in terms of innovation and energy efficiency. Industry had to adapt to new consumer demand (and regulation) and cars were made much more fuel efficient. Also, the price of energy, and its importance for our economies, became much more visible. On the other hand, even after these increases, prices still did not go so high as to reflect the real scarcity of fossil fuels<sup>6</sup>. And they still do not, especially in countries like the USA where energy taxes are low. Consequently, car use has continued to increase considerably. The opportunity for a large scale development of renewable energies was lost. And our societies and lifestyles (even

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<sup>5</sup> price-elasticity measures the responsiveness of demand to price changes, i.e. the percentage decrease in demand associated with a 1% increase in price.

though in Europe, thanks to parallel fuel tax increases, we did gain energy efficiency) are still very much dependant on fossil fuels.

However, the lesson that may be drawn from the oil crisis is that higher energy prices can act as strong incentives for innovation and energy efficiency. This in itself is a case for environmental tax effectiveness. In its latest report on environmental taxes<sup>7</sup>, the OECD, while deploring the lack of precise evaluation work by governments, said: “The available evidence shows that environmentally related taxes are often effective policy instruments to reduce pollution and waste and to create incentives for product shifts and resource conservation.”. But the 70’s oil crisis experience also shows that appropriate tax levels are indispensable for real effectiveness of environmental taxes. As the market fails to reflect the real scarcity of fossil fuel reserves, taxes should set energy prices at high enough levels so to deliver real energy saving incentives. This is even more urgent considering that fuel prices are actually being continuously reduced in real terms. In Belgium for instance, now the price of motor fuels (in real terms) is only half of the price of 1982<sup>8</sup>.

Many environmental taxes have indeed proven to be effective. On pollutant emissions, one of the most striking examples comes from Sweden where, thanks to the SO<sub>2</sub> tax, sulphur dioxide emissions fell **80%** between 1980 and 91 (EEA). In Denmark, SO<sub>2</sub> emissions fell 24% between 95 and 97 after the introduction of a similar tax. In Sweden again, it is estimated that the introduction of the CO<sub>2</sub> tax led to a fall in emissions of 9% between 91 and 94 (EEA / Swedish EPA).

In Denmark, very high car registration fees have limited car ownership. Car registration taxes represent up to 180% of the producer’s price. As a result, car ownership in Denmark is only 34 per 100 inhabitants<sup>9</sup> (against 50% in Germany). In Germany, car registration fees now vary according to car emissions. Consequently, between 1997 and 2000, the stocks of high emission cars fell from 6.9 m to 3m while the stock of less polluting cars went up from 6.2m to 16m. The same phenomenon happened in Sweden after the sales tax for the most polluting cars was increased by 2000 crowns in 1993<sup>10</sup>.

Tax differentiation has indeed proven to be effective. The switch of most European motorists to unleaded petrol highlights the good results of this policy. In the UK, lower taxation on “ultra low sulphur diesel” (ULSD) led to a 43% market share of this motor fuel in 1999 (EEA). Tax differentiation to favour a less polluting product over a more polluting one is sometimes more effective than uniform product taxation (such as a tax on all batteries), because then there is a choice for the consumer and a substitution opportunity.

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<sup>6</sup> the International Energy Agency estimates that, at current consumption levels, oil reserves will run out by 2040.

<sup>7</sup> publication OECD 2001: *Environmentally related taxes in OECD countries, issues and strategies*.

<sup>8</sup> European Commission

<sup>9</sup> EEA / European Commission

<sup>10</sup> the market share of less polluting cars went up from 16 % to 75% (Swedish EPA 1997)

In the Netherlands, recent ‘ex post’ evaluations show that consumers now use 15% less electricity and 5–10% less fuel<sup>11</sup> than they would without the ecotax introduced in 1996. These figures are expected to increase in the long term. Moreover, they do not include the effects of the subsidies for housing isolation, energy efficient appliances, etc, for which part of the tax revenue is used. The environmental effects (in terms of CO<sub>2</sub> emissions) of the Dutch ecotax on energy should in the medium term be even better than the decrease of energy use suggests, because this tax also triggers a rising demand for electricity from renewable energy (which is exempted from the ecotaxes).

Regarding the effectiveness of ETR on climate change, a study by the University of Bath summarised different models that expect carbon dioxide emissions to fall by an extra 4-16% if the 1992 carbon/energy tax Commission proposal had been applied. The study by the Centre for a Sustainable Economy on the effects of the 1992 CO<sub>2</sub>/Energy tax Commission proposal showed that the directive, if adopted at the time, would already have led to a 4.4% cut in CO<sub>2</sub> emissions in 2001 (calculations based on 6 EU countries). Commission figures<sup>12</sup> indicate that even the more modest 1997 Energy Taxation “Monti” directive proposal, if adopted in its original version, would lower CO<sub>2</sub> emissions in the EU by approximately 2% and create up to half a million additional jobs at the same time. Also, it must not be forgotten that the energy savings fostered by energy taxes have a positive impact on national energy bills, and thus on external trade balances, and on the economy as a whole.

On waste: in Denmark, municipal waste went down 26% between 1987 and 1996 after the introduction of the waste tax. In very recent policy proposals for sustainable waste management, the Swedish Environment Protection Agency favours tax over regulation for reducing waste, with a big increase in the landfill fee. Similarly, following the failure of other policies, the Finnish government has just proposed doubling waste taxes over the next three years in a bid to boost recovery rates.

On the other hand, the UK landfill tax has not been very efficient : households do not directly contribute, and its levels are too low to make a real difference. This shows the importance of the tax level. A Committee report actually found that the tax should increase from £10 to £30 per tonne “to achieve its objective”. The design of the tax (base, and level), regarding environmental effectiveness, is essential too. In Germany for instance, electricity produced from petrol and gas is taxed twice (fossil fuel tax and electricity tax), but only once when produced from coal and nuclear (nuclear and coal are not taxed as input energy products)!

When assessing the effectiveness of environmental taxes, it is important too to take into account the non-increases of emissions that may result from the taxes. We are indeed in a general trend of rising emissions and pollution, and, even if it is not satisfactory for environment protection, stopping the rise must be taken into account as

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<sup>11</sup> Berkhout P.H.G. c.s.: “Het effect van de REB op huishoudelijk energiegebruik, een econometrische analyse”, SEO, Amsterdam (2001), and: Linderhof, V: “Household demand for energy, water and the collection of waste, a micro-econometric analyses”, Rijksuniversiteit Groningen (2001)

<sup>12</sup> Commission working paper “Presentation of the new Community system for the Taxation of Energy Products” 23/05/97 SEC (97) 1026

preliminary results. A study showed that in Finland, CO<sub>2</sub> emissions would have been 7% higher without the carbon tax introduced in 1990<sup>13</sup>.

Product taxes also work: Irish consumers' demand for disposable plastic shopping bags has plummeted by over 90% since the government put a tax (€0.15 per bag) on them in March 2002<sup>14</sup>!

Professor Anselm Görrres<sup>15</sup> also points out to another (not well known) aspect of ecotax efficiency: they are a cost effective environmental policy for governments (even without considering the extra revenue they bring!). Ecotaxes improve environment protection like an “invisible hand”, thanks to the price signals they send to the market, and into the production and consumption patterns. And the more ecotaxes, the less expenditure will be needed on costly environmental programmes...They are also administratively more efficient: they help saving on bureaucracy and regulation burden.

Education and communication are also key elements for the environmental effectiveness of EFR. The public must be made aware of the impact of its lifestyle and consumption patterns onto the environment. They must clearly understand why they pay extra tax, and how the revenue is used, so to increase the acceptability of higher prices. In the Netherlands, electricity prices for households went up 70% since the introduction of EFR in 1996 (natural gas 50%)<sup>16</sup>. A good communication is indispensable so the public accepts such increases. Public acceptability is essential to ensure the environmental efficiency of EFR.

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<sup>13</sup> PMOPS, 2000

<sup>14</sup> Irish Environment Ministry

<sup>15</sup> *Forget the double dividend: ecotaxes have at least ten dividends to offer*, German Ecotax Association, 2001

<sup>16</sup> Dutch Ministry of Finances

## **conclusion**

For many reasons, the evaluation of EFR environmental effectiveness is difficult. But case studies of environmental taxes confirm their environmental effectiveness. Tax differentiation has proved effective too.

Environmental tax effectiveness depends very much on the tax levels. Tax levels, in turn, depend on the political will to improve the environment, on public acceptability and on the balance of powers between governments and the industry.

Governments must stop introducing ecotaxes that are too low to have any significant effect, and then say they do not work. We understand rising taxation is never very popular. This is why we campaign not just for ecotaxes, but for a comprehensive Environmental Fiscal Reform, with its mitigating principles of revenue recycling and of fiscal neutrality. EFR is the only way ecotaxes can politically be put at rates high enough to produce real environmental effectiveness. The public must be explained that its taxes can be reformed so that they penalise pollution while favouring employment, instead of the other way round, as is the case today.

Sylvain Chevassus

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[www.iewonline.be](http://www.iewonline.be)
- **Society for Sustainable Living**, Czech Republic  
<http://www.czp.cuni.cz/stuz>
- **Danish Ecological Council**, Denmark  
[www.ecocouncil.dk](http://www.ecocouncil.dk)
- **Finnish Association for Nature Conservation**, Finland  
[www.sll.fi](http://www.sll.fi)
- **France Nature Environnement**, France  
[www.fne.asso.fr](http://www.fne.asso.fr)
- **BUND / Friends of the Earth Germany**  
[www.bund.net](http://www.bund.net) and [www.oeko-steuer.de](http://www.oeko-steuer.de)
- **Elliniki Etairia**, Greece  
[www.ellinikietairia.gr](http://www.ellinikietairia.gr)
- **Clean Air Action Group**, Hungary  
[www.levego.hu](http://www.levego.hu)
- **An Taisce**, Ireland  
[www.antaisce.org](http://www.antaisce.org)
- **Legambiente**, Italy  
<http://www.legambiente.com/>
- **Stichting Natuur en Milieu**, Netherlands  
[www.snm.nl](http://www.snm.nl)
- **Institute of Sustainable Development**, Poland  
[www.ine-isd.org.pl](http://www.ine-isd.org.pl)
- **GEOTA Grupo de Estudos de Ordenamento do Territorio e Ambiente**, Portugal  
[www.despodata.pt/geota](http://www.despodata.pt/geota)
- **Amigos de la Tierra**, Spain  
[www.tierra.org](http://www.tierra.org)
- **Friends of the Earth England, Wales and Northern Ireland**, United Kingdom  
[www.foe.co.uk](http://www.foe.co.uk)

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<http://www.snf.se/>

**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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