GREENBUDGETNEWS 1 – 1/2003

EUROPEAN NEWSLETTER ON ENVIRONMENTAL FISCAL REFORM

Editors:

www.eco-tax.info www.ecocouncil.dk www.levego.hu www.oegut.at

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1. EDITORIAL

Dear Friends of the Environmental Fiscal Reform,

We are proud to present you our Newsletter on Environmental Fiscal Reform: **GreenBudgetNews No. 1**. It provides information on ecological tax reforms, environmental subsidies, environmental taxes and other fiscal provisions with an impact on the environment from all over the world, but with a clear focus on European countries and the EU. The intention is to disseminate knowledge about related activities, policies and measures in order to contribute to structural change towards sustainability.

The newsletter is the outcome of a project founded by the European Commission, for which we are very grateful.

We would appreciate any feedback about the newsletter and advice for further improvements. Of course you could also send us articles about the experience and plans with EFR in your or other countries or regions.

If you know any other people interested in the topic, please provide us with their email addresses (or forward this newsletter to them, so they can subscribe by themselves).

We all hope you enjoy reading the Newsletter!

To give you an impression of who we are and what we do, we would like to introduce the participating organizations of the GBN-Project (see below). Together with our Friends from Austria, Denmark, and Hungary we hope to form a strong nucleus for a successful project. Nevertheless, our aim is to win other groups from across the continent to participate in our efforts.

To become a **Corresponding Partner** of the GBN-Project, you should

- be a leading and well-renowned institution or group within you country
- have sufficient expertise in the field of market-based or fiscal instruments of ecological policy
- be an NGO or a research organisation, but not a political party or commercial institution.

We expect from our Correspondents basically two things - one, to deliver articles and newspieces to this newsletter (only in English, please), two, to help us distribute the newsletter within their countries.

We are looking forward to an exciting project and the beginning of a wonderful cooperation with all of our readers, correspondents and partners.

Dr. Anselm Görres (FÖS President) - Andrea Kuss, Christof Sauer (FÖS Managers and GBN Project Team)

Presenting the Editors of the GreenBudgetNewsletter

- **Green Budget Germany / Förderverein Ökologische Steuerreform (FÖS) -** The Leader of the European newsletter project:

  FÖS was established in 1994 as a single-issue movement to support the development of an Ecological Tax Reform (ETR) in Germany. With the introduction of the ETR in 1999, this goal was basically reached. Since then, *FÖS* has been working on improvements of the ETR, the principle of longer, better planning of this instrument, and extensions to a broader Environmental Fiscal Reform also covering subsidies.

  In recent years, its focus has shifted greatly towards better publicity and knowledge of and about the ETR. For that reason, *FÖS* has been publishing a monthly German newsletter on ETR since last year. It also created a website about the topic in November 2001.

  FÖS also has a long tradition of working jointly with other organisations. For example, it contributed to the editing of the former Wuppertal Bulletin on ETR (1994 – 1997) in German and English, issued jointly by the Wuppertal Institute and *FÖS*. The present newsletter is prepared in close cooperation with both Bund für Umweltschutz und Naturschutz Deutschland (BUND) and Wuppertal Institute. In 1994, 1997 and 1998, *FÖS* published three memoranda on ETR. *FÖS* members contributed to the debate in many articles in the press and were involved several times in hearings of the German Bundestag as experts. Of course, *FÖS* also organised many events on ETR. *FÖS* board members from A, CH, GR, NL, and the USA among other places document the international scope of our approach.

- **Society for Environment and Technology - ÖGUT**

  The Austrian *Society for Environment and Technology (ÖGUT)* is a non-profit member organisation organized as a scientific platform for the environment, the economy and public administration. Founded in 1985 after the conflict concerning the power station Hainburg, its goal is to overcome the communication barriers in the conflict zone where the economy and ecology meet. Preventing conflicts and developing new methods of resolving conflicts and building consensus are therefore two of the main goals of *ÖGUT*.

  ÖGUT has a permanent staff of 13 employees (9 scientists) and works primarily on contract basis for its members. In addition to scientific expertise, *ÖGUT* has dedicated expertise in project management and event organisation.

  ÖGUT implements projects on its own behalf (workshops, discussions, publications for members etc.) as well as for external clients.

  Since its foundation, *ÖGUT* aims to bring ecological and economic goals together. Therefore, it also seems natural that *ÖGUT* should deal with "Ecological Economics". Ecological Economics is defined as a field of science offering a framework for environmental and resource economics as well as for alternative approaches. In light of *ÖGUT's* background, "Ecological Economics" deals with environmentally relevant topics with the help of different environmental instruments.

- **The Danish Ecological Council – DEC**

  The Danish Ecological Council produces information and documentation on environmental issues and promotes public debates on high-priority environmental issues. The council prepares reviews and recommendations for political and administrative decision-makers and produces material for the media and public education.

  The council has a number of working committees:

  – *The Economy and Sustainability Group* comments on policy papers from the government and the EU and makes proposals for the extended use of economic instruments, especially the promotion of a green tax reform, green public procurement and eco-labelling.
  – *The Energy Group* focus on the consequences of the liberalisation of the energy markets and energy in Denmark and the EU.
  – *The Agriculture Group* supports a transition towards organic farming. Proposes a general ban on pesticides, a reduction in the use of fertilisers, and changes in EU subsidies.
  – *The Traffic Group* deals with a reduction of traffic and specific emissions from traffic, such as fine particles, especially from diesel. Measures like green taxes are discussed as part of action plans for the reduction of traffic.
  – *The Chemicals Group* supports the protection of humans and the environment against hazardous industrial chemicals.

- **The Clean Air Action Group (CAAG)**

  Founded in 1988, the Clean Air Action Group (CAAG) is now a national federation of 123 Hungarian environmental NGOs. Every year since 1992, CAAG has prepared specific proposals for the next year's federal budget. CAAG is an active participant in the Environmental Fiscal Reform (EFR) campaign of the European Environmental Bureau (EEB).

  General situation

  In the last few years several international factors had quite a negative effect on the Hungarian environment. Custom duties on industrial products imported from the European Union were reduced and were completely abolished as of 1 January 2001. At the same time, the Hungarian national currency became significantly stronger in relation to the Euro. This was a great support to road transport. Due to these two factors, from 1996 to 2001 the import of cars received a hidden subsidy of 2 billion Euros, and that of trucks 1 billion Euros. No wonder imports of cars and trucks are soaring: in the first half of 2002, the amount of money spent on car imports grew by 27% over the first half of 2001.

  Activities of the Clean Air Action Group in 2002 for Green Budget Reform

  Before the national elections in 2002, CAAG prepared "environmental commitments" for the Prime Minister candidates and asked them to sign them. (The National Meeting of Environmental and Nature Protection NGOs also approved the text beforehand.) Only one candidate signed it (with some modifications), but that candidate, Mr. Peter Medgyessy, became the new Prime Minister! Among other things, he committed himself to prepare a detailed report on all environmentally harmful subsidies by 30th June 2003 and to start a nationwide discussion about it to reduce these subsidies.

  CAAG turned to the Constitutional Court with a complaint because the Government did not raise the motor vehicle fuel excise duties to keep up with inflation, as it was previously prescribed by law. The media reported this, and the newspaper of the Hungarian Automobile Club (250,000 copies) even published a long article about it.

  There is a Green Budget Reform Working Group at the Environment Committee of the Hungarian Parliament. The secretary of the working group is Zoltán Szabó from CAAG.

In connection with the local elections (which took place in October 2002), CAAG prepared its

Recommendations for Budapest, which include several proposals to introduce elements of the Environmental Fiscal Reform (EFR) on local levels. Two of the three major candidates for the mayor of Budapest signed a commitment to implement these recommendations if elected. (Although in the end they were not elected, the parties that now have the majority of the seats in the Municipality after the elections supported them!)

CAAG turned to the Prime Minister's Office and the Transport Ministry with a complaint against the "National Road Strengthening Program", which is to be financed with public money. This program aims to make the main Hungarian roads suitable for the heaviest trucks – which constitute only 0.1% of all road users. With the help of the European Environmental Bureau (EEB), CAAG has filed a complaint to DG Competition of the European Commission, as ISPA money is also to be used for this purpose.

CAAG sent a complaint to the EU Delegation in Hungary because PHARE aid is being given to a significant enlargement of a regional airport near Gyõr.

CAAG has continued its work to make heavy trucks pay for the damage they cause. Among others it complained to DG Transport and Energy and to DG Environment because of the new agreement between the EU and Hungary, which gives even more allowances to heavy truck transport than before.

CAAG has prepared a huge study (about 400 pages): *Recommendations for the State Budget of 2003.* In September, CAAG presented it to the

- Green Budget Reform Working Group of the Environment Committee of the Hungarian Parliament
- Ministry of Finance
- Ministry of Environment
- National Environment Protection Council (advisory body of the government consisting of representatives of industry, science and NGOs)

On CAAG´s initiative, the National Environment Protection Council accepted an appeal to the Government on 4th October asking that it

- make the budget and tax system for 2003 more environment-friendly,
- prepare a detailed list of direct and indirect subsidies to activities that seriously harm the environment or human health by 30 June 2003 and make the list public,
- prepare an environment impact assessment for the state budget and tax bills for 2004 and present it to the National Environment Protection Council before the budget and the bills are approved by the Government.

CAAG prepared about 50 concrete modifications to the bill on taxation and handed them over to members of Parliament in September. The modifications mostly concern the taxation of transport.

In November, CAAG prepared a number of concrete proposals for the modification of the State Budget Bill and sent them to the Ministry of Finance and several members of Parliament.

Also in November, the Environmental Committee of the Hungarian Parliament organised a conference on Green Budget Reform. There were 110 participants including members of Parliament and employees of the Finance Ministry. The three main speakers were András Lukács, President of CAAG, Károly Kiss, President of the Expert's Board of CAAG, and Lázár Pavics, CAAG's chief expert on GBR!

The Institute of Environmental Economics at the Budapest University of Economics and State Administration published a study on EFR. The author of the study, Karoly Kiss, is president of CAAG's Expert Board. There are abundant references in the study to the EEB campaign on EFR and CAAG activities.

CAAG held a number of lectures and presentations on EFR at universities, during conferences etc.

CAAG managed to get into national newspapers, radio and television several times with information about EFR. CAAG has published a series on EFR (so far 10 articles have appeared) in the magazine of the biggest railway trade union.

CAAG had several articles in each issue of its magazine Lélegzet (published in 3500 copies and also appearing on the website http://www.lelegzet.hu) on EFR, also including the EEB campaign.

Further Partners and Contributors to our Project

Besides the three **Editing Partners**, there will be **Corresponding Partners** as mentioned above. On top, we have established first contacts with a number of European Media, i.e. Environment Daily. These newspapers and other media institutions are interested in the newsletter and have expressed their willingness to report about our project and the progress we make.
Finally, we will closely cooperate with BUND/German member of FoE, who are already Co-editors of our German Newsletter. With so many qualified and experienced friends and helpers, this project simply must become a success...

2. GREEN BUDGET REFORM ON EU-LEVEL

EU Energy taxation: Last ECOFIN under Danish presidency without resolution

Although an agreement of the European Finance Ministers seemed in view at the last ECOFIN under Danish presidency on 11 December 2002, no resolution about European energy taxation was made. In the end, the Finance Ministers ran out of time and weren't able to discuss the whole agenda. After difficult negotiations lasting months, one could expect more. Now the issue will be resumed at the next ECOFIN conference under Greek presidency on 21 January 2003 (our own article).
You will find the protocol of the meeting at: http://ue.eu.int/pressData/en/ecofin/73693.pdf

On October 8, France and Italy brought talks on energy tax reform to a halt at the ECOFIN meeting when they refused to go along with an agreed phase-out of special low-tax treatment of diesel fuel for truckers.
As part of an overall plan to implement an energy tax regime that protects the environment and promotes fair internal markets, the European Commission has been urging member states to gradually harmonize their duties at a rate of 330 € ($320.37 USD) per 1,000 litres of diesel (used for commercial purposes) by 2010. The new system would also set minimum rates for diesel, coal, natural gas, and electricity.
In contrast to France, Italy, and the Netherlands, the United Kingdom and Germany make no difference between diesel used for private and for commercial purposes (Source: TaxNewsOnline, 17/10/02).
See the proposal:
http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/02/1134|0|AGED&lg=EN&display=

Emissions Trading: EU Environmental Commissioner Margot Wallström welcomes Council agreement as landmark decision for combating climate change

On December 10th, a little over a year after the Commission presented its proposal for an EU greenhouse gas emissions trading system, the Council unanimously reached political agreement on a common position for the Commission's proposal. This agreement confirms the EU's continued political leadership in the area of climate change.
"This is a landmark decision for the EU's strategy to fight climate change", Commissioner Wallström declared. "It proves that the EU is taking action on climate change and getting emissions down, and that we are doing so in a way that minimizes the cost to the economy. The world's eyes have been upon us to see whether we will succeed in creating the biggest emissions trading scheme worldwide so far. We have succeeded. It will help all Member States, as well as the EU as a whole, to reach their Kyoto targets while cutting costs at the same time".
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She added: “As early movers on emissions trading, we will gain valuable experience with this new instrument and improve it over time. The EU will be well prepared to participate in the emissions trading system foreseen by the Kyoto Protocol from 2008.”

Emissions trading will establish absolute limits on the emissions of carbon dioxide from the sectors covered, which is not now the case. The trading of allowances will enable the costs of cutting emissions to be substantially reduced while still providing the same environmental benefits: operators that would incur high costs, were they to achieve additional emissions reductions, can instead buy allowances from operators that have met their obligations at a lower cost and thus have excess allowances to offer for sale.

EU-wide emissions trading will cut costs to the economy by about 35%.

Other greenhouse gases will eventually be included within the scheme based on a separate proposal from the Commission.

This is the first trans-national emissions trading scheme in the world, potentially covering up to 30 countries in the period up to 2012 with the participation of the EEA countries and in light of the upcoming EU enlargement. The CO_2 emissions expected to be covered by the scheme are estimated to account for about 46% of the EU 15’s total CO_2 emissions in 2010, and about 4,000 to 5,000 installations across the existing EU Member States will be affected.

Elements agreed include:

Opt-out: Although trading will start in 2005, individual installations or economic activities can be exempted from emissions trading in the final period in 2005-2007. Opt-outs are, however, subject to approval by the Commission on strict conditions. These notably include fulfilling the same emissions reduction requirements as companies and installations participating in the scheme.

Opt-in: Member States can unilaterally include additional sectors and gases from 2008 subject to approval by the Commission.

Pooling: The agreement also provides for the possibility for companies to pool their emission allocations until 2012.

Allocation of emission rights: Allocations of emission permits will be free of charge, but Member States can auction up to 10% of their allowances from 2008.

Penalties: The penalty rate foreseen for the period from 2005-2007 has been slightly reduced from 50 € to 40 € per tonne of $C0_2$ equivalent emitted in excess of the allowance. It will be 100 € thereafter (Source: EU-Commission, Brussels, 10/12/02).

You can find the protocol here:

http://ue.eu.int/newsroom/LoadDoc.asp?MAX=1&BID=89&DID=73567&LANG=1

Average CO_2 emissions from new passenger cars in the EU down by about 10% since 1995

The European Commission has published its third annual report on the effectiveness of the Community strategy to reduce CO_2 emissions from passenger cars.

Commenting on the new report, Environmental Commissioner Margot Wallström said: “Our agreements with the car manufacturers are showing results. They make an important contribution to our overall efforts to combat climate change.”

This third report on the implementation of the strategy shows the following results:

- In the last year, all associations reduced the average specific CO_2 emissions of their cars sold on the EU market: ACEA (European Automobile Manufacturers Association[1]) by about 2.5%, JAMA (Japan Automobile Manufacturers Association[2]) by about 2.2% and KAMA (Korea Automobile Manufacturers Association[3]) by about 2.6%. The fuel efficiency improvements for diesel passenger cars are significantly better than those for gasoline vehicles.
- ACEA shows good progress, while JAMA’s is satisfactory. Both can be considered to be on track. In the reporting period 2000, ACEA achieved the intermediate target range of 170g/km envisaged for

1 European car manufacturers in ACEA: BMW AG, DaimlerChrysler AG, Fiat S.p.A., Ford of Europe Inc., General Motors Europe AG, Dr. Ing. H.c.F. Porsche AG, PSA Peugeot Citroën, Renault SA, Volkswagen AG

2 Japanese car manufacturers in JAMA: Daihatsu, Fuji Heavy Industries (Subaru), Honda, Isuzu, Mazda, Nissan, Mitsubishi, Suzuki, Toyota

3 Korean car manufacturers in KAMA: Daewoo Motor Co. Ltd., Hyundai Motor Company, Kia Motors Corporation

2003. If JAMA can, on average, maintain the reduction rate achieved in 2001 it would meet at least the 2003 intermediate target of 175g/km.

- KAMA's progress is unsatisfactory, but in 2001 it achieved the highest reduction rate so far. There is a real risk that KAMA will not meet its 2004 intermediate target range of 170g/km. The Commission expects that KAMA will catch up in the coming years, and KAMA has reconfirmed its commitment to do so.

The European Commission has published its third annual report on the effectiveness of the Community strategy to reduce CO_2 emissions from passenger cars. The strategy aims to achieve an average CO_2 emission figure for new passenger cars of 120g CO_2/km by 2005 or by 2010 at the latest. The report concludes that the strategy has so far resulted in a 10% reduction in CO_2 emissions from new passenger cars sold on the EU market since 1995. The main element of the strategy is the commitment from the European, Japanese and Korean car industries to reduce CO_2 emissions from new passenger cars. While welcoming the result, the Commission stresses that additional efforts are necessary to meet the final target.

Commenting on the new report, Environmental Commissioner Margot Wallström said: "Our agreements with the car manufacturers are showing results. They make an important contribution to our overall efforts to combat climate change. We will start discussions with the industry next year on how to further reduce emissions from passenger cars. The growth in CO_2 emissions from transport remains one of the big challenges for our climate objectives."

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- ACEA shows good progress, while JAMA's is satisfactory. Both can be considered to be on track. In the reporting period 2000, ACEA achieved the intermediate target range of 170g/km envisaged for 2003. If JAMA can, on average, maintain the reduction rate achieved in 2001 it would meet at least the 2003 intermediate target of 175g/km.
- KAMA's progress is unsatisfactory, but in 2001 it achieved the highest reduction rate so far. There is a real risk that KAMA will not meet its 2004 intermediate target range of 170g/km. The Commission expects that KAMA will catch up in the coming years and KAMA has reconfirmed its commitment to do so.

In order to meet the final target of 140 g/km, additional efforts are necessary (in particular by KAMA members). The average annual reduction rate of all three associations needs to be increased (on average the reduction rate must be about 2%, or about 4g/km per year. Over the reporting period 1995 to 2001, ACEA achieved on average about 1.9 % per year, JAMA 1.5 % per year and KAMA 0.9% per year). However, it was always anticipated that the average reduction rates would be higher in later years.

Background

The Community's CO_2 strategy is based on three main pillars:

- Agreements with the automobile industry on fuel economy improvements, aimed at achieving an average CO_2 emission figure for new passenger cars of 140g CO_2/km by 2008/9.
- Fuel-economy labelling of new passenger cars to ensure that information relating to fuel economy and CO_2 emissions is made available to consumers to allow them to make an informed choice[4].
- The promotion of car fuel efficiency by fiscal measures.

Together, these three initiatives, supplemented by research activities, aim to reach the Community strategy's target of 120g CO_2/km by 2005, or by 2010 at the latest.

Environmental agreements with the automotive industry are the main components of the Community strategy. The Commission concluded agreements with ACEA in 1998, and with JAMA and KAMA in 1999.

4 Directive 1999/94/EC on the availability of consumer information on fuel economy and CO_2 emissions with respect of the marketing of new passenger cars

All three Commitments constitute equivalent efforts with the following main features:

- The CO_2 emissions objective: all Commitments contain the same quantified CO_2 emissions objective for the average of new passenger cars sold in the European Union, i.e. 140g CO_2/km on a EU-wide basis (to be achieved by 2009 by JAMA and KAMA and by 2008 by ACEA).
- Means of achievement: ACEA, JAMA and KAMA commit themselves to achieving the CO_2 target mainly by technological developments and related market changes, but not by market changes alone such as a greater share of smaller cars or diesel cars.

In addition, "estimated target ranges" for the average new car CO_2 emissions are provided for 2003/2004 (for ACEA 165-170g CO_2/km in 2003; for JAMA 165-175g CO_2/km in 2003; for KAMA 165-170g CO_2/km in 2004). These target ranges are indicative and do not represent an additional commitment by the associations. Nevertheless, the Commission attaches special importance to these intermediate targets as a basis for verifying whether the Commitments are effective.

The Commitments by ACEA, JAMA and KAMA are subject to a thorough and transparent monitoring scheme. Every year "Joint Reports", one with each of the associations, are drafted and agreed between the parties and attached to the Commission's Communication to Council and European Parliament.

As far as the second pillar of the strategy is concerned, three Member States (Germany, France and Italy) are still lagging behind schedule with regard to the implementation of Directive 1999/94. This hampers the implementation of the strategy.

The recently published communiqué of the Commission on passenger car taxation[5] addresses the third pillar of the strategy: fiscal measures. It focuses, among other things, on restructuring registration and annual circulation taxes to make these more CO_2 efficient (Source: EU-Commission, 17/12/02).

http://www.europa.eu.int/comm/environment/climat/gge.htm

VAT: Commission proposes to adapt rules for gas and electricity supplies

The European Commission has adopted a proposal to amend the rules on the point of taxation of natural gas and electricity for the purposes of Value Added Tax (VAT) so as to facilitate the functioning of the Single Market for energy. The proposal would eliminate current problems of double taxation, non-taxation and distortions of competition between traders by changing the point of taxation of natural gas in pipelines and of electricity from the point of supply to the point of consumption. Under the proposed rules, where the buyer used to be a trader reselling the supplies, the point of taxation would be the point where the buyer was established. Where the buyer is a final consumer, the point of taxation would be the point of consumption.

"This proposal meets the urgent need to update the VAT rules for gas and electricity to meet the needs of liberalised markets," commented Frits Bolkestein, European Commissioner for Taxation. "I hope that Member States will adopt it quickly, given the deadline agreed by Energy Ministers recently on completely open gas and electricity markets for non-household customers by 2004 and for household customers by 2007".

Place of taxation

The proposal would, in the case of the supply of gas and electricity, provide for a departure from the basic principle governing the VAT treatment of goods: the point of taxation is the place where the goods are physically located. Under the proposal, the effective point of taxation would be the point of consumption.

The proposal provides that:

- supplies of gas and electricity made with a view to resale would be taxable in the country where the buyer was located. Where the supplier and the buyer were not established in the same territory, the buyer would be the person subjected to VAT under self-assessment arrangements.
- supplies of gas and electricity to final consumers, whether or not they are traders, would be taxed at the place where the actual consumption took place. Taxation would thus accrue to the Member State of final consumption.

In view of this change of the point of taxation to that of consumption, an EU trader selling gas or electricity

5 COM(2002)421 final, HYPERLINK "http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/02/1274|0|RAPID&lg=EN&display="

to another trader or to a consumer in another Member State would now be exempted from VAT in his country on the sale. Similarly, in the case of imports from third country generators and traders, there would be an exemption of such supplies at the import stage to prevent double taxation.

The proposal applies to the supply of electricity by cable and natural gas, including liquefied natural gas (LNG), in pipelines. Gas traded in bottles would continue to be subject to the existing rules for taxation because in this case the problem of establishing where the place of supply is does not occur so there is no justification for departing from normal VAT rules.

In order to harmonise and simplify the taxation of the costs of access and use of distribution networks, the proposal also changes the point of the provision of services directly connected to the supply of gas and electricity (such as use of the pipeline/cable network to transport the gas or electricity). The point of supply and therefore taxation would be the place of the customer's establishment, where the services are performed for EU traders established in countries other than that of the supplier or for traders outside the Community.

Current situation

Under current VAT rules, the point of the supply of tangible property, including gas and electricity, depends on the location of the goods at the time of supply and on whether they are dispatched or transported. Until the liberalisation of the electricity and gas markets began, the location of the place of supply was unimportant because the generation, distribution and trade of electricity was a national matter and hence cross-border trade did not occur. With increasing cross-border supplies the location of the place of supply and therefore of taxation is now important. However, the nature of electricity and gas makes it difficult to determine the place of supply - the physical flows of electricity in particular are impossible to trace physically. This makes it difficult to establish where taxation should occur and to apply the normal VAT arrangements for the taxation of supplies. Under present rules, a supply of gas or electricity to a trader established in another Member State either for resale or for own consumption should be exempt in the country of origin and taxable in the country where the receiving trader is located. The problem is that the supplier cannot provide the necessary proof of the transport of electricity in order to obtain an exemption.

Furthermore, the place of supply, and therefore taxation, of services directly linked to the supply of gas and electricity, such as the provision of access to and use of the distribution networks, is not harmonised, leading to differences in Member States' rules and hence double or non-taxation.

Background on liberalising the EU energy market

Following the establishment of the EU internal market, the electricity and gas market in the Member States has been gradually liberalised to increase efficiency in this sector and benefit European consumers. The EU Electricity and Gas Directives (96/92/EC and 98/30/EC) entered into force on 19 February 1997 and 10 August 1998, respectively. The proposal of the Commission of 13 March 2001 (see IP/01/356), as amended on 7 June 2002, introduces a set of new measures amending these Directives to open up the gas and electricity markets fully by 2005. The measures are geared towards achieving three goals: full opening-up of the gas and electricity market for all consumers throughout the Union, security of supply and public service, and moving from 15 open national markets to a genuine European market in gas and electricity. The EU's Council of Energy Ministers reached agreement on 25 November to completely open gas and electricity markets for non-household customers by 2004 and for household customers by 2007 (Source: EU-Commission, 17/12/02).

The text of the Commission proposal for a Council Directive amending the present VAT rules on the place of supply of electricity and gas is available on the Europa web site at:
http://europa.eu.int/comm/taxation_customs/whatsnew.htm

The EEB campaign on Environmental Fiscal reform (EFR)

Environmentally sustainable development will be just an illusion if market incentives continue to stimulate wasteful consumption and production habits and make environmentally sound changes appear costly and non-competitive. This is why the European Environmental Bureau launched a campaign in November 2001 to change market incentives to make prices work for the environment. The two main tools we are promoting as part of an environmentally motivated fiscal reform are the shifting of taxation burdens and a reform of subsidy policies. To prevent negative social impacts and accelerate market response, we are promoting specific support measures[6].

The EU has said repeatedly[7] that tax and subsidy policies are sending the wrong signals to the market; we must "get prices right".

1. The market influenced by wrong prices

Indeed, the real economic causes of environmental degradation are too often overlooked. We do not pay for the real cost of environment use. We produce and consume as if the Earth's environmental goods were free and unlimited. We simply pass on the price of environmental use to future generations and people in other/poorer parts in the world.

The market is a mechanism of proven worth for allocating resources. However, the language it understands is **price** and in today's market there are extensive **price distortions** that prevent the market from functioning properly. Most environmental costs are considered external to the economy and covered afterwards by the general taxpayer or not at all. In the latter case, they accumulate in the form of environmental degradation, thus burdening future generations. Taxation in Europe is equivalent to 42% of GDP (OECD 1998). But environmentally related taxes cover about only 7% of total tax revenues, while social insurance contributions account for 35%. Together with other taxes on human effort such as VAT, income and profit, they cover about 85% of all European tax revenues (OECD 1998).

Subsidies in agriculture, energy, transport, and other areas are an additional source of price (and environment) distortion. Subsidies (either through direct payments or tax rebates) amounted in 1998 to 44 billion US$ (50.7 billion euros) for the industry, and 362 billion US$ (417.3 billion euro) for agriculture in OECD countries (OECD, 1998). Energy subsidies (total direct transfers and tax relief, by Member States and EU) in the EU were estimated at 27 billion euros yearly[8].

Currently, in the European Union, where two of our main problems are unemployment and environmental degradation, **the tax and state aid system penalises employment and subsidises the squandering and abuse of natural resources**. In other words, we tax economic *goods* instead of taxing economic *bads*[9]. It is high time that this schizophrenic situation is reversed. Putting all these things right would constitute a true **Environmental Fiscal Reform** (EFR).

2. Green tax shift

EFR is one of the main tools for moving towards sustainable development. Environmental taxes have positive effects on the environment by reducing pollution, and stimulating innovation and efficiency. Ecotaxes have proved to be effective: in Sweden, thanks to the SO_2 tax, sulphur dioxide emissions fell **80%** between 1980 and 91 (EEA). In Denmark, SO_2 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_2 tax led to a fall in emissions of 9% between 91 and 94 (EEA / Swedish EPA). There are other successful examples. But we need an ambitious fiscal reform that will gradually increase taxation levels on all natural resources and the polluting activities that result from their use: energy, air pollutants, waste, water, plastics, chemicals etc.

Ecotaxes can also contribute to the creation of jobs, especially when, as in EFR, the tax revenue is recycled through the economy by lowering taxes on labour. Their overall economic impact can clearly be seen as positive, contributing to a better quality of life and better conditions for prosperity in the long term. These findings are not only supported by environmental organisations, but also by large parts of society, international organisations such as the OECD, consumer associations, trade unions and some business associations.

In the nineties, some improvements have been made, modestly, in individual EU countries, whereby

6 the EEB campaign demands are : 1) An additional 10% shift in total tax revenue from labour to environmental use by 2010, at EU and national level; 2) Removal or reform of all environmentally adverse subsidies; 3) Measures to address any potential social impact; 4) Energy saving and efficiency policies; 5) Fiscal incentives for environmental protection

7 White Paper on Growth, Competitiveness, Employment / European Commission, 1993
Communication (Commission) on environment and employment "Building a sustainable Europe", 18/11/97
Ecofin report to the European Council in Nice on environment and sustainable development, Dec. 2000
European Council, Goteborg June 2001 6th Environmental Action Programme, 2002

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

9 Benoît Bosquet, 2000 "Environmental Tax Reform: does it work? A survey of the empirical evidence"

(perceived) competitiveness objections have limited the scope and impact of such measures. Yet, thanks to the lowering of labour taxes, most business sectors will actually benefit from EFR.

3. The EU proposals

On the EU level, so far no agreement has been reached. After the Rio Earth Summit, an EU energy/CO_2 taxation proposal was put forward. But it was never adopted and was eventually withdrawn. In 1997, the Commission issued a new, more modest, energy taxation proposal that was supported by Parliament[10]. It is still being negotiated although with difficulties that have now seriously weakened the scope of the original text.

For the EEB, this proposal is a start. But more dramatic changes are needed to ensure that in the future the market will no longer promote unsustainable production and consumption patterns. Further more, the EEB is concerned with the shape of the text after 5 years of negotiations. The current rates in the discussions are much lower than the original ones, originally set to increase three times. They would have a (small) impact in just a few countries. They are not price-indexed.

Yet an agreement would still bring in an EU framework for energy taxation, including (symbolic) minimum rates on electricity, natural gas and coal before enlargement. But, should unanimity not be reached on the directive proposal, we would call on governments to continue their efforts on the tax shift and subsidy reform at the domestic level and seek bolder European progress on energy taxation/EFR through other means such as policy coordination or enhanced cooperation. Such a failure would also emphasise the urgent need of qualified majority voting in the fiscal area, particularly in those matters concerning the environment (Source: Sylvain Chevassus, Co-ordinator, Fiscal Reform Campaign, 17/12/02).

More information: Sylvain Chevassus, sylvain.chevassus@eeb.org, tel: +32 2 289 13 02; Campaign website: http://www.ecotax.info

Speech by Ernst von Weizsäcker on the International Meeting on Environmental Fiscal Reform (Athens, 9th November 2002)

In his keynote-speech on the International Meeting on Environmental Fiscal Reform in Athens on the 9th November 2002 Ernst von Weizsäcker, member of the German Bundestag and the advisory board of FÖS, made a distinction between two important ranges of topics:

- One is pollution control, which is predominantly a local and national activity. The first twenty years of environmental policy in advanced industrial countries were almost exclusively devoted to pollution control and setting standards. In that time, most environmental professionals both in the public and private sectors dealt with pollution control.
- The other task of environmental policy relates to global and long-term challenges such as climate change, biodiversity losses and unsustainable lifestyles. This is rather a new field of concern and is still in its conceptual phase of policy-making.

Ernst von Weizsäcker underscored the second topic by talking about pricing instruments (note that I am talking about a *price* corridor, not a taxation corridor), fuel taxes and lifestyle.

The whole speech:

"Let me at the outset make a distinction between two different tasks of environmental policy.

- One is pollution control, which is predominantly a local and a national activity. The first twenty years of environmental policy in advanced industrial countries were almost exclusively devoted to pollution control and setting standards. In that time, most environmental professionals both in the public and private sectors dealt with pollution control.
- The other task of environmental policy relates to global and long-term challenges such as climate change, biodiversity losses and unsustainable lifestyles. This is rather a new field of concern and is still in its conceptual phase of policy-making.

Environmental fiscal reforms can work in both arenas. But if one fiscal instrument is successful in *one* of the two, it does not necessarily follow that it is applicable to the other as well.

10 But Parliament is only consulted (article 93)

For pollution control, pricing instruments abound and have greatly helped to clean up the environment. A typical case has been the wastewater charge, the revenues of which were used to finance water purification installations. This system of charges is in use in most OECD countries and has been highly successful environmentally. It never was *very* controversial. It fully conformed to the "polluter pays" principle and it had the attraction that those who applied prevention measures in their factories were exempt from the charge.

In a wider sense, the same applies to user fees, refund systems, violation penalties and tradable emission permits for classical pollutants such as SO_2 or NO_x. They, too, met with rather little public resistance when introduced.

Let me not lose more time on this subject because we would all agree very soon that prices work well to reduce classical pollution. It remains doubtful if charges on pollutants can be seen as "environmental fiscal reform".

Let me instead turn the attraction to the *other* subject of long-term and global environmental problems, notably the greenhouse effect and lifestyle changes. Here, I suggest, is the most important field for environmental fiscal reform.

Let me at this juncture mention one *major difference* between the two fields of concern. For classical pollution control, you could say it is good to be rich so that one can afford costly pollution control. Or, with a slightly modified meaning, you can quote Indira Gandhi that "poverty is the biggest polluter". This famous statement goes down extremely well with developing countries, but equally well with traditional business people and other people in the North because it justifies them to go on with traditional growth strategies and claim that this is good for the environment.

The opposite, or nearly, can be observed when we address the greenhouse effect, biodiversity and sustainable life styles. Here clearly *prosperity is the biggest polluter.*

This is so embarrassing a phenomenon that economists and politicians prefer not to recognise its truth. They hastily invoke the *sustainable development triangle,* which says that economic and social well-being is just as important as a healthy environment. And very soon they return to the comfortable and familiar paradigm of pollution control where economic prosperity was not at all suspicious. You will discover that in their argumentation, the environmental corner of the triangle is always classical pollution control. I am afraid, for the time being, I have to invite you to be extremely cautious, if you are an environmentalist, when that triangle of sustainability is put forward.

Now comes the shock for us advocates of pricing instruments: In a domain where prosperity is the biggest polluter, all of a sudden, you have to admit that prices are *meant* to reduce "prosperity" - at least the *kind* of prosperity that is causing so many CO_2 emissions, land use, traffic and avalanches of materials. If you want to reduce urban sprawl, you have to say that people shouldn't live in one family homes and commute to work with their cars. You want them to cut their energy and water consumption. You want them to stop buying lots of unnecessary trash goods and having weekend trips to Egypt or Paris and Christmas trips to the Seychelles. Don't expect anybody, let alone democratic majorities, to agree with these objectives.

And yet, having said all this, I remain a staunch defender of ecological fiscal reform for the second set of problems. How can that be?

Well, it is because I am confident that, fortunately for the environment, different modes of prosperity are available. The core of that *"sustainable prosperity"* is a *new universe of eco-efficient technologies.* At the Wuppertal Institute for Climate, Environment and Energy, we have sketched out the landscape of that new universe. In a book I wrote with Amory Lovins, I gave it the simple title "Factor Four", with the subtitle "Doubling Wealth, Halving Resource Use".

The book features fifty examples, from automobiles to household appliances, from buildings to logistics, from industrial processes to farming methods, all demonstrating that a factor of four is available in energy or material efficiency.

The factor four universe can be seen as the Promised Land to those who deal with climate change, urban sprawl and biodiversity losses.

But there is a difference again with classical pollution technologies. Wastewater treatment technology can be introduced in a matter of five or ten years, depending on the life cycle of the economy's capital stock. In buildings, it may take fifty years to refurbish the entire stock of houses. The complete renewal of the car fleet may take thirty years. And a reasonable and comfortable reduction of urban sprawl may take a hundred or two hundred years.

"Factor Four" can be seen as the solid rock of technological insights we need when talking about ecological fiscal reform that works on the second category of problems. If we want to maintain prosperity we should be patient with the existing capital stock.

The long-term frame can also be expressed in terms of price elasticity. You would not expect the car fleet to react to a small but sudden price signal. Immediate price elasticity is very low. However, if society knows that energy and other resource prices will go up slowly but for a long time with no hope of their coming down again, companies will strategically invest in resource efficient technologies. Consumer education will make resource efficient behaviour a prime objective. Academic engineers and scientists will target the basics of resource productivity. And public planning will shift priorities towards convenient mass transport, agreeable high-density urban planning and high resource efficiency in public buildings, transport systems and disposal concepts. As a result, the factor of four becomes a realistic perspective for all sectors. In other words, we can expect high price elasticity in the long run.

Long-term price elasticity means that price signals should be mild but predictable. The best of all worlds would be a political all-party agreement over thirty or fifty years to raise prices for scarce resources in very small and predictable steps, preferably in steps so small that technological progress can keep pace.

Please note that I am talking about a *price* corridor, not a taxation corridor. Taxes or other instruments would be used to stay inside the price corridor. In this ideal case, the monthly bills for petrol, electric power, water, space or even virgin raw materials remain stable. On average, the population would not suffer any losses in their lifestyles.

If the fiscal revenues from this operation go into reducing indirect *labour costs*, you would expect positive effects on the labour markets. And compared to business-as-usual scenarios, you would see human labour services becoming gradually cheaper, i.e. more affordable for the clients of that labour.

So much for the ideal world. I felt it was necessary to talk about the ideal world in order to provide orientation in this controversial theme of price signals on the basic commodities of modern life.

Let me now very briefly address some of the practical problems.

At a conference in Brussels four weeks ago, the European Environmental Bureau (EEB) presented an EU-wide campaign on fiscal measures for the environment. At its core, the demand was to have ten percent of all taxes to be environmental and to make the operation fiscally neutral, i.e. not to increase the overall tax burden.

The EEB's campaign also call for a rapid abandonment of all perverse subsidies. These subsidies, however, are consistently targeted at politically influential parts of the electorate. Transport subsidies in particular enjoy extremely strong support not only from the immediate beneficiaries but also from the automobile and aircraft lobbies. Hence, one would not expect subsidies to disappear soon.

Let me say a practical or political word about the price corridor that I am asking for. It is, I admit, highly unrealistic in our days. It requires two unusual things at once: a fiscal policy that flexibly responds to world market signals, and an all-party consensus in one area, which is perhaps the favourite battlefield for political parties. Also, it should be said that the price corridor it not easily attained with emission trading and other pure market instruments. An adjustment mechanism may have to be introduced to avoid brutal jumps that can occur in the course of free market fluctuations.

During the Brussels conference, Dr. Iannis Paleocrassas mentioned that as Greek Minister of Finance he had introduced a fuel tax flexibly responding to world market fluctuations. This is an extremely encouraging example.

A few days after the conference, the coalition agreement was adopted between SPD and Greens in Germany. It reaffirmed the existing energy tax escalator and foresees a general review by 2004 of the green fiscal reform, with a view to developing it further and more comprehensively. A few steps to reduce tax rebates for fiscal year 2003 are now in the pipeline and will hopefully be adopted next week.

If the public is convinced that this gentle price corridor is a fair deal and the best guide rail to the Promised Land, it will become increasingly more plausible for political parties to go for it.

This then brings me to my concluding remark. It is essential that we create a strong vision of what is necessary to avoid disasters from fossil and nuclear energy use, from rapid biodiversity losses and from resources. If that vision also contains a realistic and agreeable strategy of how to get from here to there, you will have the people behind you."

Phase	1975 – 2000 Pollution Control	2000 – 2100? Resource Productivity
Problem Substances	Toxics, Waste, SOx, Fluorides…	CO^2, Energy, land use, other primary resources…
Regional Focus / Process Stage	Mainly local / mainly **output/emissions**	Mainly global mainly **input/resources**
Predominant Philosophy	End of pipe/ command and control	As upstream as possible – mostly market incentives
Affected economic activities	About 5 Percent	About 95 percent
Most efficient tools	Policy mix – anything goes (Coase Theorem)	Not possible without market forces and allocating power of tax system
Difficulty of task	**Prevent harmful activities – Clean up our dirt**	**Change our entire way of life - multiply factor productivity – develop new model of prosperity**

Source: Anselm Görres

3. GREEN BUDGET REFORM IN INDIVIDUAL COUNTRIES

Austria: Making Prices Work For The Environment – Environmental Fiscal Reform in Europe

More environmental protection – especially climate protection – through the efficient use of resources and the creation of jobs are the goals of an environmental fiscal reform.

Though a majority of European countries already introduced their environmental fiscal reforms in the 1990's and with some good results, further expansion was limited. The reason is the lack of progress and harmonisation at European level. To promote the discussion about an environmental fiscal reform (EFR) within the scope of Europe, ÖGUT – the Austrian Society for Environment and Technology – organised an international conference on the topic "Networking for Harmonisation of a European Environmental Fiscal Reform (EFR)" on 25th of November, which was sponsored by the Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management (BMLFUW) and the German Ministry of Environment. The very well attended conference with experts from many different European Countries gave an overview of the development of "green taxes"[11] and the dismantling of environmentally counterproductive subsidies at EU-level and in some selected countries. The conference stressed environmental fiscal reform because this covers taxes, subsidies and other environmental incentives.

Herbert Greisberger, ÖGUT's secretary general, emphasised ecologically oriented taxation as a central instrument towards the realisation of a sustainable development. Green taxes and subsidies affect the environment positively because they use the price mechanism to encourage environmentally friendly behaviour. They represent cost-efficient instruments in a market-based economy. Furthermore, eco-taxes can contribute to the creation of new jobs, especially when the tax revenues are used to cut the non-wage labour costs of particular groups.

Nils Axel Braathen of the OECD's Environmental Direction spoke in his presentation of the positive ecological effects of an EFR as well as the social effects. The OECD's studies show no significant negative employment effects. In his opinion, no decisive positive effect on employment is to be expected, either. Eco-taxes, the cutting of environmentally counterproductive subsidies, and greater cooperation between the

11 See http://www.oecd.org/env/tax-database

member states constitute the primary goal for the OECD.

Brigitte Leitgeb of the Austrian Federal Ministry of Finance reported on the development of the harmonisation of EFR at the European level. There have been ongoing activities since the beginning of the 1990s. All the same, not many relevant results are expected, especially for the progressive countries. This is also true for the EU directive currently in preparation.

Yannis Paleocrassas, the former European Environmental Commissioner and former Greek Finance Minister, reported that the previous drafts of EFR mostly concentrated on the taxation of energy. In his opinion, the tax rates are generally too low and too many exceptions are agreed on. He emphasised the great relevance of the ongoing European Environmental Bureau (EEB) campaign[12], in whose framework the ÖGUT conference was organised.

Ulrike Eteme of the Austrian Ministry of Agriculture, Forestry, Environment and Water Management focused on the situation in Austria, describing some basic facts for the use of environmental instruments at the beginning. She stated that though a number of studies and reform proposals for an environmental fiscal reform in Austria are available, Austria is still at the beginning of real reform. The cutting of environmentally counterproductive subsidies represents an important aspect of a comprehensive EFR.

Kai Schlegelmilch of the German Ministry of the Environment reported about the German experiences with an environmental fiscal reform with which almost 2% of the tax burden was shifted from employment to the environment. It will be important for a successful EFR to put the environment in the foreground as the most important object of a EFR and to find appropriate ways and means to increase its acceptance in the enterprises and in the general public. For that purpose, a pan-European harmonisation of the EFR and know-how network could be important contributions (Source: **ÖGUT**, Subject Area: Ecological Economy).

Important tips:

- Proceedings: **„Networking for Harmonisation of a European Environmental Fiscal Reform (EFR)"** available from office@oegut.at
- Newsletter "Green Budget Reform"; available at: ÖGUT: ++43/1/315 63 93-19

United Kingdom: Green tax of £70 a flight 'needed to save planet'

Airline passengers should pay a green tax of at least £70 per return ticket to reduce the amount of global warming caused by flights, the Royal Commission on Environmental Pollution said yesterday. The threat to the environment from the rising demand for air travel is so great that no new runways should be built in Britain, commissioners said. Short-haul trips, which have boomed in recent years with the rise of budget airlines, are particularly damaging and should be largely eliminated.

The commission calculates that aviation's contribution to global warming will quadruple by 2050 unless demand is checked by a tax on aircraft emissions and a ban on airport expansion. Airlines immediately condemned the proposals as a "tax on holidays".

In a report published yesterday, the commission accused the government of breaching its own commitment to sustainable development by proposing to allow a tripling in air travel by 2030.

The report says: "The Government shows little sign of having recognised these problems but regards further substantial growth in aviation as inevitable. It is imperative that environmental priorities not be simply sidelined as being too difficult." The commission is an independent body of senior scientists and environment experts that issues reports to Parliament.

Roland Clift, Professor of Environmental Technology at Surrey University, said that the growing trend towards taking weekend breaks to European capitals was unsustainable. Short-haul flights caused more pollution per mile travelled than long-haul flights because a fifth of all fuel was used in taking off and landing.

The commission argues that its proposed emissions tax should be reinvested in better rail links. It says that rail travel is far less polluting and could replace nearly all domestic flights. Professor Clift admitted that many journeys to Europe would take too long by rail. "We will have to return to the time when going away for the weekend meant York or Bath, not Venice," he said. Asked whether this meant that future generations would no longer be able to travel the world, he replied: "That's what we are saying."

12 Further information under http://www.eeb.org

Paul Ekins, head of environment at the Policy Studies Institute and another commission member, said that the Government would be guilty of a huge waste of money if it approved new runways or airports. He said that they would have to remain empty to prevent climate change.

Ministers are consulting on several options for expanding airport capacity to meet demand, including a short third runway at Heathrow, up to three more runways at Stansted and a four or five-runway airport at Cliffe in north Kent. New runways at Gatwick will also be included in the options after ministers lost a High Court battle this week.

The Government has predicted that existing capacity will run out at South East airports by 2015 and that ticket prices will rise by £100 by 2030 if no new runways are built.

But the commission says that growth must be restricted, not just by refusing to build more runways but by imposing a European-wide emissions tax. This would be levied on airlines but should be recorded on tickets to "send an important signal to travellers". The tax should initially be set at £35 for a single journey but this would have to rise to keep greenhouse gas emissions in check.

Roger Wiltshire, secretary-general of the British Air Transport Association, which represents UK airlines, said: "The commission is proposing a return to post-war rationing. This would be a tax on holidays and essential business journeys... If the commission has its way the UK will become a difficult place to visit and to leave."

The commission accepts that forcing up the cost of air travel would make it too expensive for many people. But John Spiers, a commission member and president of the National Society for Clean Air, said that the Government could introduce a voucher system to ensure equal access.

The Department for Transport has suggested that airfares would need to be taxed at a maximum of 10 per cent to cover the environmental cost of each flight (Source: Ben Webster, timesonline-magazine http://www.timesonline.co.uk/printFriendly/0,,1-2-497334,00.html).

UK: We each pay over £180 a year to subsidise the aviation industry

As the Green party's report "Aviation's Economic Downside" demonstrates, it isn't just the £6.8bn a year in tax breaks. There are also the external costs - aviation's share of the bill for pollution-related ill-health, climate change and so on - which at a recent estimate amount to some £3.78bn a year for UK aviation, 26 per cent of the European Union's total. That is a significant hidden subsidy, but it does not even take into account costs such as extra road building paid for by the taxpayer to service expanding airports. Nor does it include other subsidies such as the £550m kindly donated by the public to BAE Systems to help develop a new airbus.

The net effect of the tax breaks and hidden costs is the equivalent of each man, woman and child in the UK donating more than £180 a year to the aviation industry. I would recommend that anyone wanting to get to the bottom of this subject read the Green party's report and its latest recommendations regarding air traffic congestion charging, which point the way forward even while the international community is prevaricating over the introduction of a tax on aviation fuel (Source: Caroline Lucas, Green party, South-East England, 17/12/02).

See the whole report under http://www.greenparty.org.uk/reports/2002/AED2a.htm

UK: British Finance Minister Announces Environmental Tax Reforms

The British government reiterated its commitment to using fiscal measures to achieve environmental protection, with Finance Minister Gordon Brown announcing several environmental tax changes and a strategy on economic instruments and the environment.

Included in the preview of next spring's budget statement was a new long-term target for the tax on wasteland filling of UK£35 (55 €, US$54.91) per tonne, nearly triple the current rate. Brown also proposed to cut taxes on bioethanol as a road fuel, but gave no details on timing. Meanwhile, work is underway to develop fiscal instruments aimed at domestic energy use, the aviation industry, the road haulage sector and quarry operators.

The strategy on green taxation broadly echoes a "statement of intent" issued by the government in 1997. It emphasizes the importance of stakeholder dialogue before new instruments are introduced in order to avoid any "perception that they are being introduced for other reasons" than the stated environmental ones (Source: Environment Daily, 28/11/02).

For more information, see the British Finance Ministry's website: http://www.hm-treasury.gov.uk/

Germany: Environmental Fiscal Reform – Experience and Present Situation in Germany and Outlook (Presented in a speech of Kai Schlegelmilch (Environment Ministry) at an EFR Conference in Vienna on 25th November 2002):

"(…) Now, the national climate change program adopted by the German government back on the 18 October 2000 has calculated what has been achieved so far in terms of CO_2 emission reductions and what still has to be done in order to achieve our targets. One of the most economic and very central instruments in this respect is 'Ecological Tax Reform'. This was already introduced back in 1999 when we adopted a first step followed by 4 additional steps in 1999. The general reason for 'Ecological Tax Reform' is that taxes and prices are the crucial signals in a market economy and so if you leave out that opportunity for the benefit of the environment, this would really be a lost opportunity. However I'm not going to go further into that, but rather give you the brief objectives of our 'Ecological Tax Reform': to reduce energy consumption and unemployment and stimulate innovations.

"The ETR will work for more jobs and for a better environment to achieve a slight double dividend. I will give you some more proof of that as far as it can be proven. We want to do that by increasing and broadening energy taxes, on the one hand, but also by reducing social security contributions, particularly to the pension fund, on the other. That is the general idea, so overall it will be revenue-neutral. It's supposed to be implemented in 5 stages as we announced and put into the law back in 1999, and these steps shall be implemented next year. This is accompanied by a steady decrease in social security contributions. I would like to give you some more information about the experience and about the discussions we had in Germany. Back in 1999, the electricity tax was introduced, and that has increased by ¼ cent per kWh each year, including next year, and the mineral oil taxes on transport fuels are increased annually by 3 cents. There was, however, only a single increase in 1999 on heating fuels - natural gas, and light heating fuels - because there were some social concerns, which is why this was only the first step.

What are the features of 'Environmental Tax Reform' in Germany? There are basically two reasons for the reduced rates we implemented. One is the competitiveness argument of industry. I'm not going to describe the complete design of this reduced rate for industry, but generally speaking if you compare the level of the reduced rates relative to the regular rates, only industry benefits this year by a reduced rate of 4 billion Euros. That is quite substantial given that the overall revenues of the Eco-tax reform will be about 17 billion Euros next year. That is quite a substantial reduction, so we being quite generous to industry. Then we have further reduced rates for environmental purposes, which is also very important. They apply to local public transport, railway transport, and natural gas in the transport sector, with the biggest volume going to cogeneration plants, which are efficient. Overall, this ensures revenue neutrality. The employers' and employees' social security contributions to the pensions fund will be reduced by an overall 1.7%. That does not look very much but you have to keep in mind that the historic cost blocks have been increasing dramatically for labour, while energy costs are just a very small share of the total costs of industry: about 2% on average. Labour costs are between 30% and 40%. Now if you increase this block of energy costs by 10% or 20% you can't expect to reduce labour costs by 10% to 20% in light of this imbalance. However, you cannot attribute that negatively to the 'Ecological Tax Reform'.

As I said before, I would like to talk about our experience with the public and several stakeholders in this public debate. But first, there was a drastic increase in world oil prices and a strengthening of the US dollar when we introduced the ecotax. On the other hand, we had a clear decrease in electricity prices due to the liberalisation of the electricity market. The use of revenue for non-environmental purposes, basically reducing social security contributions, was not that well understood by the public. About 50% said they understood it and supported it, but most people wanted to see more revenue being used for environmental purposes. Now that is very interesting, I think, because about 15 years ago we started building up a broad consensus for a revenue-neutral ETR amongst many state holders. By 'we', I mean that I used to work at the Wuppertal Institute, a scientific institute that provides policy advice. In science, most institutions of science, trade unions, environmental NGOs, and some progressive entrepreneurs, a consensus was reached in favour of such a revenue-neutral environmental tax reform. That was also an important issue for the environmental NGOs. They did not ask for additional revenue being used for environmental purposes, since they wanted to keep it revenue-neutral to ensure public acceptance. We introduced one of the most market-based instruments by increasing energy taxes, but the public does not really accept that in a sense. They complain about higher energy taxes. Also, we delegated the responsibility of how to save energy or what to do or what alternatives to apply to the public and to each individual. I mean, that's a very market-based approach. At the same time, we had this strengthening of the US dollar and the oil price increase, so it was easy for the media and for the opposition to blame the entire price increase on the government due to the ecotax, although only 1/4 of the total price increase was really due to the ecotax.

This idea of having the price increase as a market-based approach somehow contradicted the other idea that people wanted to see revenue being used by "good" government for the environment, so they didn't quite believe in the concept of using market-based instruments. In addition, in Germany that government is expected to reduce its influence on peoples' behaviour. This is a contradiction that is not that easy to overcome. We started at least communicating differently by saying, 'we have reduced rates for environmental purposes'. This is, of course, a loss of revenue for the finance ministry, but we could also apply the regular rate and simply use the additional revenue we would get for promotional programs for the environment. But that's more or less the same. So we started communicating these reduced rates as 'promoting the environment' and that helps a little bit at least to overcome such perceptions.

Another feature is that though we treat business very generously, it still complains very much about it. In the public you might have the feeling 'oh gosh - we hit them really badly - the industry', which is not the case actually, and that's of course difficult for us because they complain although we treat them favourably.

Equity concerns were also quite dominant in the public because of this oil price increase, so we had also strong debates and protests in the autumn of 2000, but the government eventually stood firm on it, and we continued the ecotax reform. There was also a very critical moment of debate where we thought that the Chancellor might say 'OK, stop this ecotax - we don't want to have that public debate anymore'. In my personal analysis, which has never really been argued or questioned, is that the ecological tax reform has only been continued is only due to the revenue raising function and the use of the revenues for non-environmental purposes by transferring the revenues from the tax to the labour ministry, for the social security contributions reductions, therefore we still have the ecotax in place. However, we provided a single heating cost grant for low-income households and provided for a level playing field for all commuters. So far, car commuters have been treated much better in the tax system than those using bicycles or walking. Environmentally, we were also able to prove that, due to the ecotax, the general oil price increase and resulting public debate, we saw reduction of transport fuel sales by 1.1% in 2000 and 1.5% in 2001. This year, sales seem to be dropping further. These figures don't seem to be that dramatic, but you have to keep in mind that over the last decade they have been increasing. This is the first time they have fallen in two subsequent years, and demand for carpooling increased by 25% in the first half of 2000. With the public transport, there is clearly a turnaround. In 1999, for the first time, we had a slight increase of 0.4% and then in the two subsequent years an additional 0.8% of passengers using public transport. These are at least clear indicators that the tax reform has contributed to environmental improvement. That's very important to sell to the public. I put out a leaflet, only in German I'm afraid, where we communicated explicitly what this ecotax reform does for the environment. There were complaints that there were no environmental benefits because the revenue all goes to the finance minister. That is not the case. In addition, we asked the German institute for economics research in Berlin to do a study to evaluate the impact of the ecotax reform. They found the double dividend. So I would, if I may, question the OECD's thesis a little that there is no clear double dividend. We think there is one. It predicts up to 250,000 new jobs by next year due to reduced labour costs, increased investment and innovations, as well as a reduction of $C0_2$ emissions by 2% to 3%. This is quite important to achieve our climate change target, as I said before.

Now, I fear communication or the public was not that easy and that's why we did several campaigns. I will not go into that in detail. You can find them all on the Internet from the links at the end of my presentation.

We had a low-budget poster campaign, for example, where we advertised, 'what does the Ecotax do for you?' It gives more money because you save social security contributions. It does more for the environment because you have reduced CO_2 emissions. We also had one person saying, 'Well, it makes for more sex'. This was somewhat striking because people suddenly thought, what's the connection between sex and the ecotax reform. We even had three parliamentary requests to evaluate and elaborate the connections between the two of them. It was actually one of the most successful campaigns we ever ran because it was so low-budget - all the media jumped immediately on it - and there were reports all over the media without us having to pay them. We were quite happy about that. Well, what is the relationship between them? We did not do any real in-depth evaluation about it, but we imagined a blackout. In New York, I think it was back in 1967, there was a blackout, and suddenly you discovered 'oh there's a partner next to me sitting watching TV', and nine months later there was a jump in the birth-rate in New York hospitals. We thought there might be some connection between saving some energy and, well, you know. However, this was at a very appropriate time, and we were quite lucky actually because otherwise we might have faced strong opposition. This was a more humorous attitude that people took when at the turn of the year 2000 to 2001 we had a further step of increase of ecotaxes. However, the overall price decreased because in general there was a relaxing situation on world oil prices and price markets. People even called us saying, 'now come on, we expected another step of ecotax, but the prices decreased in January,' and they complained about that as well. So it caused some quite funny reactions.

We made flyers, as I said before. We made a cinema ad as well. It had no direct connection to the ecotax, but it's been very successful. It's running in most German cinemas. You can find it on our web site. It's a climate change protection spot done as a bank robbery. It's only one minute long but very nice. But you need loudspeakers to understand the jokes. The point is that you see something and you hear something completely different. The speaker always tells you what you should do, but you see the something completely different from what is said, and that makes it so funny. Of course, it's a good approach to sell it via a humorous device. We did a lot of press releases and background information. We implemented an ETR ecotax reform calculator so you just add in your energy consumption and your salary in order to calculate your social security contributions. Then you get exactly how much you may benefit or lose from the ecotax, but then there are suggestions of what you can improve and how you can improve your tax debt by applying more efficient equipment in your household, using other means of transport, and so on.

Now from here on I will try to draw some conclusions about the requirements for the design of an ETR. I think it is very crucial to have a strong and socially attractive and fiscally motivated alliance. If I may become a little bit more political, back in 1994-1995, we began discussing an ecotax reform in Germany seriously, though we only implemented it 4 years later. However, there was a discussion taking place under the conservative government in Germany. I was in the lucky situation to advise the government on how to introduce such an ecotax reform based on the experience we had in all the other countries and many others. Decision-makers like Wolfgang Schäuble, who was once party leader, and Angela Merkel, the former environmental minister, were very much in favour of it. So we even had strong support from within the conservative government, and they put forward a paper that was not published showing that they had some ambitions to go down the road to an ecotax quite similar to the one we implemented. However, at the very end, when they went through their party process, it was only a paper providing subsidies for environmentally benign techniques and behaviour. If I take into account that the finance minister does not want to lose revenue, this is certainly not the way to go forward. I would at least like to remind you of that. There are also possibilities under all kinds of constellations of governments. The UK introduced the fuel duty escalator, increasing energy taxes or fuel duty taxes over several years, 6 years or more, and this was also quite successful in terms of environmental improvements. So there is always room to manoeuvre, and I would like to come back to that point a little later.

Revenue neutrality, as I said before, seems to be very crucial at least for the first step, the introduction of such ecotax reform. It seems to be unpopular at the moment. I will come back to that later as well.

First environmental improvements should be visible in the relative short term because people want to know whether the tax really works for the environment. So you need to do some studies and evaluate that and pick out some winners, possibly making them speak out loudly in favour of their ecotax and demonstrate that there was a winner because it introduced innovations and there was an enhanced market for such products. That's very important also. You have to take equity and competitiveness concerns into account as well, possibly by compensating measures within the broader fiscal reform as we did. We increased child allowances, reduced the income tax, and so on. But we have to communicate this jointly; that's very important. That's what we somehow missed. I have to admit that we have to improve on that.

As to the advertising, what I said earlier applies here as well, so I will more or less skip that part but just add that we should make some information available; awareness campaigns are crucial. Don't just introduce the tax reform, sell it.

I'm happy to tell you that last week the German parliament adopted, on Thursday, new legislation, a new step. We also had elections in Germany very recently. We were quite happy to have the strengthening or at least the reinforcement of the current government; the Greens even won more votes. This means there was a strengthening of the coalition, so we succeeded in making new legislation that will be in effect from next year on. The general principle was to reduce environmentally damaging tax reductions within the existing ecotax reform. No further steps were approved. That was kind of difficult because there was a clear "no" from our chancellor for the time being. But we reduced the tax exemptions for industry and introduced a positive marginal tax rate, which is very crucial from an environment point of view. Because now you will really have incentive for energy-intensive industries to reduce energy consumption. It also makes it more beneficial and profitable for those investments. We also reduced the exemptions, the half-rate for night storage heating. We will phase them out by 2007. We also adapted the gas tax to the level of light heating oil as it had been taxed much lower, about 60% lower, than the light heating oil. I do think this is the best idea, but at least there is now a level playing field, and there is still, if you look at the energy content, a lower rate for natural gas than for light heating oil. We assume that basically there might be a small price increase. However, the major way this will be implemented is that the profits of the gas industry will be reduced because so far the gas industry has calculated much higher gas prices although the costs for gas exploration were much lower.

And we succeeded - that's very important - in increasing revenue for building stocks, renovations and exchanging old night storage heaters. We also prolonged the tax reduction for natural gas use in the transport sector until 2020. We also succeeded in establishing the principle of the 'Environmental Fiscal Reform', the green budget reform in the German coalition agreement. This means basically, as I said before, that we modify the structure of existing taxes, reducing environmentally damaging and macro-economically questionable subsidies, including tax expenditures, which is the explicit term in the coalition agreement. We increased the use for environmental purposes, and by 2004 at the latest there will be a review about whether we will also continue the increase of energy tax rates. But if you've seen the slides of OECD, you know that Germany is already at the top end of these tax rates on the continent. The UK is a bit different situation; it's kind of an island. However, we would, of course, appreciate seeing some neighbouring countries also move in that direction because that would allow more room for us to manoeuvre.

We succeeded, as I said before, in reducing support for building houses, for buying houses, and for buying flats, which has been a tremendous help so far. We cut them dramatically, which would also help reduce energy consumption and slow urban sprawl, which is very important. We will change annual car taxes and base them on CO_2 emissions, favouring cars that use very little fuel. We will push for a kerosene tax for aviation on a new level and - a very innovative element: we will abolish the VAT exemption for international flights. So if you want to depart next year in a plane from Germany to Austria or wherever, you will have to pay VAT; so far all member states have an exemption for VAT on flights, but Germany will be the first country in the EU - maybe worldwide, I'm not sure - but at least one of the pioneers to abolish that exemption. Unfortunately, we will probably only be allowed to take into account the share of the flight in Germany, but of course if more countries followed, we could extend that, and there might be bilateral agreements between the two countries. So I think that's quite an innovative element, and we will see how it works out. We will further restructure the German hard coal sector by reducing subsidies. They will be further reduced to about 2 billion in 2005, decreasing further afterwards. We will reduce the VAT rate on public passenger transport for long-distance railway transport. So far, we are the only European country applying the full rate of 16%. We will reduce that to 7%, a price decrease of about 9% to 10%. That's quite dramatic, maybe even more than you could achieve by energy taxing of motor fuels for individuals. More revenue will be spent for environmental purposes, as I said I think for the third time now." (Source: Protocol of the conference "Networking for Harmonisation of an European Fiscal Reform (EFR)", organized by ÖGUT).

France: French National Assembly Passes Recycling Tax

French legislators recently passed a measure (an amendment to the 2003 budget bill) that would apply a new "recycling tax" beginning January 1, 2004. The levy would apply to free newspapers and all distributors of advertising materials, covering several large publishers of national daily and weekly newspapers distributed

to users of public transit, as well as to weekly, entertainment-based “alternative” papers. But it would not apply to publications produced by non-profit organizations or non-governmental organizations that produce publications to communicate with the public.
It would amount to 0.10 euro (10 cents) per kilo of newsprint and/or paper distributed by free press publishers and direct marketers to cover waste disposal and recycling costs. It was passed by the National Assembly, or lower house of Parliament, and has been forwarded along with the entire budget bill to the Senate (upper house). The recycling tax amendment marks the latest attempt by French officials to apply the “polluter pays” principle to waste management policy (Source: TaxNewsUpdate/ BNA Daily Tax Report, 02/12/02).

France: In Paris, Car Makers Urge Green Action

The heads of 13 leading car companies recently issued a joint statement calling for the greater use of diesel fuel over gasoline-driven vehicles; more rapid introduction of greener fuels; and worldwide harmonization of technical rules for car emissions. The statement was released on September 27, 2002 after chief executives from European, Asian, and American car firms met at a major vehicle exhibition in Paris, France. The statement said that diesel is favored because of its “dramatically more efficient” fuel economy and lower carbon dioxide (CO_2) emissions. The car makers’ interest could have been motivated in part by the need for European, Japanese, and Korean firms to meet pledges they made to the European Union to significantly cut average CO_2 emissions from new cars by 2008.
The chief executives agreed to push for the early establishment of “global technical regulations” to harmonize a range of safety and environmental standards. They also said it was “essential” for carmakers to “gather support” for greener technologies such as hybrid electrics and fuel cells and to “convince customers to adopt these vehicles in large numbers” (Source: TaxNewsOnline 08/10/02).

Hungary: Road Freight Receives Huge Subsidies

More and more foreign trucks are entering Hungary. Their number has tripled since 1990 and exceeded 1.2 million in 2001 (*see Figure 1*). This growing trend is practically unbroken. For instance, there was a 6.7% increase in the first half of 2002 over the same period last year. 95% of these trucks cross the Hungarian borders without paying any taxes at all under the stipulations of bilateral agreements with their countries of origin. The remaining 5% pay a maximum of 3 HUF per tonne-kilometres, or slightly more than 1 Euro cent. This amount hasn’t been adjusted for inflation since it was determined in 1992, although an agreement with the European Community explicitly made it possible. If the tax had been indexed by the rate of inflation and paid by every truck, additional state revenues worth 95 billion HUF instead of the actual 3.1 billion HUF would have been collected in 2001. By remitting this tax to the overwhelming majority of foreign trucks over the past ten years, the Hungarian state subsidised the environmentally most harmful mode of road transport by EUR 2.74 billion (with interest the sum totals to EUR 5.14 billion) (*see Figure 2*). In comparison, the European Union provided subsidies to Hungary of about EUR 1 billion altogether over the same period of time.
At the same time, according to different calculations, international truck traffic causes damage of between HUF 150 and 250 billion each year in Hungary (damage to the environment and health, accidents, deterioration of roads, etc.) Trucks are chiefly responsible for the destruction of our roads. One heavy truck causes the same amount of damage to the roads as several hundred thousands of cars do, because damage is proportionate to the fifth power of the axle load. They ruin public utilities under the ground and the buildings along the roads more seriously by orders of magnitude than passenger cars do.
Hungarian truckers also receive considerable subsidies abroad in return for the tax exemption provided to foreign trucks in Hungary. In other words, both in Hungary and in other countries, the taxpayers pay for a significant part of the costs caused by trucks. In a market economy, every economic activity must cover its costs. If this is not the case, market conditions become distorted, some enter into unfairly disadvantageous positions, and others gain an advantage undeservedly. Unless prices reflect the real costs, the economy performs below its potential. (In the past decades Eastern European countries really learned what happens when prices lose touch with reality.) It is particularly unacceptable that the people who did not cause the problems nonetheless have to bear the mitigation costs of damages and suffer the detrimental effects on health and the consequences of environmental degradation. In reply to our inquiry the Transport and Energy

DG of the European Commission declared that these taxes are to be collected provided that they apply equally to every participant of road freight without distinction.

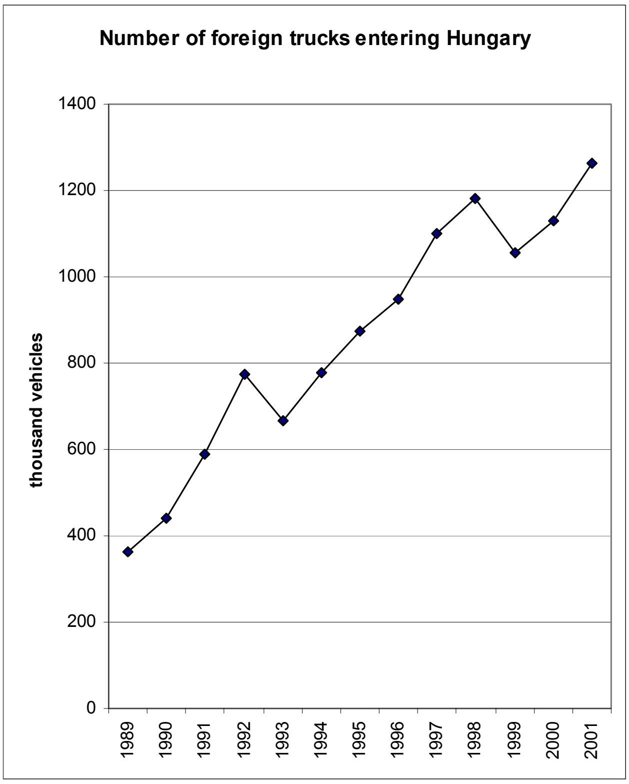

Figure 1

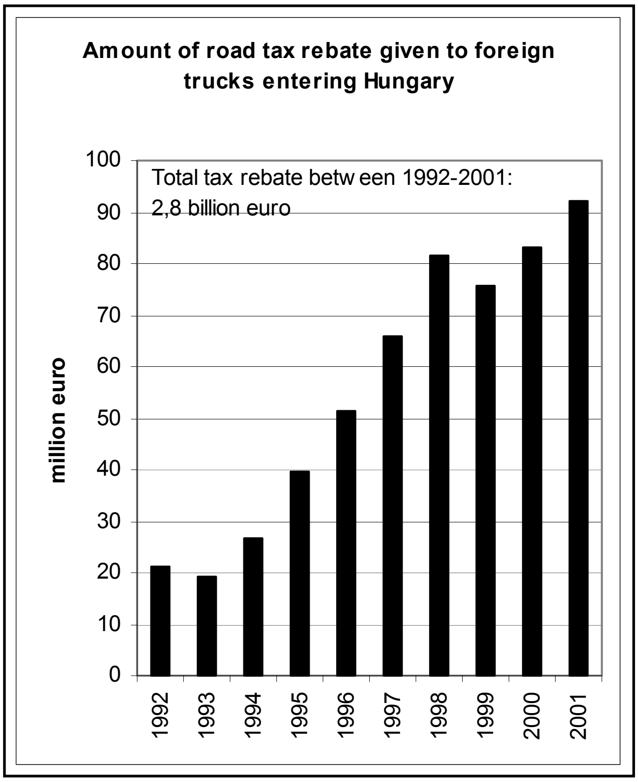

Figure 2

Hungarian truckers receive other unreasonable subsidies as well. For example, they can deduct a foreign travel allowance of USD 25 per day from taxable income, and thereby be exempt from paying both its social security contribution and its income tax. Other Hungarian citizens, including the railway employees, are entitled to a travel allowance of only USD 10 per day. This allowance, subsidizing truckers about HUF 12 billion a year, is far from meeting the requirements of fair competition.

Accidents caused by lorries and trucks are usually much more serious and involve much greater damage than other road accidents. One reason is that Hungarian authorities do not enforce the legal time of rest for truck drivers, although Hungary has already adopted the relevant EU regulations. Many people have paid their life so that trucker can be more competitive.

The fact that trucks registered in Hungary (except for old, outdated ones) are to pay only 12–20% of the vehicle tax also greatly widens the gap between the huge social costs of road freight and the thin compensation for them.

The government plans to spend HUF 300 million (1.2 billion €) on road surfaces so that trucks exceeding the current limit of a 10-ton axle load will be able to pass freely. This is in compliance with EU regulation, but it is said nowhere that these cost are to be covered by public money. The reinforced surfaces are necessary only for the passage of heavy trucks with axle load of 10 tons, so they must cover the costs as well. The investment cannot be in the interest of only 10% of the road hauler sector with costs are covered with taxpayers' money. According EU policies, users must cover the costs (Source: Clean Air Action Group, 13/12/2002).

Hungary: Fuels Entering Hungary in Fuel Tanks

Fuel smuggling and fuel tourism is taking place on a grand scale in several countries in Central and Eastern Europe. (Smuggling means that fuel is either transported illegally into another country or transported legally, but sold illegally afterwards.) The main reason is that fuel prices vary greatly among the countries, not least due to different tax rates. For example, all of Hungary's neighbours – except Austria – have lower fuel prices than Hungary (see the figures). For instance, the price of diesel in the Ukraine is less than half of the price in Hungary. These activities also generate a lot of unnecessary traffic and cause substantial environmental pollution. (On several crossings at Hungary's border with Ukraine, it is estimated that 90% of the traffic is due to fuel tourism.) The quantity of fuel brought into Hungary from the neighbouring countries equals about 30% of the total Hungarian consumption!

It is estimated that the Hungarian state loses tens of billions of HUF (1 Euro = 242 HUF) each year this way. CAAG estimated the loss of state revenue last year at over 180 billion HUF (775 million €). In addition, this situation makes it difficult for Hungary to raise and keep fuel prices at the level of its neighbouring EU member state. Solving this problem would require the harmonisation of fuel prices all over Europe. In the opinion of the Clean Air Action Group, the EU should make it clear to the governments concerned that it will not tolerate the indirect support (low fuel taxes) of the smuggling of fuels and fuel tourism, which enhances environmental pollution and crime and also violates the EU's principles of free market competition (Source: Clean Air Action Group, 13/12/2002).

Hungary: Accounting of wages is disadvantageous to the railways

Wages of the rail freight are accounted in strict compliance with legal rules. If we compare accounting data of transport modes, we will find that this accuracy is not characteristic of road transport at all. Reports of APEH (Hungarian State Revenues Office) show that in 1998 the average gross wage at road freight companies keeping single-entry bookkeeping was (HUF 24 068) half the amount recorded at companies keeping double-entry bookkeeping (HUF 48 779). However, both figures were far surpassed by the wage of railway employees (HUF 66 520). Of course, hardly anyone will believe that railway employees earn so much more – or more at all – than their counterparts in road transport, which contradicts everyday experience. The above mentioned figures point out that rail haulers pay much more of the income tax and social security contribution of the wages of their employees than the road transport sector. The figures prove that tax evasion is rampant in the road transport sector. As a consequence, railway employees used to and still have to pay for the main part of the missing sums. Experts estimate that the decline in MÁV's (Hungarian National Railways) competitiveness stems from the road haulers sector's mass tax evasion, HUF 20 billion just in 1998. (At 2002 prices this sum amounts to HUF 30 billion.)

Just to mention an oddity, in 2000 road transport companies employing fewer than 10 people paid gross wages on average (HUF 24 278) less than the legal minimal wage (HUF 25 500) set by law (Source: Clean Air Action Group, 12/13/2002).

Norway picks holes in EU emissions deal as it counteracts CO_2 taxes

Yesterday, Norwegian environment minister Børge Brende criticised several key points of a proposed system for introducing EU-wide greenhouse gas emission trading. EU environment ministers approved a Danish presidency compromise text on Monday.

Mr Brende said the system was "disappointing" on several counts. In particular, he criticised the EU council's decision to limit the scheme to carbon dioxide (CO_2) in the first phase. "Opt-in from 2008 is a step in the right direction but it is hard to see why the directive cannot allow for opt-in as early as 2005", Mr Brende said in a statement. In Norway, he added, "much of the potential for emissions reductions is associated with greenhouse gases other than CO_2 from the process industries, which are not covered by the quota directive."

The minister was also critical of the plan to allow governments to auction up to 10% of their allowance in the second phase starting in 2008. He argued that businesses subject to a tax on their CO_2 emissions would "receive significant economic relief in conflict with the 'polluter pays principle' if they are now included in a quota system with free allocation."

Although Norway is not a member of the EU, it is affected by many European measures through the EEA and EFTA. The country has also been one of the most enthusiastic in developing and adopting an emissions trading system (Source: Environment Daily 1348, 11/12/02).

Danish Government report about "Green Market Economy" postponed until 2003

The Danish Government announced on February 22, 2002 that a report about an "Environmental friendly Market Economy" was to be made.

> *"The report will do analyse the practical use of market-based instruments for a better environment and industry's competitiveness in the green market".*

(Translated from the Danish terms of reference for the report)

The Danish Ecological Council welcomed the initiative, even though the creation of this report could be seen as a mean to delay the further use of economic instruments for environmental purposes because there are already several reports and surveys that recommend the use of economical instruments for environmental purposes and also documents the positive effects.

A draft report is to be presented to the relevant ministries in the beginning of October. In November the proposal for that report should have been discussed and agreed on in the Governmental co-ordination committee – and maybe in the Governments committee for economics.

Due to several official and unofficial reasons the presentation to the public and the political opposition of the report about "Green Market Economy" has been postponed until at least mid-January 2003.

The official reason seems to be that the report has to wait until the Danish Presidency for the EU is finished.

Unofficially. there are many more reasons, e.g. the huge Danish problems in reaching the legally binding reduction in CO_2 emission according to the Kyoto protocol and internal EU agreements.

At the same time the Danish Climate Change Strategy, which was expected to rely heavily on the use of economic instruments, has also been postponed until January of 2003. The Government had promised to present the Strategy before December 1, 2002.

Critical voices say that the Prime Minister is urgently needed for the negotiations because of the very alarming messages for Danish Climate and Energy policy. They also claim that the governmental policy just to rely on CDM and JI mechanism and to buy Russian CO_2 emission permits as the key element in the strategy might prove both extremely expensive and political unacceptable.

This is, first of all, a very short-sighted policy, and Denmark might lose leadership in innovative environmental technology and renewables. And second, it might prove to be a very expensive "solution".

Third, such a strategy from a former environmental leader country with a very high emissions of CO_2 per capita will surely make it even harder to persuade developing countries that the rich, industrialised countries are willing to start cutting their use of resources and their emissions of greenhouse gasses.

But for months, the Danish Prime minister has used almost all his time on just one project: the enlargement of the EU approved at the Copenhagen Summit in December.

Until the presentation of the delayed governmental report "Green Market Economy," nothing can be expected to happen in Denmark concerning the use of economic instruments and, in particular, a green tax and budget reform that will use market forces to improve the Danish and global environment and use the revenue to lower the high Danish taxes on labour, etc.

"The report shall cover the following areas:

1. Possibilities and experience with the practical use of economic instruments such as taxes, levies and subsidies, tradable pollution allowances and quotas, user charges, property rights, a phase out of environmentally damaging subsidies, rules for liability to pay compensation, etc.
2. The potential of and experience with technological innovation and the spread of environmentally friendly technological solutions along with initiatives that can stimulate and evolve the market so that companies will be better able to use their environmental efforts as a positive signal in competition. Further on the practical use of measures that can promote environmental friendly and resource effective technologies and products.
3. The surveys shall also map the potential in the environment and the necessity for public-private partnerships in initiatives to promote technological development. The function and the visibility of the market should make it easier for consumers, investors and companies to act in an environmentally and sound way to protect resources.

On the basis of the three previous paragraphs, there will if possible be recommendations about the future use of market-based instruments and/or proposals to further surveys and more". (Translated from Danish) (Source: Soren Dyck-Madsen, The Danish Ecological Council, 16/12/02).

The Danish Ecological Council proposes a comprehensive Danish Green Budget reform

The Ecological Council has drawn up a proposal for a Danish Green Budget Reform that will double the percentage of the total Danish tax revenue coming from environmental taxes when fully implemented in 2010.

The aim of the proposal is to give an example of a change in the tax system in a more environmentally friendly direction without changing the social distributional effect on society, raising the overall tax burden or disturbing the competitiveness of the Danish industry.

Environmental taxes should be used when they are the most effective instruments for easing or solving environmental problems. Therefore, we only propose new taxes or adjustments of existing taxes where it's effective in solving or reducing an environmental problem suitable to be solved by economical instruments such as levies and taxes.

Environmental taxes as part of a green budget reform will generate revenue. Sometimes environmental taxes are accused of being implemented just for the revenue, just to increase the tax pressure. The proposal from the Danish Ecological Council shows that it doesn't have to be that way. The revenue from environmental taxes can be used to reduce other forms of taxation, especially income taxes, and can be done without the complete proposal negatively affecting low-income groups and spoiling industrial competitiveness. On the contrary, the proposed Green Budget Reform offers the possibility of creating new jobs and certainly offers economic incentives for environmentally positive companies to develop new, environmentally friendly technology for the domestic market and export.

The Danish Ecological Council's proposal primarily focused on the use of environmental taxes to help solve environmental problems such as climate change, air pollution, and undesired chemicals, but also drinking water supply, solid waste production, waste water and the over-consumption of resources. At the same time, we pointed out areas where subsidies make environmental problems bigger. A reorganisation or removal of these environmentally perverse subsidies will both benefit the environment and save public finances.

The proposal is divided in two parts – Households and Industry. When environmental taxes are imposed on households, the revenue from those taxes is recycled to households, mainly by lowering income taxes. The same is done for industry where the revenue mainly is returned as subsidies for environmentally positive arrangements, e.g. energy savings, and as subsidies accorded to the labour expenditures to reduce the costs of labour. The proposals to raise the level of existing environmental taxes concentrate on energy use, transport and the use of hazardous chemicals, because these areas are the main cause of many environmental problems.

The proposal moves all in all a little less than 60 billion DKK or 8 billion Euros in tax revenue, mainly from income taxes to taxation of resource use and pollution. This is based on a qualified estimate - in most areas there is a lack of sufficient knowledge about how consumers and producers will react to the actual level of a certain environmental tax. A systematic collection of knowledge in this area should be an integrated part of an environmental tax reform. The 8 billion Euro will make up 9% of the total tax revenue in 2010, so – if everything else is equal - the total revenue from environmental taxation in 2010 will make up about 18.5% of the total tax revenue (Source: Soren Dyck-Madsen - The Danish Ecological Council, 16/12/02).

The entire proposal can be seen and downloaded for free as a publication from the English part of the Danish Ecological Council`s website: http://www.ecocouncil.dk/engelsk_websted/publications/publications.html

Danish Status on Green Budget Reform - Tax stop and lack of discussion and information

The present Danish situation about shifting taxes from labour to resource use and pollution has changed dramatically since the right wing government came in to power in November 2001.

The situation is frozen at the green tax levels of 2001. The right wing government declared a total tax stop very soon after they won the election on November 20, 2001. For taxes, where the rate was agreed as an amount per unit, the yearly indexing has stopped, which is slowly lowering the actual tax levels with respect to the inflation rate. Those taxes where the rates were a percentage of the price are fixed at that percentage, thus meaning that they will be indexed according to the price inflation. No new green taxes have been proposed from the government. But also none of the existing green taxes has been abolished.

Danish long period as a frontrunner is over

Green taxes have been introduced in Denmark during the latest 25 years to benefit the environment.

Green tax reforms in which the revenue from increased green taxes is mainly used for environmental purposes, to lower the income taxation and phase out the social payments from industry have been discussed for more than 10 years. Environmental tax reforms shifting more than 2 % of the tax burden from income taxation to green taxes were implemented in the 1990's, making Denmark the country with the highest share of taxation from green taxes worldwide.

In particular, the former Danish social-democratic government succeeded in creating a green tax reform that did not affect the poorest households or compromise industrial competitiveness. The Danish green taxation and subsidising actually made a stunning success of the Danish wind power business - Danish firms make up half of the world market, exporting more than 2.5 billion Euro yearly and employing some 20,000 people.

Lack of public information

It is thus quite astonishing that not much has been done to inform the Danish public about the true character of GBR to connect the increase in green taxation with a slightly greater decrease in income taxation. Neither has there been much information of the positive environmental achievements from the implementation of green taxes.

The former government seemed to rely on the environmental awareness in the Danish population. They didn't take into account that public support only providing a positive view about the state's expenditures for environmental purposes and the need to get them financed with revenue from green taxes. Actually, people didn't understand the connection between higher green taxes and lower income taxation.

The Danish green tax reform had a rather complicated structure in order to be neutral in terms of revenue, income and competitiveness. This implies that there has been a great possibility of misunderstandings and thus for active misinformation about the structure and effect of the Danish policy for a tax shift from labour to environmental purposes.

Actually the only publication meant for a broader public was probably a booklet issued by the Danish Ministry of Taxation in 2000 with the translated title: "Green taxation – pricing the environment" The booklet was rather easy read and thus popular for education. It could be downloaded for free until the Danish right-wing government came in to power. Then it was removed from the website of the Ministry of Taxation.

The lack of information had a noticeable influence on the outcome of the Danish election in 2001, when the right-wing government came to power.

Because of the lack of information campaigns about the green tax reform, almost nobody in Denmark realized that the very visible increase of green taxation was followed by a slightly higher, but less visible decrease in income tax. Nor did the vast number of Danish companies notice that increase in green taxation for industry was fully reimbursed to industry and that many sectors actually did have a net benefit.

That lack of knowledge made it easy for the right-wing parties to blame the social-democrat government to use the green tax as an excuse to increase the overall tax burden on the Danes and their industry.

This lead to newspaper articles inspired by the political right wing telling incorrect stories about Danish Green taxation such as:

- "Green taxes hits the poorest families the hardest"
- "Green taxes causes industry to loose competitiveness"
- "Green taxes are just red taxes"

All of these statements are substantially wrong, as is documented in several surveys and reports. But the misinformation was willingly published by a press that partly didn't understand the connection itself and partly wanted a shift in government and therefore willingly only told half of the story of the Danish tax reform.

This was a very easy task for the political right wing because of the total lack of information that could at least have made some people, some companies and most of the journalists understand the principles, structures and effects of green taxation reforms.

This Danish lesson shows that if you intend to implement a green budget reform with a shift in taxation from mainly income taxes to resource taxes and taxes on polluting behaviour, you have to consider many things at the same time:

- Make a green tax reform that takes social equity, industrial competitiveness and revenue neutrality into account
- Come up with ways of reimbursing the revenue to the public and industry in a way that makes the positive reimbursement more than, or at least equally as, visible as the revenue-collecting green taxes.

- Create a massive information campaign to make the public understand and accept what you intend to do
- If necessary, use part of the revenue directly for environmental purposes, though this goes against the principle of revenue neutrality
- Collect and publish the environmental results of the green tax reform as quickly as possible
- Make the benefits for industry well known – or at least most parts of them.
- Make clear that this way of changing taxes is recommended by a lot of important organisations, state bodies and a growing part of the responsible industry.

And you must realise that if you don't do this, you will open a political playground for any opposition that decides to attack you by using untruthful arguments to mislead the public and major parts of industry (Source: Soren Dyck-Madsen - The Danish Ecological Council, 16/12/02).

4. GREEN BUDGET REFORM WORLDWIDE

Japan: Tax on coal to promote nuclear

On Nov. 15th, the METI (Ministry of economy, trade and industry) and MOE (Ministry of Environment) in Japan agreed to introduce a new tax on coal. Coal will participate in the recent petroleum tax system, which consists of petroleum, oil products and liquid gases (LNG and LPG). To avoid a sudden change, tax rates will be increased incrementally (see table). On the other hand, the rate of tax on electricity (promotion of power resources development tax) will be reduced. The MOE hopes these policy changes will be an important step toward a legit environmental tax such as a carbon tax, but the METI explains this is no more than a revision of existing energy tax system.

These changes give competitive advantages to nuclear power. The revenue from the electricity tax (ca. 3.3 billion €) flows to the special budget now used for several purposes, including the development of renewable energy. In future, it will be concentrated on the promotion of new power plants, especially to subsidize the budget of communities that accept nuclear power plants.

Japan's energy tax system (43.5 billion €, 2001) consists of tariffs (421.6 Mio €), the afore-mentioned petroleum tax (3.9 billion €) and electricity tax (3.0 billion €), and other taxes on transportation energy (36.8 billion €). Huge revenue from taxes on gasoline and diesel as well as from vehicle holding taxes (47.71 billion €) is earmarked for the construction of roads . The reform of this structure should be high on the political agenda (Dr. Park Seung-Joon, Japan, 11/12/02). .

Reference: Articles of Nihon Keizai Shinbun in Oct. and Nov. 2001. Homepages of Ministry of Environment (MOE) and Ministry of Land, Infrastructure and Transportation (MLIT).

	present	2003/10	2005/4	2007/4
petroleum (€/kL)	16.6	16.6	16.6	16.6
LNG (€/t)	5.9	6.9	7.8	8.8
LPG (€/t)	5.5	6.6	7.7	8.8
coal (€/t)	0	1.9	3.8	5.7
electricity (€/1000kWh)	3.6	3.4	3.2	3.1

5. LETTERS TO THE EDITOR

For obvious reasons we can't provide any letters to the editor in our first issue of the newsletter. The editors would appreciate if you could send reports and reactions. We would also appreciate submissions for publication. To ensure publication, please contact us prior to submission. Submissions allow you to participate in the discussion and are also a way to further improve the newsletter.

6. EVENTS

16.01. – 17.01.2003, Warsaw/Poland: Ecological Tax Reform – Possibilities of Application in Poland

The World Bank and the Institute for Sustainable Development held a conference about the theme: “Ecological tax reform – Possibilities of Aplication in Poland” in the Warsaw Office of the World Bank at 53, Emilii Plater Street, 9th floor. The purpose of the conference is for Polish economic and political authorities and social partners to consider the concept of Ecological Tax Reform (ETR) as a possible policy instrument for sustainable development in the coming years. The conference participants will have available the report of the Institute for Sustainable Development: "Ecological Tax Reform – the Tax System as an Instrument of Balanced Growth in Poland in the First Decade of the 21st Century." This report contains findings with respect to macroeconomic, environmental and sectoral effects of applying ETR to the Polish economy. On the first day of the conference an overview of experience in ETR implementation will be provided. On the second day of the conference a panel discussion on the dilemmas related to implementation and utilization of ETR, with the participation of foreign and Polish experts will be held.

For more informations about the conference contact:

Barbara Wągrowska-Krawczyk

Phone: +48-22-8510402 or 85110403

E-Mail: b.krawczyk@ine-isd.org.pl

20.03. – 21.03.2003, Praha/Czech Republic: Modelling the Greenhouse Gases Control during the Process of the EU Enlargement

Main topics: Comparing (inter)national economic and econometric models for evaluation of greenhouse gases control policies, comparing optimal policies for emissions control, modelling of policy coordination among the central European and EU countries, modelling technology diffusion to central European countries and greenhouse reduction strategies, developing new tools and ideas in the methodology of economic modelling related to the greenhouse gases control strategies.

Place: IREAS - IEEP VŠE Praha

http://www.czp.cuni.cz/ekoreforma/en/

05.06.-07.06.2003, Sydney/Australia: The Fourth Annual Global Conference On Environmental Taxation Issues, Experience And Potential

The Department of Business Law and the Centre for Environmental Law, Division of Law, Macquarie University, are delighted to host the Fourth Annual Global Conference on Environmental Taxation in Sydney, Australia.

This annual conference provides an international, interdisciplinary forum for the exchange of ideas, information and research on environmental taxation issues.

Information about the conference program, and registration details are available at:

http://www.law.mq.edu.au/eti

Deadlines:

Final Papers:	14 March 2003
Conference Registration:	9 May 2003
Early Conference Registration Discount Rate:	28 March 2003
Hotel Reservation (special rates):	4 April 2003

For more information, please contact:

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7. LINKS AND PUBLICATIONS

Global database of experts on the FÖS- homepage

At http://www.eco-tax.info, you can get information about experts from all over the world. These experts can assist you in panel discussions and lectures. You can look for an expert in the country maps or – if you know the name - in our alphabetical list. If you know someone or if you yourself are interested in being added to the database, please inform FÖS/GBG by email (foes@foes-ev.de) or fax (0049-89-52011314).

Denmark: "Global Environmental Problems can be solved using economic instruments"

The latest booklet from the Danish Ecological Council gives a number of examples of green taxes and budget reforms. The character of the actual green tax reforms is reviewed, as are the lessons, recommendations and national reactions from the public and industry.

- **The German Green Budget Reform "Ökologische Steuerreform"** with a description of both principles and lessons.
- **The British Green Budget Reform "Climate Change Levy"** with a description of principles and reactions to green tax reforms from the public and industry.
- **The lack of Danish initiatives and debate** to continue the change from taxation on labour to taxation of resource use and environmentally damaging behaviour, despite the excellent environmental experience from existing green tax reforms and recommendation from both the OECD, trade unions and parts of industry.
- **The history of the Monti** directive from the EU-Commission about minimum taxation of energy use is described. The directive should have been adopted at the Copenhagen Summit in a rather weak form, but this has been postponed to the Greek Presidency.

The booklet also focuses on the very important aspect of information – or the lack thereof, as in Denmark. Information is crucial in creating an understanding of the principles of the green tax reforms and thus getting acceptance from the public and industry for the use of economic instruments toward more sustainable development.

The debate is also going on in the OECD, EU etc., where economic instruments are seen as a crucial factor to achieve more sustainable development. These instruments are green taxes or budget reforms along with the removal of environmentally perverse subsidies.

The booklet refers to presentations from a number of recent Conferences throughout Europe and the findings from the PETRAS survey, which investigated the attitude in the public and in industry to the use of green tax reform for environmental improvements in 5 European countries. The booklet is one of a number of publications from the Danish Ecological Council that are already available on our website.

The booklet has 48 pages. You can download it in PDF format for free from the website http://www.ecocouncil.dk. You can also have hardcopies in Danish for free with a charge for packaging and postage paid to The Danish Ecological Council.

The writing and printing of the booklet is supported by the Board for EU Enlightenment (Source: Soeren Dyck-Madsen, The Danish Ecological Councils Secretariat, 16/12/02)..

Czech EFR Platform (in English!)

At http://www.czp.cuni.cz/ekoreforma, you will find the Czech EFR Platform with information about events, projects and links, an online library, news and a forum.

USA: CBO Report Analyzes Incentives for Reducing Fuel Consumption and Emissions

A report released on November 22 by the Congressional Budget Office (CBO) analyzes three specific policy options for reducing U.S. dependence on foreign oil and lowering emissions of carbon dioxide. The options are new gasoline taxes, carbon emissions limits from gasoline consumption, and raising corporate average fuel economy (CAFE) standards. The report "Reducing Gasoline Consumption: Three Options" does not make specific recommendations, but instead examines the pros and cons of each policy. Its main conclusion is that a cap-and-trade program for carbon emissions or a carefully planned increase in gasoline taxes would be more cost-effective than raising CAFE standards. (Source: TaxNewsUpdate/ BNA Daily Tax Report, November 25, 2002. The CBO study is available at: http://www.cbo.gov.)

Book Review of "Price It Right"

Strictly speaking, Price It Right is not a book; it is a 150-page report. The report is subtitled "Energy Pricing and Fundamental Tax Reform", and that really is what it's about.

This new report was written by Douglas L. Norland and Kim Y. Ninassi, in cooperation with Dale W. Jorgensen.

The authors look at energy taxes and consider various ways that significant energy taxes might be introduced to the USA while cutting other taxes.

Douglas L. Norland, Kim Y. Ninassi and Dale W. Jorgensen describe the bottom line in Price It Right:

> *"The results described here provide new information about what might happen to our economy and its citizens if we replace our current income tax system with a national retail sales tax coupled with energy prices that reflect the environmental damages of energy use."*
>
> *"This unique work provides policymakers, energy and environmental analysts, and interested citizens with new insights about fundamental and energy tax reform."*

It seems that the authors do not regard significant energy taxes as having a serious chance of being adopted in revenue-neutral combination merely with cuts in our current federal taxes - in fact, the report does not give any consideration to that possibility. Rather, they only consider energy taxes in combination with either of the Republican plans to "reform" the federal tax system, whether through a national sales tax or a so-called "flat" income tax. This could be interpreted to mean that the publishers asked themselves what tax plan that has at least some chance of enactment would be most helped by the addition of a tax shift toward energy taxes? The authors settle on the national sales tax. The package that Price It Right favors is energy taxes and a national sales tax.

This makes some political sense: it is clear that the Republican tax "reform" plans have been revving their engines loudly, but going absolutely nowhere, for two years now. But attach ecotaxes to one of the plans and the landscape changes. Adding a new support constituency, such as the environmentalist community, to one of those plans could move it off square one and set it in motion.

There are some very good things about this document. For one, it is chock-full of charts and graphs. Oh sure, there's plenty of heavy going for people who want it, but the visuals do a lot to underscore major points and reveal interesting findings. Any publication that deals with taxes is likely to seem dull, and visual variety can make it tolerable or even pleasant. Price It Right has achieved a better level of visual variety than any other tax document.

A lot of work went into this study, and it shows on every page. Dr. Jorgensen's "intertemporal general equilibrium model" enables intense examination of various tax shifting scenarios and their economic effects.

One should also note the high quality art/graphic design, layout and general presentation of this report.

A few weakpoints. On page 43 and again on page 60, the report's authors explicitly say they'll assume that any federal tax change to a national sales tax or so-called "flat" income tax will be followed by the 50 states because "most states follow the federal system". This is a strange claim for careful researchers to make. We've had a federal income tax for several generations, and the various states still remain a hodgepodge of considerable variety. Several states have no income tax; several states have no sales tax; some states have small property taxes, some large. To base their number crunching on assumptions that include all states blindly and swiftly following the federal tax system seems wrong-minded. Better to leave the states alone and base the statistical model on a change in federal taxation only. This might mitigate some of the results, but those results would be more realistic, and that is after all the goal. If committed to the pretence that all states will follow the federal system, the authors should at the very least apologize for that flimsy assumption rather than pretend it is correct.

On page 13 a misleading chart is given - the only one about which we complain. It shows various sales and income tax rates next to one another. That's a mistake - one cannot compare apples to oranges in any simple way; different types of things should not be placed onto the same chart. A tax rate just is, fundamentally, the result of dividing tax revenue by the tax base. Assuming the same revenue yield, then of course tax rates will vary according to variations in the tax bases. Are the authors implying that a low tax rate is intrinsically good? Then you must expect them to advocate a property tax, which would have a tax rate lower than any they show on their chart. (Did you know that the federal government has levied property taxes several times in US history? It's not just a state and local tax.)

Overall? Price It Right is a fine piece of work and a good addition to anyone's collection of policy documents concerning tax reform.

List price is $25. For more information, visit the publishers' web site at http://www.ase.org (Source: http://www.ase.org)

Handbook of Renewable Energies in the European Union

This book is the first publication that gives an overview of the situation of renewable energies in every member state of the EU. All 15 country studies were done in the same way.

At the beginning of every chapter / case study, a definition of renewable energies is given for every country, starting with a description of its energy policy and the main participants. Then, instruments for promoting renewable energies are shown. Each section closes with an analysis of current problems and conditions for future success. Refraining from the comparison of some case studies at the introduction, the book gives a good overview about renewable energy policy at the EU level. At the end of the book, one chapter informs readers about the most important connections, websites and journals, giving suitable information.

Reiche, Danyel (Ed.): Handbook of Renewable Energies in the European Union - Case studies of all Member States. 270 pages, 29.80 Euro. You can order the book here: http://www.peterlang.de Phone: 0049-69-78 07 05-0, Fax: 0049-69-78 07 05-50

Policy Instruments for Environmental and Natural Resource Management

Thomas Sterner is professor of environmental economics at the University of Gothenburg, Sweden, and is a university fellow at Resources for the Future. His previous books include *The Market and the Environment: The Effectiveness of Market-Based Policy Instruments for Environmental Reform*, and *Economic Policies for Sustainable Development*. (Thomas Sterner November 2002; Cloth, ISBN 1-891853-13-9 / $75.00; Paper, ISBN 1-891853-12-0 / $36.95; Approx. 360 pages.)

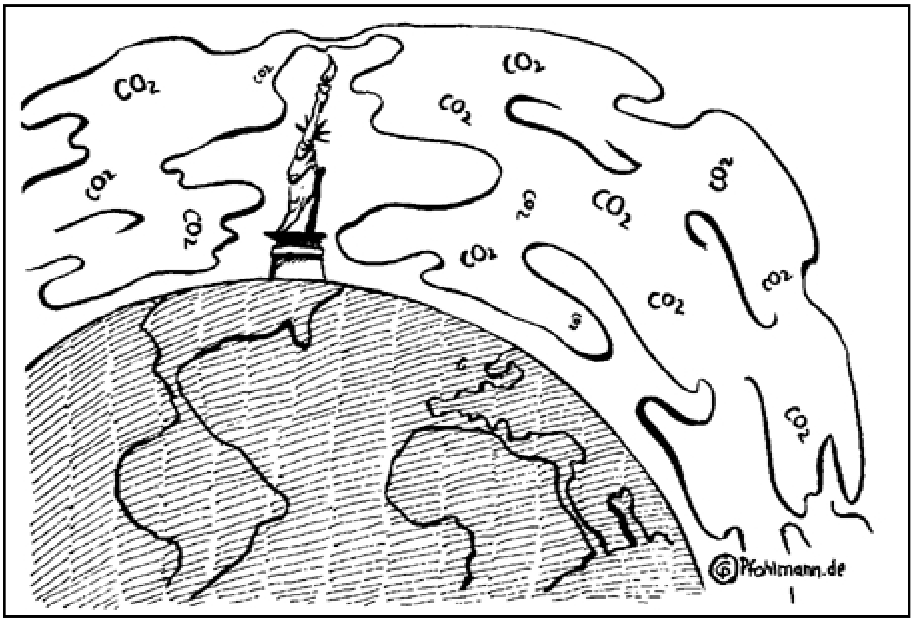
Topics included include growth and the environment, externalities, bio-economics and the management of ecosystems, subsidies and subsidy removal, environmental agreements, general equilibrium, taxation, and the double dividend, the polity and psychology of policy instruments, environmental damage caused by transports, policy instruments for industrial pollution and much more.

A co-publication of Resources for the Future, the World Bank, and the Swedish International Development Cooperation Agency (Sida).

The press would like to extend a 20% discount to the readers of this newsletter. To order the book, they should call our distributor, Johns Hopkins University Press at 410-516-6956 or go online http://www.jhupbooks.com. To receive the discount, they must give the following code DPS.

More links are here: http://www.eco-tax.info

8. SPECIALS/CARTOONS



9. READERS` GUIDE AND IMPRINT

Technical aspects:

In the following, we would like to give you some advice and information about using the newsletter.

- First, you should keep in mind that you must sufficient available memory in your email account. If you do not, you won´t receive the mailing. Our Newsletter will have up to 500 kilobytes per issue.
- The HTML document we send to you by email is not optimized for printing. We also provide a PDF document containing the whole newsletter with all the articles behind the hyperlinks. This printable version can be downloaded under http://www.eco-tax.info/downloads/GBN1.pdf.
- If you have problems reading the HTML email, you can also subscribe to a text version of the newsletter.
- You can read all the GreenBudgetNews published so far in the archive on our http://www.eco-tax.info/2newsmit/index.html. In the archive, you can choose between the two versions of the newsletter – HTML und PDF.

We hope that you have enjoyed reading the first issue of the GreenBudgetNews!

Definitions and examples for GBR/EFR

Environmental Tax Reform: The major purpose environmental / ecological or green tax reform is to improve the environment. Green tax reform means paying taxes differently by paying more taxes on “bads” such as environmental pollution and resource depletion and less taxes on “goods” such as income and labour. Basically, green tax reform has nothing to do with how much tax we pay. The overall tax burden is not determined by how we pay taxes but by the magnitude of public spending and saving/external debt service. The principle of a green tax reform is that we begin by paying for our consumption of resources, use of hazardous substances, and for ‘polluting’ behaviour.

Environmental Fiscal Reform / Green Budget Reform: In addition to the tax reform, this reform also entails a transformation and reduction of environmentally damaging subsidies. The ecological impact of all expenses, revenue incentives and provisions in the fiscal system has to be taken into consideration.

Green Taxes: Energy taxes (on coal, electricity, oil, etc.), environmental duties (CO_2 tax, tax on pesticides, waste tax, etc.), transport taxes (road use tax, etc.), etc.

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