

# GREENBUDGETNEWS No. 6 – 1/2004

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## EUROPEAN NEWSLETTER ON ENVIRONMENTAL FISCAL REFORM

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### Contents

1.	EDITORIAL .....	1
2.	SPECIAL: GREEN TAXES AND EMISSIONS TRADING .....	3
3.	GREEN BUDGET REFORM ON EU-LEVEL .....	11
4.	GREEN BUDGET REFORM IN SINGLE EUROPEAN COUNTRIES .....	12
5.	GREEN BUDGET REFORM WORLDWIDE.....	17
6.	LETTERS TO THE EDITOR .....	25
7.	EVENTS.....	26
8.	LINKS AND PUBLICATIONS.....	28
9.	SPECIALS.....	30
10.	READERS' GUIDE AND IMPRINT .....	30

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## 1. EDITORIAL

### *Phantom Pain and Real Problems*

[Anselm Görres, Chairman of Green Budget Germany] First of all, I would like to inform you that the **Fifth Annual Global Conference on Environmental Taxation Issues**, Experience and Potential will take place in **Pavia from the 9<sup>th</sup> until the 11<sup>th</sup> of September 2004**. I invite you to read our column "Events" for more details – and better

yet, to come and participate yourself.

Perusing this first newsletter in 2004, you cannot overlook one thing: People are slowly waking up to realize that the EU Emission Trading Scheme is truly here. The 15 old members states are supposed to present their NAP (National Allocation Plan) guidelines by 31 March 2004 and the 10 new

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member states by 1 May. But most of them do not seem to be able to meet their deadline. All of the members must approve an NAP so the Trading Scheme can be launched on 1 January 2005. It's a sure bet to say that most governments in Europe are far from being prepared for this tight schedule.

The newsletter gives ample evidence of basically three different reactions to ETS. First, some business federations and political forces – for instance the Spanish conservatives – are openly trying to stop the process, arguing about the perceived costs of climate change to industry and competitiveness. Everybody who has ever looked more closely at this issue knows well that these perceived costs are mainly phantom pains, particularly since the opportunity costs of even stronger and quicker climate change are usually ignored. Experience with ecotaxes in Germany quite clearly shows the following: Yes, some industries suffer a slight loss in competitiveness, in most cases mitigated by exceptions and allowances. For the great bulk of industries, however, ecotaxes are in effect nothing but an economic zero-sum game: energy gets a little bit more expensive, but labour costs are somewhat reduced in exchange. And for quite a number of industries, ecotaxes lead to competitive advantages – particularly for banks, insurance firms and other service providers. Despite these demonstrable facts, there is a general feeling, shared by many managers, industry leaders and federations, that ecotaxes are a great burden. So in reality, it is more a problem of psychology, politics and communication, far from being a real economic burden.

The second sort of reaction, of which you will find many examples in this newsletter, is a very thorough and concerned look at the many small problems, challenges and chances that go along

### *Dear ecological tax reformers,*

Those of you interested in legal aspects will want to know more about the theoretical question that is now part of a real constitutional debate in Germany: does the German ecological tax reform (ETR) constitute a breach of the German "Basic Law"? On December 02, 2003, representatives of the German government and two plaintiffs - refrigeration firms and haulers - were invited to Germany's Constitutional Court to have this highest court of the country hear the matter in oral negotiations.

Though this question may seem severe to ETR

with the implementation of this completely new tool of eco-policy. After all, this is about the first time in history that an economic instrument previously tested only in a few regions, most of them in the US, has been simultaneously introduced at the stroke of a few European pens in 25 countries within a couple of years. Very few instruments in the history of economic or ecological policy instruments have made such a rapid career: **From textbook to law book in just a few years.** Not surprisingly, in most countries you not only have interesting new business opportunities, unknown market reactions and probably many public debates; in many cases, you also encounter target conflicts and contradictions between this new tool of environmental policy and existing tools. As an example, Soren Dyck-Madsen points out economical problems for district heating in the Nordic energy systems, since ETS does not burden competitive hydroplants, but makes electricity that is based on burning fossil fuel more expensive.

A third type of reaction is to redefine the optimal design of environmental taxes in view of ETS. Since ETS is concentrated on energy-intensive industries, there is a strong tendency to reduce or even abolish concurrent energy taxation in this sector. We will probably see a lot more evidence of this type of reaction in the months to come, as the horrible truth will slowly permeate. By going ahead with the implementation of the Kyoto agreements, even before these agreements are finally ratified, the European Union has taken a truly heroic decision. Heroic not only because we are acting without being legally forced to, but also because we are embarking on a courageous experiment with a very promising, but relatively untested new set of instruments. It is certainly going to be an exciting period – and we are looking forward to covering it.

proponents, in reality things aren't half as bad. On the one hand, the Court has already rejected around a dozen complaints filed in 2000 and apparently only finds these two currently worth investigating further. On the other, the plaintiffs are not actually disputing the principle of ecological tax reform. Rather, they claim that they should have a right to the lower rates that manufacturing industry can take advantage of. Hence, the case is not a threat to the very concept of green taxes. In addition, the relatively weak case made in public hearings about the plaintiffs' direct disadvantages has not helped

the opponents of ETR. Few figures were brought forth. Instead, general arguments against the tax were repeated. Even before the hearings began, the haulers wanted to force the German government by means of an emergency application to veto the EU's energy tax directive passed on 10/27/03. The Supreme Court rejected the emergency application.

The gist of the current case is the critical question of whether there can be a better demarcation of which economic sectors are to receive special treatment without making the system unmanageable. In contrast with much higher initial estimates, the current regulation is very cost-effective for the public sector: only 0.13% of the revenue has to be consumed in public administration. One must look long and hard to find another tax that requires so little administration. Research has also shown that there is no golden brick road to special treatment. Each path has its benefits and drawbacks. That makes the ruling of the French Supreme Court at the end of 2000 even harder to understand: the green tax about to be implemented was not allowed to be introduced because its special treatment of some sectors was found to be discriminatory. There are various

alternatives, but each of them would almost certainly have led to further court cases. There will always be a problem of who to exempt, and it will not be solved by expanding the circle to include more and more sectors. Hopefully, the Supreme Court will have the wisdom to learn from the research, mistakes and success of so many other countries in making its ruling. Perhaps it will even go further and make emissions trading in Germany and the European Union more consistent with green taxes in light of the upcoming launch of emissions trading in 2005. For more on these hearings, read the article in this issue of Green Budget News.

A ruling is expected by mid-2004. Regardless of what the ruling is, the Court seems to have a good sense of timing. After all, the collation agreements stipulate that the system will have to be reviewed in 2004 to see whether and how the ETR needs to be further developed. A ruling from the Supreme Court will certainly serve as a good signpost. As the saying goes, "you are in God's hands on the High Seas and the Supreme Court." I can't tell you, dear readers, whether you should chill the champagne already. But I'm certainly going to.

Yours truly, Kai Schlegelmilch

## 2. SPECIAL: GREEN TAXES AND EMISSIONS TRADING

### *EU Emission Trading Scheme versus Green Taxes / Green Budget Reforms*

*This paper presents the strategy of EU Emission Trading Scheme and analyses the way it could influence the Environmental Fiscal Reform.*

[Soren Dyck-Madsen, The Danish Ecological Council, 12/01/04] All EU countries as a whole should meet their Kyoto and internal burden sharing commitments within the EU – and the accession countries.

The theoretical idea with the EU Emission Trading Scheme (ETS) is that the cap on the trading sectors should be so tight that the reductions in these sector will ensure that the country as a whole will meet its Kyoto obligation.

Roughly the 5 national CO<sub>2</sub>-emitting sectors are the following:

1. Energy intensive industry and energy production more than 20 MW
2. Transport
3. Small and medium scaled (?) industry, service, trade and public sector
4. Households

#### 5. Agriculture and horticulture

The overall emissions from these sectors have to meet the national Kyoto target.

But only the first sector is subject to EU ETS – the four other sectors are only affected by national political instruments.

This means that if nothing is done nationally to reduce emissions from the four non-ETS sectors, allowing them to emit more than their fair share of GHG's, the first ETS sector will face an additionally lower cap on GHG emissions in the National Allocation Plans (NAP's).

#### JI and CDM

Nevertheless, the EU ETS has already been adopted, leaving no possibilities for including the Kyoto protocol instruments (JI, CDM and EM). A link directive is being discussed in the Commission. This link directive adds the possibility of inflating

the GHG balloon by allowing for the use of the Kyoto instruments of Joint Implementation (JI) and Clean Development Mechanism (CDM) to fulfil the national Kyoto obligations abroad and outside the EU.

If these measures are adopted, how much can the balloon be inflated? That depends on the following insights:

- JI has to be “additional” and “supplementary”
- JI projects require a lot of administrative work and approvals before they can be used
- CDM requires controlling bureaucracy in receiving countries

One prediction is that not many JI and CDM projects will be available before 2008. Therefore, using these instruments will result in excessive CO<sub>2</sub> emissions at the beginning of the 2008 – 2012 period, necessitating even more reductions in the last part of the period to reach the average goal, since not much was done in the beginning.

JI and CDM can be used both by individual firms inside the EU ETS system to “buy” more allowances in order to cover their emissions. And they can be used by member states to “ease” their domestic fulfilment of national emission targets.

#### **Requirements to agree on the NAPs**

Because of the strong connection between the non-ETS and the ETS sectors, scenarios and action plans have to be drawn up - at least in theory - for the four non-ETS sectors so that the emissions from these sectors can be predicted up to the end of the first Kyoto period in 2012.

By respecting these predictions for emissions from non-trading sectors, national governments should make national allocation plans for the ETS sector, so that the cap on these NAPs will secure that the country as a whole will meet the national Kyoto-target in 2008 – 2012.

These NAPs and the plans and scenarios for the other sector will then be revised by the Commission in order to “ensure” that member states do not over-allocate emission permits to their national ETS-sector to help them be more competitive.

#### **Differences between EU 15 and the 10 accession states**

Most EU15 countries do not now seem to be able to fulfil their Kyoto obligations. Only a few are on track to fulfil their Kyoto targets in the first period. In contrast, all the accession countries are on track to fulfil their Kyoto targets – and some of them

even seem to have a surplus of quotas for national trading.

This has led some EU15 states to try to undermine their own recent adoption of the ETS directive by trying to buy CO<sub>2</sub> allowances from Russia and Ukraine instead of having domestic reductions, trading internally in the EU 25, or using the JI and CDM project instruments. This will, however, first require Russia to ratify the Kyoto protocol – and second, Russians and Ukrainians will have to be stupid enough to sell allowances at a very low price.

The 10 accession states have the opposite view – because they would like the ETS to be as tight as possible to raise the price for CO<sub>2</sub> allowances as high as possible (the EU penalty is 40 euros per tonne in the beginning, ending at 100 euros per tonne PLUS obligations to buy the missing allowances). High prices will make the surplus of national CO<sub>2</sub> allowances worth more for these countries, and high prices will trigger a lot of JI projects in these 10 countries since it seems that reductions will be cheapest (but more than the Russian price for allowances) in these states.

#### **Possibilities and needs for the Environmental Fiscal Reform (EFR)**

Adopting the EU ETS does not mean that environmental taxes or EFRs are outdated. Instead, they seem more necessary than ever.

1. All sectors – even the trading ones – can still make use of EFR to increase the taxation of energy use and the use of other resources and decrease the taxation of labour.
2. If the EU ETS directive is not watered down, the need for a taxation balance between the 5 sectors emitting CO<sub>2</sub> will have to be outlined. If not, the ETS sector will face excessive burdens, and the whole system might not be as economically effective as desired.
3. Economic instruments must be used more in the non-trading sectors to ensure an economic balance of GHG mitigation between sectors inside and outside the ETS. This approach is proposed in the ETS Directive.
4. Some sectors will face an uneven playing field if a particular plant/site is inside or outside the ETS. The energy sector is the most obvious one; plants over 20 MW are inside the ETS and plants under 20 MW

are outside – if a member state does not include the small plants, an option that would ensure fairer competition. Here, taxation of emissions from the non-trading sectors is obviously needed in order not to give the small plants too obvious advantages against the big trading ones.

This could imply a complete new era of EFRs in the EU15, where the need for the GHG reductions is most pressing.

In the ten new EU countries the situation is different, since GHG reductions are not needed to fulfil national Kyoto obligations, at least not before 2012.

In these countries, we actually find the most incentives for national EFRs – not because of the ETS and Kyoto, but for environmental reasons: the obligations to meet current EU standards and the pure need for more revenue to cover increasing state expenditures.

Despite their different target and obligations, the need for changes in all EU25 can be met with the same instruments: a well designed EFR that has a neutral social impact, does not harm national industrial competitiveness (too much), has a substantial environmental impact and will create revenue either for reductions of other distorting taxes such as income taxation or create revenue in an environmentally beneficial way to cover increased state expenditures.

### ***Is there a role for Environmental Fiscal Reform (EFR) within the current EU ‘climate’ policy?***

*This paper presents the National Allocation Plans and their role in the Emissions Trading Scheme. It also demonstrates the relevance of the Environmental Fiscal Reform in the current EU “climate policy”, as a complement to the ETS.*

[Pendo Maro, EEB Environmental Fiscal Reform coordinator, 21/01/04] Within the framework of the EU Emissions Trading Scheme, all EU 15 Member States are required - and the 10 newly acceding countries (future Member States; hereafter NAC) are encouraged - to publish National Allocation Plans (NAPs) to notify the Commission by the end of March 2004. This forms the cornerstone of the Community’s climate change policies, whose objective is to promote the reduction of greenhouse gas emissions in a cost-effective and economically efficient manner. Accordingly, ‘it is therefore important to ensure that the emissions trading scheme has a positive environmental outcome. The national allocation plans are the means to achieve this goal’.

National Allocation Plans should contain information on how a country will fulfil its emission reduction targets within all sectors – those participating in the EU-ETS and the non-participating ones. The EEB emphasises the need for the EU15 and NAC to have clearly defined and effective policies to cover all the activities in the non-participating sectors. ‘The quantity of the allowances potentially available for installations covered by the trading scheme needs to be consistent with the forecast increases or decreases in non-covered activities.’

The EEB calls for taxation and emissions trading to be designed in such a way that they act as

complementary instruments for covering the totality of emissions. The EEB believes that the social-political acceptability and efficiency of such policies may be dependent on other considerations besides ecological efficiency; such as the need to share mitigation burdens equally among sectors, social impact concerns, and transaction costs of policies. Particularly, except for considerations of technological and economic ‘potential’, etc., including specific treatment of clean and energy-efficient technologies, there is no reason to apply discriminatory approaches that may entail competitive disadvantages either within the sectors and firms under the EU-ETS scheme or between sectors and firms outside of the scheme.

According to the EEB, taxation can be used as one tool to achieve the equal sharing of burdens among the sectors (i.e. in non-discriminatory way), reductions in emissions/pollution, and energy efficiency in EU-ETS non-participating sectors. The use of taxation and other policy measures is justified and is one of the tools that can be used to achieve sustainable development.

In conclusion, EFR is a relevant tool within the current EU climate policy. However, for EFR to function as an efficiently and effectively, the EEB calls for certain changes:

- Change in Treaty - to allow minimum environmental tax adoption by qualified majority

- Introduce coherent and comprehensive EFR across the EU - partly to counter competitiveness and promote responsible consumption patterns and behaviours
- National level - EFR emphasis on 10% tax shift from labour taxes to environmental use and pollution, with mitigation

measures; removal/reform of all environmentally harmful subsidies (<http://www.ecotax.info>).

You will find the EU directive establishing an emissions-trading scheme here:

[http://europa.eu.int/eurlex/pri/en/oj/dat/2003/l\\_275/l\\_275\\_20031025en00320046.pdf](http://europa.eu.int/eurlex/pri/en/oj/dat/2003/l_275/l_275_20031025en00320046.pdf)

### ***ViewPoint: Prospects for the EU ETS in a non-Kyoto world***

*Russia's wavering on the Kyoto Protocol continues to cast shadows on the future of the international climate regime. This paper analyses the effects of Russia's non-ratification to Kyoto on EU Emissions Trading Scheme strategy in the long run.*

[Atle C. Christiansen, Director – Research, Point Carbon, 09/01/04] Even though traded volumes in the global carbon market in 2003 decreased somewhat over the previous year, according to Point Carbon's transaction database the value of the global carbon market increased by 50 per cent. The value of investments in Clean Development Mechanism (CDM) projects nearly tripled. At the EU level, the price of allowances more than doubled, largely as a result of increased interest on the sell-side. Nonetheless, Russia's wavering on the Kyoto Protocol continues to cast shadows on the future of the international climate regime. 'Russian roulette' also affects European companies facing carbon constraints from 2005 on. A Russian 'no' may affect companies' compliance strategies, since the current version of the "linking proposal" only allows for the use of CDM and Joint Implementation (JI) credits if Kyoto enters into

force. Moreover, as CDM/JI credits currently trade at prices considerably lower than that of EU allowances, non-ratification would also increase compliance costs and limit the opportunities for using the CDM as a hedge against potentially high carbon prices. Signals from policy-makers suggest that a link could be established even without Kyoto, which would cause a downward pressure on EU prices. However, even though Canada and Japan aim to respect the Kyoto target even without Russia, uncertainties prevail about the second phase of the EU ETS set to start in 2008. A key question is what kind of reduction targets policy-makers will impose on companies since carbon costs will not be imposed on competitors in countries without carbon constraints.

You can see the carbon market indicator here: <http://www.pointcarbon.com/>

### ***Report on the potential interactions between EU ETS and Member States' climate policies***

*The Energy research Centre of the Netherlands (ECN) has finalised a new report entitled "The Interaction between the EU Emissions Trading Scheme and Energy Policy Instruments in the Netherlands - Implications of the EU Directive for Dutch Climate Policies".*

The report analyses the potential interactions between the proposed EU Emissions Trading Scheme (EU ETS) and existing Member States' climate policies from both a general EU perspective and a specific Dutch perspective, including three major energy and climate policy instruments in the Netherlands (i.e. energy taxation, voluntary agreements on energy efficiency, and renewable energy policies).

A general finding of the report is that once the EU ETS becomes operational, the effectiveness of all other policies to reduce the CO<sub>2</sub> emissions of the participating sectors drops to zero even as they increase the overall costs of meeting the cap. The report explores the specific implications of this

general finding for the coexistence of the EU ETS and the selected energy and climate policy instruments in the Netherlands. It concludes that this coexistence will have a significant impact on the performance of both the proposed EU ETS and existing climate policies in EU Member States such as the Netherlands.

The full report can be downloaded as a PDF file from the ECN website:

<http://www.ecn.nl/library/reports/2003/c03060.html>

In addition, a "Policy Brief" summarising the major findings and policy implications of the full report can be obtained from: <http://www.ecn.nl/library/reports/2003/c03096.html>

The ECN study is part of the international, EU-

funded research project “Interaction in EU Climate Policy” (INTERACT) coordinated by Steve Sorrell at SPRU (University of Sussex). In addition to SPRU and ECN, the Interact project included research partners in Germany (ISI-Fraunhofer), France (CIRED) and Greece (EPG-NKUA). More

information on the Interact project - including links to the country reports, policy briefs, the common final report and other publications of the research partners involved - can be found at: <http://www.sussex.ac.uk/spru/environment/research/interact.html>

### ***District heating faces economical problems with the EU ETS in the Nordic energy system***

*This paper analyses the way EU ETS could affect Nordic heating system's competitiveness for the benefit of individual oil or gas heating, which would lead to an increase of CO<sub>2</sub> Emissions*

[Soren Dyck-Madsen, Danish Ecological Council, 12/01/04] On the one hand, the EU-Commission is trying to improve the use of cogeneration to get more energy out of fuels. On the other, the adoption of the EU ETS might lead to economical problems for district heating from cogeneration systems in the Nordic Energy system.

Due to the wish of the Commission in particular to liberalise electricity production, the Danish cogeneration plants now produce electricity for a liberalised market and heat for a monopolised market.

This means that when prices on the electricity stock exchange are low, then electricity distributors will import cheap electricity (from Nordic hydropower) not producing at the cogeneration plants. Nevertheless, heat is still needed for the district heating which forces the cogeneration plants to produce anyway – sending the extra bill for the uneconomic electricity production to the district heating companies.

This means that if prices are low for electricity –

because plenty of water is available in the Swedish and Norwegian water magazines – then prices will go up for Danish District Heating companies.

The introduction of the EU ETS will – if introduced according to the demand in the Directive – introduce extra costs for energy production based on the burning of fossil fuels. On the other hand, the EU ETS will not affect the price for hydropower.

This means that in “wet” years in the Nordic countries, the price for electricity will be very low following the price of the hydropower. Electricity produced on Danish cogeneration plants based on fossil fuels will face loss of competitiveness – leading to higher prices for district heating.

If this problem is not solved in some way or another – maybe through a change in the taxing system - then the EU ETS will cause Nordic district heating to lose competitiveness compared to individual oil or natural gas heating – leading to an increase in overall Danish CO<sub>2</sub> emissions.

### ***Swedish national allocation plan for CO<sub>2</sub> emissions criticised by the Swedish Organisation for Nature Conservation***

*The Swedish Organisation for Nature Conservation has firmly criticized the Swedish government's guidelines for the EU ETS, which they claim could lead to a CO<sub>2</sub> production increase of 3% to 6% instead of a 4% reduction.*

[Soren Dyck-Madsen, Danish Ecological Council, 12/01/04] The Swedish government released their guidelines for the EU ETS on December 4<sup>th</sup>.

According to these guidelines, CO<sub>2</sub> emission allowances of about 17-18 million tonnes CO<sub>2</sub> will be freely allocated to the participating 300 sites on the bases of historical emissions. On top of that, emission allowances of 2 - 4 million tonnes CO<sub>2</sub> are reserved for new sites or increases in production where coal is part of the used resources – e.g. in steel and cement production. The Swedish Organisation for Nature Conservation criticises this

proposal heavily, calling it absolutely unacceptable. General Secretary Svante Axelsson calls the proposal clear proof that the Swedish government wants to lower the ambitions for the Swedish climate policy. Mr. Axelsson went on to state that, if this proposal is adopted, the allowances for new sites will lead to a resign of the Swedish target to reduce the emission of GHG by 4% in 2010. Instead, the proposal will increase Swedish GHG emission by 3 to 6%, far above the Swedish Kyoto obligation of a 4% increase in 2008-2012 over emissions in 1990.

The Swedish target for climate change abatement is to be reconsidered in June 2004. Eva Lindberg, climate change worker in the Swedish Organisation for Nature Protection, adds that non-trading sectors now will have to reduce the GHG emissions if the national Swedish climate target is going to be upheld at the same time as the industrial trading sectors are allowed to increase their GHG emissions. Ms. Lindberg added that the Swedish

Organisation for Nature Conservation wants the Swedish climate target to be tightened to a 15% reduction in 2010 without using bilateral trading with CO<sub>2</sub> or the Kyoto instruments JI and CDM.

This article was based on a Press statement from the Swedish Organisation for Nature Conservation:

<http://www.snf.se/snf/english/climate.htm>

### ***Economic instruments of climate protection in Hungary***

*Among many economic instruments promoting climate protection, emissions trading seems to acquire more and more popularity in the political sphere. This paper presents different criticisms that can be made to emissions trading.*

[Zoltán Szabó, Clean Air Action Group, Hungary, 12/01/04] There are numerous economic instruments promoting climate protection. Of these economic instruments, the Kyoto Flexible Mechanisms (emissions trading, joint implementation, clean development mechanisms) now seem to be attracting the most attention. It seems that emissions trading will determine environmental agendas outside the EU as well, though experience with its effectiveness is rather limited. At the same time, environmental tax and subsidy reform will likely suffer a setback as emissions trading will dominate the political agenda, and it will be difficult to focus on multiple instruments at the same time. However, we are convinced that climate protection is not just about emissions trading. A complex approach is needed (transport infrastructures, urban sprawl, mining and raw materials, taxation, sustainable consumption patterns, etc.)

Some of our main criticism of emissions trading is: limited sectoral coverage and scope of auctioning, the likely watering-down of the EU emissions trading scheme by linking it to joint implementation and clean development mechanisms, and so on. This linking will allow the commitments of industrialised countries to be achieved through investments in transition and developing countries, hence without having to take any domestic emission reduction measures (see Denmark). In practice, this means that developed countries can continue with their unsustainable energy patterns and even transpose them by technology transfer to less developed countries. This not only hinders climate protection in the long run but exacerbates dependency between those groups of countries. Developed countries may purchase allowances and credits at a cheap price without having to make

domestic structural changes or technological improvements. This is why the Clean Air Action Group feels that up to the end of the first five-year period (2012) EU countries need to meet their commitments by domestic measures.

In the EU emissions trading scheme the national allocation plans are of crucial importance. For real climate protection measures need to be designed to cover the whole economy, and strict emission caps must be set. In Hungary, there are signs of the preparation of the National Allocation Plan; however, we are concerned that the proposed emission reductions are not based on proper projections of the likely future emissions of the sectors. So far, no official scenarios have been made to assess each sectors' (such as transport's) future emissions. Up to now, there are no explicit targets or caps for the sectors, so it is doubtful that the contribution of each sectors to climate protection will be equally distributed.

The Hungarian government has just approved outstanding financial funding for the construction of highways, not taking into consideration that this will inevitably result in excess emissions. Until all the tendencies and measures are incorporated in the scenarios of future sectoral emissions, no threshold of allowances can be properly determined. It seems that the allowances will be allocated based on the 2000 emissions of the installations covered.

Due to methodological changes in the calculation of emissions, the past emissions of Hungary are currently being recalculated. Officials admit of the record that the baseline for Hungary (1985-1987) will be significantly different, which means Hungary will easily achieve its Kyoto targets and even have surplus to sell. This way, the government will not have to implement any climate protection measures. It can even regard the whole instrument



as a mean of additional income for Hungary. This financial approach obviously does not help the environment. It may even pose an obstacle to environmental tax and subsidy reform, since companies can claim that they are already covered by emissions trading so that additional economic measures would be unjustified.

The government is preparing a resolution on the National Allocation Plan. Only after the resolution is approved can the allocation methods, the sectoral scenarios and the overall allowance threshold be determined. Both the Ministry of the Environment and Water and the Ministry of Economy and Transport are responsible for the task. The Ministry of the Environment and Water says that it is neither possible nor necessary to prepare the National Allocation Plan. Until Hungary becomes a member of the EU (May 2004), there are no legal obligations resulting from the EU emissions trading directive. The Ministry of Economy and Transport wants the value of the Hungarian companies to be completely unaffected when deciding on the allocation of allowances. This conflict of interest between the two Ministries worsens the present situation as there is a lack of ambitious environmental goals. It is not possible to foresee which approach will dominate climate politics in the future. Unfortunately, the Ministry of Economy and Transport has a history of greater influence. The general approach of influential decision makers could be summarised as follows: Hungary emits considerably less per GDP than the most developed countries, so it does not have to take any measures until we reach their level of emissions, and when we are rich enough we will initiate measures.

In Hungary, several JI projects have been carried out while others are awaiting approval (up to the end of 2003, there were 14 JI projects already implemented or awaiting approval). Some important legislative elements, however, are still missing or have not entered into force yet. Based on the experiences of the recently approved Hungarian

JI projects, regulation needs to be improved. The questions of credit sharing between the investor and Hungary, how many years the credits are 'granted' for, whose property the abated emission is, the desirable project types, and which technological investments are preferable all have to be answered. Also, the use of the resulting revenue must be decided (sectoral, R&D, or regional goals). Priorities for desired JI projects are urgent. It seems that there will be a wood shortage in the future due to the biomass conversion under JI of 2-4 energy plants. There is a real danger that the price of wood will significantly increase, and Hungary may even have to import wood. Burning is not the most sophisticated way of wood usage. The present price of credits and allowances are extremely cheap comparing to the external costs of emissions (see all the high-profile research like Infrac or ExternE: 5-7€ vs. 135€), so the current developments are only beneficial for investors.

Frontrunner countries are already discussing the options of a 60-80% reduction by mid-century, a reduction suggested by most climate scientists. There is no sign of any political discussion on the commitments of the 2nd period (after 2012), nor its means (a complete socioeconomic strategy). It is desirable to reach consensus that the global atmosphere is never a tradable good or private property such as 1 kilogram of bananas or a computer. Thus the agreements need to be clear, transparent and available to the general public.

The Clean Air Action Group has recently finished a study on Emission Trading. It can be found in Hungarian

at [http://www.levago.hu/konyvtar/olvaso/emi\\_ker.htm](http://www.levago.hu/konyvtar/olvaso/emi_ker.htm) and its Executive summary in English at [http://www.levago.hu/english/emission\\_trading\\_study-summary.htm](http://www.levago.hu/english/emission_trading_study-summary.htm).

You find the European directive here:

[http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l\\_275/l\\_27520031025en00320046.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_275/l_27520031025en00320046.pdf)

### ***National allocation plans: nearing rush hour?***

*The UK national allocation plan under the EU emissions trading scheme was presented on Monday 19 January. This paper reviews the state and the progress of EU Member States' national allocation plans (NAPs). It also shows the problems and difficulties that every country has to face in preparing its NAP.*

[Point Carbon, 16/01/04] With the UK national allocation plan (NAP) under the EU emissions trading scheme (ETS) due out the morning of Monday 19 January, the scene is set for an avalanche of first drafts, commented drafts and

revised versions over the next few months, as fourteen EU Member States share the UK's 31 March deadline, while the ten acceding countries should have theirs ready by the end of May. Now, for anyone who has followed the development of

the ETS for some time, the word “avalanche” seems vastly out of place, and the chance is that we are more likely to experience a series of whisperm. It is already clear that some countries, like **Spain**, **Greece** and **Poland**, will experience some trouble in making the deadline.

In December, **Spain** finally managed to agree on who will be in charge of the allocation process. The process has been further complicated because Spain spent the last part of 2003 working to finalise a national climate change policy strategy. Going ahead with allocation work has been difficult without a finished national strategy. The Government has also continuously been lobbied by industry aiming to convince the Government to renegotiate its Kyoto target, making any focus on NAP even more difficult.

To Point Carbon’s knowledge, **Greece** and **Poland** are still both in the starting phase, and Greek companies we have been in touch with have yet to be contacted by their governments to collect data. Other countries have made significantly more progress.

**Slovakia** is more or less finished with its version but has been reluctant to be the first country to publish a draft NAP. It could be expected to publish shortly after the UK’s version is out, and although the Slovakian one might not have a crucial effect on the total market, it will have some significance in providing a signal on how large a selling potential the acceding countries could provide.

**The Netherlands** hopes to have its first draft ready sometime early February. Recently, the Dutch government made a decision on a total cap of CO<sub>2</sub> allowances for industry and the energy sector for both participants of the ETS and non-participants. The cap was set at 115 MtCO<sub>2</sub> annually for the period 2005- 2007, 6 MtCO<sub>2</sub> of that set aside for new entrants and production growth, as far as Point Carbon understands. When the NAP draft is ready, a six weeks public consultation period will be required.

In **Denmark**, the Cabinet of Ministers met Thursday this week, aiming to agree on the basic principles of the Danish allocation plan. The Danish NAP is expected to be based on a mix of grandfathering and benchmarking, and the

Government has asked the some 300 installations to provide emissions data for the 1998 to 2002 period. If the Cabinet manages to agree on the principles, a draft could be ready within a couple of weeks. The other Scandinavian countries have been making progress, too, with **Sweden** first in line. The Industry Ministry submitted a report to the Government in the first half of December, outlining principles for the allocation. Included in the report was that Swedish industry be allocated 17-18 MtCO<sub>2</sub>, with an additional 2-4 MtCO<sub>2</sub> set aside for new entrants.

**Finland**’s government has, like Denmark’s, asked companies to submit 1998-2002 emissions data, hinting at allocation based on grandfathering, although benchmarking deals could be possible for some industrial facilities. It is still unclear when the Finnish authorities will be publishing a draft NAP.

**Ireland** holds the EU Presidency this term and is not likely to want to be seen as lagging in the allocation process. The Irish Government intends to make a decision of the total amount of allowances to be allocated to the included companies on 27 January, and the Environmental Protection Agency (EPA) could have the draft ready within a couple of weeks after that date. The Irish are still a bit puzzled on the issue of defining installations, which may still cause some hindrances.

In **Germany**, the Ministry of Environment is locked in negotiations with industry. While it is clear that it wants allocation to be based on voluntary commitments by industry made in 1998, the argument is over volumes. Industry pledged a 45 MtCO<sub>2</sub> reduction back then, but now it only wants to take on 30 MtCO<sub>2</sub> under the ETS. The Ministry argues for a 36 MtCO<sub>2</sub> reduction from industry and the energy sector, but it remains to be seen who will win the negotiations. No timing for a draft has been decided.

On a different note, **Latvia** has said that it is more or less finished with its draft but wants to consult industry before anything is made public.

You will find information about national allocation plan at:

[http://europa.eu.int/comm/environment/climat/emission\\_plans.htm](http://europa.eu.int/comm/environment/climat/emission_plans.htm)

### ***Green taxes and emissions trading: two economic instruments united for climate protection***

*As the EU has proposed an Emissions Trading Scheme, eco taxes could seem to be dismissed. However, far from being enemies, those economic tools could be used to complement each other.*

# GREENBUDGETNEWS No. 6 – 1/2004

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[Virginie Barras, FÖS, 16/01/04] For a few years, a battle has been raging to find out whether green taxes or emissions trading are the best environmental economic instruments. In fact, this debate is pointless, as these instruments are not competitors but allies that could be united for more efficient climate policy.

In Germany, BUND is studying the advantages that would result from a combination of emissions trading and eco taxes. The European Emissions Trading Scheme will be introduced starting from 2005, initially only for the employment of fossil fuels in electricity production and energy-intensive plants for industry. In contrast, the ecological tax reform, with its components of electricity tax, oil tax, fuel oil tax and natural gas tax, has a broader

assessment basis and is used in all sectors of the national economy. Thus, where the EU Emissions Trading does not work, the ecological tax reform should be used, so that specific incentives could act at all the stages of the energy transformation and the use of the energy.

The importance of the combination of green taxes and ET had already been underlined in April 2002 during the workshop organised by the German Association for Emissions Trading and Climate Protection (BVEK) and Green Budget Germany, which had seen in emission rights trading a good way to cover the "blind spot" in environmental policy.

You can find other information here: <http://www.oeko-steuer.de/>

## 3. GREEN BUDGET REFORM ON EU-LEVEL

### *"Competitiveness test" set for EU climate policy*

*Rising concerns in some European capitals over the costs of limiting greenhouse gas emissions in line with Kyoto protocol commitments surfaced in a communiqué approved by EU heads of government in Brussels on Friday the 12<sup>th</sup> of December 2003.*

[Environment Daily 1574, 15/12/03] While EU negotiators were in Milan extolling the bloc's commitment to the Kyoto protocol, it has emerged, government representatives in Brussels were haggling over whether to characterise the treaty as a risk to European competitiveness. A majority of current EU members are projected to miss their Kyoto emission targets for 2008-12. A few appear to be panicking. Spain and the EU's former presidency Italy tried unsuccessfully to insert text explicitly identifying the Kyoto protocol as a problem for European business. The finally approved text goes in the same direction but much more cryptically, following a fight back by member states including France, Denmark and Sweden as well as the European Commission. EU leaders invite the council of ministers to assess further the European Commission's recent communication on competitiveness, "in particular identifying, in cooperation with the Commission, proposals having a significant impact on competitiveness or creating an excessive burden for certain sectors of industry." The phrase carries a strong echo of the recent controversy over the likely costs of implementing the European Commission's Reach chemicals

regulation. Environment Daily understands that the Italian presidency initially included in it an explicit reference to the Kyoto protocol. Other delegations forced this out again. As a result, however, the request for "burdensome" policies to be sniffed out is in fact much more wide-ranging.

The immediately following sentence in the leaders' declaration reads: "In this context further cost-effective ways of implementing EU decision in the field of climate change and the potential costs of inaction should be considered". Again, the text initially called explicitly for measures to reduce the costs of complying with the Kyoto protocol, before being watered down by pro-Kyoto countries adamant that the EU should not portray the treaty in a negative light. The inclusion of the word "further" enables this group to argue that EU climate policies already are cost-effective. The reference to potential costs of inaction provides a counterbalance to the call for scrutiny of costs of implementation.

Spain was the main country pushing for an explicit call for the costs of Kyoto implementation to be cut. The country is committed to no more than a 15% increase in greenhouse gas emissions by 2010-

18 but is already 33% above the 1990 baseline. Spanish business is waging an increasingly overt campaign for the target to be re-negotiated. In a report on the summit, Spanish newspaper 5 dias read into the statement just such an intention. "The document does not make any promises", it wrote, "but leaves for the first time a door open for the EU to extract itself from its commitments to unilaterally comply with the treaty" even if Russia does not ratify. A spokesperson for EU environment commissioner Margot Wallström said this was not the European Commission's interpretation. The communiqué represented a "balanced approach", she added.

However, further signs of fluidity in EU climate change policies emerged at a meeting of energy

ministers in Brussels on Monday. According to press reports, Italian minister for production Antonio Marzano warned that European companies are in danger of suffering "an obvious competitive deficit if the EU applies the Kyoto protocol and it does not come into force". Europe should "perhaps... explore new avenues", he is quoted as saying.

You can consult European council minutes at: <http://www.consilium.eu.int/pressData/en/ec/78364.pdf> and energy council minutes at: <http://www.consilium.eu.int/pressData/en/trans/78436.pdf>

See also energy council news report at: [http://www.ueitalia2003.it/EN/Notizie/Notizia\\_12151905542.htm](http://www.ueitalia2003.it/EN/Notizie/Notizia_12151905542.htm)

### ***Prodi insists on Kyoto support as Spain gets election jitters***

*European Commission President Prodi ensures its support to Kyoto Protocol after de Palacio has called in question Europe's support for it.*

[PointCarbon, 17/12/03] European Commission President Romano Prodi insisted the EU would not waver in its support for the Kyoto Protocol, in a statement issued on 16 December, after the Commissioner for Energy Loyola de Palacio cast doubt on Kyoto's future. "We are not changing our position or going back on the targets that we have agreed," Prodi said in the statement. "The recent climate change conference in Milan confirmed the strong international support for the Kyoto Protocol. We are confident that Russia will ratify the Protocol so that it can enter into force." Prodi's statement was a direct rebuff to Energy Commissioner Loyola de Palacio who had suggested at a Council of Energy Ministers two days earlier that the EU would have to review its support for the Protocol if Russia refused to ratify and it failed to enter into force. She worried about Europe's competitiveness if it was alone in pursuing its CO<sub>2</sub> reduction targets under the global warming treaty.

De Palacio's concerns echoed those of the Spanish employers' federation CEOE, which has urged Madrid to renegotiate the country's target under the Protocol. CEOE claimed that, with national emissions already 33 per cent above the 1990 base year compared with a 2008-12 target of +15 per cent, industry will face an emissions credit bill worth 5 per cent of Spain's GDP. It argued that Spain miscalculated emissions levels when it signed up to the EU's "burden-sharing" deal on national Kyoto targets in 1998.

De Palacio is a close political ally of Spanish Prime Minister Jose Maria Aznar, who faces general elections in March 2004. She served as Agriculture Minister under Aznar before her move to Brussels. De Palacio's tenure as European Energy Commissioner ends next year, and she is expected to go back into Spanish politics. See press release at:

[http://europa.eu.int/rapid/start/cgi/guesten.ksh?p\\_action\\_gettxt=gt&doc=IP/03/1747|0|RAPID&lg=EN&display=](http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action_gettxt=gt&doc=IP/03/1747|0|RAPID&lg=EN&display=)

## **4. GREEN BUDGET REFORM IN SINGLE EUROPEAN COUNTRIES**

### ***Spain: Catalan Ministry of Environment supports the discussion about an environment fiscal reform***

*The Magazine of the Catalan Ministry of Environment recently published a special issue about environmental taxation. In the editorial, the chief editor of the magazine sees fiscal reform as a necessity. Other journalists analyse the reasons why such a reform has not taken place yet in Spain and try to*

*understand the links between economy and ecology.*

[Susanne Hasenhüttl, ÖGUT, 13/01/04] Recently the “Revista Medi Ambient”, the Magazine of the Catalan Ministry of Environment, published a special edition on environmental taxation. The way how the different articles were written showed a friendly position towards the idea.

Lluís Reales, chief-editor of the magazine, states in the editorial that environmental fiscal reform is a necessity, but that it is the high costs that cause problems with widespread implementing. He sees a great chance in educating people ecologically through taxation. For a successful and accepted fiscal reform in favour of the environment, Reales sees three necessities:

1. great transparency
2. public awareness through the dissemination of information
3. and finally also mediation.

Catalunya has already shown that environmental taxation fails if the three are not combined.

In one of the articles, Tulio Rosembuj (University of Barcelona), describes the story of environmental taxation during the last 25 years. He sees a change from an academic discussion to a political and economic one. For him, environmental tax reform means a stimulation for technology. On the other hand, he also sees costs as the main problem, regardless of whether ETR takes place: if there is no environmental fiscal reform, the costs of our environment rise; if there is one, the costs rise in other fields, which makes it useful to invest in a fiscal reform, as it helps mankind to survive.

An article written by Jordi Ortega, investigator for the Ministry and a member of EEB, calls for a wider perspective: for him, the economy can no longer be regarded merely in terms of economic statistics. Social and environmental facts have to be integrated into economy and politics. Ortega asks whether environmental fiscal reform can be the ultimate solution to environmental problems. His answer is the problem of the “irrational” development of the global situation, e.g. climate change, which is too difficult to foresee. Still,

Ortega is also in favour of a reform of that kind, which he finds to be an adequate instrument. As climate change is not a local but global problem and environmental fiscal reforms can only be implemented locally, the author sees a form of injustice that could also be called a kind of “ecoimperialism”. Many ecologic taxes might punish the consumer more than huge enterprises, which is just further proof of ecoimperialism.

Finally, the magazine contains an interview with Jordi Roca and Enric Tello, both lecturers at the University of Barcelona. They bring the topic back to a global and academic dimension, discussing ideas like whether the market is able to solve economic problems or not. The discussion turns rather academic at that point: if the market is able to cause the problems, it might as well solve them, too. Finally they state that Spain, as a state, opened the discussion about environmental fiscal reform far too late. Local initiatives only have a minor effect, they claim. Still, the Barcelona experience with public subsidies for solar energy, which turned into a fiscal project, seems to be a good approach for the two scientists as long as information is kept transparent.

Most of all, Jordi Roca and Enric Tello state, governments should stick to their international environmental agreements. Environmental fiscal reform will then be one tool out of many to implement the international and local goals.

To read the entire interview:

[http://mediambient.gencat.net/cat/el\\_departament/revista/34/Entrevista\\_La\\_fiscalitat\\_ambiental\\_s\\_un\\_instrument\\_per\\_incentivar\\_els\\_canvis\\_de\\_comportament.jsp?ComponentID=21787&SourcePageID=21691#1](http://mediambient.gencat.net/cat/el_departament/revista/34/Entrevista_La_fiscalitat_ambiental_s_un_instrument_per_incentivar_els_canvis_de_comportament.jsp?ComponentID=21787&SourcePageID=21691#1)

On ecoimperialism:

[http://mediambient.gencat.net/cat/el\\_departament/revista/34/La\\_fiscalitat\\_ecologica\\_entre\\_politiques\\_regionals\\_i\\_estrategies\\_globals\\_bis.jsp?ComponentID=21785&SourcePageID=21691#1](http://mediambient.gencat.net/cat/el_departament/revista/34/La_fiscalitat_ecologica_entre_politiques_regionals_i_estrategies_globals_bis.jsp?ComponentID=21785&SourcePageID=21691#1)

On the three necessities for environmental taxation:

[http://mediambient.gencat.net/cat/el\\_departament/revista/34/Editorial.jsp?ComponentID=21774&SourcePageID=21691#1](http://mediambient.gencat.net/cat/el_departament/revista/34/Editorial.jsp?ComponentID=21774&SourcePageID=21691#1)

***Green twists in British pre-budget report***

[Environment Daily 1571, 10/12/03] A preview of the UK budget for fiscal year 2004-05 issued on Wednesday contained a range of environmental measures. They include further steps to encourage business energy efficiency and support the development of the EU greenhouse gas emissions

trading scheme. The government also published a proposed framework for future taxation of alternative road fuels, outlined changes to an existing waste landfill tax, and promised to consult early next year on the possible use of economic

instruments to tackle diffuse water pollution. See pre-budget report:

[http://www.hm-treasury.gov.uk/pre\\_budget\\_report/prebud\\_pbr03/prebud\\_pbr03\\_index.cfm](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr03/prebud_pbr03_index.cfm)

and press release: [http://www.hm-treasury.gov.uk/pre\\_budget\\_report/prebud\\_pbr03/press\\_notices/prebud\\_pbr03\\_press3.cfm](http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr03/press_notices/prebud_pbr03_press3.cfm)

### ***Germany publishes emissions trading law***

*The German cabinet adopted on 17 December the draft law that would transpose the EU greenhouse gas emissions trading directive into German law.*

[PointCarbon, 18/12/03] The German cabinet adopted a draft law on greenhouse gas emissions trading, the *Treibhausgas-Emissionshandelsgesetz* (TEHG), which was accompanied by a regulation. The law also sets up a new department in the German Environment Agency dedicated to emissions trading. The Agency is an independent body of 1,600 staff, twice that in the Environment Ministry itself.

The draft law was published just a few days after a list of 2,631 industrial installations to be included in the mandatory scheme. The TEHG must go through parliamentary approval before it enters into force. The German parliament is expected to start work on it early next year, missing the official deadline of 31 December 2003 for transposition of the emissions trading directive. Only the UK, Sweden,

the Netherlands and Slovenia are thought to have completed or nearly completed transposition of the directive, with Austria expected to do so in the next two or three weeks. "Recent studies assume that emissions trading could reduce costs to German industry by up to 500 million," Environment Minister Jurgen Trittin said. "German industry will be among the winners and will benefit from emissions trading."

Germany is bound to reduce its greenhouse gas emissions by 21 per cent on 1990 levels by 2010. It has already achieved a reduction of 19 per cent.

For further information, you can consult the law in German at:

[http://www.bmu.de/de/1024/js/download/b\\_emissionshandel\\_entwuerfe/](http://www.bmu.de/de/1024/js/download/b_emissionshandel_entwuerfe/)

### ***France preparing to launch new waste policy***

*The French government is considering new tax measures to avoid a mid-term crisis in household waste management, as part of new waste legislation to be presented to parliament next year.*

[Environment Daily 1569, 08/12/03] A recent modelling study of economic policy options for the environment ministry found that a combination of council taxes, either flat rate or unit based, and a national advanced disposal or "upstream" tax paid by producers would be the most effective way to reduce household waste output, one of the government's major objectives. Written by an expert at the Centre for industrial economics (Cerna), the study also found that illegal waste disposal and littering were not necessarily a major problem if councils implemented waste unit-based pricing instead of the current flat-rate tax. It stated that, for maximum efficiency, the proceeds of an upstream tax should be redistributed to councils.

A spokesperson for environment minister, Roselyne Bachelot, said on Monday that the fiscal policies analysed in the report were being considered but

that no decisions had yet been taken. The Minister herself said, on 10 September, that the new waste strategy would use "all the tools at the government's disposal - legislative, regulatory, financial or fiscal". France's current waste legislation was enacted in 1992, setting a series of objectives to be met by July 2002. It has failed to significantly reduce waste generation. A recent report of the national commission on municipal waste stated that without new policy initiatives 75% of French regions would have a shortage of waste elimination capacity by 2010.

You find further information here: <http://www.environnement.gouv.fr/english/default.htm> and

[http://www.environnement.gouv.fr/actua/recherche-prospective/model\\_fin.htm](http://www.environnement.gouv.fr/actua/recherche-prospective/model_fin.htm)

### ***Denmark's threatened PVC tax draws support***

*A broad coalition of Danish municipal authorities, professional engineers and environmental groups has united in protest at government plans to rescind a tax on hard PVC.*

[Environment Daily 1559, 24/11/03] In a letter sent to the tax and environment ministries on Friday, a broad coalition of Danish municipal authorities, professional engineers and environmental groups demanded a rise in tax rates rather than abolition and clearer incentives for substitution of the controversial polymer.

The Danish PVC tax was introduced in 2000. It is charged at a rate of DKr2 (€0.27) per kilo of hard PVC and about DKr7.50 per kilo for phthalate-softened PVC. Precise tax rates on softened PVC depend on the amount of phthalates they contain.

Environment minister Hans Christian Schmidt recommended abolishing the hard PVC tax this summer, claiming it was "too much tax for too little

environment". The tax ministry issued formal proposals for consultation in early November. Danish industry supports the move, arguing that collection and recycling systems have been set up and that the tax has therefore done its job.

Coordinated by Greenpeace, the pro-tax groups insist that Denmark "still needs an active PVC strategy", including phase-outs, information, green procurement, support for alternatives, and taxes "high enough to ensure a real transition to cleaner products".

For further information see: <http://archive.greenpeace.org/pressreleases/toxics/1999jun182.html> and [http://www.greenpeace.se/files/2300-2399/file\\_2332.pdf](http://www.greenpeace.se/files/2300-2399/file_2332.pdf)

### ***Real costs of aviation in Hungary***

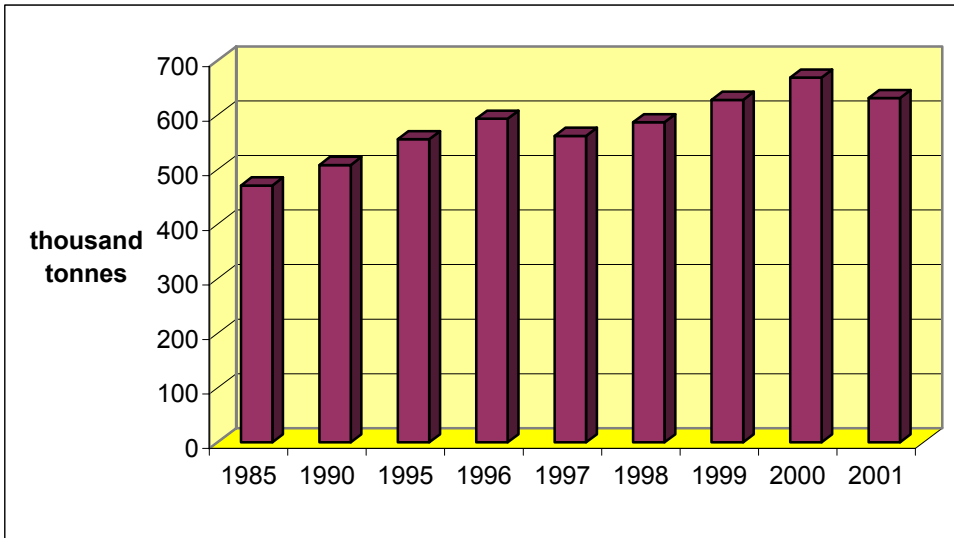
*As flights become cheaper and cheaper, the costs of damage to the environment and health caused by aviation increase. In this paper, Zoltán Szabó tries to find out the real costs of aviation in Hungary in terms of CO<sub>2</sub> emissions and to show that aviation subsidies have no justification.*

[Zoltán Szabó, Clean Air Action Group, Hungary, 12/01/04] The external costs of aviation are far from reflected in the prices (air pollution, noise, climate change, land cover, etc.). The prices of air tickets cover the operational costs and profits of the airlines but not the cost of damage to the environment and health. Neither excise duty nor VAT is levied on kerosene. This, in itself is a huge tax exemption, since the excise duty of petrol and diesel in Hungary amounts to almost two thirds of the real price. An additional tax break is that no VAT is levied on the plane tickets, although it is also true for the international train tickets. We find a massive indirect subsidy to aviation in the form of state contribution to the construction of airports. The costs of infrastructure development are mainly borne by taxpayers. Recently in Hungary, there have been many plans to convert ex-military airports and some other, smaller airports (used until now for sport and agricultural purposes) into

regional commercial airports. One of them, at Győr, was recently completed with support from the EU (ISPA Fund). Another, at Pécs, is being enlarged now with the help of state money. We must mention the direct state subsidy to airlines as well. The government is now busy bailing out Malev, the Hungarian carrier, before EU membership forbids such moves. Just in December 2003, it received a 10 billion HUF "present" from the state.

Unfortunately, it is not possible to find data on the emissions of the aviation sector in Hungary, so we must estimate it from the kerosene used per year. The calculated CO<sub>2</sub> emissions of aviation over the past one and a half decades have increased significantly. From 1985 to 2000 there was a 42% increase. It is important to mention that due to the collapse of the economy the overall CO<sub>2</sub> emissions of Hungary dropped by almost a third during the same period.

**Calculated CO<sub>2</sub> emissions of aviation in Hungary:**



Source: Own calculation based on data of Central Statistical Bureau

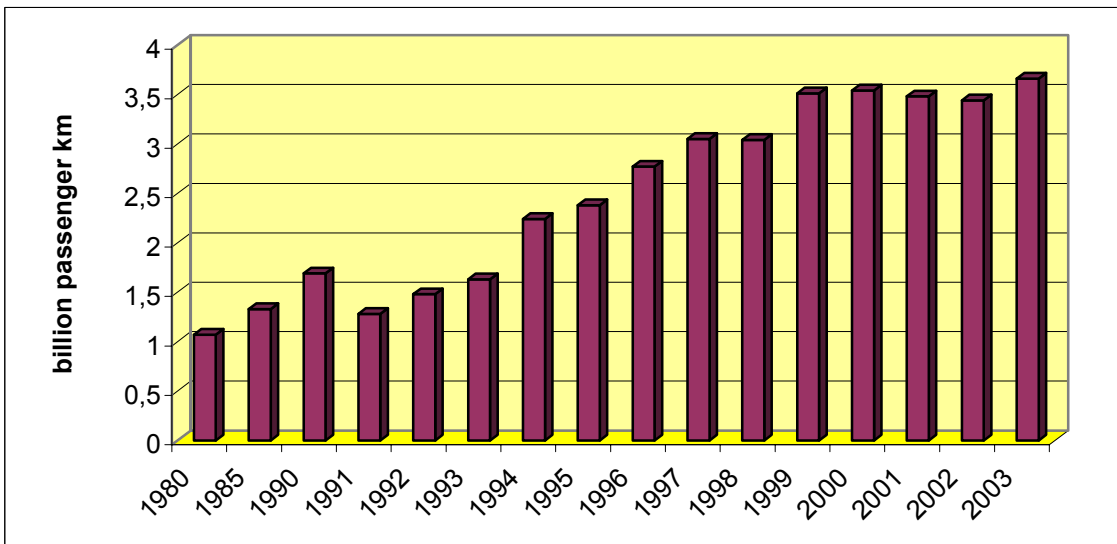
According to the IPCC, the overall contribution of aviation to climate change is 2.7 times more than the effect of CO<sub>2</sub> emissions alone (contrail formation, NO<sub>x</sub> emissions).

However we must admit that the calculated 630 thousand tonnes of CO<sub>2</sub> emitted by aviation is around only 1% of Hungary's annual CO<sub>2</sub>

emissions. So in terms of CO<sub>2</sub> emissions in Hungary aviation is not yet one of the biggest contributors.

Over the last 23 years, air travel has increased by almost three and a half times in terms of passenger miles travelled.

**Performance of air passenger transport in Hungary (billion passenger kilometre):**



Source: Central Statistical Bureau

The Hungarian government asked for transitional period of aviation noise at the negotiations for EU accession. As a result, noisy airplanes from some East-European countries (Russia, Ukraine, Azerbaijan, etc.) can use Hungary's airport until the end of 2004, and in exchange Malev can continue

to operate to these countries (most EU carriers are not allowed to fly to these countries any longer). It is thus a sort of indirect subsidy to Malev to have exclusive flights to some East-European countries. Unsurprisingly, Malev was able to increase its passenger miles to East-Europe by 22% in the first



8 months of 2003. It is of course at the expense of the citizens living around Ferihegy (Budapest airport).

By estimating the amount of kerosene used in aviation, we are able to calculate the annual tax brakes to aviation. Assuming that the same scale of taxes are levied on kerosene as on diesel (excise duty, VAT), the tax exemption of aviation fuel in

2001 amounted to more than 30 billion HUF (115 million euros).

Hungarian environmental organizations - first and foremost, the Clean Air Action Group - has already been demanding for years that all direct and indirect subsidies to aviation be stopped. The only result so far was that in 1998 all subsidies to the operation of the Air Navigation and Airport Directorate were discontinued.

## 5. GREEN BUDGET REFORM WORLDWIDE

### *Synthesis Workshop on Environmental Fiscal Reform*

*The Workshop on Environmental Fiscal Reform was hosted by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the German Society for Technical Cooperation (GTZ) from 24-25 November in Berlin, Germany. Its main objectives were to bring together, present and discuss the results of the OECD-DAC work programme on Environmental Fiscal Reform (EFR), including the drafts of the OECD-DAC reference and interagency paper on EFR, the forestry and fishery case studies, the respective international workshops and country experience with EFR in South Africa, China, India, Tanzania, Lebanon and elsewhere.*

#### **Workshop Proceedings**

Philipp Knill (BMZ) **welcomed** the participants and highlighted the need to ensure a focus on poverty reduction and implementation in the EFR process. In his welcoming note, Arno Tomowski (GTZ) emphasized the potential of EFR to contribute to favourable incentive structures and improved framework conditions in which development cooperation activities on the ground will likely be more successful. Paul Steele (DFID) followed by Jim Prust (IMF) gave an **introduction** to the topic of the workshop: EFR aims at raising revenues that can be used for poverty reduction, improving financial management, reducing loss of potential revenues and of natural resources, reducing pollution, raising efficiency and increasing access for the poor to environmental services. Depending on existing policies and the natural resources base of a country EFR might help raising additional income of up to 5% of GDP in an extreme case scenario. As the **following panel discussion** made clear, EFR is an instrument to bridge the gap between environment and finance actors on a pro-poor basis, not only in countries but also in development agencies. However, it is loaded with difficult social issues and risks. Therefore the focus of the workshop and the documents on political economy issues (instead of a more "technical" approach) met widespread approval by participants.

In the presentation and discussion on **fisheries**, subsidies, especially the subsidies for developed countries' fishing fleets, were identified as the main obstacle to a sustainable management of the resource. Due to worldwide subsidies of fisheries, subsidy removal is often associated with severe competitiveness concerns. This should be addressed by international policy harmonization. Access control is crucial to guarantee enforcement of national fishing policy and transboundary management. Therefore a sufficient share of EFR revenues in the fishery sector will always have to be earmarked to enforcement and monitoring. It was widely agreed that small-scale fisheries should be treated differently to ensure pro-poor impacts.

EFR in the forest sector was identified not only as a means to increase the efficiency of fiscal instruments but moreover to benefit the poor. But many countries are often not prepared to cope with the revenues and to take care of transparency and monitoring of efficient use of revenues. This is even more so if revenues are raised by provincial and local entities. Hence decentralization might interfere with an efficient EFR-process. The potential for corruption depends, too, on the complexity of the instruments with more simple fiscal instruments leaving less room for corruption. A potential task for donors (because of their credibility) could be to facilitate tackling the problem of „hidden-information“ on costs and

prices of goods and services from forestry. Currently, often the process of getting the prices right lacks equal access of certain groups of stakeholders to information held by administrative institutions. It was illustrated that some issues still need to be included in the discussion on EFR in the forest sector (reducing illegal logging and getting the general framework in the forest sector right, role of certificates for sustainable forestry, concept of compensation/payments for provision of ecological services)

The short **input on comprehensive EFR** by Kai Schlegelmilch (German Environment Ministry) illustrated the process of introducing Eco-taxes in Germany and other European countries. He pointed out that, although the concepts may be clear in principle, the political will is of utmost importance. Therefore, it is necessary to establish coalitions, i.e. by earmarking revenue generated from EFR with pension reform or in the case of industrialised countries by linking it with pension reform. The panel discussion on the **country case studies** revealed that one important constraint for implementation of EFR is the lack of economical know-how but also data in environmental departments and environmental know-how in fiscal departments. Also, it would be ambitious to use EFR to compensate in the long run for other taxes because this will only work for environmental tax bases with an inelastic demand. It was raised, that EFR will only sell if it has positive impacts on growth. Where EFR contributes to transparency and accountability it will be fiercely resisted by a corrupt bureaucracy. Public awareness of environmental problems was generally said to be very low in most developing countries. People tend to accept bad environmental conditions (e.g. low water quality, air pollution etc.) as the “normal price to pay” for living in big cities, modern life etc. As soon as an environmental crisis is perceived as such this might help in getting EFR on track.

The afternoon break-out groups focused on the following **challenges of EFR**: a) getting EFR processes started, b) organising these processes, c) inter-ministerial coordination & cooperation, and d) “marketing” EFR. Some important messages from the groups were: It is important not to get bogged down by issues of definition or scope of EFR. EFR is not a cast-in-stone ready to use package of policies. What is more important is to identify concrete country or sector/resource specific interventions, however small, and get started. The

agenda-setting can be initiated by any stakeholder through forums, networking, workshops and marketing campaigns and should frame the issue in a way that helps getting relevant actors (particularly finance ministries as key players) and progressive institutional entities involved and convinced. In addition it is important to build on ongoing processes to avoid duplication and benefit from already developed inter-ministerial cooperation structures. For the latter it is decisive to learn to understand and speak each other’s language. Environmental awareness has to be the starting point if EFR is presented as an approach to improve the environment. However, often it might be more promising to use other aspects of EFR to gain support in the beginning (cost recovery, poverty reduction, disaster prevention, security & oil dependency issues, ...). Depending on the different stages of the policy cycle different stakeholders have to be addressed and involved. South-South lesson learning was considered very useful.

The **DAC Reference Paper and the Interagency Paper on EFR** received a lot of appraisal. They were widely considered as very useful, although some fine-tuning was still said to be required. This included the following remarks:

- The country examples in the paper are very South-orientated. More examples from Eastern countries could be included.
- Some references should be checked on correctness. It is recommendable to check if commonly cited “best practices” really work in the field.
- It should be considered to include certain additional topics, e.g. mining, solid waste management, vehicle tax etc.
- More linkages to relevant international frameworks and dialogues should be made (e.g. UNEP, UNFF).
- More tables, charts and/or graphics may be included.
- It is important to clarify better objectives of EFR upfront.
- Are the papers advocacy or descriptive papers? This could be made clearer.
- Some refining should go into revisiting the balance of the three objectives of EFR (poverty reduction, environmental protection and revenue raising)?
- Issues related to decentralisation (of fiscal

revenues) should be reflected in more depth.

- 10 selling points for EFR could be elaborated to display the benefits of EFR in a simple and eye-catching manner.
- The recommendations part (also for the donors) still needs to be fleshed out significantly.

To discuss the **follow-up and next steps** participants split up in two groups, one discussing on the role of and recommendations for donor agencies, the other discussing on developing countries' governments. Sharing of experience on a South-South basis was considered essential. For the environment and sector ministries to comply with their role to provide sound data on environmental problems capacity building is crucial. Their economic understanding needs to be raised. This holds also true for donor agencies in which environment departments should capacitate themselves for addressing issues in a way that make them appealing to their department dealing with fiscal and macro-economic issues. EFR should not be sold as one-size-fits-all. It should be started on

project and programme basis, build on ongoing processes and the framing of the initiatives by donors should also involve other ministries than the Ministry of Environment. Some PR will have to be done. Depending on the target group (whether intra-agency or in-partner-country) different "marketing" approaches might need to be taken. In the donor community linking the issue strongly to the MDGs, poverty reduction and sustainable development is key. In addition at this stage of the EFR discussion it may be important to simplify and use labels in order to get the main messages of EFR across without watering down the issue.

In the **closing remarks** the informal and open atmosphere, vivid participation and good results were emphasized. It was commonly felt that the interdisciplinary workshop had contributed to understanding each others perspectives better. There was a feeling that the EFR process has gained dynamic and should not be left to only finalising the papers discussed at the workshop but in addition result in further, more specific and implementation oriented activities.

### ***Mexican President Fox presents un-detailed plans about an environmental fiscal reform***

*The plans about an environmental fiscal reform in Mexico presented by President Fox have received criticisms of the Greens and of scientists, who judge them too vague.*

[Susanne Hasenhüttl, ÖGUT, 13/01/04] In November 2003 and January 2004, President Vicente Fox presented the first Mexican programme for sustainable development. His secretary of state, Victor Lichtinger, stated that Mexico had succeeded in improving the life time and state of the Mexican people, but this improvement had negatively affected the natural resources of the country. The programme for sustainable development therefore tries to balance human needs and nature. Environmental fiscal reform, which units brings ecologic and economic interests, is said to help in this project.

Fiscal reform shall introduce higher tariffs and stimulations for the economy to reflect the importance of natural resources and promote the use of renewable energy. This shall not only help reduce emissions but also teach the rational and useful use of natural resources like water and different types of energy.

Vicente Fox received serious criticism from the Greens and scientists. One of the points of criticism

is the high expectations put into the tax reform, without telling the people what this means exactly. This could lead to a situation of too little information, where the Mexicans turn against the reform. Another common criticism is that the Mexican government is prolonging discussions by not telling any details about the fiscal reform, though the introduction of environmental taxes has already been discussed for several years.

While Fox stated that income from the taxes would serve the environment, the public has not been well informed of where the rest of taxes would go. Environmentalists want part of it to give to projects to reinforce the natural resources and invest another part into environmental education. In the meantime, it seems that people are getting tired of not hearing enough detailed information, which could cause problems of acceptance.

You will find further information at: <http://www.semarnat.gob.mx/wps/portal> (in Spanish)

### ***New Zealand emissions charge could fund tax cuts of \$1000 per taxpayer***

*A new report written by the Ecologic Foundation says that revenue from the New Zealand Government's emissions charge, planned to start in 2007 or 2008, should be used to fund tax cuts.*

[Jim Sinner, 18/11/03] According to a report written by the Ecologic Foundation, revenue from the New Zealand Government's emissions charge should be used to finance tax cuts. The emissions charge will vary with the international price of carbon, but will be capped at NZ\$25/tonne (13.5 euros) of CO<sub>2</sub> equivalent until 2012. At that price, the revenue would enable a 3% reduction in the lowest income tax bracket, lowering income taxes by approximately \$1000 per year to taxpayers earning \$38,000 or more. The report "Creating

Economic Incentives for Sustainable Development" was prepared for the New Zealand Business Council on Sustainable Development. It provides numerous examples of the successful use of market-based instruments for resource management, from both New Zealand and overseas, and suggests several new areas where New Zealand could apply these instruments, including air pollution, traffic congestion and water management. A copy of the report is available at: <http://www.ecologic.org.nz/>

### ***Japanese security companies to enter the carbon market***

*Mitsubishi Securities Co. and Mizuho Securities Co. plan to start CO<sub>2</sub> emissions reduction projects to help earn emissions credits for their customers.*

[Point Carbon, 08/01/04] According to the Asahi Shimbun, the Japanese companies Mitsubishi Securities Co. and Mizuho Securities Co are now looking to assist their clients that are struggling to reduce internal greenhouse gas emissions by offering them credits through Clean Development Mechanism (CDM) and Joint Implementation (JI) projects.

Mitsubishi Securities has a department that looks into the feasibility of energy recycling projects. It calculates the risks involved and assesses how effectively they cut down on CO<sub>2</sub> emissions. The company will also find buyers of the end product of such projects: electricity. It also plans to take care of the paperwork required to obtain emissions credits, including permits and fine-tuning with overseas government officials, the paper states.

In Thailand, Mitsubishi Securities will be involved in developing a 20,000-kilowatt electricity generation plant that uses rice husks as its energy source. The project is expected to cut annual CO<sub>2</sub> emissions by 80,000 tons. Mitsubishi is also

planning a few other projects in developing countries.

Meanwhile, Mizuho Securities is planning a windpower generation plant in Hungary and a cogeneration project in Poland that uses rapeseed oil dregs as its fuel. The company also plans to lend financial support to another joint venture cogeneration project in the Czech Republic, which will be undertaken by Fuji Research Institute Corp., a Mizuho group company, Hitachi Zosen Corp. and Tokyo Gas Co.

The Asahi Shimbun also reported that on a non-binding basis, Nippon Keidanren (Japan Business Federation) has set a target of keeping fiscal 2010 carbon dioxide emission levels from exceeding the 507.95 million tons recorded in fiscal 1990. Already, in fiscal 2002, 35 industries operating under individual emissions-cut targets managed to achieve emission levels 1.9 percent below the level recorded in fiscal 1990.

You find further information here: <http://www.asahi.com/english/business/TKY200401060091.html>

### ***Cop-9: Kyoto still 'the only game in town'***

*After two weeks of hard negotiations, the ninth session of the Conference of the Parties seems to have been a success and confirmed the will of most nations to honour emissions reduction commitments. The biggest success of the conference remains the creation of Clean Development Mechanism rules and procedures.*

[Argus Global Emissions, January 2004/ Volume III/ Issue 1] The lasting impression of the ninth session of the Conference of the Parties (Cop-9) is the stubborn determination - especially from EU

member states - to finally make the Kyoto Protocol a workable reality. One phrase - "Kyoto is the only game in town"- began the conference as a pointed reminder from non-governmental organisations

(NGOs), but ultimately ended up on the lips of the Cop-9 president Miklos Persanyi himself as he summed up the conference after two hard weeks of mostly behind-the-scenes negotiations. The phrase was popular because it reinforced the view that, like it or lump it, the protocol and its provisions are the only realistic global climate change agreement. Delegates were urged to bear that in mind and aim to co-operate. Surprisingly, this attitude actually produced results, and Cop-9 easily eclipsed the bad-tempered stalemates of Cop-8. Right at the start, Cop-9 had to deal with the latest bout of rumours about Russia's Kyoto ratification plans and a new round of statements and counter-statements from Russian government advisers. But Russia's parliamentary elections at the start of December produced a result seen as "Kyoto friendly" by observers, because it greatly increased support for President Vladimir Putin. And by the end of the conference, the general feeling from delegates was that Putin would, in the end, ratify. But no action is likely until after next spring's presidential election, at the earliest.

One major surprise at Cop-9 was that countries seemed determined to fulfil Kyoto commitments with or without the protocol. For example, both Canada and Slovenia pledged to honour emissions reduction commitments even if Kyoto fails to enter into force. And the EU will also run its emissions trading scheme without Kyoto if necessary. The key success for the emerging emissions markets was the final wrapping up of Clean Development Mechanism (CDM) rules and procedures. This was primarily possible because of good preparation in advance of the conference at numerous side meetings. The outstanding issue of how to include "carbon sinks" in CDMs promised to be a divisive one before the conference. But eventually, an agreement was reached. The CDM sink issue highlighted two contrasting concerns. Potential buyers of CDM carbon sink credits - essentially the EU states along with Norway and Switzerland - wanted reassurance that carbon sinks would not turn out to be environmental disasters in developing countries. The potential sellers of carbon sink CDM credits, led by Latin American countries, wanted a market for these credits and cheap transaction costs - without being bogged down by endless costly assessment and certification requirements.

A major concern was over the use of genetically modified organisms (GMOs) as carbon sinks - in essence genetically modified monoculture forests that could be grown on vast swathes of land.

Another issue for discussion was permanence. If, for example, a country claims credit for a forest that is cut down some years later, would the credits still stand? Countries finally agreed that carbon sink projects are fundamentally different from other clean energy projects under the CDM and that they require special monitoring and reporting treatment. The agreement says that regular certificates and inspections will be needed to earn carbon sinks temporary rather than permanent credits. The agreement also advises caution on the type of tree or plant used in carbon sinks. But there are still ambiguities left, particularly in the use of GMO crops as carbon sinks. And the agreement on sinks does not exclude the very monoculture plantations of which environmental groups are so wary. Nevertheless, the agreement means that all the rules about CDM modalities and procedures have now been ironed out. The first CDMs now await approval by the CDM executive board.

This may have been a battle won by compromise and skilled negotiation, but it was only one of a number of issues that threatened to emphasise yet again the so-called "north-south" divide between developed countries in the northern hemisphere and developing countries in the southern hemisphere.

Technology transfer is an area that never fails to engender a series of accusations and counter-accusations - developing nations seeing minimal progress in handing over technological advances in areas such as energy efficiency and renewable energy. The issue came up again at Cop-9 and initially centred on what the Expert Group on Technology Transfer (EGTT), a side body, should be doing. But one of the three round-table discussions in the high-level segment discussed technology transfer in detail. This round table, co-chaired by, US delegation head Paula Dobriansky, consisted mostly of sound-bite views - developing countries wanting assistance and developed countries stressing achievements.

The big battle for this Cop-9 came over the Special Climate Change Fund (SCCF). This "voluntary" fund was set up in 2001 at Cop-7, along with other funds such as the Least Developed Countries Fund, which is intended to help developing countries adapt to necessary climate change measures - "adaptation" being a climate change buzz-word. But the real unresolved issues were how much money should go into it, and who the funds should go to. Developed nations, principally led by the EU, have pledged \$410mn/yr from 2005 for the SCCF. The main players in a terse debate were, on one

side, Saudi Arabia and China, which nominally led the G-77 group of nations. They were ranged against the EU, Canada and Japan. Saudi Arabia and Opec countries wanted the fund to pay for the expected loss of oil revenue if the world turns more to renewable energy. Opec members claimed that Opec's lost revenue could amount to as much as \$19bn over the Kyoto commitment period of 2008-12. But the EU decisively rejected this figure, and Cop-9 finally agreed that SCCF money should be used to fund technology transfer activities.

The presence of numerous NGOs made sure that, at any rate, some people were also keeping an eye on the future. What happens after the Kyoto commitment period ends in 2012 is something that Kyoto signatories have pledged to think about by 2005. In an ideal world, what kind of policies and measures will be needed post-Kyoto should have been discussed in some depth by now at Cops. This

now promises to be one of the main climate change themes of the year ahead, because so little has been agreed so far. A post-Kyoto world touches on a very delicate issue - whether developing countries should take on any emissions reduction commitments instead of leaving it all to developed nations.

After two weeks, 5,300 delegates left with the Cop process intact. Ironically for a climate change conference, they also left tons of leaflets, programmes and fact sheets - needless waste that will now be thrown away. The next Cop will be held from 29 November to 10 December 2004 in Buenos Aires, Argentina. Perhaps by then the Kyoto Protocol will have finally entered into force. Perhaps not. But whatever the future brings the world of emissions constraints is assured.

You find further information here: <http://unfccc.int/cop9/index.html>

### ***US climate policy bigger threat to world than terrorism***

*UK Government's chief scientific adviser accuses the Bush administration to underestimate the reality of global warming and to refuse to take its responsibility.*

[Steve Connor, The Independent/UK, 09/01/04] Tony Blair's chief scientist has launched a withering attack on President George Bush for failing to tackle climate change, which he says is more serious than terrorism.

Sir David King, the Government's chief scientific adviser, said in an article in the journal *Science* that America, the world's greatest polluter, must take the threat of global warming more seriously. "In my view, climate change is the most severe problem that we are facing today, more serious even than the threat of terrorism. The Bush administration was wrong to pull out of the Kyoto protocol, the international effort to limit the emission of greenhouse gases, and wrong to imply the protocol could adversely affect the US economy," Sir David said. "As the world's only remaining superpower, the United States is accustomed to leading internationally co-ordinated action. But the US government is failing to take up the challenge of global warming. The Bush administration's strategy relies largely on market-based incentives and voluntary action ... But the market cannot decide that mitigation is necessary, nor can it establish the basic international framework in which all actors can take their place."

Results of a major study showed that more than a million species will become extinct as a result of global warming over the next 50 years. Sir David

said the Bush administration is wrong to dispute the reality of global warming. The 10 hottest years on record started in 1991 and, worldwide, average temperatures had risen by 0.6C in the past century. Sea levels were rising, ice caps were melting and flooding had become more frequent. The Thames barrier was used about once a year in the 1980s to protect London but now it was used more than six times a year.

"If we could stabilise the atmosphere's carbon dioxide concentration at some realistically achievable and relatively low level, there is still a good chance of mitigating the worst effects of climate change."

But countries such as Britain could not solve the problem of global warming in isolation, particularly when the US was by far the biggest producer of greenhouse gases on the planet. "The United Kingdom is responsible for only 2 per cent of the world's emissions, the United States for more than 20 per cent (although it contains only 4 per cent of the world's population)," Sir David said. "The United States is already in the forefront of the science and technology of global change, and the next step is surely to tackle emissions control too. We can overcome this challenge only by facing it together, shoulder to shoulder. We in the rest of the world are now looking to the US to play its leading part."

Advisers to President Bush have suggested climate change is a natural phenomenon and criticised climate researchers for suggesting that rises in global temperatures are the result of man-made emissions of greenhouse gases such as carbon dioxide. But Sir David said the "causal link" between man-made emissions and global warming is well-established and scientists cannot explain the general warming trend over the past century without invoking human-induced effects. The Cambridge academic, who was born in South Africa and emigrated to Britain, implies that the US has a moral obligation to follow the UK's lead in trying to limit the damage resulting from rising world temperatures and climate change. "As a consequence of continued warming, millions more people around the world may in future be exposed to the risk of hunger, drought, flooding, and debilitating diseases such as malaria," Sir David said.

President Bush has said more research on global warming is needed before the US will consider the sort of action needed to comply with the Kyoto protocol, but Sir David said that by then it could be

too late. "Delaying action for decades, or even just years, is not a serious option. I am firmly convinced that if we do not begin now, more substantial, more disruptive, and more expensive change will be needed later on."

Britain is committed to cutting its emissions of greenhouse gases by 60 per cent from 1990 levels by around 2050 and believes other developed countries, such as the US, should follow suit. Bush officials say that would damage their economy and provide an unfair advantage to the country's international competitors. But Sir David said that it is a "myth" that reducing greenhouse gas emissions makes us poorer. "Taking action to tackle climate change can create economic opportunities and higher living standards," he said. A spokeswoman for the US State Department said that she was unable to comment directly on Sir David's article. You find other information at:

<http://www.sciencemag.org/>

or

<http://yosemite.epa.gov/oar/globalwarming.nsf/content/EmissionsInternationalInventory.html?OpenDocument>

### ***Environmental taxes in the USA***

*An environmental tax reform would be very welcome in the USA. Indeed, as the biggest polluters in the world, they should take severe measures to cut their CO<sub>2</sub> emissions. But time is running and no move has really been made in that direction. Professor Westin has analysed the reasons why environmental taxes are so hard to conceive in America. He examined the problem from an economic, but also from a social and political point of view. He also gave a list of suggestions for an efficient environmental fiscal reform.*

[Virginie Barras, FÖS, original von Richard Westin, University of Kentucky, 14/01/04] Professor Richard Westin has recently produced a paper about environmental taxes in the USA. He notices that such taxes have only partly caught on, which is why he analyses the reasons why environmental taxes remain unpopular in spite of their ability to apply environmental policies in an economically efficient manner. He first presents possible reasons why environmental taxes have made relatively modest headway.

The first reason is the manipulation of scientific information and the rejection of the notion that global warming presents a problem by the current US Administration. According to The New York Times: "White House officials deleted from a report on the state of the environment a reference to a 1999 study showing that global temperatures had risen sharply in the previous decade compared with the last 1,000 years. In its place, administrative

officials added a reference to a new study, partly financed by the American Petroleum Institute, questioning that conclusion."

The second reason lies in the economic situation. The uncomfortable economic stagnation of Western nations is driving citizens to attach more importance to economic considerations than to environmental ones. He adds: "In this context, there is at present a trend among Western nations in favour of reduced taxes to stimulate economic growth, trade and investment. Taxes are a bad word. To take just one example, Sweden, the bastion of enlightened Socialism, has reduced its top company income tax rate from 60% before 1991 to 28% today. In the US, the top individual tax rate of 91% when John Kennedy assumed office is drifting down to a flat 35%."

The lack of a voice for environmental taxes is also a problem. Westin observes that no institute in the USA is dedicated to developing and advancing

environmental taxation. At least, he notes that the vocabulary itself can influence environmental taxation's bad reputation. Thus the word fee is preferable to the work tax because it (rightly) implies a benefit to the payer, or at least to society by the very nature of the charge. A "tax" however, implies a raw government appropriation of private property. In the same way, "conservation" should replace the word "environment". In the US, the word "environment" is almost a fighting word to business. But the word "conservation" implies prudence and thrift and harks back to an earlier and highly popular movement to preserve national measures heralded by Teddy Roosevelt known as the conservation movement.

Westin then gives a list of suggestions of how best to promote environmental taxes. Most tax legislation enacted to stimulate a change in behaviour faced a lack of empirical studies to evaluate whether the measures work. For the effectiveness of the tax system, Westin proposes "to add mandatory follow-up studies of particular tax legislation to assure that it is operating as intended. If it is working, its achievements should be lauded. If it is failing to achieve its goal, it needs to be improved." Moreover, environmental levies that have lost their justification should be repealed.

He then suggests being receptive to Permit Trading, which sets a targeted ceiling, such as fish caught or tons of pollution emitted in a region, and allows trade in the allotted target figures. Burdensome tax measures should be introduced gradually he says: "The US excise tax on ozone depleting substances furnishes an example of a tax that was phased in over a number of years, thereby giving purveyors of substitutes a chance to develop and refine their products and consumers a chance to gradually replace their cooling equipment. At the same time, consumers who had invested in automotive air conditioners were given time to adapt or replace their existing units.

One of the duties of environmental taxation is not to raise revenues, but to improve the environment. That is why revenues from the environmental tax could be deflected in favour of reducing some other tax and especially the most unpopular taxes such as those on labour. Governments should also be prepared to transfer tax revenues to the private sector. Taxes that flow back to private actors may be productive to the environment and merit enactment.

Taxes are unpopular, but a good way to reduce

public scepticism is to favour taxes earmarked to a particular fund for a specific application. The important point is that identifying a fund to which revenues will be directed reassures taxpayers that the tax is not just one more revenue measure, but instead is isolated to a particular use. It also reinforces the stated purpose of the tax, forcing the public to consider whether the tax is wisely crafted, and assures that funds will in fact be available for their intended purpose, as opposed to requiring further legislation to . Another reason why citizens fear taxes is that they believe that it handicaps the taxpayer – a firm's ability to compete in the international market place. Employees fear they will lose their jobs to foreign competitors operating in jurisdictions free from fiscal or regulatory burdens.

Actually, some taxes have the feature of being "border adjustable". That means that a country can impose a high retail sales tax on a product's domestic sales, whether it is made at home or abroad. It can impose the same sales tax on imported products as domestically manufactured products and can rebate any such taxes exports of products in another country. Indeed, manufacturers will prefer a retail sales tax (or VAT) to a disallowed deduction for this product. The origin of the difference in treatment is the GATT Subsidies Code, which at its heart contains the very suspicious theory that indirect taxes can be shifted, but that direct taxes cannot be, and that it is therefore appropriate to allow border tax adjustments for indirect taxes but not for direct taxes.

The next point Westin presents is the identification the incidence of the tax. He says: "The point of this segment is that objections to the alleged burdens of environmental taxes should never be taken at face value. The supposed tax on a consumer may really be a tax on the producer. A supposed tax on a producer may turn out to be a tax on employees. Only careful analysis can begin to reveal the truth. Knowing who really bears the tax may influence whether to enact environmental tax legislation." He gives this example: "If a tax on an environmentally unsound product is passed on from the producer to consumers, the tax may still do its job of reducing irresponsible production and consumption. If the tax nominally falls on consumers but is in fact borne by producers, producers who are aware of the incidence of the tax are likely to resist the tax more fiercely than otherwise, and similarly, if the tax really falls on labour, employers may be neutral



towards the tax, but labour unions are likely to mobilize against the tax.”

At least, Westin advises us to make a clear statement for the tax: if the tax's environmental purpose is expressed clearly and correctly implemented, resistance to the tax will weaken. Then, when the scientific facts change and the stated purpose of the tax is no longer applicable, the tax should be repealed. Moreover, for a better effectiveness of the tax, all the stakeholders should be involved. Their participation process may slow

things down, but it reduces the perception of risk to realistic levels. It also leads to a convergence of ideas if the process is handled well.

His last suggestion is that a central library of empirical data and case studies of specific environmental taxes should be created in the USA to gather the literature scattered worldwide on this topic.

You can consult Professor Westin's website at: <http://www.uky.edu/Law/class/westin/>

### ***Australia: Key Kyoto emissions plan cast off***

*Australia has walked away from participating in an international emissions trading scheme, a key part of the Kyoto Protocol on climate change. It argues that the idea is unlikely to come into effect, and creates no incentive for industry to reduce greenhouse gas emissions.*

[Stephanie Peatling, The Age, 12/01/04] Emissions trading, which the European Union will begin next year, allows industry to invest in projects such as carbon sinks to offset the greenhouse gas emissions they produce that contribute to global warming. But no more work is being done on emissions trading by the Australian Greenhouse Office, set up by the Howard Government as the first dedicated greenhouse agency in the world, and staff have been either moved to other projects or left. The last two staff left just before Christmas as the Government's opposition towards the proposal firmed. The Government has also delayed the announcement of its Climate Change Forward Strategy, which was supposed to be released late last year. It will not be ready until the first half of this year. A spokesman for Environment Minister David Kemp said the Government believed there was still significant uncertainty surrounding an international emissions trading scheme and had therefore decided not to continue researching it. "We want industry to be proactive and cut emissions, not accept defeat and then look for ways to make up for it," a spokesman said.

Australia was already well on its way to meeting the emissions reduction target set for it by the Kyoto protocol on climate change, and had done so without the need for an emissions trading scheme.

"Given there is uncertainty about Kyoto, is there any real reason to bring another new measure in which may or may not work?" the spokesman said. Although the Government does not believe it is in Australia's economic interests to ratify the agreement, it has set up partnerships to deal with climate change with countries outside the Kyoto framework, such as the US and Japan. The move comes before a report, expected this week, on the future of its mandatory renewable energy target. A review of the scheme by the former federal resources minister, Warwick Parer, argued last year that the existing 2 per cent target should be scrapped and replaced by a single national emissions trading scheme. Labor has signalled that it will make global warming a key part of its environment strategy for this year's federal election. Its environment spokesman, Kelvin Thomson, said scrapping the unit sent a message to industry that it did not need to bother lowering emissions. "This is a clear sign that the Howard Government isn't serious about tackling climate change and is not interested in being part of an international effort to reduce greenhouse gas emissions," he said.

For further information see: <http://www.greenhouse.gov.au/emissionstrading/index.html>

## **6. LETTERS TO THE EDITOR**

“In the last issue of GBN [in the article of Kai Schlegelmilch about Switzerland], you write "The arguments against such a reform are well known and need not be repeated here." Nothing could be

further from the truth. I assume that almost all of your readers support ETR, so that you are basically preaching to the choir here. There is a rule of thumb for propagating innovations: first concentrate on

those who seem open to your idea, and once you have convinced some people (not all!) of your arguments, present the "converted" with the arguments of the opposition to enable them to answer such criticism on their own.

If I am right that you need not convince the majority of your readers of the benefits of ETR, then you might want to focus the newsletter on the very thing you left out: what are the main arguments of our critics, and how do you respond?" (C.M. from Germany)

"Thank you for your letter. Indeed the counterarguments and the reply are a very important component of the discussion that started in Switzerland. However, I wrote my report only from the view of an outsider. Please understanding

that the presentation you desire should come from the Swiss. They are most directly involved in the discussions in Switzerland, and I am hardly in a position to point out and disprove of Swiss specificities. But perhaps a further co-operation with the Swiss for the Environmental fiscal reform could produce this and carry in 2004, if possible, the debate, lined up in accordance with coalition agreement, for the development of the ecological tax revision in Germany. However, in each case, some arguments, which are specified in my article, might also help in order to be used as a reply on counterarguments. The FÖS website also offers some of these general arguments in German at: <http://www.foes-ev.de/4fakten/argumente.html>." (Kai Schlegelmilch, FÖS, Germany)

## 7. EVENTS

### ***13.-14.02.2004, Berlin: Conference on Energy Turn and Climatic Protection***

Germany's Ministry of the Environment and the Research Centre for Environmental Policy at the Free University of Berlin is organizing a trade conference on "Energy Transition and Climate Protection - New Markets, New Technologies, New Opportunities" on 13 and 14 February 2004. The goal of the conference is to discuss the options for a sustainable power supply in 2020. The main question is: how can we manage the transition to a sustainable power supply? Which role will renewable energy play? Which future do natural gas, coal, and oil have in the medium-term energy-mix? You can consult the program on: [http://www.energiekalender.de/anzeige/adresse.php?eint\\_rag=1113168](http://www.energiekalender.de/anzeige/adresse.php?eint_rag=1113168)

Registration is possible until 6 February 2004 under: <mailto:kbwanke1@zedat.fu-berlin.de>

### ***23.-24.03.2004, Brussels: European emissions trading 2004***

Organised by IQPC and taking place on the 23rd and 24th of March 2004 in Brussels before the national allocation plans are submitted at the end of March, this conference will allow companies to prepare for allocation to mitigate risk and maximise benefit in the European Emissions Trading Scheme. Eleven new case studies from many industry and

across Europe will join national governments and the EC to address the issue in depth. For more information, please visit: <http://www.oilandgasiq.com/2125a>

### ***23.- 25.03.2004, Kielce (Polen): ENEX-New Energy 2004***

ENEX established itself 4 years ago as the Polish special fair in the field of sustainable energy and energy efficiency. The firm *erneuerbare energien Kommunikations- und Informationsservice GmbH (eeKIS)* (Communication and Information service for sustainable energies) represents of the fair in Germany, Switzerland, Austria, France, Italy, Sweden, Finland and Denmark.

You find further information at: <http://www.enex-expo.com>

### ***01.-03.04.2004, Berlin: 1st European Networks Conference on Sustainability in Practice***

"The Conditions and Requirements for a New European Level of Capacity Building"

ENCOS 2004 – the 1st European Networks Conference in the field of the environment and sustainable development (SD) – focuses particularly on examples of "best practices" in Europe. The goal is to arrive at an inter- and transdisciplinary understanding of the latest developments in international research, education

and practice on sustainability issues.

**Contact:** <mailto:info@ENCOS2004.net> or Kolleg für Management und Gestaltung nachhaltiger Entwicklung GmbH, Warschauer Str. 58a, 10243 Berlin, Phone: ++49 (0) 30 29 367 940  
Information at: <http://www.ENCOS2004.net>

### ***21.-22.04.2003, Amsterdam: Carbon market insights: Point Carbon's 2004 conference***

The annual event for the world's carbon markets: a Point Carbon conference. It will take place in Amsterdam on April 21st and 22nd 2004 and will contain concise viewpoints on recent carbon market developments and likely future directions from high-profile speakers. For details and to sign up, go to:

<http://www.pointcarbon.com/category.php?categoryID=192>

### ***22.-23.04.2004, Martigny: 9<sup>th</sup> Energie-Cités Conference***

The theme of the 9<sup>th</sup> conference of Energie-Cités is "Working in synergy with the private sector?" Among its many topics, it proposes to find the most suitable financing schemes, optimise the use of instruments such as concessions or the delegation of public services, successfully organise competition between companies in connection with the purchase of energy and energy-related services, and commit all actors from the public and private sector and associations to the local Agenda 21, a local energy agency or an urban transport plan.

For the programme and registration forms see: <http://www.energie-cites.org/conference>

### ***11.-12.06.2004, Bonn: Renewable Energy International Conference For Renewable Energies***

On 11 and 12 June 2004 Germany will be hosting the International Conference for Renewable Energy. The Conference was announced by the Federal Chancellor Gerhard Schröder at the World Summit on Sustainable Development in Johannesburg in September 2002. More information can be found on the website:

<http://www.renewables2004.de>

### ***25.06.2004, Berlin: Ecotaxes in Germany and the United Kingdom – a business view***

Green Budget Germany is planning a conference together with the Heinrich-Böll-Foundation on "Ecotaxes in Germany and the United Kingdom – a business view". Main objectives of the conference are the comparison of the different features of the recently introduced eco tax/climate change levy in Germany and United Kingdom for the business sector, the communication of tax effects and the consideration of possible approaches for a better EU-wide coordination.

It will take place at the premises of the Heinrich-Böll-Foundation in Berlin on the 25<sup>th</sup> June 2004, 10.00-17.30.

<mailto:foes@foes-ev.de>

### ***01.-02.07.04, Stuttgart: First European Conference of Municipal Energy Managers***

Shrinking municipal budgets, rising energy prices, public service obligations, climate protection, model functions - cities and towns in Europe have to confront these challenges, especially when managing their own facilities. Finding out about economically and ecologically effective potentials for energy savings and improving the operation of municipal buildings by implementing appropriate, modern technology: many European cities and towns work towards these aims by means of municipal energy management. The conference invite representatives of cities and towns from all over Europe engaged in energy management to a productive exchange that is sure to strengthen international cooperation.

For further information, see: <http://www.managenergy.net>

### ***09.-11.09.04, Pavia: Fifth Annual Global Conference on Environmental Taxation Issues, Experience and Potential***

The Pavia 2004 conference is the fifth in a series of international meetings. Its aim is to collect a wide variety of experience from different States of the use of environmental taxes and charges and a scientific assessment of the environmental, economic and social impact of their introduction can be an important tool to face those barriers, which can be to an extent problems of fear of the unknown.

All the speakers and other participants who intend

to present a contribution must send their final title together with the Call for Paper Form before 15 March 2004.

You find the Call for Paper Form and further information about the Conference at:

<http://www.unipv.it/iuss/esasgia>

## 8. LINKS AND PUBLICATIONS

### ***GBN on the European Commission's web site***

The European Commission devoted a page to GBN on its environment web site. It presents the newsletter, our objectives and our organisations.

You can consult it on:

<http://europa.eu.int/comm/environment/funding/projects/2002/11.htm>

### ***Spain: Paper on the use of fee-rebate systems to foster waste minimisation and recycling in associations of municipalities***

Ignasi Puig Ventosa from the University of Barcelona has written a paper on a *feebate* (fee + rebate) system aimed to foster urban waste reduction and recovery. The proposal suggests that municipalities achieving better results in their waste management performance (from an ecological viewpoint) be recompensed with a rebate obtained from a fee charged to those municipalities that are less environmentally sound. This is a dynamic and flexible instrument that would positively encourage municipalities to reduce waste whilst increasing recycling.

You can read this paper on: <http://www.ent-consulting.com/articles/feebate.pdf>

### ***USA: Green Tax Shift***

This organisation based in America promotes green taxes worldwide. You will find on its website papers and studies about green tax as well as news on green taxes worldwide: <http://www.progress.org/banneker/shift.html>

### ***Newsletter about Kyoto mechanisms***

The Foundation Joint Implementation Network (JIN) produces the Newsletter Joint Implementation Quarterly that covers all issues related to the Kyoto mechanisms JI, CDM and emissions trading and is sent free-of-charge to subscribers in over 140 countries. It is also posted and downloadable from the Internet at <http://www.jiqweb.org>

### ***Report on Renewable electricity policies in Europe***

As the 15 EU Member States are working towards fulfilling the targets of the EU Renewable Electricity Directive, which results in 15 different approaches and just as many different policy mixes, *ECN Policy Studies* presents its new report on: "Renewable electricity policies in Europe, country fact sheets 2003". This report provides a clear and systematic overview of policy instruments used in the Member States of the EU and Norway for the promotion of electricity from renewable energy sources. It can be used as a reference book, which describes the proportion of renewable energy sources in the present fuel mix and the development of renewable energy sources for every country in the European Union. For each Member State, the national renewable electricity targets are given, as is an overview of the policy instruments that are in place to promote the use of renewable energy to meet the targets.

This report can be downloaded from: <http://www.ecn.nl/library/reports/2003/c03071.html>

### ***The Charter for Sustainable Development***

The ISEO (International Sustainable Energy Organisation for Renewable Energy and Energy Efficiency) has published the "Global Energy Charter for Sustainable Development" to accelerate and enlarge the contribution of sustainable energy to economic and social development throughout the world. This Charter could be a framework for a world energy strategy aimed at concerted international, regional and national programs for harmonious and sustainable economic and social development. The ISEO proposes the principles in the Charter to be adopted by the United Nations as the basis for either an international Convention, or as a Protocol to the United Nations Framework Convention on Climate Change, or as an international declaration, and also by national governments in domestic legislation.

You can consult the Charter on: <http://www.uniseo.org/echarter.html> or the website of the ISEO: <http://www.uniseo.org/>

### ***The Swedish Society for Nature Conservation Encourages Green Taxes***

The Swedish Society for Nature Conservation proposes a tax shift in Netherlands, Norway and Sweden. On its website, it declares that: "Official inquiries on a shift of taxation have been made in the Netherlands, Norway and Sweden. The idea of a tax shift is being presented by more and more experts as an important means of steering society in the direction of sustainable development, but the concept has its problems. All change necessarily entails a number of people changing their behaviour and activity. Creating a sustainable society means changing our society to a position where we live of renewable resources and environmentally appropriate products. This change is necessary. A shift of taxation can help to reduce unemployment and improve the environment." You can read the full article on: <http://www.snf.se/snf/english/ecological-tax-reform.htm>

### ***Creation of a Nobel Prize on Sustainability***

On Friday the 5 December, 5 days before the annual Nobel Prize Ceremony, the international call for a new Nobel Prize on Sustainability was presented in Stockholm. Nobel Peace Prize Winner Dalai Lama is already supporting the idea just as more than one million of citizens and organizations from over one hundred countries are. The initiators of the campaign believe that a Nobel Prize for sustainable development could become a tremendous encouragement for all those who devote themselves to creating a sustainable society. They believe that the Sustainable Prize can be used to stimulate companies and world leaders to actively support innovative, sustainable technologies and international treaties. For further information see: <http://www.sustainable-prize.net>

### ***New Study on Waste Management in the EU Accession Candidate Countries***

A new study on waste management in the EU Accession candidate countries has been issued. Undertaken by CameronSDS on behalf of the Austrian Association of Cities, the study - entitled "Governance, Finance, and Capacity" - provides a valuable overview of the state of waste management in Central and Eastern Europe, while also providing recommendations on how the situation can be improved.

The document can be downloaded free from: <http://www.cameronsds.com/portfolio/bestpractice/ceec/> You can also consult the website of CameronSDS: <http://www.cameronsds.com>

### ***Study on the European Emissions Trading Scheme***

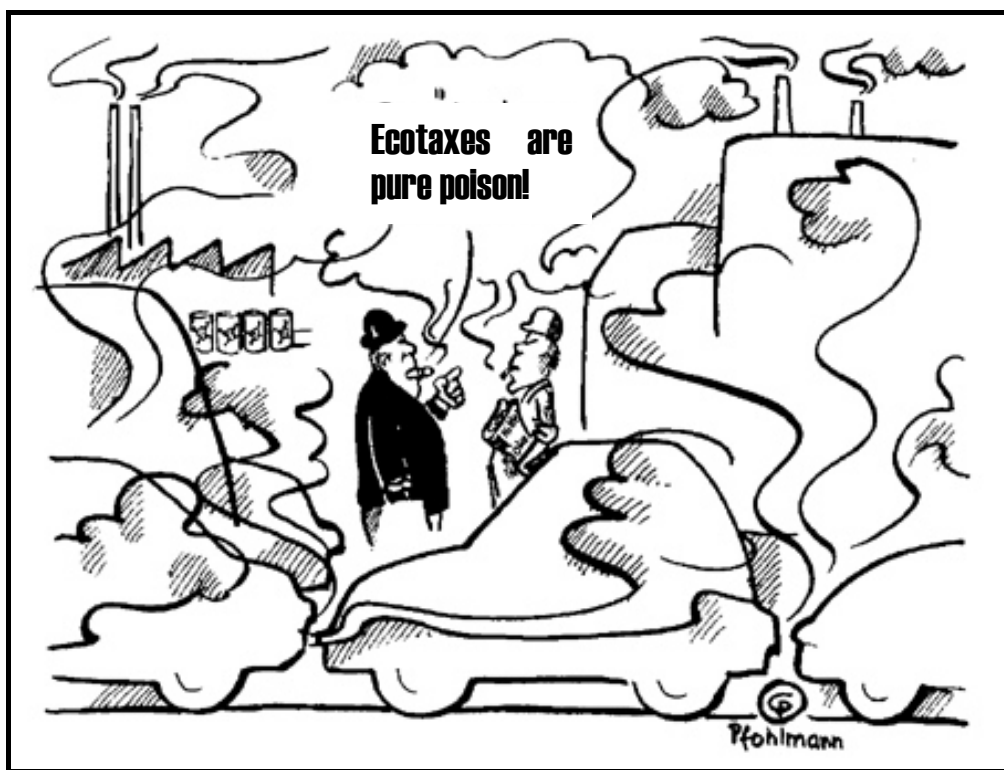
The BUND recently published a study in German entitled "Der EU-Emissionshandel mit Treibhausgasen -Effizienter Umweltschutz oder klimapolitische Mogelpackung?., (EU emissions trading with greenhouse gases – effective environmental protection or a piece of trickery?). It presents the EU ETS and informs readers about the dangers and the problems that it will have to face to be truly environmentally efficient. You also find on its web site a paper about eco taxes and emissions trading in Germany.

You find those reports at: <http://www.oeko-steuer.de>

### ***Energy and Climate Policy in the EU and Denmark: "We can do it if we really want to"***

This paper, issued by the Danish ecological council, analyses the environmental situation in Europe and in Denmark according to Kyoto commitments. It presents European and Danish energy and climate policy, what has been done and what should be improve in order to reduce greenhouse gas emissions.

You can consult it at: <http://www.ecocouncil.dk/english/>

**9. SPECIALS****10. READERS' GUIDE AND IMPRINT*****Readers Guide:***

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