

# Green Taxes Help Achieve Environmental Goals

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Green taxes seem to be effective in achieving environmental goals and should be used more often.

A continuing increase in the use of environmental taxes can already be recognized over the last decade. However, there are political barriers to their implementation but these can be overcome by careful design and extensive consultation. These are some of the findings of a report on environmental taxes published by the European Environment Agency (EEA)

The findings are based on evaluation studies of 16 environmental taxes that have been identified and reviewed by the EEA. These taxes have been environmentally effective (achieving their environmental objectives) and they seem to have achieved such objectives at reasonable cost. Examples of particularly successful green taxes include those on sulphur dioxide and nitrogen oxides in Sweden, on toxic waste in Baden-Wurttemberg-Germany, on water pollution in The Netherlands, and on the tax differentials on leaded fuel and 'cleaner' diesel fuel in Sweden.

Although the EU's Fifth Environmental Action Program (1992), "Towards Sustainability," recommended the greater use of economic and fiscal measures for environmental purposes, there has been little progress since 1992 in the use of environmental taxes at the EU level. At the national level, however, there has been a continuing increase in the use of environmental taxes over the last decade, with a particular acceleration over the last 5-6 years. This is mainly apparent in Scandinavia, but it is also noticeable in Austria, Belgium, France, Germany, The Netherlands and the United Kingdom. Still, the overall use of environmental taxes as a percentage of total taxes is small (1.5 percent in 1993) and only slowly increasing. This figure does not, however, take into account energy-related taxes which had a share of 5.2 percent of total taxes in 1993 with a gradually increasing tendency.

These are the main conclusions of a report on environmental taxes ("Environmental Taxes: Implementation and Environmental Effectiveness," EEA Environmental Issues Series no.1, Copenhagen 1996) as published today by the EEA. The report was requested by the Committee on Environment, Health and Consumer Protection of the European Parliament (EP).

The report was presented on the 3rd October 1996 at an international conference of representatives of parliamentary environment committees from EU Member States, as well as members of the EP/Committee. The conference was organized by the Environment and Regional Planning Committee of the Danish Parliament (Folketing). The EEA report provides an overview of the main issues involved in environmental taxes, with a particular focus on their environmental effectiveness and on the political barriers to their implementation and options of reducing them. It also emphasizes the value of non-energy taxes.

In addition to their environmental effectiveness, green taxes could deliver improvements in three key areas of public policy: innovation and competitiveness, employment, and the tax system.

Environmental taxes can thus deliver a multiple dividend. Moreover, as environmental concerns move from point-source emissions and problems, such as industrial emissions from pipelines and chimneys, to include more diffuse and mobile sources of pollution, such as solid waste, or from the agricultural and transport sectors, there is increased scope for the greater use of green taxes, as well as other market-based instruments, in order to achieve environmental targets, both at the EU and the national

level. The use of environmental taxes can be expanded in three main ways: 1) their extension to more European countries; 2) increasing their harmonization and compatibility at the EU level; 3) developing new areas for green taxes, e.g., on aviation, shipping and road transport, tourism, land use, water resources, minerals and hazardous chemicals.

There are, however, several important political barriers to the introduction of environmental taxes, particularly energy taxes:

- 1) perceived impacts on competitiveness and low-income groups;
- 2) perceived conflicts between national taxes and EU or world trade rules;
- 3) the perception that taxes have to be high if they are to work;
- 4) the EU unanimity rule when voting on fiscal measures; existing subsidies and regulations, as well as other policies and cultures.

However, most barriers to implementation, especially of energy taxes, such as the potential negative impacts on competitiveness, employment (particularly on specific sectors or regions) and low income groups can be overcome by:

- 1) careful design;
- 2) the use of environmental taxes and respective revenues as part of policy packages and green tax reforms;
- 3) gradual implementation;
- 4) extensive information of and consultation with all parties concerned.

The EEA recommends that more evaluation studies of environmental taxes are carried out since only a few have been made until now. Also, more independent reviews of the environmental effectiveness of green taxes would help gain more experience. This could then be used to help guide the wider application of environmental taxes as advocated by the EU's Fifth Environmental Action Program.

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