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**ENVIRONMENT DIRECTORATE
ENVIRONMENT POLICY COMMITTEE**

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DRAFT SUMMARY RECORD OF THE EPOC DIALOGUE WITH STAKEHOLDER PARTNERS

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Agenda Item 1: Welcome and Introductions

1. The Chair of EPOC, Helena Cízkova, welcomed the participants to the stakeholder dialogue, including representatives of business, trade unions and environmental NGOs, as well as EPOC delegates and Bureau members. She noted that this dialogue would represent a pioneering new step for EPOC in expanding its dialogues with stakeholders, with an extended session (a half-day session, rather than a working lunch) and an extended representation from EPOC (with all Delegates welcome, rather than just the Bureau). She noted that these two changes to the format of the stakeholder dialogues had been suggested by EPOC during their discussion in November 2001 of the Executive Committee review of EPOC.

2. Ms. Cízkova emphasised that the topics for discussion listed on the Agenda [ENV/EPOC(2002)7] had been established in consultation with the stakeholder representatives, and that the special session on environmentally related taxes had been proposed at the November 2001 stakeholder dialogue.

Agenda Item 2: Special Session on Environmental Taxes

3. Ms. Cízkova drew participants attention to the recent OECD publication on *Environmentally Related Taxes in OECD Countries: Issues and Strategies* and the Policy Brief on this work available in the room and on the OECD Internet. She introduced Jean-Philippe Barde and Nils Axel Braathen of the **OECD Secretariat**, who presented the OECD work on environmentally related taxes. Mr. Barde informed participants that there is increasing use of environmental taxes in OECD countries, with current revenue from such taxes amounting to 2-3% of GDP or about 7% of total tax revenues. 90% of the environmentally related tax revenues come from transport related taxes. He outlined the policy options for greening tax systems, including: removal or restructuring of existing environmentally harmful tax provisions; restructuring of existing taxes; introduction of new taxes; and piecemeal vs. comprehensive tax reform. He indicated two major barriers impeding green tax reform implementation:

- (i) concerns about the possible negative distributional effects of the taxes (impacts on household expenditure, on the costs of consumer goods, or on employment/ wages); and
- (ii) fears of negative impacts on sectoral competitiveness.

4. While stressing that evidence of regressive distributional effects of environmentally related taxes is limited, Mr. Barde outlined policy options to either mitigate such effects or to compensate for them, either through lump sum payments or through a shift in taxes away from other bases (e.g. income). On competitiveness, he stressed the need to examine the competitiveness effects not just on a particular firm or sector (which may be negatively affected), but on the economy as a whole (which may be positive, due to increased efficiency), and to compare the impacts of environmental taxes with alternative policy instruments. He indicated the large number of exemptions¹ that are currently applied to environmental taxes in OECD countries as a result of such concerns, and suggested alternative measures which would not reduce the environmental effectiveness of the taxes. These included better integration of environmental taxes in comprehensive tax reforms, early warning and progressive tax increases, gradual phasing out of tax exemptions, replacing full exemptions by several-tier tax rates, and channelling back revenues to the taxed sectors while still maintaining the incentives at the margin. Mr. Barde indicated that current work under the OECD Joint Meetings of Environment and Tax Experts will focus on further analysis of the competitiveness effect of environmental taxes (particularly energy taxes) and promoting multilateral dialogue on green tax reform.

1. See the OECD/EC Database of Environmentally Related Taxes [www.oecd.org/env/tax-database/] for a listing of environmentally related taxes and such exemptions.

5. Ms. Cízkova introduced the speakers representing **environmental NGOs**, John Hontelez of the European Environment Bureau and Yannis Paleocrassas of the Greek environmental NGO Elliniki Etairia (EEB member). Mr. Hontelez outlined the main elements of a recently launched EEB campaign on “Making Prices Work for the Environment/ Environmental Fiscal Reform in Europe”. The campaign calls for:

- an additional 10% shift in total tax revenue from labour to environment within the next ten years both in the EU and at the national level in European countries;
- the removal or reform of all environmentally harmful subsidies by 2005;
- measures to address the potential social impacts of these reforms;
- energy savings and efficiency measures; and
- financial incentives for environmental protection.

6. Mr. Paleocrassas stressed the positive characteristics of environmental tax reform in a fiscally neutral environment, including environmental benefits, increased economic efficiency, growth of green industries, reduced unemployment. He stressed the need to view environmental fiscal reform (EFR) as an overall package: encompassing the restructuring existing taxes and introducing new ones, and reform of subsidy schemes. In general, he suggested, EFR should lead to increased competitiveness at the national level. Some substitution between different products and processes (e.g. away from energy-intensive industries and products in the case of energy taxes) would be expected as part of the incentive effect of the taxes to reduce environmental pressure. To address competitiveness concerns, he suggested maintaining a fiscal neutral environment, using increased revenues from environmental taxes to reduce labour taxes, contributing to a potential “double dividend”. He cited the example of the German EFR, during the first phase of which environment-related tax revenues were used to offset a 1.9% reduction in social insurance contributions.

7. To ensure a smooth transition to EFR, Mr. Paleocrassas recommended: gradual introduction of the reforms; use of mitigating measures to reduce the impact on competitiveness (e.g. transitional tax rebates for affected industries, regional programmes); harmonisation of EFR amongst EU countries and, if possible, internationally. To address concerns about EFR effects on income distribution, he suggested: adjustments to income tax brackets to compensate for such effects; concentrating reductions in social security contributions in the lower income brackets; equal distribution of the cuts to contributions between employers and employees. Although he emphasised that the evidence is not extensive, he cited various examples of where EFR has had or is expected to have net positive effects on employment.

8. Han Kogels, Head of Indirect Taxation at Shell International, made a presentation on behalf of the **Business and Industry Advisory Committee** (BIAC). He indicated that a BIAC discussion paper on the issue and a diagram indicating the testing path used by the Netherlands Green Tax Commission to assess environmental taxes were available. Mr. Kogels stressed that the overall objective should be to maintain environmental quality within a framework of sustainable development. Sound and rational instruments should be used to do this in order to tackle pollution in a cost-effective manner and ensure a balance with the social and economic impacts. Various policies are available, but he recommended that market-based instruments – including taxes, tradable emission permits, deposit refund systems, and voluntary or negotiated agreements – should be chosen such that they:

- positively affect the long-term costs and benefits of business decisions;
- promote the use of environmentally sound products and processes;
- are used within the framework of the free market; and
- enable industry and consumers to adapt to market signals.

9. He suggested that green taxes have the potential to increase costs to business and others, without necessarily leading to measurable environmental benefits. He further suggested that alternative economic instruments should be considered in order to improve transparency and effectiveness. While in theory

green taxes look attractive, Mr. Kogels indicated that they can lead to an unintended shift of negative environmental impacts to other countries, regions, sectors, or parts of the production chain. Where the taxes are high enough, they can affect the economic viability of firms or sectors and put inequitable costs on poorer segments of society. Potentially, they can also be abused as revenue raisers where levied on inelastic goods. He recommended that instead of using only environmental taxes, a mix of policy instruments be used and the requirements for each specific case be examined. In general, he suggested that the design of economic instruments should be based on: complete data and sound science; cost-benefit-analysis; and analysis of uncertainties, policy linkages and alternatives. They should substitute for regulations, and should be transparent and compatible with market economy rules. He suggested the revenues should be used for environmental protection, returned to the sectors concerned or to the population as a whole. He recommended that a testing path be applied to evaluate potential instruments, along the lines of the one used by the Netherlands Green Tax Commission.

10. Lucien Royer made a presentation on behalf of the **Trade Union Advisory Committee (TUAC)**, drawing the attention of participants to an OECD Labour Management Programme (LMP) event that had taken place in October 2001 on Harmful Tax Practices and Other Tax Issues at which TUAC had provided an analysis of the OECD report on environmental taxes. They supported the OECD report, and they found that standard economic analysis overstate the burden of eco-taxes on production and labour, but felt the work did not adequately address the issue within a full sustainable development perspective. He stressed that compensation of affected workers may often be needed. But given the scale of some issues – such as climate change – environmental taxes would clearly be insufficient on their own to achieve the necessary targets without much stronger political will. As such, they need to be combined with other instruments, such as for example voluntary agreements.

11. Mr. Royer drew on discussions at the LMP on Climate Change and Employment in October 2001 to highlight that significant barriers remain to policy reform and, while generally there may be a net benefit to labour of energy taxes, further analysis is needed. He stressed that addressing the social concerns regarding environmental taxes would be the most constructive approach to gaining public acceptance. He emphasised the need for more *ex post* evaluations of environmental taxes, but suggested they should be undertaken within a full sustainable development perspective – examining their economic, social and environmental effects – i.e. whether a triple dividend might be possible.

12. The **discussion** following the presentations was lively and wide-ranging. Delegates stressed the importance of ensuring public acceptance of environmental taxes, including through conferences and other information events to raise awareness of the effects of such taxes. Representatives of environmental NGOs and TUAC agreed, but stressed the need for politicians to take the lead in championing environmental taxes, and to resist pressures to provide large exemptions to those affected by them. Delegates suggested that the strong information asymmetry that continues between governments and industry contributes to the large number of tax exemptions in place and the lack of political will to remove them.

13. Business representatives stressed the need to continue to provide adequate incentives for innovation and new technological developments, and to ensure that taxes did not reduce the necessary financial resources to support these activities. They stressed that even where exemptions to taxes are provided, business often contributes to reducing the problem through other means, such as voluntary agreements. The Secretariat stressed the situations in which taxes will be more efficient than command-and-control instruments, and the need to consider taxes within a broader policy mix. They stressed the need for in-built evaluation systems to monitor the effective and impacts of taxes and contribute to building acceptance for their use, highlighting the important role that Green Tax Commission are playing in this respect in a number of OECD countries.

14. **Ms. Cízkova** summarised the main conclusions of the discussion, highlighting in particular that:

- taxes are an important environmental instrument, but should be seen as part of an overall policy package;
- further analytical work is needed on their impacts on competitiveness and income distribution; and
- public awareness and acceptance building of environmental taxes is necessary, and could be strengthened through building partnerships between government and stakeholders.

Agenda Item 3: Other Issues on the EPOC Agenda

(i) Environment Programme of Work and Budget 2003-2004

15. This discussion was introduced by a representative of **BIAC**, who stressed that the proposed Programme of Work and Budget (PWB) was a comprehensive one, and that the recent achievements highlighted in the overview paper were impressive. They appreciated the proposed work on policy mixes, and stressed that instruments should be evaluated on their effectiveness and their social and economic impacts. They expressed interest in being actively involved in the proposed development of a new cost-benefit assessment manual. With respect to the decoupling work, they emphasised the need to put more emphasis on fostering innovation. They supported the work on Environment, Health and Safety, particularly with respect to policy harmonisation and sharing the burden of work to keep costs low for both business and governments.

16. **Environmental NGOs** indicated that the proposed work on export credits and environment was not sufficient, and that a joint group of representatives from EPOC and the Export Credit Group should be formed to address the issue. The Secretariat indicated that the intention was to not duplicate the work of the Export Credit Group, but to complement it. They highlighted the fact that progress was being made on the issue, and that stakeholder representatives had participated in consultations with the Export Credit Group previously and would do so at their next consultation at the end of June.

(ii) Indicators to Measure Decoupling of Environmental Pressure from Economic Growth

17. This discussion was introduced by a representative of the **environmental NGOs**, who welcomed the work that had been done so far and asked about future steps. He stressed the need to look beyond relative vs. absolute decoupling to determine “sufficient” levels of decoupling. The Secretariat explained that this first stage of the work, as requested in the 2001 Ministerial Communiqué, was now complete and that EPOC would examine to what extent it could be further developed in the future, particularly in support of the Environmental Performance Review process.

(iii) Incorporation of the social dimension in the OECD work on sustainable development, at and after the WSSD

18. A representative from **TUAC** introduced this item, stressing that the social aspects of sustainable development had not been well reflected in the OECD work on sustainable development, although the OECD Environmental Strategy and the new report to the World Summit on Sustainable Development reflected some more aspects of this element. He stressed the need to engage in coherent discussions on what the social elements of sustainable development are, and to better reflect these across the new work of the OECD on sustainable development – including the EDRC reviews of sustainable development and the ELSAC work. He proposed a meeting between relevant institutions working on these issues (OECD, World Bank, ILO) and the stakeholder groups (TUAC, BIAC, environmental NGOs) to take the issue forward.

Agenda Item 4: Concluding comments

19. Ms. Cízkova reported that the discussions under each item of the Agenda would be reported back to EPOC meeting by a member of the Bureau during the corresponding Agenda Item in EPOC, and that she herself would report back on the discussions under the special session on environmental taxes.

20. Mr. Barde invited participants to attend a conference on “Environmental Fiscal Reform” which would be jointly hosted by OECD and the German Ministry for the Environment, Nature Conservation and Nuclear Safety on 27th June in Berlin.