

CONFERENCE ON ENVIRONMENTAL FISCAL REFORM

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Comments on the Discussion Paper

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Introduction

The EEB very much welcomes the work of the OECD on Environmental Fiscal Reform (EFR) and the organisation of this conference.

Governments are very sensitive to the industry's arguments for preserving economic performance and job creation against any new environmental policy constraint, particularly taxation (but this reality applies too to regulation and legislation). This is what the OECD refers to as *the fear of reduced international competitiveness* (quoted as a "major obstacle"). As a result, and in the light of the lack of minimum harmonisation of energy taxes at EU level, European countries that have started implementing EFR granted important tax rebates or refunds to energy intensive industries. These rebates (or sometimes total exemptions) cause a problem of equity with other socio-economic sectors affected by the taxes (such as households), and considerably weaken the scope of EFR in its primary objective, environmental protection.

On the other hand, to a larger extent in some countries than in others, politicians and governments are sensitive too to the impact environmental taxes can have on household's purchasing power. *Income distribution concern* is the second perceived political obstacle against the introduction of strong EFR.

Business is generally vehement against EFR, many times without considering carefully all its effects. In "EFR", there is not just "Fiscal" (with the implication of increased taxation), there is also "Reform" (and, of course, "Environmental"). Yet, EFR, as a pragmatic economic instrument, is a business friendly policy tool to address environmental challenges such as climate change, pollution and the depletion of natural resources.

Households, through home energy bills and private transport, contribute significantly to paying the environmentally related taxes. For equity principle and environmental effectiveness, it is important that business proportionately contributes equally and thus that undue tax exemptions are removed. A comprehensive fiscal reform, with accompanying social allowances or other instruments, can easily offset any regressive impact on lower income households.

We welcome the fact that the OECD includes the removal of environmentally harmful subsidies as part of an environmental fiscal reform. The EEB has pursued the same logic and has included this demand to its EFR campaign, as we believe fiscal reform should encompass all aspects of taxation that have an impact on the environment.

In its campaign for Environmental Fiscal Reform, the EEB wants to show the significant benefits, mainly environmental, but also economical and social, that can be drawn from EFR.

Our position is formulated within the larger perspective of Environmental Fiscal Reform¹ rather than just environmentally related taxes.

I. The fear of reduced international competitiveness

EEB Responses to the “competitiveness argument”

Some of the effects of EFR on particular sectors must be taken into account. However, the stubborn opposition of industrial lobbies to EFR is sometimes more emotional or ideological than rational. EFR is about reforming the tax system, not about increasing the overall tax burden. Many business sectors will actually benefit from the Reform.

a. Two main contra-arguments

Two main arguments to oppose the competitiveness argument are :

- **fiscal neutrality and tax shift:** presenting EFR as “increased taxation” is not correct. One of the main ideas behind the concept of EFR is fiscal neutrality. The revenue coming from new ecotaxes is used to decrease other taxes, preferably labour. The whole operation is revenue-neutral. There is no increase of the overall tax load, but a **shift in the tax base**. European countries with the most advanced EFR (Sweden, Denmark, Netherlands, Germany) have respected this principle, which is very important for the public and industry’s acceptability of the fiscal reform.

Figures indicate that on average, in the EU, environmentally related taxes amount to only 7% of total tax revenue, while taxes on human effort (social insurance contributions, income, VAT, profit etc...) represent 85% (OECD 1996). EFR is not about increasing general taxation : it is about shifting the tax base, in order to benefit both the environment and employment.

- **double dividend:** another essential concept is the double-dividend. The tax shift favours both the environment (by increasing taxes on natural resources) and employment (because the tax revenue is recycled towards the reduction of labour taxes). **Business directly benefits from cuts in social security contributions.** This is already a source of compensation for industry against higher energy bills. In Germany, after the first phases of EFR, pension contributions decreased (half for employers,

¹ tax shift from labour to environmental use, removal and reform of environmentally adverse subsidies, accompanying social measures, fiscal incentives for energy efficiency measures and for environment protection.

half for employees): total social contributions went from 42.3% to 41.5% of wages². The plan of the next phases is to get under 40%.

It is true that, although business as a whole will not lose out from EFR, the tax shift may produce winners (labour intensive sectors) and losers (energy intensive industry). But many business sectors will actually **gain** from EFR: all those sectors (services, electronics etc...) for which savings on social contributions will exceed extra energy tax costs.

In services, for instance, a sector that represents **over 50% of the EU GDP**, a German study³ foresees an increase in output of 0.27 % and of employment of 1.29% in 2003, compared with the “non-reform” scenario. A 1999 Danish study (Finance Ministry, 1999) and simulation "Evaluation of green taxes and industry" that assesses the Danish tax-shift package from 1995 until 2005 found that, for services, the gross results in fixed prices could be up 0.12 % in 2005⁴.

Energy intensive industries may suffer some income losses. Yet, taxation is only one of many investment factors. Capital, skills, infrastructures are other determining investment considerations that can offset increase in taxation. Also, pollution abatement can be cost effective : increasing energy productivity, with a medium term trend of inevitable energy price increases, will give a competitive edge to industries that start doing the abatement now.

b. Mitigation measures

Many **mitigation measures** can be taken by governments to address any potential short-term competitiveness loss for energy intensive industries:

▶ These can include tax rebates. The EEB recommends only transitional tax rebates for few industries against firm commitment to cut energy use and pollution. However, too large exemptions deprive EFR of its main goal of reducing energy use and pollution, in some of the sectors where precisely big energy savings can be made⁵. This is why the EEB insists rebates and refunds should therefore be only temporary and limited, with the idea of just easing the transition for firms towards cleaner technology investment. They should be linked to clear commitments from beneficiary firms of

² On the 1st January 2002, as in every year since the introduction of ETR in 1999, motor fuel tax rose by euros 0.03 per litre, while electricity tax went up by euros 0.01 per kilowatt hour. As a result, an additional euros 1.94bn will come off employers' social security contributions in 2002.

³ *The effects of Environmental Fiscal reform in Germany: a simulation study* (2001) www.gws-os.de or www.ecotax.info/DIWstudy.pdf by the DIW Institute, the University of Osnabrück and the GWS, and the University of Oldenburg

⁴ Changes in Employment (whole economy)	Gross results (services)	CO2 emissions
1996 -0,3	-0,05	
1998 -0,3	-0,02	
2000 0,9	0,04	
2003 1,6	0,02	
2005 2,6	0,12	-5 to -10%

⁵ Moreover, these rebates cause a problem of equity with other socio-economic sectors affected by the taxes (such as households, transports, SMEs). And the complexity of these national exemption systems now makes EU harmonisation even more difficult.

voluntary actions to cut greenhouse gases emissions. Tax rates should gradually be brought to the full rate during such a transition period.

▶ A **gradual implementation** of EFR (with early policy announcements) is necessary to allow companies to adapt and invest in new technologies. Policy consistency is important too. All EFR countries adopted this phase-in approach, often with yearly tax increases over a planned period.

▶ **Regional aid policies** can help regions that concentrate energy intensive industries. Fiscal incentives for research and development can assist these industries in investing in cleaner technologies. These measures may actually be easier to take regarding EU state aid legislation than continued energy tax exemptions that seem to bring about more and more wrangles between the Commission and Member States. The funds of environmentally harmful subsidies can be re-directed towards economic and social programmes in affected regions. For instance, coal subsidies funds should be spent towards the inevitable re-structuration of the coal mining industry (economic and social programmes, training etc..) instead of going to the loss-making mining business.

▶ Another important mitigation possibility is international, or at least regional, **harmonisation**. In a world increasingly open to foreign trade and competition, firms would face similar environmental tax constraints if new energy/ carbon taxes were introduced in a co-ordinated manner, at least, to start with, in OECD countries. In this respect, the EU situation can be read in two ways. A pessimistic reading would underline the difficulties to get any minimum harmonisation, even inside an already rather integrated group of countries. An optimistic reading would highlight the way European countries have immensely influenced each other in the development of EFR, resulting in a world lead in EFR experiments. The EEB lobbies EU Finance Ministers so that they agree on the EU common framework for energy taxation. The EEB has also consistently called on EU governments to surrender part of their sovereignty in tax matters, so that Qualified Majority Voting in Council is extended to fiscal dossiers such as energy taxation that have a clear link with environment protection. The EEB supports the OECD views that *co-ordinated implementation* would ease the process of introducing green tax reforms for all governments and calls on the OECD to increase the exchange of information and best practises, not just at the level of environmental administrations (EPOC), but also in the economic and taxation Committees.

c. Other contra-arguments against the “competitiveness argument”:

- One of them comes from the fact that EFR pushes firms to invest in cleaner technologies in order to save on energy taxes. **Development of R&D increases the overall competitiveness of firms in the medium to long term.** R&D pushes innovation that eventually gives a competitive edge to products and companies.

The potential competitiveness gain can indeed be illustrated by the fact that, inside the EU, countries with higher environmental regulations and taxation have never lost their innovative edge, in term of products, to countries that compete on more lax regulation and lower wages. On the contrary: Denmark, one of the leading countries in terms of EFR and renewable energy⁶ development, is today

⁶ Renewable energies are exempted from new EFR energy taxes.

the world's leading producer of wind turbines. A study estimated that the total employment effect of greening the Danish economy amounts to 28000 new jobs⁷.

In Sweden too, another EFR frontrunner, a survey⁸ has recently shown that environmental technology and services could become Sweden's "next major export industry". The investigation, carried out by the Swedish trade council and a network of 500 consultancies and suppliers working in water and waste treatment, waste management and air pollution control, estimates export revenues in 2000 at SKr8bn (euros 847m), or 1% of total national exports.

In 2001, the German Environmental Protection Agency revealed that eco-employment now represented 3.6% of the entire workforce. According to consultants Prognos, climate policies, that include EFR, should for instance create 90000 new jobs in the construction sector by 2005, thanks to the new demand for energy efficiency equipment and public transport. Such activity boosts will compensate potential losses in other sectors and will give a competitive edge to Germany in a sector, energy efficiency, that has important future potential development.

- By saving on energy consumption, industry in the end will save not only on tax, but also on energy consumption. Total energy bills may therefore go down, in relative terms, in the longer term.
- Cutting on energy consumption and pollution will improve the business image of industry.
- Regarding energy prices, industry should also be reminded that it has always benefited from very advantageous prices. Often stemming from governments' industrial policy when most electricity suppliers were still state-owned, these **low prices** are not justified by mere bulk purchase discounts. They amount to true energy subsidy. Figures indicate that average EU electricity prices were 5.4 US \$ cents per kWh for industry in 2000, compared to 12.5 for households⁹. Moreover, the price decrease trend of the nineties is much stronger for industrial prices than for household prices. In the EU, this trend is pushed further by the liberalisation of energy markets.

Also, energy prices have fallen in real terms since the 50's and do not reflect the scarcity of fossil fuels in the short to medium term.

- It must never be forgotten that the primary aim of EFR is to move towards a better internalisation of environmental external costs: therefore the savings¹⁰ thanks to **external costs reductions** must be taken into account too. In the end, even the industry will benefit from a better quality of life, the reduction of external costs and a more sustainable development.
- EFR can be the opportunity for a large **reform of the fiscal system**, making it more modern and more efficient. In Sweden, Denmark, the Netherlands, and Germany, governments have implemented EFR within an overhaul of the taxation system. The fiscal system usually comes out of these reforms more business-friendly. Countries that suffer from high tax evasion may take advantage of EFR to increase indirect taxation, which is more difficult to evade.

⁷ SID, *General Workers Union*, 1995.

⁸ See Swedish environmental technology network www.swedentech.swedishtrade.se.

⁹ IEA 2001.

¹⁰ The amplitude of which naturally depends on the scope of EFR, but it could be in « billions ».

- Environmental taxation will allow to make savings on regulation and its costly administrative costs. The more ecotaxes, the less need for anti-pollution regulation and legislation.

EEB conclusion on the “competitiveness argument”

Politicians, governments and business should not get intimidated by the loud voice of the strong and well-established lobbies of heavy industry. The latter know very well how to influence politicians with the « competitiveness », and therefore the « job argument ». Yet other essential economic sectors, such as SMEs and services know little about EFR and how they can benefit from it. The « competitiveness argument » is exaggerated. Most business sectors will benefit from EFR, from the tax shift from labour to natural resources and from the fiscal reform. The change to less polluting economies must happen anyway. But frontrunners, for instance countries that have already started green tax reforms, will gain a competitive edge.

Should some energy intensive industries be really affected by the new energy taxes, some mitigation measures can apply. But this should not be a reason to generalise large rebates and exemptions to sectors where, precisely, a lot of energy saving can and must occur.

OECD discussion points

55. The EEB would like to point out to governmental representatives that the first action that can be taken to facilitate international policy coordination in environmental taxation would to extend Qualified Majority Voting in EU Council to those environmental areas still subject to the unanimity vote requirement, notably for fiscal matters. Heads of governments failed to agree on this agenda item of the December 2000 Nice Summit. But discussions must carry on. Governments know very well that the prospect of the enlargement will require more QMV so that effective decision-making can continue in the Union, particularly in the environmental field. The EEB will call on the Convention for the Future of Europe to consider this point of reform.

Such a move would boost international policy coordination. By allowing for minimum harmonisation in the EU (to the benefit of environmental protection, but, also, of single market efficiency), QMV would reinforce the international profile of energy taxation (and even of Environmental Tax Reform¹¹ at large), thanks to the pioneering role of many EU countries in this policy. If QMV for fiscal matters in environmental policy already existed, the 1997 Energy Taxation directive proposal, in its original version¹², would certainly have been adopted long ago¹³, resulting in probable reduction of 2% of EU total CO₂ emissions¹⁴.

¹¹ The Commission proposal contains a recommendation to use the tax revenue towards cuts in labour taxes.

¹² More ambitious than the version being negotiated now

¹³ Only a minority of Member States has always blocked the text

¹⁴ According to a Commission study Commission working paper “Presentation of the new Community system for the Taxation of Energy Products” 23/05/97 SEC (97) 1026. This 2% cut must be considered also in light of savings in emission increases. Another study (by the Centre for a Sustainable Economy) showed that the 1992 Energy/CO₂ tax proposal (now abandoned) would have achieved a 4.4% cut yet in 2001.

Outside EU OECD members, we call on non-European members to make a real effort towards more sustainability, and particularly energy sustainability. Road fuel taxes must be increased in Australia and New Zealand and particularly in the US and Canada. Government speeches on sustainable development coming from these countries will have little credibility as long as this minimal step of increasing motor fuel taxes is not taken.

- 56.** It is now widely accepted from a rational economical point of view that production subsidies artificially maintain jobs, at a cost that, if saved or spent better, would help creating much more jobs. Many international and national economists, including the OECD, have long pointed out that the removal of environmentally harmful subsidies, notably in transport, energy and agriculture, not only would improve environment protection, but also increase economic efficiency by abolishing market distortions, thus favouring job creation. The 2000 van Beers and de Moor study estimated at 950 billion US dollars the total amount of environmentally harmful subsidies in the world (of which 325 for agriculture, 225 for transport, 205 for energy etc.). Three quarters of government subsidies occur in OECD countries and this corresponds to approximately 3.6 % of their GNP.

The EEB does not take a political stance against subsidies as such. But it advocates the removal of subsidies (direct payments or fiscal rebates) that have a direct negative impact on the environment. In some cases, a reform is better suited than total removal: EU agricultural subsidies can for instance be re-oriented towards organic farming and Good Agricultural Practise. Social considerations must be taken into account too when removing some subsidies, so to avoid important short-term job losses. The removal of coal subsidies for instance, can particularly affect the mining regions. The EEB advocates a gradual phasing out, during which the subsidies funds would be re-directed towards social and economic programmes for those employees and regions hit by the phasing out.

II. Addressing income distribution concerns

Environment protection is the prime objective of Environmental Fiscal Reform, but it can also have important income distribution impacts.

There are fears, sometimes justified, that EFR brings about regressive effects to households, as these will have to bear higher energy bills, which may cut into their purchasing power. Also in some countries, EFR is seen as incompatible with the fight against “fuel poverty”.

The EEB is very much aware of this problem, particularly since most EFR countries have put most of the energy tax burden onto households, transport and SMEs, while giving tax rebates to energy intensive industries. This is not equitable, and industry tax rebates must be only temporary.

Moreover, we make recommendations regarding the best revenue recycling options to avoid social regressive effects. These include:

- **reducing social security contributions equally between employees and employers**, as done in Germany. This option offers the advantage of compensating both parts, which brings about

more consensus. It can help reducing unemployment thanks to the cuts in labour costs for employers, and it compensates workers for their higher energy bills.

- **concentrating social security contributions' reductions on lower wages**, as in Germany. This helps compensating the disproportionate impact energy taxes (and indirect taxation) have on lower income households.
- cuts in income tax bottom revenue brackets: some countries that do not suffer from high unemployment do not need to prioritise labour cost cuts. They can spend the EFR revenue in income tax cuts, particularly for lower income groups, as was done in Denmark and Sweden.
- for households who do not benefit from lower social contributions or lower income tax (unemployed, students, some pensioners): we advocate, in our main demands, specific social compensation schemes, such as **increases of some social allowances** (unemployment benefit, housing benefit, income support, state pensions, student grants, child allowance), **tax credits** (lump sum payments), **or income tax rebates for lower income brackets**. But they must be designed in such a way that these households are still motivated to make energy savings. The link between this social benefit increase and the Environmental Fiscal Reform should be clearly explained so that people also know that they benefit from the Reform.

Tax free allowances should be limited and temporary. We advocate rather tax credits, but no energy tax exemption. Furthermore, tax free allowances based on a consumption floor can favour high income households too. Incentives for energy savings must remain : this is why the EEB does not recommend energy tax rebates.

Increases in other allowances will compensate households, while maintaining the incentive to save on energy.

The EEB recommends to increase social allowances or to issue tax credits that will compensate in priority non-wage households, such as housing benefit and lump sum payments. In Environmental Fiscal Reform, wage households will indeed be compensated by reductions in social contributions.

These social benefit increases can be implemented in a separate policy. However, if we want to maintain the fiscal neutrality of EFR, the EEB recommends that social allowances are financed by the money saved from the removal of environmentally adverse subsidies that we also campaign for. This removal can save millions in public expenditure.

- In the Netherlands, income distribution is “fine-tuned” every year through the fiscal system (also as shown p.14 of the Conference Issues Paper). Economic and social data, as well as new policies, are taken into account for the annual adjustment of the income tax and the fixing of social allowances. For instance, the introduction of the Regulatory Energy Tax in 1996 was accompanied by income distribution adjustments in income taxation and social policy. The EEB recommends, wherever possible, such adjustments notably also for counter-acting the increase in indirect taxation, that is often “regressive”. Many administrations, at the end of the fiscal year, refund excess tax payments to tax payers. Fiscal administrations can refund parts of

the energy taxes to the lower income households. **Annual tax refunds** maintain an incentive to save, as individual energy bills are not affected.

- Special allowances to improve housing energy efficiency can also be introduced. In the Netherlands, a big part of the energy taxes is recycled towards **home energy efficiency programmes**. This is coherent both in terms of income compensation and of environmental protection. Furthermore, it establishes a clear environmental link with the energy bill increase.

It also leads in the medium term to savings on the energy tax and bills for households. Low income households and tenants do not always have the necessary capital, motivation or capabilities to cut consumption through investment in energy efficiency equipment. These “energy efficiency allowances” can take the shape of zero rate credits, or grants based on income. Such policy can be a good way for governments for fighting fuel poverty. The energy taxes of the higher income households can be used to improve the quality of the housing stock. When this quality is improved, taxes can be gradually introduced to all households.

- It must not be forgotten that most households will also benefit from the **positive effects of EFR on employment and on the environment**. Studies¹⁵ have shown that, because they are often situated in more degraded areas, lower income households benefit directly from general environmental improvements.

Regarding **fuel poverty**, the EEB recognises the importance of the problem, especially in a country like the UK where the topic (and therefore also the issue of home fuel prices) is politically sensitive. However, fuel poverty should not be used as an excuse for governments not to act on energy efficiency and savings. On the contrary, fighting fuel poverty and ETR can be compatible: part of the ETR revenue can be used, like in the Netherlands, for home energy efficiency programmes. While their housing is improved, lower income households can be temporarily exempted from the new energy taxes.

Regarding the **increase in indirect taxation**, trade unions and social NGOs fear that EFR will increase the importance of regressive indirect taxation (excise duties etc.). They also argue that the reduction in social contributions is not progressive. Social contributions are not regressive. In most countries, employees pay a fixed part of their income, which mean that the more you earn, the more you pay. On the other hand, social contributions are not as progressive as income tax (of which rate generally increases according to income). Therefore, decreasing social contributions can favour higher incomes more than lower incomes, as the former will save more than the latter.

This could be remedied by increasing the progressivity of social contributions and income tax (adjustments of income and contribution brackets), or by the specific social benefit increases that we advocate for lower income households. Another solution is, as we already saw, to concentrate social contribution cuts on lower wages.

EFR is more efficient when accompanied with a fiscal overhaul, as done in Sweden, Denmark, Germany etc. This overhaul can include a revision of fiscal brackets and of the social contributions scale.

¹⁵ Ex: *Unevenly distributed benefits from reducing pollutants* Wuppertal Institute, 1998.

Regarding the impact of EFR on **social security and social policy** : some unions, social and environmental NGOs and political parties fear that lowering social contributions will decrease the social security budget and will have an inevitable effect on social allowances.

But the EEB insists EFR has nothing to do with reducing the social security budget, and even less with reducing social allowances. It is revenue neutral for this budget (as for the state budget). Social contributions are reduced thanks to the transfer of funds coming from the new ecotaxes' revenue. EFR has nothing to do with any weakening of social allowances and social policy.

Countries that have started implementing ETR (Sweden, Finland, Denmark, Netherlands, Germany) have not decreased social allowances. On the contrary, they have increased them in many cases to compensate for the rise in home energy bills (Denmark: cuts in bottom income tax rates, increases in social allowances / Germany: decreases of pension contributions for employees, increases in child benefits, student grants etc...).

Another issue is the **possibility for consumers to switch** to more sustainable patterns of consumption. Indeed, a mere increase of energy and transport taxes without accompanying measures will make the reform unpopular, unpractical and inefficient. If people are asked to use their car less, they must be able to switch to other types of transport. Yet, our societies are increasingly based on car use and there are vast areas where access to public transport is very small, unpractical or non-existent. Many aspects of policy must take this into account (public transport, territory planning etc..). Ambitious public transport policies are essential so that people can switch their mode of transport wherever possible. Measures to encourage a significant shift from road to rail, for passengers as well as for freight, must be put in place.

According to the study by the German DIW Institute and the Universities of Osnabrück and Oldenburg¹⁶, the fear that the environmental fiscal reform might interfere with the goals of social and income-distribution policy is found to be largely unjustified.

The tax shift alone can have regressive effects. This is why we advocate accompanying measures. Social measures, and the removal or reform of environmentally adverse subsidies, are part of our main demands. These are accompanying measures that we demand for EFR, so to avoid regressive effects and to make EFR environmentally and fiscally more coherent. We call all these demands together **Environmental Fiscal Reform**.

OECD discussion points

- 59.** The EEB agrees that “separated” financial bonuses (a lump sum payment, or increases of already existing social allowances) are better than energy tax rebates or tax-free energy allowances, because the price-signal induced by the tax for energy savings must remain. The purpose of an ecotax is to act as an incentive to save: so, naturally, removing it removes this incentive altogether. Tax rebates and exemptions must be used only at last resort, only in cases where they are unavoidable (*fuel poverty*) and only for transitional periods.

¹⁶ *The effects of Environmental Fiscal reform in Germany: a simulation study* (2001) www.gws-os.de or www.ecotax.info/DIWstudy.pdf

60. The EEB agrees that, regarding lump sum payments, *non-wastable* tax credit is a better option to compensate households than *wastable* tax credits. The EEB campaigns for EFR, that includes cuts in social contributions. Households with wages will be compensated for the increases in home energy bills by cuts in social contributions¹⁷. We are therefore most concerned with those households that would not get such compensations (unemployed, some pensioners, students etc...). *Non-wastable* tax credits are the best option for lump sum payments, because they would cover all households (and not just those who pay income tax).

They also offer the advantage of being cost-effective, as the revenue administration already has the information on households and revenues. *Non-wastable* tax credits are one of the tools that can be used by the revenue administration to “fine tune” income distribution, as done in the Netherlands.

Another relevant benefit to use as mitigating tool is *housing benefit*. Indeed, in most countries where it exists, housing benefit is distributed mainly to non-wage or lowest wage households. Increasing this benefit is therefore likely to target those households who would not benefit from the cuts on social contributions. Moreover, it is cost-effective: the housing administration already has the information on households and housing. Furthermore, this administration is best placed to link the increases with programmes/education on EFR and energy efficiency.

61. The EEB agrees with this statement to a large extent. However in some countries, such as France, where income tax is not levied directly on wages, and where many households are exempted from income tax (because income tax is only payable above a certain level of net income), the tax credit could miss some households. Many of these households (unemployed, students) may not even declare any revenue any more to the fiscal administration, and yet receive housing benefit.

Increasing housing benefit will target all these low income households.

III. *The way forward*

63. The EEB calls on EU governments to extend Qualified Majority Voting at the EU Council to fiscal matters in environmental policy (see p. 6).

Further than that, the EEB welcomes the exchange of information and best practises done within the OECD. The EEB calls on the OECD to intensify these outside the EPOC, notably in the economic and taxation Committees. Moreover, we would like to see the debate in the OECD focus on Environmental Fiscal Reform at large, as a full economic environmental instrument, rather than *environmentally related taxes*. This will help increasing the knowledge and impact of this market-based instrument for sustainable development, particularly for OECD members outside the EU.

The EEB welcomes the fact that the OECD included further work on Environmental Fiscal reform and environmentally harmful subsidies in its 2003 Work Programme. The EEB also

¹⁷ Especially when, as we recommend, cuts in social contributions are concentrated on the lower wages.

encourages the OECD to join forces with the UNEP and the UNDP in the demonstration that types of subsidies can be harmful to the environment and to development. Removal and reform of harmful subsidies should be discussed further in the economic and taxation Committees, in a view to push OECD governments to reduce them.

We also insist that non-EU OECD members, particularly Northern American, make more efforts towards implementing concrete tools for climate change policy. Sustainability is a world challenge and more must be done, by all parts, to reduce the energy intensity of the economy. Tax rates on unleaded petrol are 5 to 15 times higher in most OECD countries than in two important other members: the US and Canada¹⁸. Such low taxes lead to a waste of energy and efficiency, to an over-use of natural resources and do not send the right signal to consumers. We call on the OECD to also foster **policy coordination on motor fuel excise duties**, as a base for further coordination on EFR.

64. Environmental and sustainability issues require global action. The Kyoto Protocol, although not yet fully in force, showed that environmental global policy-making is possible. What is possible for emissions trading can be applicable for Environmental Fiscal Reform. Natural resources must be used in a more rational way at world level. It is time governments across the planet start using taxation to favour both the environment and employment. Industrialised countries' governments should show the way.

The OECD can also use its presence in Johannesburg at the WSDS to promote international policy co-ordination on green tax reforms and harmful subsidies reform.

The EEB is grateful to the OECD for helping to design the best policy tools for a successful Environmental Fiscal Reform. Some issues, such as effects on income distribution and the fear of competitiveness loss, are still pending. Further research will always be useful. However, this should not preclude any action taking place right now.

The current situation of completely unsustainable production and consumption patterns, of fast depletion of natural resources, and rising pollution, is unacceptable. It is time we make the market work for the environment.

¹⁸ The most extreme example is the tax difference between the UK and the US for unleaded petrol: 14.