

Überschrift/Titel:	Environmental Fiscal Reform - Review and Perspectives
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Redner/in:	Federal Minister for the Environment Jürgen Trittin
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Mr Ruffing, Professor de Kam, Ladies and Gentlemen

The very composition of the OECD embodies quite particularly the prevalent guiding principle of development and the aim pursued by every country: To become an economy with a high proportion of industry and services, a society of growth which can afford a high consumption of resources for its business, lifestyle and comforts. The OECD thus follows the logic of Truman, who once divided the world into *developed* and *under-developed* countries.

We should ask ourselves whether **classifying countries as *developed* or *under-developed* is still appropriate today. My first argument** is that much of what for decades was considered to be developed is in fact a fatal development in the wrong direction. A faulty development particularly with regard to the squandering of finite natural resources and the pollution of the planet with wastes and emissions. A faulty development which *under-developed* societies should preferably not emulate.

OECD countries are not just called upon to correct their own mistakes in development. They also bear responsibility for the globalised One World – and for the societies of the South which are termed *under-developed*.

**My second argument** is as follows: only if OECD countries themselves set an example for a resource-saving business practice and lifestyle, can and will other countries copy or adapt this model. For only the OECD countries have the know-how, the necessary government capital and a sufficiently large, strong spending group to set this reversal of trend in motion.

My third theory is: an environmental fiscal reform is the alpha and omega of this reorientation. **We will only achieve a self-perpetuating dynamic process moving in the right direction if the taxes and subsidies system and if prices reflect ecological realities and ecological common sense.** For in a market economy, prices and taxes are the quintessential steering signal.

The OECD is urging its Member States in this direction. In Germany's Environmental Assessment Report for 2001, for example, the OECD rightly recorded that over 35% of subsidies in Germany are classified as environmentally harmful. Germany subsidises a good 50 000 jobs in the coal mining industry with around 4.3 billion euros – about 81 000 euros for each job, half a cent for each kilowatt hour. Quite apart from the ecological nonsense of this, it is a massive waste of tax payers money. **Instead of using the money to subsidise the coal industry,**

**wouldn't it make more sense to spend it on real structural reform in the Ruhr area?! That would enable self-supporting, secure employment to develop in the region.**

The OECD also recommended that Germany use the two-yearly subsidy report to conduct an ecological assessment of its subsidies. This should definitely be undertaken in the next report in 2003. For if we have transparency regarding the environmental impact of subsidies and the extent to which environmentally harmful activities are promoted with tax revenues is made clear, the public will demand the withdrawal of these subsidies and call for corresponding tax reductions.

In other words, **I welcome the OECD's support of, and demand for, the ecological modernisation of the economy which this Federal Government has initiated.**

This Conference is concerned particularly with the impacts of an environmental fiscal reform on competitiveness and distribution. Opponents often name both these factors as reasons against such a fiscal reform. I feel these arguments are not plausible, and will use Germany as an example to prove their limitations.

Germany's new direction in energy policy proves that an environmental fiscal reform leads to international competitive advantages and at home distributes the burdens more fairly between large and small consumers of natural resources, between cities and their outskirts.

Above all, however, **ecological modernisation creates a large number of jobs**. In Germany, over 1 million people are already employed in the environment sector, 130 000 of which in the field of renewable energies.

In Germany we have already succeeded in pushing through important components of a comprehensive environmental fiscal reform. The ecological tax reform which we introduced in 1999 – that is, shortly after we assumed government – is particularly important. Such a measure was already introduced in Denmark, Sweden and the Netherlands, however, during Kohl's Government, at the beginning of the 1990s.

What is the aim of the ecological tax reform? We can only talk of a "market economy" if we all really do bear the full cost of our resource consumption ourselves – not if the costs are palmed off onto the taxpayer, onto nature or onto future generations. **The aim of having people live at their own cost rather than living as before at the cost of the next generation can only be achieved in a market economy which makes the wasteful use of natural resources expensive.**

Only ecologically true prices provide the incentive to enjoy and appreciate the scarce natural world instead of squandering it away.

Only ecologically true prices are an incentive to use natural goods economically and efficiently, and only this will encourage us to be inventive, to research, to optimise and to look for alternatives.

**If we provide the right fiscal incentives, engineers will start competing against each other to find the best technical possibilities.** This will accelerate cycles of innovation in favour of greater resource efficiency, which in turn will lead to cost reductions and increased competitiveness. Whoever is one step ahead will command the future markets for new, efficient and clean technologies.

Example of the new direction in energy policy in Germany:

- We are world champions for wind energy. One third of the world's wind generated electricity is produced here, and ABB Mannheim recently won the contract for the largest wind park in North America, worth 1 billion euros.
- The German government has made a commitment – for example with the Act on Combined Heat and Power Generation (*Kraft-Wärme-Kopplungs-Gesetz*) and tax exemption for highly efficient gas-steam power plants – for greater power plant efficiency; California imports gas power plants from Germany which have a 90% efficiency factor.
- Germany leads Europe in the solar power sector, and German solar energy companies have a good reputation and competitive advantage abroad. In photovoltaics, particularly inverter technology and electronic components, in concentrating solar power – especially storage and control technique

Germany's frontrunner role in climate protection and energy policies is also economically viable.

**We can only take on the role of frontrunner because the the eco-tax and the Act on the Sale of Electricity from Renewable Energies to the Grid introduced by the Red-Green Government have created massive incentives for ecological modernisation in energy supply.** The aim of all this is not, however, to provide permanent subsidies for renewable energies, but to achieve mass production and reasonable prices as a result of lower unit costs.

**In future, when the Kyoto Protocol is finally ratified** - as will happen in a few months - **competitiveness will be defined differently.** For, if the old countries of the North have to reduce their CO2 emissions under the Protocol, and are joined in the second stage by many other countries too, competitiveness will not only be gauged against production price, but increasingly also against

- energy efficiency
- the question of whether regenerative or renewable energies are used

Germany's climate protection policy furthermore ensures that efficiency improvements are not regularly swallowed up by increases in absolute consumption.

I would like to prove that specifically with a few figures:

We are using the eco-tax to finance *i.a.* a market incentive programme for renewable energies. In the last 3 years, this market incentive programme (200 million euros allocated this year) together with the higher prices of heating fuel which are also linked to the eco-tax, has led to a **50% increase in the demand for solar collectors**. By the end of 2001, this had triggered **an investment volume of over 2 billion €**, with a corresponding positive impact on industry, specialised crafts and trade. The year 2001 alone saw an additional *900 000 square meters* of solar collectors. This makes a total of over **4.2 million square meters of solar collectors** in Germany (status end 2001). For the year 2002, a further installation of over one million square meters are expected. This is good for climate protection, for the companies concerned and for the jobs market.

Specialist craftsmen and small-to-medium sized companies benefit from this. **Their jobs would be directly jeopardized if the financing source of these programmes – the eco-tax – ran dry. But it is precisely this which the right wing opposition in Germany proposes doing.**

Another example is found in traffic and transport: the Ecological Tax Reform favours low sulphur and sulphur-free fuels, and has given an enormous spurt to research, development and the market introduction of new technologies. The automotive industry itself is now searching more intensively for low-pollutant alternatives: **some manufacturers experiment with fuel cells, others are introducing natural gas**

**technology. This infrastructure will in turn lay the foundation for the introduction of solar-generated hydrogen technology.**

Trade and industry in particular must therefore have a particular interest in extending the eco-tax beyond the year 2003, and in developing it further into a comprehensive environmental fiscal reform. Primarily, indeed, on account of the competitive advantage offered to those who re-orientate at an early stage.

The Ecological Tax Reform is only one element of an Environmental fiscal Reform, albeit a very important one. But we have already implemented further elements – e.g. **the highway toll for trucks and the deposit on one-way drinks packaging.**

**But the Government is not only making things more expensive, we also play a role in fostering environmentally sound institutions and measures:**

- We are promoting **efficient co-generation energy, natural gas vehicles and public transport**
- Between 2001 – 2005, **additional investments of over 5 billion euros are earmarked for the railway**
- we have set up an ambitious assistance programme for **the refurbishment of existing buildings, with an annual investment of another 200 million euros.**



**Thirdly, we are fighting to eliminate environmentally harmful subsidies.** This often comes up against considerable opposition from lobby groups. But taxpayers cannot be expected to support such subsidies, which make no sense ecologically. The savings the state will make by eliminating environmentally harmful subsidies together with the eco-tax revenues will be used in Germany for

- continued ecological restructuring
- creation of jobs
- tax relief for private individuals

We have, for example, introduced the distance flat rate regardless of transport type. **This will clearly improve** the position of environmentally sound forms of transport such as **the bicycle and the railway with regard to taxation.** Until the end of 2000, only car drivers received assistance through the flat mileage rate. They could write off around 36 euro-cents per kilometre travelled from their income tax.

The reform also however raised the rate granted for journeys over 11 km to 40 cents. This rewards long-distance commuting, which makes no sense ecologically. The distance flat rate serves its true purpose in sparsely populated regions, or those with weak economic structures - in places where people cannot find work in their village and have to travel over 50 km to their work or place of training to avoid unemployment. We need **socially compatible solutions in these regions for people on low incomes.** The flat rate must not be simply an urban sprawl bonus for those leading a grand lifestyle in the countryside.

**We have to systematically analyse the system of benefits and prejudices.**

For instance, it makes no sense either ecologically or from the point of view of the market economy that Germany's long-distance rail transport (50 km or further) has to pay the full value-added tax of 16%. In contrast, in other European countries, the railways pay, on the contrary, no VAT at all, or only a reduced rate.

**Air traffic is completely exempt.** At present, the no-frills airlines, from *Ryanair* to *EasyJet* are luring customers away – not from Lufthansa, but primarily from the railway. The Germany Government has set itself the goal of transferring Germany's domestic flights passengers to the railways.

In times when you can fly even to Milan or Montpellier for 19 euros, air travel is no longer a question of costs. It is unacceptable for this to be subsidised with a tax exemption, while the more environmentally sound rail transport has to pay the full rate of VAT, plus route costs.

I could therefore imagine that **in future, long-distance rail transport will also only be subject to a reduced VAT rate of 7%**, as already applies to local rail transport. That would relieve the railway **by an annual amount of around 250 – 300 million euros**, an amount that could easily be financed by the withdrawal of subsidies for air transport.

Also in need of reform are the **structures and levels of the home ownership assistance for building projects**. That is the main Government subsidy in the housing sector, amounting to around *9.5 billion euros per year. Of this, about 4 billion euros are provided solely by the federal budget*. The current practice makes little sense: buyers of existing buildings only receive half (€ 1.275) of the bonus which is granted for new buildings. **They are therefore at a disadvantage, in spite of ecologically correct behaviour**. In contrast, those commissioning the most of sealing-intensive, area intensive building projects – the one-family and two-family homes – are rewarded. **We must therefore at least harmonise the assistance granted for the purchase of an existing or of a new building.**

**If we add up all the ecologically counter-productive subsidies – assistance for coal, the housing trade, transport and the agricultural industry – we reach a sum of over 20 billion euros per year, provided solely from the Federal budget!**

**There is a massive potential here for tax reductions – and for lowering the government quota!**

But from an environmental point of view, and often also from the point of view of fiscal policy, there is still a lot more to be done. This is particularly true for the EU level. Here we must finally achieve greater harmony in energy taxation. The European Council requires this for the end of 2002, and that should be the absolute deadline. For ten years, we have been discussing this issue with no result. Three times, a concrete

proposal has been tabled by the Commission and each time that proposal has failed due to a lack of unanimous agreement. We urgently need to reform the EU Treaty, in order to allow the possibility to act via a qualified majority.

The Spanish presidency of the EU Council has laudibly conducted very intensive negotiations in this regard. For the first time, there is a basic agreement of all Member States on the introduction and increase of the minimum tax rate. There is agreement, too, in many points regarding the fiscal structures. But now one Member State calls for the introduction of a new subsidy with a reduced tax rate for diesel fuel in the commercial sector. An EU harmonisation of energy tax at the lowest common denominator allowing again for exemptions does not live up to the EU concept.

I also disagree with the demand of a state to reduce the minimum tax rate for energy intensive companies– unless a binding *quid pro quo* and sanctions were agreed. The Federal Republic already practices this method: We combine the reduced tax rate for the manufacturing industries with German industry's controlled voluntary agreement on climate protection. **The companies were able to save 4 billion euros of eco-tax last year, because they reduced greenhouse gas emissions by 35 %.** This subsidy will incidentally be mentioned in the subsidy report.

**On top of the 20 billion euros worth of environmentally harmful subsidies provided by the Federal budget, the EU grants – for**

**the agriculture sector - only – at least another 5 billion additional euros.** From an ecological – and social – point of view, these subsidies are to be viewed in a very critical light.

I say this in particular against the background of the Lomé Convention, which is oriented in principle around the EU Free Trade Agreement with South Africa. There, for example, in Paarl, we can already observe how the domestic fruit-preserving industry is in the process of collapse. This is because preserves which, though more expensive to produce are heavily subsidised by the EU, are pushing South African products off the market, and robbing the – mainly female –workforce of their employment and income. They are forced into poverty and prostitution.

For the World Summit on Sustainable Development, the G 77 group have demanded that countries of the North should withdraw environmentally harmful subsidies which distort competition: They are right to do so.

**Free trade is only fair and justifiable if subsidies in the North are removed.**

It is particularly provoking that some States – in particular the USA – are again expanding their agricultural subsidies instead of reducing them. Thus, the USA is granting another 3 billion US dollars annually in agricultural subsidies. This is equivalent to an additional increase of 7% and gives a very cynical meaning to the phrase "Trade not Aid".

**The example of the USA shows that along with the absolutely necessary national efforts, we also need a coherent**

**international policy for withdrawing subsidies. The OECD plays an important and necessary role here.**

At an international level - within the EU and the OECD, therefore - there are always countries which are frontrunners and those which lag behind. This makes it all the more important to force action with internationally binding agreements. The crisis in our eco-system will not allow us the time to wait for the stragglers. The OECD States are called upon to implement in practice, as quickly as possible, a new guiding principle for development which is viable for the future. An environmental fiscal reform would be the driving force behind such a development. I therefore strongly hope that this Conference will provide impetus, and stimulate the common spirit which we will need in a few weeks time in Johannesburg.