GreenBudgetEurope

European expert platform on environmental taxation and green fiscal reform

Green Budget Europe response to the European Commission's consultation on the roadmap for a low-carbon economy by 2050

Introduction: Green Budget Europe (GBE)

GBE is a European expert platform to promote Market-Based Instruments (MBI) for the Environment. GBE brings together representatives of business, international organisations, ministries, NGOs, political decision-makers, the research community and civil society to protect climate and environment. GBE serves to promote debate and political progress on the international stage and at EU level, as well as within the EU member states. Our main goal is to address climate change and the degradation of the natural environment using a balanced policy mix of instruments, including regulation, environmental agreements, environmental taxation, emissions trading, other Market-Based Instruments (MBI) for the environment, as well as public information campaigns.

Section B: Questions for organizations

7) The EU has put in place a regulatory framework related to climate and energy. Which of the following EU legislations you expect to be the most effective in terms of delivering emission reductions by 2020 and beyond? (select maximum 4) -multiple choices reply (optional)

We chose not to answer this question, for reasons given below.

8) Do you have any comments on the policies evaluated in the previous question?
Do you have any comments on any other policies? -open reply- (optional)

We do not find it very appropriate to prioritise different measures and pieces of legislation. All these different approaches are needed and will contribute to the climate objectives and what we can predict now, at this time, may be very different from what will be achieved in reality by specific pieces of legislation.

An important omission to the above list – carbon pricing instruments

The policies evaluated in the previous section do not include a combination of policy tools that can put a price on carbon throughout the EU – this would imply not only the EU Emission Trading Scheme (ETS) but also a mechanism to price carbon for sectors not subject to trading, e.g. the

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Energy Tax Directive (see next paragraph for details). Pricing carbon has been shown to be the most efficient way of bringing about the emission reductions necessary to mitigate climate change and prevent an average increase in global temperatures of more than 2 degrees celsius. Recent reports from the UK Green Fiscal Commission, as well as research carried out by the PETRE project, have shown that a carbon price alone can bring about the behavioural changes necessary to achieve reductions in GHG emissions (see **http://www.greenfiscalcommission.org.uk/** and **http://www.petre.org.uk/** for details).

The Energy Tax Directive

In concrete terms, the Energy Tax Directive (ETD) has not been included as an instrument in the above section. The potential of the ETD and the potential of Member States' own actions – which often do go far beyond the minimum tax rates – has been underestimated. The EU ETS covers less than 50% of total EU GHG emissions, meaning that other instruments to tackle those sectors of the economy not included in the EU ETS are essential. The ETD clearly has the potential to be the single most important instrument in this regard. A robust ETD that puts a price on carbon could incentivise change in the behaviour of the large and diffuse populations and sectors not covered by the ETS and, if tax rates are set correctly, could lead to significant emissions reductions. As well, some of the competitiveness concerns of Member States could be effectively mitigated if a robust ETD were to be implemented throughout the EU.

Comments on the ETS

It is essential that the EU Emission Trading Scheme (ETS) is improved and that an ambitious cap is agreed, and that 100% auctioning of permits is introduced for all sectors. There should also be a starting floor price for auctions, to be set bearing national reduction targets in mind. The system should also have sufficient flexibility in relation to varying the amount of permits in circulation, following demand shifts (e.g. periods of reduced demand), such as those induced by the trade cycle or other structural changes.

Comments on MBI in the transport sector

It is essential that a level playing field is created within the transport sector, e.g. by means of obligatory inclusion of kerosene taxation in the ETD and further, the introduction of cost-effective road, air and sea-use pricing schemes, so that all forms of transport fully cover their external costs. Assuming that the energy part is covered by ETS and the CO_2 component by an Energy and Environment Tax, we propose that special pricing schemes for e.g. road use are extended to cover all other externalities of transport (see footnote 1 below for details of MBI in the transport sector).

Subsidy reform

We also call very strongly for policy measures and procedures to reform all explicit and hidden environmentally harmful subsidies. Apart from known subsidies, such as those to coal and lignite, this includes the widespread practice of cross subsidisation of certain producer and consumer groups through electricity, gas and other tariffs. The non-internalisation of environmental and other external costs are also subsidies which must be removed. Furthermore, it is not acceptable that a roadmap for phasing out environmentally harmful subsidies has long and repeatedly been announced within the EU-SDS, but shall now apparently no longer be pursued. First of all environmentally harmful subsidies in the EU Budget (Financial Perspectives) must be identified and removed. Although the EU Budget corresponds to only about 1 per cent of the EU GDP, it has a much greater impact than this proportion on the development of Member States, especially in those countries which receive most of the EU aid.

General lack of ambition in policy instruments

Finally, while many of the policies mentioned have the potential to deliver emission reductions by 2020 and beyond, the current level of ambition and the implementation of such measures do not guarantee necessary or significant emissions reductions.

For example:

- the phase II surplus of emission certificates in the EU ETS which is depressing carbon prices;
- the use of biofuels and biomass to reach the renewables target which actually might lead to an increase in emissions;
- the weak and non-binding targets under the Energy Services Directive;
- weak standards and compliance regime in the CO2 standards for cars and vans legislation;
- weak enforcement rules in the Energy Performance in Buildings Directive and the fact that existing buildings remain out of focus in the legislation;
- the extravagant dependence on off-sets to reach targets in the Effort Sharing decision.
- A 40% GHG emissions reduction target would help to drive the effectiveness of EU legislation.

9) The EU will need a diverse portfolio of technologies to build a low-carbon future. Some examples of potential technologies and energy efficiency solutions are carbon capture and storage, renewable energy technologies, electric vehicles, fuel cells, smart grids, heat pumps, cogeneration, next generation nuclear power, zero emission buildings, etc. Which technologies do you think will be the most important in achieving a low carbon economy by 2050 and how can the EU foster their development and deployment? -open reply- (optional)

Dynamic incentives for change – EFR instruments

Green Budget Europe is strongly in favour of the implementation of Environmental Fiscal Reform (EFR) measures which put a price on carbon and thus incentivize behavioural change. EFR is a very important policy tool for the EU to foster the development and deployment of low-carbon technologies. The more prices reflect the cost of emitting GHGs, the more market will adapt and business will innovate, to find the most efficient and cost-effective technologies and products in response.

Thus, while we strongly favour state support for R&D in some of the above fields – most notably, renewable energy technologies, electric vehicles, fuel cells, smart grids, efficient heat pumps and cogeneration, and zero emission buildings – we would also like to emphasise the dynamic incentives in favour of low-carbon technologies and innovations brought about by the implementation of MBI. These incentives in effect let the market find the most efficient technologies in response to a reformed pricing structure. EFR would hence leave open which technologies would be developed. It is notable, however, that technologies such as nuclear power or CCS would in such circumstances very likely only have a chance if they continued to be subsidised heavily by the state, e.g. via capping liabilities, direct grants or low-interest loans.

EFR has the additional benefit that the revenues raised can be used to reduce distortions in the tax system by means of a so-called ‘green tax shift’ that reduces taxes on labour or social security contributions or can be used as green subsidies in the field of research and development. This is also strongly promoted by the European Commission in several documents. All the more surprising, then, that a broader-based programme of EFR is not part of the above-mentioned instrument options.

Energy savings

According to most 2050 low carbon scenarios, applying energy savings policies and measures throughout the economy is crucial to achieve a low carbon future. As much as a half of the GHG reductions needed in the EU could be achieved through energy savings alone. Energy savings are rapid to implement, do not require considerable investment costs and deliver results quickly. This can be achieved through the introduction of an energy-/carbon tax, the push towards higher EU allowance prices by creating more scarcity in the EU ETS – without too many loopholes, such as a high share of CDM – and the introduction of an absolute economy-wide, binding energy savings target.

10) What are in your opinion the most important initiatives the EU should pursue in the next five to 10 years to secure a successful transition towards a low carbon economy by 2050? - open reply- (optional)

- Implementing a robust revision of the Energy Tax Directive, targeting the 50% of GHG which are not included in the ETS;
- Review of EU ETS, including a tighter cap and 100% auctioning. The goal of reform of the ETS must be to limit the amount of available certificates and hence create an EU carbon price sufficient to drive investments in renewables and energy savings consistent with the EU 20% energy savings and renewable energy goals;
- Phasing out environmentally harmful subsidies (EHS) in all member states, ideally within the framework of the Road Map for the reform of EHS. This should include, first and foremost, climate-proofing and removing all harmful subsidies in the EU budget. In this context, it is also inacceptable that subsidies to the coal industry will be permissable in the EU until 2018.
- Agreement on a 40% 2020 reduction target for industrialized countries. The Stockholm Environment Institute, for example, has published a report (Heaps et al, 2009) showing that EU is "able to fully meet" reductions of "40 per cent solely through domestic options, i.e., with no international offsets", at costs "equivalent of temporarily holding GDP constant for about one year before resuming normal growth: a small cost when viewed in the context of the seriousness of the climate crisis";
- Creating a low-carbon European transport network and implementing the user pays principle throughout the sector.[1] All financing decisions in the sector should be climate-proofed and assessed in relation to sustainability criteria and all forms of state aid (including tax reductions) must be prohibited for industries related to the most polluting forms of transport (car manufacturing, oil industry, airport construction etc.);
- A binding economy-wide primary energy savings target of at least 25% by 2020 compared to 1990;

[1] Relevant MBI to be considered for application in the transport sector include:
For road vehicles: infrastructure charges, fixed user charges (e.g. annual charge), road pricing on all roads, fuel excise duty, circulation taxes, congestion charges, entrance fees, insurance tax, parking fees, vehicle purchase taxes;
For rail: infrastructure charges, diesel excise duty, electricity tax;
For shipping: harbour dues, dues for locks and bridges, fuel excise duty (in a few specific cases), NOx and SO2 emission charges;
For aviation: landing and takeoff charges (often differentiated according to noise emissions), en-route charge (for air traffic control services), noise surcharges, emission charges (at a few specific airports), fuel excise duty (although only in very few cases due to international agreements prohibiting such a duty), ticket tax.
Note: MBIs in transport should be implemented in a way that ensures that they have an optimal effect on GHG reduction. E.g. raising infrastructure charges for rail in the first years might be counterproductive, as it might hinder shift from road to rail, or stimulate higher use of shipping, which would also reduce the competitiveness of railways against road transport.

- A review of the CO_2 and cars legislation with the goal to sharpen the current efficiency targets significantly by 2020;
- EU-wide passive housing standards for new-build houses and offices by 2015 and the expansion of the legislation towards existing buildings with the goal of a complete EU wide deep renovation programme, with the purpose of at least tripling renovation rates;
- The introduction of Emission Performance Standards for the EU power sector to avoid a "coal" high emission lock-in;
- A low carbon economy requires the reduction of resource use. Thus, it is essential that we develop and implement an ambitious EU policy for reduced natural resource use and improved resource efficiency (both materials and energy), as the use of natural resources correlates with high GHG emissions (especially CO_2). The EU needs to set, as an overarching objective, environmental and economic policies to reduce its Ecological Footprint by 50% in the next 20 years.

11) The EU Emissions Trading Scheme is a central element of EU climate policy. The EU wants to foster international climate action by reinforcing international carbon markets, e.g. by making links among emissions trading systems and by further developing crediting systems. What elements do you think should go into the EU low-carbon roadmap? (e.g. bilateral agreements to recognise international allowances and credits, sectoral crediting systems, separate financing mechanism for the purchase of international credits from developing countries, etc.) -open reply- (optional)

- We should avoid linkages of the EU ETS which will result in a noticeable and structural depreciation of the EU carbon price and hence investments in renewables and energy savings in the EU, this also means excluding a high share of CDM;
- We should adjust the phase III EU ETS cap to take into account the windfalls following the economic crisis with the goal to enhance the EU carbon price and stimulate investments in renewables and energy saving technologies. The cap must also reflect the much faster extension of the share of renewable energies;
- We should lay down in EU law that a certain proportion of our GHG emissions reduction targets must be achieved domestically, e.g. under a 40% target, *at least* 30% must take place in the EU and not through offset mechanisms;
- In cases where we use the EU ETS auctioning revenues to pay for emission reductions in developing countries, we should not use the resulting reductions as offsets;
- We should improve the current international market mechanisms on issues such as additionality and enhancement of sustainable development.

12) Achieving a low-carbon future means investing in the medium to long-term. How can the EU roadmap help to create a stable environment to encourage investment in low carbon technologies? Would it be a good idea to consider a mid-term objective for 2030 and, if so, in what form? -open reply- (optional)

As stated above, the most important element to encourage investments in low carbon technologies is the implementation of a carbon price tailored towards achieving significant GHG emissions reductions – by means of the ETD and other MBI. This should be implemented within the context of a more ambitious and most importantly, obligatory GHG emissions reduction target of 40% by 2020, at least 30% of this to take place within the EU. An informed, scientifically supported debate on any mid term targets should begin only after only scientifically consistent targets have been set for 2020 and 2050.

13) We want to cut emissions in the EU by 80% to 95% by 2050. Some of the measures needed to achieve this could bring about more sustainable growth, extra jobs, accelerated innovation, cleaner air, increased energy security and lowering our vulnerability to external energy shocks. Which of these do you think should be top of the list? What should the EU do to maximise the benefits you think should be delivered in priority by future climate action? - open reply- (optional)

The first priority for a low-carbon roadmap must be the reduction of CO_2 emissions in order to minimise the negative effects of climate change. To achieve this, we must lay down a series of ambitious and binding GHG emission reduction targets guiding the shift to a low-carbon economy and society. This should include a new, more ambitious target for 2020 culminating in a 95% reduction by 2050.

Reducing GHG emissions by 20% by 2020 on 1990 levels cannot be regarded as ambitious. The EU is already close to achieving this target. The proposal by Climate Action Commissioner Connie Hedegaard and supported by a number of EU Member State governments, including France, the UK and Germany, to increase this target to 30% underlined the many advantages of such a policy, and the Commission's own impact assessment also emphasised the feasibility of meeting a more ambitious target. If the EU wishes to set an example for other countries, and to make a serious and meaningful effort to reduce GHGs sufficiently to mitigate climate change, then a new target of 30 – 40% reductions within the next ten years should be agreed upon as soon as possible.

All of the above-mentioned benefits can be the result of a shift to a low-carbon economy brought about by means of EFR. Policy makers should ensure that the co-benefits of EFR (and other policies) are optimised, e.g. by ensuring that revenues raised by EFR measures are recycled to reduce labour costs, mitigate the unintended social effects of EFR measures, and to subsidise green technologies.

We should prioritise those measures which bring the largest benefit in terms of climate protection at the least cost in the shortest possible time. Such measures can save time in order to prepare the implementation of other measures which might be more difficult to carry out for political, economic and/or technical reasons. For example, the reduction of black carbon emissions can be mentioned in this context.[2] A low-cost and highly efficient measure is awareness raising. The EU must provide much more funding for research on the best ways of communicating the dangers of climate change and on possible measures for mitigation and adaption.

14) What sectors do you think may be most vulnerable to the negative impacts of climate change, and what policies do you think the EU should pursue to help them to adapt? Do you have any suggestions on the integration of adaptation policies in the Common Agriculture Policy, civil protection, environment, energy, transport, research and development policies? -open reply- (optional)

We encourage the European Commission to use the latest scientific research on the (future) adverse effects of climate change on the EU and other parts of the world. Where specific information is lacking, the EU should commission research to fill the knowledge gaps. An example of this could be studies on the desertification of large parts of Southern Europe before the end of the century.

The first policy to implement should be a concerted effort to avoid the negative impacts of climate change through significant emission reductions in the EU, using Europe's diplomatic powers to the full to advocate and implement the EU's internal level of ambition on a global scale.

The EU should also consider contingency adaptation measures related to the increase in occurrence of major flooding events, dangers of food and water insecurity, and measures supporting the relocation of parts of the EU population from future inhabitable zones to Northern parts of Europe.

[2] See for example: www.sootfreeclimate.org.

Impacts of climate change will be mostly felt indirectly through changes in the worlds ecosystems. Mitigating climate change in order to reduce the most extreme scenarios must therefore go together with adaptation efforts to reduce other existing pressures on ecosystems such as pollution, habitat fragmentation and the degradation of soils and water resources. Preservation of biodiversity and ecosystems must be the overarching objective of adaptation policy and the guiding principle of all adaptation measures in all sectors.

Infrastructure must be 'climate proofed' in terms of its vulnerability to extreme weather. This requires a substantial change in current planning practices, for example of housing and transport schemes.

A fundamental reform of the CAP is needed in order to more effectively protect key resources such as soil, water, air and wildlife.

15) Do you have success stories that could lead to new initiatives for steering EU transition to a low-carbon economy you wish to highlight? Please add other further comments or suggestions here if you wish. -open reply- (optional)

Market Based Instruments (MBIs) have considerable potential to result in behavioural change across diverse populations and sectors, as price signals incentivize a shift towards low carbon goods and services. For this reason, we strongly encourage the application of MBI throughout the EU as a means of greening economies and easing the transition towards a low-carbon society.

Some example of best practice:

- Sweden: due to a carbon tax equivalent to US$100 per ton, first implemented in 1991 and increased to US$150/ton in 1997, CO_2 emissions were reduced by 9% between 1990 and 2007. In a business-as-usual scenario it is estimated that CO2 emissions today would be 20% higher. Economic growth amounted to 48% in the same period, proving that emission reductions can be achieved together with reasonable rates of growth.
- Germany: the ecological tax reform – a tax on energy, including electricity, natural gas, heating and transport fuels – contributed to a 2-3% reduction of overall CO2 emissions between 1999-2003, while 250,000 additional jobs were estimated to have been created, mainly in the energy efficiency and renewable energy industry. Transport fuel consumption fell by 17% by the end of 2008 in comparison with the 1999 level. Public transport passengers increased by 3-5% per annum between 1999 and 2008. Business in Germany also benefitted from reduced costs resulting from innovations they implemented in response to the task and were prepared to speak out in favour of the tax, see: **http://ecologic.eu/download/projekte/1850-1899/1879/1879_summary.pdf**.

There are more examples of successful EFR measures for the reduction of GHG emissions here: **http://www.foes.de/pdf/2010-07%20Factsheet.pdf** and at **www.green-budget.eu**.