

## **ECOLOGICAL FISCAL REFORM or HOW TO MAKE PRICE WORK FOR ENVIRONMENT**

### **ANPED Policy Paper to encourage sustainable consumption and production**

To "improve the quality of life for everyone within the Earth's carrying capacity" is the core interest of Agenda 21 and all those who care for sustainability. Given the insight that only limited resources are available to fulfil this goal, it is necessary to develop societies which are less consumptive via different and more effective production and consumption patterns. To reach this goal is not only a question of scientific or technical improvement; it is foremost a question which values drive societal development and of political will to make the necessary changes.

One reason for resource consuming societies is that a product price does not correspond to all the environmental, social and health costs associated with the production, use and disposal of these products and services. Many governmental policies still support environmentally harmful production and consumption in many different ways. Direct subsidies to unsustainable industries and sectors, like coal production or intensive agriculture, are clear examples. Tax rebates for commuting by car or tax exemptions for air travel are others. To change this situation and make consumption and production patterns more sustainable it needs broad **Ecological (or environmental) fiscal reform** (EFR) which would help to accelerate development of environmentally-friendly alternatives e.g. for housing, food and mobility.

The EU Common Agricultural Policy (CAP) for example is the biggest single chapter of EU budget (47 billion EUR in year 2003). The CAP's direct subsidies have been one of the main drivers for agricultural intensification in Europe. This has led to many environmental problems: loss of biodiversity, degradation of soils, unsustainable water extraction, excessive suffering to farm animals, etc. To stop these negative trends direct payments in agriculture should be totally removed and released financial resources should be shifted to the environmentally friendly farming, area-based payments conditional upon operating in a sustainable way, rewarding farmers for services and products provided other than food production (e.g. landscape and environmental protection) and certification of products and services (e.g. organic farming and sustainable forest management).

The following elements have to be part of an Ecological Fiscal Reform:

#### **Subsidy reform**

Subsidies are economical instruments which are used to favour certain economic activities. Usually main motivation for governments starting subsidy reform is not the environment but fiscal or ideological reasons. Green subsidy reform means removal of all environmentally harmful subsidies. Most of them go to agriculture, transport and energy sectors, globally amounting to 1 trillion USD. Money from removal of these subsidies can be saved or better invested in environmentally friendly activities like organic farming, sustainable transport and alternative energy etc, what would also stimulate development of these economic sectors, reflect the real costs and promote internalization of environmental and social costs.

#### **Environmental taxation**

This is about the internalization of *externalities* into the prices of goods and services which are detrimental to the environment. This could change consumer behaviour (demand) and encourage consuming less and making best environmentally friendly choices. Most popular are fuel tax, motor vehicle taxes and taxes on waste and packaging. Eco-taxes should be set high enough to have the impact on behaviour of producers and consumers. A distinction should be made between environmental taxes and charges, where charges are payments made for specific environmental services. New environmentally related taxes should be included into much broader reform packages, to demonstrate that additional revenues are fully or partly recycled through reductions of other taxes. To have public support for eco-taxes there should be wide awareness raising campaign and taxes should be raised gradually and in the revenue neutral way. Popular acceptance of 'green' taxes will increase if they can be presented as a tax "one can avoid" (by changing one's behaviour). Selective use of positive fiscal incentives also

stimulates sustainable business development. These include: income tax deductions for environmental investments, investment tax credit, accelerated depreciation, green loans and funds, debt-for-nature swaps etc.

### **Green budget reform**

GBR is part of the green tax reform and means a shift in taxation from taxes on labour towards taxes on the use of energy and other resources and raw materials, environmentally hazardous substances and products, etc. This tax shift is not going to increase tax burden but rather be revenue-neutral. The environmental results are incentives which eco-taxes exercise on producers and consumers to alter their way of producing and consuming, and to save energy and resources. Most studies on the socio-economic effects of GBR show positive effects on employment and GDP. The energy and resource intense sectors, which will have a higher tax burden, are likely to lose market share in competition. The opposite effect will be for sectors which are eco-efficient and labour intense where the tax burdens fall.

### **Environmental (green) accounting**

GA is a systematic presentation of interactions between environment and economy by means of an accounting framework. The standard system of national accounts (SNA) neglect of the depletion of natural resources and account for the degradation of environmental quality and its effects on human health and welfare as a positive contribution to GDP. GA is still in its infancy. There are 3 main approaches:

- the adjustment of national (economic) accounts to incorporate environmental effects;
- the development of satellite accounts outside and complementary to the core SNA;
- independent natural environmental and resource accounts linked to the national accounts.

However, dramatic progress has been made in gathering reliable data and in compiling these data into policy-relevant indicators.

These findings are supported not only by environmental organisations, but also by large parts of society, international organisations such as the OECD, consumer associations, trade unions and some business associations.

### **Recommendations for NGO action and advocacy**

- Lobby for phased out or reform of environmentally and socially perverse subsidies.
- Initiate global pressure to implement EFR, which increase taxes on the use of energy, resources and pollution cover external costs and decrease labour taxes, providing budget neutrality.
- Lobby governments to use mitigation measures to compensate low-income households and certain industries for possible price increases.
- Lobby governments to have selective use of positive fiscal incentives for support of environmentally friendly business sectors.
- Organize clear and extensive information campaign targeting politicians, decision makers, general public and industry, stressing the advantages of EFR in terms of lower overall costs to society and environmental benefits.
- Support development of Green national progress indicator (green accounting) and lobby globally to have it approved as main development indicator, substituting GDP.

More information can be found: Ecological Fiscal Reform

- OECD Environmental taxes, tradable permits, etc. - [http://www.oecd.org/topic/0,2686,en\\_2649\\_34295\\_1\\_1\\_1\\_1\\_37465,00.html](http://www.oecd.org/topic/0,2686,en_2649_34295_1_1_1_1_37465,00.html)
- <http://www.eco-tax.info/>
- <http://www.ecotax.net/>