



European Economic and Social Committee

NAT/253
Economic instruments -
Environmental protection

Brussels, 13 December 2007

OPINION

of the
European Economic and Social Committee
on the
Green Paper on market-based instruments for environment and related policy purposes
COM(2007) 140 final – SEC(2007) 388

On 28 March 2007 the European Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on the

Green Paper on market-based instruments for environment and related policy purposes

COM(2007) 140 final - SEC(2007) 388.

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 31 October 2007. The rapporteur was Mr Ribbe.

At its 440th plenary session held on 12-13 December 2007 (meeting of 13 December), the European Economic and Social Committee adopted the following opinion by 48 votes with 1 abstention.

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1. Summary

- 1.1 The Committee notes the much delayed publication of the Green Paper on market-based instruments (MBI) for environmental protection.
- 1.2 The Committee shares the views expressed on the various fiscal and environmental impacts of various market-based instruments for environmental protection (taxes, charges, fees, subsidies, rights/certification schemes etc.).
- 1.3 The Committee notes that market-based instruments have long been an element of political action, so the discussion is no longer about *whether* they should be introduced but about *how* they should be used.
- 1.4 As the Commission rightly points out, MBI are a good way of tackling environmental issues in a cost-effective way. They are not, however, a panacea. The political discussion – and the Green Paper – should therefore address the relationship and interplay between, for instance, rules and bans, regulatory law and market-based instruments (such as taxes, charges, targeted subsidises and tradable permits). The Committee regrets, however, that the Commission Green Paper gives far too few pointers in this regard.
- 1.5 The Committee would therefore ask the Commission to use the public debate triggered by the Green Paper as an opportunity to set out the scope, impact and also the limits of various instruments for environmental protection by drawing on specific, practical examples.

2. Gist of the Green Paper

- 2.1 On 28 March 2007 the Commission submitted the Green Paper on Market-based instruments for environment and related policy purposes¹, which had already been announced in 2004 and which is the subject of this opinion.
- 2.2 With the Green Paper the Commission intends to launch a discussion on advancing the use of market-based instruments (MBI) in society.
- 2.3 In the Green Paper the Commission refers to the environmental policy objectives agreed at European level, in particular the new energy and climate policy, which, the Commission feels, *"implies nothing less than a new industrial revolution over the next 10 to 15 years"*.
- 2.4 The Commission makes it clear that without public intervention these ambitious objectives cannot be achieved. The Commission considers that MBI should be increasingly used for environmental purposes. They should be *"important parts of the efforts to achieve real change through changing incentives for businesses and consumers"*.
- 2.5 However, the Commission also states that they *"are not a panacea for all problems"*.
- 2.6 MBI are defined as taxes, charges, targeted subsidies and tradable permit systems.

Market-based instruments as policy tools

- 2.7 The rationale for using MBI lies, according to the Commission, in their *"ability to correct market-failures in a cost-effective way. Market failure refers to a situation in which markets are either entirely lacking (e.g. environmental assets having the nature of public goods) or do not sufficiently account for the 'true' or social cost of economic activity."*
- 2.8 The following advantages are listed:
- MBI acknowledge that firms differ from each other
 - They improve price signals, by giving a value to the external costs and benefits of economic activities
 - They allow industry greater flexibility in meeting objectives and thus lower overall compliance costs
 - They give firms an incentive, in the longer term, to pursue technological innovation to further reduce adverse impacts on the environment ("dynamic efficiency")
 - They support employment when used in the context of environmental tax or fiscal reform.

¹ COM(2007) 140 final, 28.3.2007.

- 2.9 However, the Commission also makes it clear that MBI are used not only to achieve environmental policy goals, but above all *"to avoid distortions within the internal market caused by differing approaches in individual Member States, to ensure that a similar burden falls on the same sector across the EU and to overcome potential adverse competitiveness effects within the EU"*.
- 2.10 It also points out that the various MBI differ in their effect. Quantitative systems (such as tradable permit schemes) provide more certainty as regards reaching specific policy objectives (e.g. emission limits) than purely price-based instruments (such as taxes). Price-based instruments, in turn, provide security regarding the cost or the price of a policy objective and tend to be easier to administer.
- 2.11 The Commission also points to another major difference: Taxes (and charges) have not only been used to influence behaviour - they also generate revenue. This is only the case with tradable permit systems *"if the allowances are auctioned by public authorities"*.
- 2.12 The Green Paper looks at the subject of growth and employment and sets out reasons for environmental tax reforms. At its Summit in June 2006 the European Council, in the context of the new sustainability strategy, discussed the possibility of a new tax system based on sustainability criteria, without however going into details. Now the Commission writes: *"An environmental tax reform (ETR) shifting the tax burden from welfare-negative taxes, (e.g. on labour), to welfare-positive taxes, (e.g. on environmentally damaging activities, such as resource use or pollution) can be a win-win option to address both environmental and employment issues². At the same time, a long term tax shift will require relatively stable revenues from the environment related tax base."*
- 2.13 Finally, the document quotes a few examples of established MBI (energy taxes, Eurovignette, local charging systems to reduce urban congestion) and formulates a large number of questions, ranging from the very general to the specific, directed at the public with a view to launching a debate in society.
- 2.14 The Commission also sees ways of using MBI to protect biodiversity.

3. General comments

- 3.1 The EESC has often advocated the optimum use of a broad range of policy instruments for environmental protection, with MBI having an important role to play. Here the Committee and the Commission are in agreement.

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The Commission raised this issue already in 1993 in its White Paper on Growth, Competitiveness and Employment - COM(93) 700, Chapter 10 - and again more recently in its recent communication on the European social model or in a paper on the links between employment policies and environment policies. Cf. COM(2005) 525 and SEC(2005) 1530. Ex-post evidence from the Nordic countries as well as the results of model-based studies indicate the existence of both types of benefits.

- 3.2 The Committee, while endorsing the – in its view – sound and accurate points made, would have liked to see the Green Paper, which was a long time in preparation and the publication of which was repeatedly delayed, bring rather more clarity to the planned future use of MBI. In terms of the overall policy-shaping process, however, the protracted and quite possibly necessary consultation exercise within the Commission has, as far as the Committee can see, so far been to no discernible avail.
- 3.3 The impression, if anything, is that internal consultations are to some extent being outpaced by political realities.
- 3.4 The Committee notes that environmental MBI have long been a reality, albeit used in widely differing ways in the individual Member States. According to Eurostat, for instance, just under 7% of total revenue collected in the EU Member States comes from environmental taxes.
- 3.5 The Green Paper and the attendant political debate can therefore no longer be about the possibility of introducing environmental MBI. The question is not *whether*, but *how*. In other words: to what extent are market-based instruments to be used and how are these to correlate with rules, bans and other policy tools?
- 3.6 However, the content of the Green Paper does not go any further than what has long since been known, and been the subject of discussion, in the business community and in society. Nor does it address the question of who is to be the prime mover. The EU does not of course have equal responsibility for all possible instruments. In taxation matters, for example, it has only very limited powers. Moreover, at a policy level, it is not clear just what is supposed to happen in the wake of the publication of the Green Paper, whether, as is usual, a white paper is to follow or what conclusions are to be drawn from the exercise.
- 3.7 Its biggest shortcoming is the lack of any clear indication of which policy instrument should be given priority in a given political situation. The intended demarcation or possible linkage between regulatory law and MBI remains unclear.
- 3.8 Consequently, while noting the Green Paper with approval, the EESC points out that the social debate on more effective environmental policy instruments needs to be conducted with greater commitment and must draw on as specific examples as possible, if the EU's ambitious climate and energy policy objectives are to become a reality.
- 3.9 The EESC considers that MBI should be guided by the polluter pays principle and could thus offer incentives to all those who actively protect the environment.

4. **The EESC's specific comments**

- 4.1 The EESC has always stressed the importance of internalising "external costs". And here, as the Commission itself points out, MBI can play a part. But first a clear political decision is needed on the amount of the external costs to be internalised.
- 4.2 The "market-based" road-transport instrument, the Eurovignette, described in the Green Paper, is a good illustration of the problem, as this instrument, which is regarded as a suitable tool for integrating external costs, has in reality been used only very half-heartedly. The Commission itself writes that *"average charges can only cover infrastructure costs and thus exclude external costs"*. Initiatives are therefore needed which would, for example, integrate external costs using the Eurovignette.
- 4.3 The Committee would ask the Commission, the Council and the Parliament to class an MBI as environmental only if it has a genuine and clearly discernible environmental objective. The Eurovignette, which is mentioned in the Green Paper, does not fully meet that criterion, as the external costs are not included. The Eurovignette is primarily designed to ensure that infrastructure costs are not met solely by the public purse but that users are also directly involved. Of course, that also has an indirect impact on the environment in cases where, for instance, users facing higher costs start to question their car use and wonder whether a better option would be to make the journey by train (or indeed not to make the journey at all). However, until steps are taken to factor in the (environmental) costs that have so far had "no market" and have been left out of the equation, the Eurovignette should not be regarded an instrument of environment policy.
- 4.4 In the first instance, therefore, it is up to policymakers to make clear what a particular policy measure is meant to achieve. Only once the objective is defined should the discussion turn to the policy tool that is suited to achieving it.
- 4.5 Hence, the increased use of MBI will not enable policymakers to avoid what is in some cases the very difficult, controversial decision to lay down clear (environmental) objectives such as emission limits. This is what has often been lacking in the past. MBI are no substitute for such decisions but rather, as their name suggests, instruments for achieving defined political objectives.
- 4.6 The Commission must act without delay to remove the uncertainties thrown up by the Green Paper. It must clearly state just how it sees the various policy instruments being used in future. The EESC thus recommends that the Commission, in the context of the planned wide-ranging discussion on the subject, illustrate the possible policy options (with or without MBI) by means of a few practical examples drawn from different policy areas, e.g. energy and transport.
- 4.7 The Commission could, for instance, make clear that there is no intention of introducing MBI to resolve, say, the problem of carcinogenic substances.

- 4.8 MBI could, however, be useful in dealing, for instance, with the increasingly topical issue of CO₂-free coal-fired power plants and the prospects for building such plants, should the requisite technology become available in the near future. Is it the intention to make it mandatory (i.e. via legislation) to use "state-of-the-art" technology for these plants or are MBI to be used to make them profitable? Questions such as these should in future be debated more in society.
- 4.9 If the demarcation/linkage of regulatory law and MBI were made clearer by setting out specific options for action, this might also make the Green Paper's discussion of the use of MBI for the maintenance of biodiversity more comprehensible. In this area the EESC does not consider that the Commission has yet come up with any convincing ideas that might offer some hope of effectively combating the worrying decline in biodiversity.
- 4.10 In its opinion on the Biannual Progress Report of the EU Sustainable Development Strategy³ the Committee called on the Commission to flesh out its very vaguely worded proposals for a new tax system based on sustainability indicators. According to Eurostat, revenue from environmental taxes amounts to some 7% of the total.
- 4.11 The EESC considers a debate on reducing the taxation of labour and compensating for this with revenues from the taxation of environmentally harmful activities to be overdue. This should be accelerated following submission of the Green Paper. However, it also needs to be made clear in this context how the EU envisages changes of this kind taking place, given that, under the Treaties, it has only a marginal influence on the tax policies of the Member States.
- 4.12 The EESC considers it extremely important that the promised survey of environmentally harmful subsidies be submitted without delay and that these subsidies be abolished as soon as possible. The Committee sees environmentally harmful subsidies as a significant distortion of competition and a completely unacceptable misallocation of public funds. MBI will only be effective as instruments to promote environmental protection once environmentally harmful subsidies have been completely eliminated.

Brussels, 13 December 2007.

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of the
European Economic and Social Committee

The secretary-general
of the
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³

EESC opinion, CESE 994/2007, 11.7.2007 (NAT/348).