GREENING TAXATION

Getting the prices right: How green taxation can help build fairer, more resilient economies

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Introduction

• Ongoing study into:
  – What the polluter pays as a % of damage caused ("internalisation");
  – The macroeconomic impact of switching from labour to green taxes on growth, jobs, fairness;
  – Best practice design for new taxes and other instruments;
And will provide a toolkit for stakeholder action.
Publication: Spring 2021
Policy context

• 2011 Resource Efficiency Roadmap: “increase environmental taxes to at least 10% of public revenue as an EU average by 2020”

• 2019 actuality: 5.9% of revenue is from environmental taxes but over three quarters of this is from energy taxes (Eurostat). The share has gone down slightly since 2013.

• An opportunity to raise revenue sustainably whilst achieving environmental goals efficiently is being missed.
Polluters pay under half the cost of air pollution

Estimated external costs of EU27 air pollution

- Energy: 7% internalised, 26% not internalised, 127% over-internalised
- Industry: 6% internalised, 24% not internalised
- Households: 94% internalised
- Agriculture: 0% internalised
- Transport: 44% internalised
- Other: 0% internalised
- Total: 44% internalised

Million €
Some Member States internalise most air pollution – it can be done!
For water pollution very little cost is internalised.
Non-point source water pollution particularly undertaxed
Green taxes can be good for growth and jobs

• A simulated portfolio of €30bn of green taxes/Market Based Instruments to replace income tax raised EU GDP by €35bn (0.2%) by 2030, raising employment by 140,000 FTE (0.1%) – similar to the positive effects foreseen by the Commission if ETS revenues are recycled.

• Green taxes are sometimes criticised as regressive. Our simulation showed positive or zero impacts on income in all parts of the distribution in all Member States.

• More positive redistribution is achievable through careful design of the taxes and MBIs as our report shows.

• How to overcome the reluctance?
Sharing best practice in design

• There is experience amongst the Member States to draw upon
• We will publish detailed advice on how to design green taxes and Market Based Instruments, based on existing best practice:

  – What to tax, and how to set rates
  – Who to tax, and who to exempt
  – How to make sure the tax is collected
  – How ensure they are fair, and vulnerable groups are not hard hit
Making it happen!

• Technical workshops on instrument design

• Stakeholder workshop for civil society in Member States to encourage greater participation in policy process

• Ongoing support from the Commission – DG REFORM
Conclusion

• Our work conclusively shows that air and water pollution are underpriced, as is environmental damage to other sectors, and that reservations about tackling this through green taxes and market-based instruments are unlikely to be well-founded

• The Green Deal and Recovery Package are an opportunity to signal political commitment

• Our project and the Commission offer technical support

• It is time to act