PRESS RELEASE – for immediate use

Tax energy not labour

*New report shows merits of smarter taxes for economic recovery*

**Brussels – 16 May 2012:** Smarter taxation levied on energy and carbon offers an important and compelling way out of the current financial crisis. While conventional taxes on income and labour pose a risk of depressing growth, taxes on energy and carbon can raise revenue at least cost to the economy.

This is the finding of a new report “Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe’s fiscal deficits” released today by Green Budget Europe and Vivid Economics.

As this report shows, current tax structures are slowing growth. Traditional, direct taxes can put a cap on the necessary growth because they reduce consumption by twice as much as energy and carbon taxes that raise the same amount of revenue, thus leaving the economy in a stronger state to sustain the recovery. The only way for the European economy to pull itself out of recession is for consumption to be raised.

The research for the report was conducted by Vivid Economics across a total of 9 countries. In-depth policy proposals to raise substantial amounts of revenues from carbon-energy taxation while minimising impacts on growth and employment were developed for Spain, Poland and Hungary.

A group of ex Finance Ministers and former EU Commissioners have also published an open letter calling on European Finance Ministers to take note of the report’s findings and reflect on smarter taxation, such as energy and carbon taxation, as way to foster the recovery.

Writing ahead of the report launch, Hans Eichel, former finance minister of Germany and a supporter of a revised approach to taxation as well as a promoter of the report said: “National debt is a millstone round the neck of every European economy and governments need to raise revenue to pay off debt and reduce deficits. At the same time, they are looking to consumers to start spending, to kick-start growth and get money flowing once more. Until now the political answer has been austerity but thankfully the debate is now moving towards measures that will stimulate growth rather than just reduce spending. Smarter taxation will be vital to getting the balance right.”
It is well known that there is considerable thinking going into green taxation within the European Commission. Algirdas Šemeta, EU Commissioner for Taxation has regularly said that stimulating growth is obviously the most important task in exiting the crisis, improving tax revenues and thus bringing public budgets back to a sustainable path. While growth-friendly tax reforms are important, it is equally important that national tax measures are effective.

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Notes for Editors:

2. Green Budget Europe is a European expert platform to promote Environmental Fiscal Reform and Market-Based Instruments. GBE brings together EU and national government institutions, international organisations, industry associations, the research community and civil society to protect climate and environment.
3. Vivid Economics is a leading strategic economics consultancy with global reach. We are a premier consultant in the policy-commerce interface and resource- and environment-intensive sectors, where we advise on the most critical and complex policy and commercial questions facing clients around the world. The success we bring to our clients reflects a strong partnership culture, solid foundation of skills and analytical assets, and close cooperation with a large network of contacts across key organisations.

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