Getting the prices right means using fiscal policy to make sure that the harm we do is reflected in the prices we pay. I am thinking about environmental taxes or emissions trading systems under which governments issue—and preferably sell—pollution rights. It is basically a variation of the old mantra: “you break it, you buy it”.

Christine Lagarde, Managing Director, International Monetary Fund, June 2012

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2. Editorial

Dear readers,

This year was the busiest yet for Green Budget Europe. We ran our biggest project yet on Carbon-Energy Tax Reform in Europe (CETRIE), we organised two side-events at the Rio+20 summit, we started a new project on communication in the renewable energy sector and we opened a new office in Brussels.

So it is even more of a pleasure than usual to send you this edition of Green Budget News, and to wish you all the best for the festive season.

This year has shown that there is still a long way to go before prices tell the ecological truth – but that we are making real progress a well.

Our quotation of 2012 is significant because it reveals the sheer weight of opinion behind Environmental Fiscal Reform. The International Monetary Fund is in favour of EFR and has produced a publication on fiscal policy to mitigate climate change. The European Commission, UN organisations, the OECD and several governments have long been in favour.

What is more, in meetings this year with decision-makers and ministry representatives from all over Europe, there was a general consensus that EFR is a ‘growth friendly’ option and a credible means of raising additional revenues so badly needed in the current fiscal and economic situation – and that it could play a significant role in consolidating budget deficits. While governments are less sure of how to sell EFR to their electorates, most are sure by now in principle that it is a good idea.

Our main goal for 2013 is to turn this theoretical consensus into practical action, to provide inputs to the debate which can convince not only on paper but in practice. Our increased capacity and our Brussels office have put us on the best possible footing to do so next year.

This edition of the newsletter takes a look in brief of some of the most important activities of GBE – you can find many more on our website. It looks at the vast amount of progress made all around the world in the introduction of carbon pricing and carbon taxation – more than 33 countries now have carbon pricing measures in place. Furthermore, it includes some interesting news on fossil fuel subsidy reform in the Middle East and a long list of publications for your holiday reading.

Please support us in any way you can – by sending us information, or becoming a partner organisation, or simply by reading this newsletter and passing it on to others who may be interested.

Wishing you all the best for the festive season and a wonderful start to 2013!

The GBN editorial team

Anselm Görres, Kai Schlegelmilch, Jacqueline Cottrell, Constanze Adolf and Petra Sieber

3. Merger FÖS - ÖSF

[Anselm Görres, GBE President, 15 December 2012]

For Green Budget Germany, 2012 was a particularly busy, but also very successful year. More than ever in the past, our statements and analyses were reported and quoted in the national and – together with our platform Green Budget Europe (GBE) – also international media. This was particularly the case during the debate about energy costs and German feed-in-tariffs.

The German government tried to burden consumers with a larger share of energy costs, including the cost of renewable energy subsidies, while at the same time creating new exemptions for industry, even industries that are not exposed to international competition. The resulting extra burden for households threatened to damage the general public acceptance of the country’s energy transition.

Our criticism helped to shift the focus of the debate to growing political pressure on unjustified or overgenerous relief for the business sector.

While this used up a lot of our energy, we also found time to open and continue new debates, for instance about resource taxes as a necessary next step after energy taxation and about future growth strategies, somewhere between greener growth and post-growth.

For the future evolution of our own organisation, the merger with a somewhat smaller NGO called “Ökosoziales Forum (ÖSF)” had the biggest importance. After a very dynamic and enriching process with lots of discussions about our joint future, it enters into force at January 1, 2013 and will help us to double our membership to about 500 persons. The co-existence of two very similar groups, with similar names and similar objectives was confusing to the public and did not further our common goals.

By merging ÖSF into FÖS, the new organisations will, hopefully, not only become stronger and more focused domestically, but also improve the
fruitful cooperation with our Austrian and European friends in the European EcoSocial Forum. In the decisive votes of the members of both organisations, there were majorities of 75 percent (FÖS) and even 100 percent (ÖSF). Not a single member objected. We interpret this not only as a great support for the fusion agreement and the strategies put down therein, but also for our past successful work inside and outside Germany, in particular within GBE.

We take this merger as a special encouragement to continue and expand our work for a greener and fairer capitalism. We will keep and strengthen our focus on fiscal and economic instruments, in terms of political implementation, but step by step, we will also take up further elements (“crash barriers” or “Leitplanken”) of a social and environmental market economy.

On a wild and dangerous road, you need crash barriers on both sides in order to avoid social misery and ecologic abysses at the same time.

4. GBE Activities

New GBE Brussels Office established

In 2012, GBE achieved its long-term plan of establishing a GBE office in Brussels. The year 2012 already started with a change, as Kai Schlegelmilch took a temporary leave of absence from his post as GBE/GBG Vice-President to lead GBE contributions to the CETRIE project (see below). At the same time, GBE also employed a new initially Berlin-based Policy Officer, Constanze Adolf, to work in the CETRIE project, while Jacqueline Cottrell remained in her role as GBE Manager.

This substantial growth of the GBE project made it possible to set up a new GBE Brussels Office in June 2012, headed by Constanze Adolf as Director.

GBE shares the European Environmental Bureau’s (EEB) office facility in the heart of Brussels:
Boulevard de Waterloo 34 • B-1000 Brussels
T: +32 2 790 88 12 • F: +49 30 76 23 99 159
E-Mail: Constanze.Adolf(at)green-budget.eu

Result of GBE’s CETRIE project:
Tax energy not labour

The Carbon and Energy Tax Reform in Europe (CETRIE) project was a cooperation between the European Climate Foundation and Green Budget Europe in association with Vivid Economics. The rationale of this project is the awareness that a way out of the crisis can only be achieved with a combination of sound public finances and exploration of new policies to reduce emissions. In this context, it highlights the advantages of Environmental Tax Reform in comparison to alternative revenue-raising instruments facilitating fiscal consolidation.

Starting in late 2011, the first phase of CETRIE ran until October 2012 – although follow-up meetings are ongoing. The basis of the project is a major new study (see below) on energy and carbon taxation in Europe, which GBE used as a basis for an EU-wide campaign in favour of EFR against the political background of the revision of the EU Energy Tax Directive. The project encompassed seven high-level workshops on the CETRIE research findings and a number of smaller meetings within Finance Ministries in the project’s target countries – the UK, France, Germany, Poland, Hungary and Spain. At EU-level, the GBE team presented the CETRIE results in several EU-Commissions Cabinets, with MEP’s and experts from EU Member States during the MBI-Forum on 20 June 2012 in Brussels.

After a very fruitful partnership in the first project phase, GBE hopes to move on to focus on specific opportunities for EFR and broaden the political reach of the study’s findings in the coming months.

CETRIE report shows merits of smarter taxes for economic recovery

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 by Vivid Economics and Green Budget Europe.

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 nine 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 former Finance Ministers and EU Commissioners (Martin Bursík, Hans Eichel, Franz Fischler, Yannis Palaiokrassas and Josef Riegler) have published an open letter calling on European Finance Ministers to take note of the report’s findings and reflect on energy and carbon taxation, as way to foster the recovery: “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”, they wrote.

The report achieved great resonance in the general and business news media, was covered in EU political reporting and promoted by selected environmental blogs and NGOs. In addition to the English-speaking press, the report was covered by German, Italian, Hungarian and Slovenian media.

Read the Executive Summary or the Full Report.

Further information on the CETRE project, short versions translated into six languages, related events, and publications is available here.

GBE Annual Conference 2012, Paris
29-30 October 2012, Paris

This year’s GBE Annual Conference entitled “Green taxation as key for sustainable fiscal reform: The French context and European perspectives” was organised at the renowned university Sciences Po in Paris to discuss Environmental Fiscal Reform opportunities in France and in Europe. Addressing both challenges and opportunities for a tax shift in the context of the Eurozone crisis, the event brought together about 100 experts and interested people from academia, politics at national and EU level, industry and civil society. It served as an interactive platform for dialogue, networking and exchange of best practices in EU Member States.

As states and banks still have a long way to go in consolidating their budgets and deleveraging, several voices have called for broad-based fiscal reform in EU Member States to reduce budget deficits and put European economies on a more sustainable path. The conference aimed to explore and find ways to bridge gaps within and between these two dimensions in order to stress the contribution of green taxes in broader crisis exit packages in France and Europe.

Panels devoted to the French situation had a strong focus on issues of equity and the regressive effects of energy and CO₂ based taxes, particularly affecting the lower income level if measures for compensation are lacking. On the other hand, the role of green taxation for innovation and economic competitiveness was revealed as a key issue in France. Case studies from Sweden, Denmark and Ireland proved that both economic success and social fairness are compatible with eco-taxation and that they are even driven forward by EFR policy. Successful strategies from northern countries consist of a balanced mix of different Market-Based Instruments in order to reach different economic, environmental and social goals.

It was a great honour for us to have such a prominent and stimulating group of speakers whose input gave us much food for thought and discussion during the conference. We hope that the inspiring presentations and subsequent contributions sent out a positive signal to all participants to heighten your efforts to push for more and better Environmental Fiscal Reform!

We hope that the conference can act as a basis for further exchange of ideas and collaboration in the future. Green Budget Europe would like to thank you and your organisation for all your contributions!

Please find presentation slides, speeches, a list of participants and photos of both conference days for download here.
GBE and our organisational partner IDDRI (the Paris-based Institute for Sustainable Development and International Relations) will soon publish a policy paper reporting on the main output of the two-day conference.

**Green Fiscal Reformer of the Year Award**

For the year 2012, GBE’s prize to highlight extraordinary contributions to the promotion of Environmental Fiscal Reform was awarded to the French economists Jean-Philippe Barde and Dominique Bureau. Integrated as a celebratory closing session of the first conference day, the award ceremony was led by Hans Eichel, Minister of Finance in Germany when the Eco-Tax was implemented in 1999, and who continued to push for EFR measures in the country until he left his position in 2005.

**RE-COMMUNICATE: Communication Strategies for Renewable Energy**

As a consortium of three organisations, Green Budget Germany / Europe, the International Institute for Sustainable Development (IISD) and the renewables communication consultancy Collings and Monney recently started work on a project for the International Energy Agency’s Renewable Energy Technology Deployment (IEA-RETD). The project will produce a scoping study of successful communication strategies for renewable energies and includes two expert workshops to discuss and evaluate the project’s findings.

Underlying the project is previous work of the IEA-RETD, which suggests that much of current public discourse about renewable energies is characterised by misunderstandings and outdated information and that misperceptions about impacts, costs and effectiveness of renewable energy technologies (RET) in the public, at a political level and within the industry sector, constitute a major barrier to the widespread use of RET.

In view of this, the IEA-RETD commissioned a scoping study to provide ideas and techniques on how the benefits of renewable energies can be better communicated to and by policy makers and other stakeholders. It is hoped that the resulting report will give inspiration and tools on how to promote RE both more efficiently and effectively as well as on how to better counter negative messages.

**Workshop organised by IEA-RETD and partners GBE, IISD and Collings and Monney**

**29 November 2012, Brussels**

The workshop “Communications Strategies for Renewable Energy: Experiences, perspectives and principles” focused on the challenges for developing successful communication strategies for the renewable energy sector through a series of presentations and interactive sessions. It brought together experts in communication and renewable energy from governmental and non-governmental organisations to deliver insight into communication theory, share experiences from selected RETD countries and create a network of RE communication experts. A central aim was to identify examples of good or bad practice for further enquiry and input to the RETD scoping study.

Please find the agenda and presentations [here](#).

**Green Budget Europe at Rio+20**

**13-22 June 2012, Rio de Janeiro, Brazil**

The increasingly international nature of GBE was reflected in the our involvement as an officially affiliated NGO at the [Rio+20 Summit](#), the United Nations Conference on Sustainable Development, which took place in June 2012. GBE hosted 2 side-events at the summit and worked in partnership with the European Environment Agency to make a series of video interviews on visions of a green economy for distribution on the internet in the run-up to Rio.

Documentation of the side-events on [18 june 2012](#) and [21 june 2012](#) are available online.

The GBE position paper on the Rio+20 summit is also available on the [website](#).

Representatives of GBE and GBG also contribute to conferences, trainings and seminars all over the world and have provided consulting for governments on EFR in China, Vietnam, Thailand, Indonesia, Malaysia, Ecuador, Morocco, Tunisia and other countries.

**GBE at the Global Conference on Environmental Taxation**

**20-22 September 2012, Vancouver, Canada**

The 13th Global Conference on Environmental Taxation entitled "Barriers, Opportunities, and the Potential for Inducing Technological Innovation" took place from 20-22 September 2012 in Vancouver, Canada at the University of British Columbia (BC). Delegates from all over the world discussed the impact of behavioural economics on
the design of EFR policy, the BC carbon tax and upcoming carbon taxation in Japan in a series of special plenary sessions and analysed barriers and opportunities for EFR in a number of parallel sessions.

The GCET conference brought together academics and policy makers from all over the world to discuss the latest developments in environmental taxation and related issues. The conference proceedings are published in a book series entitled "Critical Issues in Environmental Taxation". Jacqueline Cottrell from the GBE team presented the CETRIE report's findings and gave a presentation on "Kicking off an EFR Process in Industrialising Countries: Picking the Low-Hanging Fruits" in a second session as well as chairing a session on "Tax Expenditures and Environmental Taxation". A book chapter on the CETRIE findings has been accepted for publication in Critical Issues, which will be published in 2013.

Find further information on the conference [web site](http://www.greenbudgeteurope.org). Presentations and abstracts are available [here](http://www.greenbudgeteurope.org).

**UNEP / IMF / GIZ Workshop: Fiscal policies towards an inclusive green economy**

3-4 October 2012, Geneva

This joint UNEP-IMF-GIZ workshop brought together representatives from both finance and environment ministries to share and discuss their experiences and best practices for driving a green economy through fiscal policy reforms. Leading experts on the topic contributed to the discussion by providing technical knowledge on various fiscal measures. Concluding with an interactive discussion among participants, the workshop also encouraged an exchange of best practices among countries, to enhance stronger cooperation between finance and environment ministries, and identify knowledge gaps for future research.

The workshop programme is available [online](http://www.greenbudgeteurope.org).

GBE Manager Jacqueline Cottrell was invited to speak about carbon taxation and subsequently also contributed to a UNEP webinar on reforming fiscal policy for a green economy (click [here](http://www.greenbudgeteurope.org) to access UNEP webinar page).

**Conference „A Fair Deal for Cars – the external costs of cars in EU-27“**

6 December 2012, Brussels

Car use is an important part of daily life in the EU and it clearly creates huge benefits for the users. Naturally there are also costs for car mobility: obvious costs but also less obvious ones, such as costs arising from accidents, noise, pollution or infrastructure. European Parliament Greens/EFA Group has therefore commissioned a study estimating the magnitude of these hidden costs of car mobility and the ways in which these costs are currently being financed, revealing the following key facts:

- Three percent of EU GDP is taken up by external costs relating to road transport.
- Each car in the EU causes on average 1,600 Euros of uncovered costs per year.
- On average every EU resident subsidises car use with 750 Euros per year.

On 6 December, the Greens organised a conference to present the findings of the study and discuss its implications for taxpayers, citizens and the environment. Kai Schlegelmilch, Vice-President of Green Budget Europe, was invited to speak on policy answers at EU level.

Find the programme, a video documentation and presentations of the event [online](http://www.greenbudgeteurope.org).

Read a press release on the event and the study [here](http://www.greenbudgeteurope.org).

**Adam Smith Prize rewarded to EU Commissioner Algirdas Šemeta**

23 March 2012, Berlin

This year's "Adam-Smith-Prize for Environmental Economic Policy" was awarded to Tax Commissioner Algirdas Šemeta in Berlin. The EU Commissioner in charge of Taxation, Customs Union, Audit and Anti-Fraud received the prize for his efforts to revise the Energy Tax Directive in such a way that it efficiently fosters conditions to realise Europe's 2020 targets – 20 percent energy savings, 20 percent reduced GHG emissions and 20 percent renewable energy in the energy mix.

Last year the European Commission proposed an overhaul of the outdated rules on the taxation of energy products in the European Union, prompted by proposals developed by the Tax Commissioner's Directorate General. The new rules aim to restructure the way energy products are taxed to remove current imbalances and reduce market distortions and take into account both their CO2 emissions and energy content. Existing energy taxes would be split into two components that, taken together, would determine the overall rate at which a product is taxed. The proposal could help Member States to redesign their overall tax structures in a way that contributes to growth and
employment by shifting taxation from labour to consumption.

For more information about the EU Energy Tax Directive and check the information provided on our website. Click her to see documentation of the prize-giving and see a list of former winners of the Adam-Smith-Prize. A short article announcing the Prize is available online (both in German).

**Parliamentary Evening and NGO Workshop on the Energy Tax Directive**

*19-20 March 2012, Berlin*

In cooperation with the Danish Ecological Council and the European NGO Transport & Environment, Green Budget Europe organised a Parliamentary Evening and a Workshop for NGOs on the EU Energy Tax Directive (ETD).

Although the ETD could oblige the EU Member States to reshape their taxation systems, to build the basis for a green recovery and to use the potential of environmental taxes to cut emissions and to enhance competitiveness, due to the required unanimity voting on all fiscal matters in the EU, the revision of the ETD is hardly moving forward in the European Council. Especially the German government is one of those that rejects the current proposal and thus slowing the negotiations down.

The focus of the Parliamentary evening was set on the environmental, economic and social benefits of the ETD for Germany. Together with the German MP Rüdiger Kruse, GBE hosted the event and could attract prominent speakers: Hans Larsen, the Chief negotiator of the Danish Presidency, Rolf Diemer, Head of the Unit "Environment and other indirect taxes" at the European Commission and with Magnus Nilsson, senior campaigner at Transport & Environment. Hence, comprehensive views on the ETD out of the perspective of relevant parties dealing with the Directive was guaranteed.

The aim of the NGO-Workshop taking place on 20th March was to obtain an overview of the current state of play in the ETD negotiations and to develop strategies to influence the German government. As well as on the preceding evening, Hans Larsen, Rolf Diemer, Kai Schlegelmilch and Magnus Nilsson gave their insights on the topic. Furthermore GBE and VIVID Economics presented the CETRIE project (Carbon and Energy Tax Reform in Europe), in which the potential of Environmental Fiscal Reform and the application of Market-Based Instruments in Germany, France, United Kingdom, Spain, Poland and Hungary is analysed.

Both events were well attended, showing that there is awareness to which further actions can be linked. The good inputs both from speakers and participants resulted in concrete strategies and ways forward. The participants agreed that there is a need to develop a better communication strategy, to address the present myths regarding the impacts of the ETD for Germany and highlighting the benefits of a revision, not only for Germany but the EU as a whole.

We want to thank all speakers and participants for their efforts and their ideas!

Following the parliamentary evening, representatives of Green Budget Europe / Germany were invited to participate as experts in a parliamentary hearing on the Energy Tax Directive.

A documentation is available online.

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5. **GBN Special: The rise of carbon pricing around the world in 2012**

**How carbon pricing can help businesses and the environment**

[Salman Shaheen, International Tax Review, 21 September 2012] From 2013, at least 33 countries and 18 sub-national jurisdictions are expected to be operating carbon pricing schemes. This covers around 850 million people, 30% of the global economy, and 20% of global emissions.

The EU Emissions Trading Scheme (ETS) covers all 27 member states as well as Iceland, Liechtenstein and Norway. Australia launched its carbon tax in July and with its plans to link the scheme to the EU carbon market, the beginnings of a global carbon trading system can be seen. China will be piloting a carbon tax in seven key provinces from next year and advisers believe it may look to eventually linking its scheme to the EU’s as well.

Meanwhile, South Africa wants to introduce a carbon tax next year, Japan and South Korea passed legislation for one in April and May respectively, and California and Quebec’s schemes are set to begin next year.

*The benefits to businesses*

While taxpayers often see carbon taxes as a cost, there are benefits to businesses. “Between 2000
and 2008 around one third of the countries in the OECD achieved absolute reductions in carbon dioxide emissions while growing their economies,” said André Boekhoudt, who will become the head of KPMG’s global energy and natural resources tax practice on October 1.

Boekhoudt says energy efficiency is a key benefit to business and putting a price on emissions encourages businesses to reduce emissions and provides an incentive to invest in cleaner energy such as gas, wind and large scale solar. “Carbon taxes will seed new energy and cost efficient technologies which will eventually be commercialised,” Boekhoudt said. “The efficiency benefits will be felt throughout the economy. However, these advantages more broadly will not be felt for a few years.”

Carbon taxes are oddities in that they are one of the few taxes governments actively want companies to avoid through effective planning. Matt Haskins, sustainability & business solutions tax leader for PwC in the US, says that tax planning to manage carbon tax liability would encompass cost-effective initiatives to reduce energy use and emissions, improve production processes, and potentially even to spur innovation on new product and service offerings. “In the longer run, these changes could offset many of the costs associated with carbon taxes,” Haskins said.

Advisers believe that as more countries join the EU’s ETS, it is moving in the direction of a global carbon trading market. [...] “Environmental policies are being developed at an unprecedented pace, with an increasing focus on pricing carbon through various mechanisms, including taxes and trading,” said Haskins. [...] Haskins thinks that with New Zealand, Australia, South Korea and potentially China all having carbon markets by 2015, the conditions may be in place for an Asia-Pacific market to form. But while bilateral arrangements have begun to emerge, we are still a long way from having a global carbon trading market or something close to the OECD Model Treaty on double taxation to harmonise and routinise these arrangements.

Greening the economy

Carbon markets give businesses necessary certainty, which is vital considering businesses will be among the most important players in greening the economy.

In the lead-up to this year’s Rio+20 [sic], PwC surveyed CEOs to gauge their views on approaches to tackling climate change and achieving sustainable development. “Interestingly, nine in 10 CEOs polled indicated that private sector investment alongside regional or national regulation and fiscal measures, such as taxation and incentives, are the most effective mechanisms for driving change across the sustainability agenda,” said Haskins.

Advisers say emissions trading schemes are a cost-effective means of tackling climate change, especially in comparison with encouraging small-scale renewable energy generation and biofuels, which have a higher cost and lower impact on emissions. However, Boekhoudt says this cost effectiveness can only be achieved if the market is sufficiently liquid and efficient.

“Moreover, emissions trading schemes provide more flexibility compared with taxes alone as it allows negotiators to focus on an acceptable allocation of allowances, while taxes do not,” said Boekhoudt. “Carbon pricing, however, must be supported by complimentary policies to be a truly effective tool as it might not be the most efficient way to reduce emissions from certain sources. As seen in the EU, an emissions trading scheme works most effectively when complemented by a broad range of regulatory, subsidy and tax mechanisms.” [...] Find the full article here.

Consistent carbon pricing: Potentials and disappointments of the EU Energy Tax Directive

[Constanze Adolf, GBE, 14 December 2012] The current picture of energy taxation in Europe is not sustainable. Tax rates on different fuels vary by over 50 percent across the EU. The costs of doing business and the wildly differing incentives resulting from fuel costs cause major distortions in the European single market. Creating a level playing field in the EU on energy taxation will reduce tank tourism and a race to the bottom in energy tax policy, which poses a big challenge for the majority of EU Member States. In 2010, the European Union raised 292.4 billion Euros from Environmental Taxes (Eurostat 2011). This figure corresponds to 2.4 percent of GDP and to 6.2 percent of the total revenues derived from all taxes and social contributions.

Creating a level playing field and a consistent carbon price across the economy is what the European Commission proposed in its revision of the EU Energy Tax Directive (ETD), COM(2011) 169 in April 2011. The aim of the new proposal was to remove imbalances of the current Energy Tax Directive, EC(2003) 96. The most important element of the
The Commission’s proposal is the splitting of energy taxes into two components – CO₂ emissions and energy content - that, taken together, would determine the overall tax rate – in effect putting a price on almost all CO₂ emissions in Europe.

There are many good arguments in favour of a revised ETD – see for example, *GBE’s initial response to the Commission’s proposal*. Raising tax minima would force some Member States and enable others to increase their transport fuel tax rates, thus reducing transport emissions and tank tourism. As shown in the European Commission’s Impact Assessments (both parts 1 and 2), the impact on employment is positive in all policy options – even those with higher tax rates – both in the EU as a whole and in all Member States, due to the effect of revenue recycling. Indeed, the higher the additional revenues from energy taxes – i.e. the higher the minimum rate – the more favourable the economic impact.

In its initial proposal, the European Commission proposed a minimum tax rate for CO₂, set at 20 Euros per ton, and minimum energy taxation rates based on the energy content of different kinds of transport and heating fuels and estimated 40 billion Euros of additional revenue for EU Member states. However, the proposed minimum tax rates in the Commission’s revision proposal were too low to have a significant incentive effect on environmentally damaging behaviour – and since then, these minimum tax rates have been watered down still further.

Negotiations in the European Council, where unanimity is required on fiscal matters, have been slow and the proposed minimum carbon tax has been reduced to 12 Euros per tonne. In September 2012, the EU-Cypriot presidency tabled a proposal whereby the minimum petrol tax would remain (with only a change from €359 to €360/1000 litres) while the minimum diesel tax would rise in two steps (2014 and 2018) from €330 to €390/1000 litres. This change would do little more than reflect forecasted inflation. In 15 of the 27 Member States, including the big four – Germany, France, UK and Italy – the diesel tax is already far above the new proposed minima for 2018. The dossier will now be handed over to the Irish Presidency in the first half of 2013.

The European Parliament did not come out strongly in favour of the revision, but did support the basic principle of a carbon price throughout the European Union. Although it only plays a consultative role in the ETD negotiations, a more positive response may have had a symbolic impact. In the end, however, the EP’s non-binding legislative resolution was rather a let down.

Now, at the end of 2012, it remains unclear when and at what level of ambition the Directive may eventually be adopted. Green Budget Europe and partners have been calling on the Council to make a quick decision on the Directive and revisit the issue in 2015, and to increase the minima in the Cypriot proposal (see our letter from 13 December). However, as things stand, the European Union looks set to lose a real fiscal and environmental policy opportunity.

**Ireland to raise higher CO₂ taxes**

*Petra Sieber, GBE, 14 December 2012* Ireland already introduced a carbon tax on fuels including petrol, diesel and natural gas in 2010. In 2012, this tax rate was raised to 20 Euros per tonne of CO₂. As part of Ireland’s 2013 budget, the tax will also cover solid fuels such as coal and peat at a lower level of 10 Euros per tonne of CO₂ by May 2013. In the same budget, the registration tax for electric cars was decreased by 25 percent.

As Ireland’s vehicle tax regime is linked to CO₂ emissions, more than 50 percent of all new cars purchased in 2012 were considered as “environmentally friendly”, which means that the vehicles emit less than 120 grams of CO₂ per kilometre.

Find a summary of Ireland’s 2013 budget [online].

**Norway doubles carbon tax on oil industry**

*Salman Shaheen, International Tax Review, 12 October 2012* Norway’s carbon tax hike shows the country is taking its climate change commitments seriously, but the oil industry is concerned that the measure will undermine the EU Emissions Trading Scheme.

The carbon tax for offshore oil companies will almost double to Nkr410 ($72) a tonne in 2013. Norway is also adding an extra Nkr10 billion to funds to mitigate the effects of climate change, promote renewable energy, food security in developing countries and conversion to low-carbon energy sources. These are bold steps towards greening the economy and could serve as a model for other oil-rich nations to follow.

Green Budget Europe, the organisation that lobbies for market-based environmental fiscal reform, says that carbon taxes can benefit companies in the long-term as it will help them to increase their energy efficiency while bringing down their emissions levels. [...]
Jon Henry Rosseland of Deloitte says that since carbon-mitigating measures on offshore installations such as electrification are relatively costly, and that the offshore petroleum sector is a part of the EU emissions trading scheme, the carbon tax is not likely to have much of an impact on emissions in the industry. [...] Read the whole article online.

Switzerland: New CO₂ Ordinance to reach 2020 targets

[Petra Sieber, GBE, 14 December 2012, based on the website of the Swiss Federal Office for the Environment] On 30 November 2012, the Federal Council approved the new CO₂ Ordinance, which enters into force along with the revised CO₂ Act on 1 January 2013. These pieces of legislation establish the legal framework for Switzerland’s climate policy from 2013 to 2020.

Based on results of a broad consultation process, the CO₂ Ordinance formulates instruments in order to meet the legally defined reduction target:

- Compared to 1990, the following reduction levels are expected by 2020: 40 percent in the buildings sector, 10 percent in the transport sector and 15 percent in the industrial sector.
- If the CO₂ emissions target for fossil fuels is not met in 2012, the CO₂ levy on fossil fuels will be increased from the current 36 francs to 60 francs per tonne of CO₂ from 1 January 2014. Further increases are possible until a maximum levy of 120 francs per tonne of CO₂.
- Certain sectors of the economy which are particularly affected by the CO₂ levy and which operate in competitive international markets should still be able to opt out of the CO₂ levy. In this case, the companies concerned must instead commit to reducing their emissions.
- The Emissions Trading System for companies will continue to develop along EU lines with a view to combining it with the European system.
- The CO₂ emission standards for new cars introduced in 2012 are continued.
- A technology fund is established and financed with 25 million francs a year from revenue from the CO₂ tax.
- Measures to promote information, training and advisory services are planned.

Switzerland’s climate policy and the Kyoto target

In ratifying the Kyoto Protocol, Switzerland committed to reducing its greenhouse gas (GHG) emissions between 2008 and 2012 by an average of at least eight percent compared with 1990 levels. The current version of the CO₂ Act aims to reach a CO₂ reduction of 10 percent within the same timeframe, but does not consider other GHG.

As a result, Switzerland will only meet its obligations by buying additional emission reduction certificates abroad and factoring in the carbon sink capacity of its forests. The final calculation will not be available until 2014, when emissions data to the end of 2012 are known.

North American cap and trade system for emission rights

[Petra Sieber, GBE, 18 December 2012] On 19 November 2012, the California Air Resources Board (ARB) opened its inaugural carbon allowance auction in preparation of the Californian cap and trade compliance market set to begin by January 2013. The Trading Scheme covers major sources of greenhouse gas (GHG) emissions in the State such as refineries, power plants, industrial facilities, and transportation fuels. The regulation includes an enforceable GHG cap that will decline over time. The cap will help California to meet its goal of reducing GHG emissions to 1990 levels by 2020, and ultimately achieving an 80 percent reduction from 1990 levels by 2050.

For Québec, establishing a cap and trade system for greenhouse gas emission allowances will pave the way toward achieving a reduction target of 20 percent below 1990 levels by 2020. After a “transition year” which allowed emitters to adjust, the system will come into force on January 1, 2013.

Western Climate Initiative

The Western Climate Initiative (WCI) is a group of American states and Canadian provinces that have decided to adopt a common approach toward addressing climate change, in particular by developing and implementing a North American system for capping and trading GHG emission rights. California, British Columbia, Ontario, Québec and Manitoba are closely working together through the WCI to achieve harmonized programs that will deliver emission reductions even more cost-effectively than isolated trading schemes. The partners expected to implement the program when it begins in January 2012 comprise approximately two-thirds of total emissions in the WCI jurisdictions. When fully implemented in 2015,
the system will cover nearly 90 percent of the GHG emissions in WCI states and provinces.

Economic analysis proved that by 2020, the WCI approach can cut regional GHG emissions by 15 percent below 2005 levels and realise cost savings through increased efficiency and reduced fuel consumption. These results show that mitigation of GHG emissions and the move to a clean-energy economy is affordable, and can be achieved without negatively impacting the regional economy.

**Australia pays out lump sum cash bonuses for families as carbon tax compensation**

[Florian Mugavero, GBE, 08 April 2012] With the introduction of the new carbon tax, Australia's biggest polluters will have to pay for every tonne of carbon pollution they emit.

Prime Minister Julia Gillard said that the tax would reduce carbon pollution by at least 160 million tonnes a year by 2020 – which is the equivalent to taking 45 million cars off the road.

Minister of Finance Wayne Swan said the 18 bills comprising the government's clean energy package represented one of the most important economic reforms in the nation's history.

"Treasury modelling shows the Gillard Government's carbon price will reduce emissions and drive investment in clean energy while ensuring the economy continues to prosper, with 1.6 million jobs to be created by 2020," he said.

Reform packages are such that nine out of ten households would receive compensation from a combination of tax cuts and increases to family benefits. These have been disseminated in a successful online campaign to Australian households.

Tax reforms being delivered as part of the package will see the tax-free threshold rise to 18,200 Dollars from 1 July 2012, and then to 19,400 Dollars from 1 July 2015. This will free over a million people from taxation altogether. As well, from 1 July, more than six million Australians earning 80,000 Dollars a year or less will get an annual tax cut of up to 300 Dollars.

To soften the blow before the carbon tax kicks in, lump sum bonus payments were rolled out from May, ahead of the introduction of the tax in June. The carbon tax compensation package will include:

- Families: already securing payments under Family Tax Benefit A will be paid cash bonuses to compensate for the impact of the carbon tax from May 16 to May 29 with a small increase in fortnightly payments to follow.
- Single income families: securing payments under Family Tax Benefit B will get up to 69 Dollars extra plus up to 300 Dollars in additional supplement.
- Students: securing Austudy payments will secure payments over the period June 11 to June 22 2012.
- Pensioners can expect to see their 250 Dollar bonuses, known as the Clean Energy Advance, to arrive from May 28 to June 8.
- Self-funded retirees who have a Commonwealth seniors health care card will get a 250 Dollar cash bonus from next month or 190 Dollars for each member of a couple.

Find an article by The Telegraph (Australia) online.

**B.C.’s carbon tax shift delivers economic and environmental benefits**

[Sustainable Prosperity, 27 June 2012] British Columbia's carbon tax shift has lived up to expectations, reducing fuel use in the province by nearly 15%, according to a report released in June 2012 by Sustainable Prosperity, a green economy think tank.

B.C. now has the lowest per capita fuel use of any province in Canada, passing Ontario, which was consistently ahead of B.C. for low fuel use before the introduction of the carbon tax, according to the study, titled British Columbia’s Carbon Tax Shift: Its Effects after Four Years. The report, which examines the impact of the policy as it marks its four year “anniversary” on July 1st, found that between 2008 and 2011, per capita use of petroleum products, such as gasoline and propane, dropped 15.1% in B.C. During the same period, there was a 1.3% increase in fuel use across the rest of the country.

As well as having a positive impact on the environment, concerns that the tax shift might harm the economy are unfounded, according to the new study. The latest data suggests there has not been any negative impact on GDP since the tax shift was introduced in 2008, which is in line with evidence from other countries that have brought in similar policies. British Columbia’s economic growth per capita has remained relatively constant during the period that the tax has been in place, even in the face of the global financial crisis.

The carbon tax shift has, in fact, benefitted the economy in many ways: Companies, organizations...
and individuals have been spurred on by the policy to invest in renewable energy and energy efficiency, which has helped to “decouple” the BC economy’s growth from fossil fuel use. Because it has allowed for other taxes – particularly corporate and income tax rates – to be cut – which is what the “shift” refers to – the policy has also put BC in the enviable position of having some of the lowest tax rates in North America.

Professor Stewart Elgie, the report’s lead author, said: “British Columbia’s decision to introduce a carbon tax shift in 2008 was a courageous and farsighted one. Our study shows that the decision was also a wise one, inasmuch as the tax shift has delivered real environmental benefits to the province, even as the BC economy has continued to grow. Moreover, by “decoupling” its economic growth from fuel consumption, the province is making itself less vulnerable to the volatility of fossil fuel prices, and it has created a fiscal advantage for itself through reduced personal and corporate income cuts.”

Sustainable Prosperity will be conducting further research on the impact of B.C.’s carbon tax shift on specific sectors in order to better understand the impact of the policy on consumer and industry choices when it comes to fuel use.

The report is available online at the Sustainable Prosperity website.

**South Africa to introduce carbon tax**

[Florian Mugavero, *Business Green*, 23 February 2012, summarized by GBE, 12/2012] South Africa is looking to introduce its own carbon tax in 2013 or 2014, to reduce harmful greenhouse gas emissions, though it will only affect its country. And nearly two-thirds of emissions will be tax-exempt until 2020 to lessen the impact on industry.

The new tax could be introduced next year if a proposal contained in the country’s latest budget comes to fruition. The Treasury put forward plans for a carbon tax of 120 rand (€12) per ton for emissions over and above a 60 percent threshold that will be set for a number of carbon intensive sectors, including electricity, petroleum, iron, steel and aluminium.

It added that it plans to publish a draft policy later this year. Under the initial plans, the levy would increase by 10 percent a year until 2020, while all sectors except electricity will be able to claim additional relief of at least 10 percent. This means nearly two-thirds of emissions will be tax-exempt until 2020 - a scenario that will be seen as a victory for heavy industry lobbying. Companies had complained the tax would further damage profits and economic growth at a time when they are already struggling with rising power and wage costs. South Africa is not only Africa’s largest economy, it is also the continent’s biggest polluter and one of the world’s 20 largest carbon emitters.

Read the full article online.

**China considers carbon tax by 2015**

[Mary Swire, *Tax-News.com*, Hong Kong, 10 January 2012] Following previous announcements that it would develop tax policies to conserve energy, reduce emissions and protect the environment, it has been disclosed that the Chinese government is considering the introduction of a carbon tax by 2015.

The possible tax, at an initial rate of RMB10 (USD1.58) per tonne, would probably be imposed on the major emitters of greenhouse gases in the country, such as those industrial sectors using large quantities of coal, crude oil and natural gas.

The rate would be likely to increase over time.

It is possible that, simultaneously with the imposition of the new tax, tax credits could also be given to those companies that took measures to reduce their emissions.

It is reported that a proposal for a carbon tax has been produced by the Research Institute for Fiscal Science within the Ministry of Finance, and that the latter is studying it. It has been suggested that the tax could be introduced as early as this year, but that the current economic conditions have meant that a delay is inevitable.

Find the original article here.

**Carbon Tax Reform in Japan**

[Florian Mugavero, GBE, 2012] One year after the Fukushima disaster Japan will introduce a carbon tax to curb greenhouse gas emissions amid the increased use of fossil fuels to generate power while nuclear reactors remain shut.

The tax reform 2012 has passed the House of Councilors on 30th of March. It will introduce a “Carbon Dioxide Tax of Global Warming Counter-measure” and the extension of tax reduction on environmentally friendly vehicles. The temporary scheme of the tax reduction on environmentally friendly vehicles. The temporary scheme of the tax reduction on environmentally friendly vehicles.
Green Budget Reform in EU Member States

Czech Republic: Can consolidation help greening the budget?

In April 2012, the Czech Government approved a number of policy measures in order to stabilize the public budget, some related to environment.

Expenditure cuts

On the expenditure side, GBE welcomes the abolishment of extra allowances for the housing sector. A major drawback is the reduction of subsidies for the renewable energy sector. “[Environmental] groups argue that the assumptions made in two policy documents under development would put the member state more firmly on a carbon intensive path. They also criticise plans to build new units at the Temelin and Dukovany nuclear power plants and to prioritise waste incineration over recycling”, reports ENDS Europe in September. “The main issue appears to be the industry ministry’s proposal to lift limits on open cast coal mining in north of the country so that new mines could be developed.” Read more online.

Measure to increase revenues

VAT levels were increased from 14 to 15 percent and from 20 to 21 percent respectively. In addition, the personal income tax was increased by 1 percent. Burdening consumption generally and labour are failed opportunities to create incentives for sustainable purchasing. A limited solidarity surcharge on high incomes (plus seven percent) might balance material distribution but still taxes labour instead of environmental damage. On the contrary, the abolishment of reduced excise duty rates on agricultural diesel is an important step forwards in cutting environmentally harmful subsidies.

Green tax hikes

The Czech government introduced a carbon tax on mineral oil, solid fuels and natural gas at a level of 15 Euros per tonne CO₂. At the same time, an exemption for households which did not pay excise tax on natural gas for heating was cancelled. The consolidation efforts will also be supported by revenues resulting from the increasing share of auctioned allowances in the ETS sector.

Denmark: CO₂ reduction through tax restructuring - company cars and private cars in general

[Christian Ege, The Danish Ecological Council, 27 August 2012] The Danish taxation of cars has in many ways brought Denmark in front in terms of providing an energy efficient car fleet – for the benefit of social as well as private economy and for the environment. But much more can be achieved, and improvements are necessary in order to stay in front internationally – and in order to achieve real CO₂-reduction that is not outweighed by growing traffic.

Registration tax

The Danish Registration tax as it exists today – since the reform in 2007 – has to a great extent proved to be effective. Together with Portugal, Denmark already in 2010 reached the EU goal for 2015 that new cars on an average must release below 130 g CO₂/km. [...] The registration tax is differentiated, with a dividing line at 16 km/liter for gasoline- og 18 km/liter for diesel cars. This corresponds to app. 150 g CO₂/km for both gasoline and diesel cars. Cars less effective than the dividing line are “punished” with an extra registration tax of 1,000 DKK (134 Euro) per km that it runs shorter than the limit. Cars more effective than the dividing line get a...
The Ecological Council supports increase of the tax on the least efficient cars to 6,000 DKK per km (806 Euros). But we do not recommend further decrease of the tax on the more efficient cars – this should be kept on 4,000 DKK per km (540 Euros). We propose this to avoid a further increase in the total sales of cars that would follow a tax reduction for the more efficient cars. And secondly to avoid a loss of revenue for the state that would follow a changed pattern of new-sold cars and a lower consumption of diesel and gasoline. Besides, in the light of the increased average fuel consumption the dividing line should also be moved by for instance 3 km, to 19 km per liter for gasoline and 21 km per liter for diesel – corresponding to approximately 126 g CO₂ per km for both.

**Electric cars and plug-in hybrids**

We also need a tax reduction for the best plug-in hybrid cars, meaning those with the longest range of the battery. [...] Finally, we propose the Danish tax exemption for electric cars to continue, also after 2015 (where it stops according to the present decision) - not permanently, but until there are 100,000 electric cars on the roads, corresponding to approximately 5 percent of the total car Danish car fleet.

**Ownership tax**

The Danish car ownership tax is also differentiated according to the fuel consumption of the car. You might consider to change a minor part of the registration tax into a higher ownership tax – in order to increase the incentive to scrap old inefficient cars. [...]  

**Company car taxation**

In Denmark 35-40 percent of the total sales of new cars are company cars – while less than 10 percent of the total car fleet, because many of the company cars are sold for private use after few years. The Danish taxation of company cars – called "free car" – is an income tax, where you try to assess the value of having a free car from your employer that you can also use in your spare time. Often you get a free car instead of a higher salary. Because of lower taxation, you can get a company car cheaper than if you would buy the same car on your own. In this way it contributes to a distorted car taxing system. [...]  

Find the full publication including figures [online].

**France: Little choice but a green new deal?**

[Jacqueline Cottrell and Constanze Adolf, GBE, extract from an article in International Tax Review, December 2012] As one of the biggest Member States of the EU, the “Grande Nation” is facing severe economic problems. With the French economy now at a standstill, the new President Francois Hollande is trying to push through a tough budget for the coming years, and has scoured the economy for ways to raise taxes, particularly on the rich. It includes his most controversial provision, which would levy a 75 percent tax on people earning more than one million Euros.

There was reason to be hopeful earlier this year that carbon-energy taxation in France was only an election away. Expectations were high in some circles that President Hollande would launch a serious attempt to increase the proportion of environmental taxation to total tax revenues – for in France, this proportion is lower than almost all other countries in the European Union. Add to this the knowledge that 63 percent of all French GHG emissions are not covered by the EU Emissions Trading Scheme, and it seems eminently reasonable to expect the new government to take action and push for carbon-energy taxation.

This included some promising initial developments. The new government announced that it would include EFR elements in upcoming fiscal reforms, including a new energy law, in mid-2013. It also published a Feuille De Route Pour La Transition Ecologique (a green transition roadmap) in September 2012 detailing the environment policies it wishes to pursue, including a section on Financement de la transition et fiscalité écologique (financing the green transition and EFR). In this document, the government proposes to raise environmental taxation to bring France more in line with the EU average, while incorporating measures to facilitate behavioural change.

From 14 to 15 September 2012 the so-called “Environmental Conference” – a key stakeholder consultation – was hailed as a means of kick starting an “environmental transition” in France. However, some elements have already been watered down. For example, Environmental Fiscal Reform was to be discussed in 2013, but the debate has now been put off until 2016. Nevertheless, some elements of
the roadmap give reason for hope that France will now move towards greening its tax system and budgets, although it is rather short on specifics.

The roadmap includes the following intentions or key elements of future policy:

- Create a pluralistic (follow-up) commission to monitor ecological taxation, attached to the ministry of ecology and finance and controlled by an independent expert,
- Reduce environmentally harmful subsidies by 50 percent until 2017,
- Launch a debate on energy, which will lead to a framework law on energy to be voted by the Parliament before the summer of 2013 (although this it seems will not include energy tax),
- Creation of a biodiversity agency,
- Moratorium on shale gas and non-conventional petrol.

The few taxes proposed will be introduced over several years. They include higher taxes on high-emitting vehicles, increased air pollution taxes (TGAP) within the 2013 Finance Bill, a phase out of tax benefits for biofuels by 2015, and fuel switching towards renewable energies. There is considerable room for further input, improvement and higher levels of ambition as the roadmap is refined – most notably the inclusion of carbon-energy taxation.

Significant barriers to EFR remain in France and resistance to carbon-energy taxation remains high. The government’s announcement in November 2012 to hold back on the implementation of environmental taxation until 2016, its decision in summer to reduce petrol taxes, and its refusal to converge diesel and petrol prices, all reveal policy short-sightedness and uncertainty underlined by the lack of specifics in the roadmap.

Nevertheless, a definite window of opportunity to push for Environmental Fiscal Reform still exists in the country. Predictions for 2013 of unexpectedly slow growth of 0.4 percent of GDP, rising unemployment, and a fiscal deficit of 3.5 percent – above the three percent upper limit which Hollande previously agreed – indicate that finding sources of tax revenues with the least possible negative impact on GDP growth and employment is a matter of urgency. As well, there is presently much debate in France about reducing the tax wedge on labour, as a means for a choc de compétivité and reduced unemployment. A tax shift from labour taxes to environmental taxes seems to be a perfect solution to this dilemma.

How long and how deep the crisis will be in France depends in the end on whether lessons will be learned from the past and whether an ambitious approach will be adopted to making macroeconomic decisions, including the implementation of carbon-energy tax. Business as usual is no longer an option.

The creation of a simpler, smarter tax system is a unique opportunity for France to green its economy and boost growth, employment and green investment.

Bearing in mind the current tax structure, higher levels of ambition are a must, if the roadmap is to have a real impact on fiscal policy, and if growth-friendly environmental taxes are to contribute to the recovery.

Germany: Calculating the true cost of electricity reveals wind and hydro are cheapest

[Petra Sieber, GBE, 14 December 2012] Taking into account direct and indirect subsidies, health and environmental damage, wind and water power is actually cheaper than energy from coal and nuclear power plants, according to GBG’s new study on behalf of Greenpeace Energy and Bundesverband Windenergie.

In 2012, the socio-economic costs of renewable energies amount to 7.6 ct/kWh for hydropower and to 8.1 ct/kWh for onshore wind power. In comparison, the use of conventional energy sources leads to higher costs for society: 14.8 ct/kWh for hard coal, 15.6 ct/kWh for lignite coal and up to 42.2 ct/kWh for nuclear.

These results are of especially high interest in the light of the current discussion on the cost of the German Energy Transition (Energiewende). The so-called EEG surcharge, amounting for 3.59 cent per kWh in 2012, transparently reflects the true costs of renewable energy on private electricity bills. In contrast, this is not at all the case for conventional energy. GBG calculated that the respective surcharge of “hidden costs” created by state subsidies and external effects would increase the electricity price by 10.2 cent per kWh in 2012. Providing that this additional cost was taken into account by suppliers, renewable energies would already be competitive today.

Download the German edition of the GBG study in its long version or as a factsheet. It is currently being translated and will be published on our website in January 2013.
Read an article by Deutsche Welle or Renewables International.

**Germany: Struggle between energy transition and willingness to pay**

[Petra Sieber, GBE, 14 December 2012] Since the German government decided to achieve nuclear phase-out by 2022, the German Energy Transition is putting the country on a path to transform the way it provides and uses energy. Whereas in 2011 Germany generated electricity mainly from coal (44%), renewables (20%), nuclear (18%) and natural gas, the Energy Transition will result in a share of 80 percent of electricity from renewable sources by 2050.

In order to reach these goals, Germany has implemented a number of laws, programs and MBI, also supported by legislation on EU level: Nuclear phase out, Renewable Energy Act with feed-in tariffs, EU Emissions Trading System, Environmental taxation, Cogeneration Act, Renewable Energy Heating Act and Market Incentive Program (MAP), Act on Accelerating Grid Expansion, Energy-Conservation Ordinance (EnEV) and financial support schemes, Ecodesign/ErP Directive, Efficiency Fund and Climate Initiative, etc.

For further information read the latest publication by the Heinrich Böll Foundation, “German Energy Transition: Arguments for a renewable energy future”.

**Who is to be burdened with the cost?**

In October 2012, Germany’s four transmission system operators (TSOs) determined the surcharge passed on to private consumers the next year, covering the cost of renewable electricity supply. The surcharge will rise from 3.59 ct/kWh in 2012 to 5.28 ct/kWh in 2013.

Looking at the strong critique triggered on the political level, the Renewable Energy Act seems to become a victim of its own success. The surcharge is calculated as the difference between the aggregated costs of fixed feed-in tariffs and the electricity price at the EEX electricity exchange. A rising amount of renewable energy fed into the grid leads both to higher costs for maintaining the tariffs and to a lower wholesale electricity price (so called “merit-order-effect”). As a result, the margin i.e. the surcharge rises.

Power providers benefit from lower wholesale prices, mainly due to the large share of renewables offsetting more expensive conventional plants and increasing total supply, and could pass them on to consumers. However, an analysis by Germany’s Network Agency recently found that the profits of power firms rose from a profit margin of 1.1 to 8.2 percent since 2007. The Agency says that the net rate for power could have even dropped since 2009 providing that power firms passed on the lower cost of wholesale power to consumers; but unfortunately, mainly the factors that increased prices were passed on.

The current practice of continuously exempting (energy-intensive) industry for the sake of competitiveness and employment does not only ignore the adverse effects on incentives for energy efficiency, but also burden a smaller share of German society with the cost of a sustainable energy supply. An equal charging scheme without loopholes would reduce the rate by an estimated 1.5 cents.

Download a German GBG study on benefits for industry [here](#).

**Germany: Compensation of indirect CO2 expenses due to ETS for industry**

[German Energy Blog, 12 December 2012] [The German] Federal Cabinet (Bundesregierung) approved a guideline on the compensation of indirect CO2 expenses (electricity tariff compensation). It shall compensate energy-intensive companies for the costs of greenhouse gas emissions passed on (most likely) to consumers with the electricity tariffs as of 2013. [...] The guideline is applicable for the 2013-2020 trading period of the EU Emissions Trading System. Compensation payments are made the year after the indirect CO2 costs were incurred. Hence, the first payments under the directive will be made as of 2014.

Phase III of the EU-ETS will lead to massive changes by continuously raising the share of auctioned certificates, reducing certificates allocated for free. By 2013, energy producing companies will have to pay for all necessary certificates which will most likely result in rising electricity tariffs.

The guideline intends to enhance the competitiveness of energy-intensive industries and prevent relocation to other non-regulated countries (carbon leakage).

Find the whole article [online](#).

**Greece: Crisis management at odds with sustainable reform?**

[Petra Sieber, GBE, 12 December 2012] WWF has written a letter to the European Commission and the International Monetary Fund, expressing its
According to consulting giant McKinsey’s study “Greece In Ten Years,” the country’s potential for growth in the energy sector amounts to 9 billion euros. The German solar industry is now in crisis due to growing competition from China and it is searching for new export markets. Greece is geographically closer and politically more stable than the states of North Africa, where the Desertec project should be implemented by 2050. [...] If Greece undergoes far-reaching reforms, the export of solar electricity could become the flagship project of a new business model for steady and sustainable growth. In addition to high levels of debt, Greece’s lack of competitiveness is the main cause of its crisis. In the long term, the export of solar electricity would lay the groundwork for the creation of a European Community for Renewable Energy as proposed by former EU Commissioner Michaele Schreyer. Just as the European unification process originated with the Schuman Plan, the creation of the European Coal and Steel Community, and the Euratom Treaty, future energy policy could become the driver of political and economic cooperation and integration in Europe.

Read the full article here.

Hungary: Distance-based toll for trucks
[András Lukács, CAAG, 08 December 2012] The Hungarian Government decided to introduce a distance-based toll for trucks from 1st July 2013. It already issued a tender for the implementation of the toll system, four companies are competing. This is a big victory also for environmental NGOs which have been calling for such a toll already for more than 20 years. There will be substantial improvement in the practical implementation in comparison with the original plans.

The environmental NGO Clean Air Action Group (CAAG) proposed to implement the toll for all roads in Hungary without exception. Recently, the Government declared that the road toll will cover many more roads than earlier planned (only on motorways and a few other main roads) and that the system will enable to extend the toll to any road in the future.

Earlier the government planned to introduce the toll at about 40% of the Austrian level (which, in turn, is only about 20% of the Swiss level), and to raise it to the Austrian level gradually within 10 years. CAAG demanded that the toll should at least be of the same level as in Austria, and within a few years it should be raised to a proper level including all infrastructure and all external costs as it is permitted by the EU rules (the Eurovignette Di-
rective). According to a new draft law published in early December 2012, the size of the toll reflects CAAG’s proposal. (True, this is due not only to CAAG’s efforts, but mainly to the necessity of reducing the public budget deficit.)

CAAG demanded that the revenues should be used mostly to enhance environmentally friendly transport, including rail freight. The government earlier declared that it wants to use the revenues only for the construction and maintenance of motorways, but now, according to the draft law, the revenues can be also used for railway maintenance and development.

Congestion as well as the environmental damages caused by trucks create an acute problem in Budapest. CAAG proposed to connect the national and the city road toll collecting systems. CAAG managed to arouse the interest of some of the city leaders on this issue. Now several of them are convinced that a GPS-based Electronic Toll Collection (ETC) would be very useful. So there is a chance that Budapest will be included in the ETC system.

**Hungary: NGO campaign for Market-Based Instruments in transport**

[András Lukács, CAAG, 08 December 2012] In the framework of a 3-year international campaign for Clean Air, the Clean Air Action Group is focusing on Market-Based Instruments in transport. The project’s aims are increased support for public transport and, at the same time, the implementation of a road toll for trucks on all roads without exception, the introduction of congestion charging and higher parking fees in Budapest. The international campaign is coordinated by Verkehrsclub Deutschland.

For more information, follow this [link](#).

**Hungary: Huge tax evasion with environmental consequences**

[András Lukács, CAAG, 08 December 2012] The Clean Air Action Group (CAAG) and several NGOs were invited by the European Commission Representation in Hungary to comment on the Council Recommendation on Hungary’s 2012 national reform programme and on Hungary’s convergence programme for 2012-2015.

The Clean Air Action Group advised to “prepare and implement an action plan, in consultation with the social partners and civil society, to substantially reduce tax evasion and tax avoidance.” This is crucial because according to the EU-Commission, the size of shadow economy in Hungary is estimated at nearly 24 percent, i.e. substantially above the EU average of 16 percent. Moreover, much of the tax evasion stimulates environmentally harmful activities (e.g. lax company car taxation rules which encourage car use).

Furthermore, CAAG proposed to “prepare an action plan with concrete measures and deadlines for implementation of all recommendations of ‘Guideline 5: Improving resource efficiency and reducing greenhouse gases’ of the Council Recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU)”. Only a concrete action plan with detailed measures will lead to the implementation of the recommendations contained in Guideline 5. As CAAG pointed out, a number of studies (including several commissioned by the European Commission) have proven that the proper implementation of the recommendation in Guideline 5 might substantially contribute to achieving fiscal consolidation as well as the other goals set forth by the EU 2020 Strategy.

Read the full text of the recommendations [here](#).

**Italy: Up and down - Environmental fiscal components of the Government proposal for a general tax reform**

The Italian Government has been confronted with major challenges to tackle the ongoing financial and economic crisis this year. The former EU Commissioner Mario Monti became Prime Minister in November 2011 and selected a technocratic cabinet composed entirely of unelected professionals. In the face of the ongoing crisis, he launched several important reform packages including a reform of the labour market and the pension system, a fight against tax evasion and tax avoidance, and measures to foster growth and stability.

For the first time ever elements of EFR were explicitly mentioned in a proposal for a general tax reform in Italy. These important steps forward were inspired by the work of OECD, UNEP, European Commission, European Environment Agency and Green Budget Europe.

The Italian Government proposed a bill on “Defining a fairer, more transparent and growth-oriented fiscal system” on 16 April 2012 which included a revision of the fiscal system.

Rejected by the Fiscal Commission of the Chamber in October 2012, the Fiscal Commission of the
Senate reintroduced the environmental fiscal elements on 21 November 2012.

The Parliament is expected to approve the Stability (Financial) Law before the call for the new elections, foreseen for February 2013. However, it is still open if it will adopt the Fiscal Reform Delegation Law.

However, several measures introduced in the Monti government’s packages have already significantly reformed the fiscal system since it came into power in November 2011, including environmentally-related measures. For example, fuel taxes increased between November 2011 and July 2012 from 0.61 to 0.72 Euros per litre and from 0.47 to 0.61 Euros per litre of diesel. Compared to the same period in 2011, total consumption of petrol products in the first six months of 2012 decreased by 10 per cent.

A waste tax (TARES) will be reintroduced from January 2013. The attempt of the 1997 Waste Reform to turn the waste tax (TARSU) into a waste tariff (TIA) has been abandoned for the moment. According to the Ispra Waste Report, in 2011, only 17 per cent of municipalities (corresponding to 32 per cent of population) had adopted the waste tariff. The transformation of the waste tax into the waste tariff implied the application of the full-cost recovery principle and thus a significant increase in the price of waste disposal and thus also VAT. This provoked to resistance to change from the municipalities (operationally and politically responsible for the implementation of the change) and to significant legal disputes about the nature of the price and the service, which went right up to the Constitutional Court level. The re-fiscalisation of waste policy enables tariffs that were introduced to be maintained until now and eliminates legal disputes.

Other aspects include a 25 per cent reduction of company cars deductions and the restructuring of renewables and energy efficiency incentives in favour of thermal renewables (biomass heating, heat pumps, thermal solar and solar cooling) and energy efficiency. All elements of the proposals make a reference to the European Union and policies and measures adopted by the European Union in favour of a CO\textsubscript{2} tax on non-ETS sectors. The implementation of a CO\textsubscript{2} tax is linked to the adoption of the Energy Tax Directive. A CO\textsubscript{2} tax could be of great importance for Italy, as a way out of the crisis, as the revenues will be earmarked for financing specifically Energy Renewables and Low-Carbon Technologies as well as for environmental protection in general.

Furthermore, the current proposals open the way to reform of environmentally harmful subsidies in form of fiscal expenditures, which is in line with the 7th Environmental Action Programme recently presented by the EU-Commission. The full original Italian text is available at the Government website.

Netherlands: Market-based instruments in environmental policy – the Dutch case

[Hans Vos, November 2012, abridged and modified by Petra Sieber] 2012 has been a turbulent political year in the Netherlands, and it has had some significant effects on the use of market-based instruments in environmental policy.

Facing a high sovereign budget deficit for 2013, an ad-hoc majority coalition quickly reached a budget agreement for 2013. It included a significant strengthening of the green tax shift, resulting in a green budget improvement of about 2 billion Euros. One of the new measures would remove the income tax freedom of travel expenses compensation for employees that would imply introducing a commuter tax.

In the course of the new elections, the Autumn Agreement was adopted, which is less green than the previous one. The abolishment of income tax freedom for commuter travel cost compensation was cancelled and a package of green subsidies (e.g. solar panels, insulation of buildings) removed. Other green measures (coal tax for power generation, increased tax rates for natural gas, tax on red diesel, tax on tap water, eurovignet) have not been affected. Finally, a green budget improvement of about 1 billion Euro will remain.

Energy taxes

As taxes in the area of energy and transport are most important in terms of revenues, they amount for over 90 percent of all environmentally related taxes. The Dutch tariffs are mostly well above the present minimum levels and among the highest in the EU.

Car taxation

Fiscal measures such as a discount on Registration Tax and Annual Motor Vehicle Tax have greatly stimulated the sales of efficient cars, both for private and corporate use. These measures have lead to a drastic reduction of average CO\textsubscript{2} emissions of new cars to 128 grams per kilometre by mid-2011, lower than the EU-agreed level of 130 grams per kilometre by 2015. By 2015, the threshold for Registration Tax exemption is 83
grams per kilometre, both for petrol and diesel cars.

**Emissions trading**

Two schemes of emissions trading are active in the Netherlands. By applying the EU ETS, the Netherlands could not reach their Kyoto target of - 6 percent for 2008-2012 and will hence make use of the Kyoto mechanisms. The national NOx emissions trading system is little effective because conditions for trade are difficult and prices stay at a low level.

Download the full report.

**Spain: Green law as a victim of the crisis**

[Petra Sieber, GBE, 14 December 2012] In November, the Spanish senate approved the government’s proposal to relax environmental legislation concerning water, waste and habitat protection, which is considered as an obstacle for economic growth. A member of the opposition group called the text a reversal of the most advanced aspects of Spanish environmental legislation. He also stated that the government’s strategy was ambiguous: The proposal was justified by job creation, but the changes to waste management would destroy the opportunity to create jobs related to a deposit and return scheme.

**Spain’s revenue from environmental taxation lowest in EU**

[Petra Sieber, GBE, 14 December 2012] In May, the European Commission adopted a package of proposals concluding the second European Semester of economic policy coordination. It jointly published a working paper revealing the percentage of environmental taxation of GDP in 2010 for each member state.

As Spain was classified to have the lowest revenue from green taxation in relation to GDP, it was advised to shift the tax burden from labour to environment and increase the cost-effectiveness of its electricity sector. In this regards, Spain’s subsidies for nuclear and large hydropower generators as well as for coal mines were mentioned as eroding competitiveness and efficiency. Furthermore, the government’s decision to suspend financial support for new installations increasing renewable energy supply makes it “hard to achieve Spain’s target under Europe 2020 energy and climate goals” and increases "Spain’s dependence on imported energy from the current 79 percent”.

**Budget proposal for 2013 fails to respond**

The new budget proposal released in October gives little reason for hope. According to a government spokeswoman, the existence of regional taxes (such as the Catalan landfill tax) makes it difficult to introduce national fiscal measures. As reported by ENDS Europe, the “budget proposal does include some measures with environmental implications such as the elimination of the zero rate for biofuels, which will increase fuel tax revenues by €300m next year, and a €75m plan to substitute old vehicles with low-emission electric, LPG or hybrid alternatives. [...] Separate energy taxation proposals published last month include new taxes on natural gas and on electricity production including renewables”.

Read more online.

**Spain introduced “Green Cent” tax but limited scope**

In order to reduce the general budget deficit and the debt to electricity industry, the Spanish government hopes to raise 6.8 billion Euros with the new tax coming into force in April 2013. However, as the VAT rise in September from 18 to 21 percent on most goods is “sufficient punishment for consumers”, the government decided that the “Green Cent” will only apply to natural gas and not tax all fuels as previously planned.

**Fiscal consolidation package**

Spain is planning or has already introduced new taxes on business, including some measures relating to the environment, such as the introduction of new taxes on power generation. Business will also be hit by new accounting rules to limit losses carried forward and rates of depreciation. Households will be affected by new measures limiting tax advantages arising from property purchase and higher rates of capital gains tax for short-term profits resulting from the sale of assets. VAT will also be increased by 3 percentage points.

**Spain: Recent update of landfill and waste incineration taxes in Catalonia**

[Dr Ignasi Puig Ventosa and Marta Jofra Sora, ENT Environment and Management] In 2003, the Catalan Parliament passed the Law 16/2003 of 13 June, on funding waste management infrastructures and on the waste tax. The tax entered into force on January 1st, 2004 and affected the admission of municipal waste in both public and private landfills. That law was repealed by Law 8/2008 of 10 July, on funding waste management infrastructures and on taxes on the disposal of waste refuse,
which amended the existing tax and introduced a new tax on municipal waste incineration and created two increased tax rates. Finally, Laws 7/2011 of 27 July, and 5/2012 of 20 March, of fiscal and financial measures, updated the tax rates, which at present are as follows:

- €12.4 per ton of municipal waste going to landfill.
- €21.6 per ton of municipal waste deposited in a landfill in the case of municipal waste from local authorities that have not initiated the development of separate collection of organic waste, according to the proposed deployment programme approved by the Catalan Waste Agency.
- €5.7 per ton of municipal waste going to incineration.
- €16.5 per ton of municipal waste going to incineration from local authorities that have not initiated the development of separate collection of organic waste, according to the deployment programme approved by the Catalan Waste Agency.

These fees also affect industrial waste with similar characteristics to municipal solid waste.

Since their creation, these taxes are earmarked. At present, Law 8/2008 states that at least 50% of the revenue “should be dedicated to the treatment of organic waste, including treatments that reduce the quantity or improve the quality of waste for disposal, especially regarding the reduction of the organic fraction contained in the residual fraction”. The remaining revenue must be applied “to the separate collection of organic matter; to the collection and recycling of other waste fractions; to other forms of material recovery and to promote awareness campaigns and environmental education”.

In practice, the tax revenue is distributed among local authorities responsible for waste collection, transportation and treatment, according to a set of criteria defined mostly in terms of Euros per ton of the different waste streams separately collected. Although these criteria have changed annually since the creation of the tax, separate collection of biowaste and a low presence of impurities in this fraction have been particularly encouraged.

Both the tax and the distribution scheme create a double incentive for local waste authorities to improve waste management. Despite there is a lack of quantitative studies evaluating the effectiveness of the tax, the perception is that local waste authorities clearly respond to these incentives. Particularly the number of municipalities introducing separate collection of biowaste, boosted since the introduction of the tax. As a result, the revenue of the tax has decreased during these years, from 32 million Euros in 2004 to 26 million Euros in 2010.

Only on 1st April 2012 another Spanish autonomous community (Castilla y León) implemented another tax on the landfill of municipal waste, by means of Law 1/2012, of 28 February, of fiscal, administrative and financial measures. The tax also affects the landfilling of industrial waste.

Four Spanish autonomous regions apply landfill taxes (Madrid, Andalusia, Murcia and Cantabria), but they affect other kinds of waste rather than municipal waste, such as radioactive, industrial or construction and demolition waste. Given its positive effect on waste management, the adoption of such taxes should also be considered in other Spanish regions.

**Sweden: Environmental tax increases**

[Magnus Nilsson, Transport & Environment, 14 December 2012] Nowadays the Swedish government does not take many initiatives in the field of ecotaxes and green tax shift. One excuse is the number of decisions taken already in autumn 2009 that are now stepwise entering into force. This strengthens the energy taxes from January 1 2013.

The diesel tax will be raised from 0.541 to 0.552 Euros per litre. For the first time, a minor tax will also be introduced on ethanol and FAME low-blended in petrol and diesel respectively. Since more or less all petrol and diesel are mixed with five percent ethanol and FAME respectively, this will further increase the real taxes paid by the customers. The tax on heating oil will also be raised.

The CO₂ and energy taxes are every year corrected for inflation, but since Sweden actually experienced deflation during 2011, this will slightly lower the taxes.

**United Kingdom:**

**Carbon reduction policy under reform**

[Salman Shaheen, International Tax Review, 05 April 2012] The Carbon Reduction Commitment (CRC) has been significantly altered since it was devised by the previous UK government and businesses and environmentalists agree it may now be too complex.
The CRC requires companies that consume more than 6,000 megawatt hours of electricity to purchase an allowance at the beginning of each year for every tonne of carbon they emit. When it was initially conceived under the previous government, it was designed to be revenue neutral as the money raised was to be redistributed to other participants based on emissions performance. The new government, however, abandoned the recycling element and turned it into a complex, unwieldy carbon tax.

“When it was proposed, the revenue was to be clearly ring-fenced within the scheme and recycled back to the companies,” said Michael Jacobs, former UK Prime Minister Gordon Brown’s special adviser on the environment who oversaw a range of policies including the CRC. “So it had two incentive mechanisms – one was the price companies had to pay for carbon, the other was the opportunity to get back more than this in revenue.” Jacobs points out that by removing the recycling element, the government has turned it into a purely negative measure – it continues to give companies the incentive to save energy, but not to the same extent as before. […]

To appease business, the government is consulting on simplifying the scheme. [...] “It’s vital that the objective should not be abandoned – investing in energy efficiency is arguably even more important now as energy prices continue to rise,” said Jacobs. “Energy efficiency has huge potential both to create jobs and save businesses money.”

Read the full article from Salman Shaheen online.

British industry calls for CRC reform

[Petra Sieber, GBE, 12 December 2012] Already in February, the Confederation of British Industry (CBI) wrote a letter to Chancellor George Osborne, calling for action: “The CRC as it now stands does not deliver an effective and proportionate mix of the financial, reputational and reporting drivers required, adding complexity and confusion when businesses desperately need simplicity and clarity. [...] The CBI proposes to simplify the policy landscape and reduce the burden on business by replacing the CRC with a reformed Climate Change Levy (CCL) in tandem with Mandatory Carbon Reporting."

If the government could not find a way to simplify the scheme, Osborne pledged to replace it by a simpler green tax system. The CBI expressed support for this proposal, arguing that green levies “have an important role to play not only in supporting the government’s green agenda but also in encouraging business growth and unlocking investment in the UK”.

Government: Simplified CRC will save businesses huge costs

The government claimed that changes to the controversial green tax will save businesses 272 million Pounds in administration costs over the next 20 years, writes Will Nichols for Business Green. Read the full article online.

UK: First country to introduce compulsory carbon reporting

[Petra Sieber, GBE, 12 December 2012] As announced by the British government in June, all companies listed on London Stock Exchange will be required to report their carbon emissions from April 2013. Starting off with a pilot phase that will cover 1,100 firms, the provision will be reviewed in 2015. If transparency in energy consumption proves to be an effective instrument encouraging the use of saving potentials, the reporting scheme will be extended to all big companies from 2016, involving around 30,000 businesses.

However, according to latest news, public and private organisations covered by the scheme will only have to report against two fuels – gas for heating and electricity – rather than the 29 different fuels as under the current rules.

UK’s battle with Commission could redefine EU environmental VAT incentives

[Salman Shaheen, International Tax Review, 24 August 2012] The UK will challenge the European Commission’s infringement proceedings over the reduced rate on energy saving and heating products. If the UK is successful, it could set a precedent for new environmental VAT incentives in the EU.

To drive down emissions in one of its most polluting sectors, the UK applies a reduced rate of 5 percent on energy saving products such as insulation, solar panels, wind turbines, hot water and central heating systems for residential properties.

The Commission, however, points out that these products are not included among the 18 goods and services listed in Annex III of the EU VAT Directive for which a reduced rate can be applied. Arguing that the UK is in breach of EU law, the Commission issued the UK with a reasoned opinion in June requesting it apply the standard VAT rate of 20 percent.
While the UK caved into the Commission’s demands to withdraw of the reduced rate of VAT for energy saving materials installed in buildings used for charitable purposes, it has decided to fight to keep the reduced rate for energy saving and heating products in homes. The case is now likely to be decided at the European Court of Justice (ECJ).

The case will depend on whether or not the UK can convince the EC that its reduced rate counts as having a social purpose, since item 10 of Annex III of the VAT Directive permits reduced rates for the “provision, construction, renovation and alteration of housing, as part of a social policy”. […]

Jacqueline Cottrell of Green Budget Europe sees environmental and social policies as closely linked. “The UK already has lots of social policies on environmental pricing,” said Cottrell. “Reduced VAT rates are a powerful tool to help get energy saving products into the market. […] It’s disappointing that more is not being done on greening the VAT system.”

The Commission’s move is part of a wider drive to simplify the EU’s VAT system by reducing exemptions and harmonising the VAT treatment of goods and services across the single market. […] Read the full article here.

7. Green Budget Reform at EU Level

Carbon price development 2008-2012

Development of the EUA price (European Union Allowance for one tonne of CO2) in the second period of the European Emissions Trading System.

Source: Bluenext 2012, chart by GBE

GBE participates in consultation on back-loading of allowances in the EU ETS

[Constanze Adolf, GBE, July 2012] Green Budget Europe has long been concerned about the volatility of the carbon price within the EU ETS and has called for a tighter and more ambitious cap. We strongly supported Connie Hedegaard, Climate Action Commissioner, in her call for an increase to the EU’s GHG emissions reduction target to 30 percent to boost growth and employment and very much welcomed, in February 2012, Climate Action’s analysis of the impact of an emissions reduction target of more than 20 percent on the EU Member States.

Since this development, GBE has participated in a consultation on the auction time profile for the EU ETS and called for the permanent withdrawal of 1.4 billion surplus allowances to raise the volatile and low carbon price within the trading system.

However, the final result proved rather unsatisfactory, as described in the article below.

**EC opts for middle ground on ETS set-aside**

[ENDS Europe, 13 November 2012] The European Commission has proposed delaying or “back-loading” auctions of 900 million carbon allowances until 2019-20 in a bid to boost prices in the EU’s beleaguered carbon market.

The figure is the middle option from three the commission put forward in July – 400 million, 900 million and 1.2 billion. […]

Member states must now approve this figure through an amendment to EU emissions trading system (ETS) auctioning regulation. The decision will be taken by the EU’s Climate Change Committee, which is made up of member state representatives.

But the ETS directive must also be amended to allow the timing of auctions to be changed. A draft decision to change the directive, published in July, will have to be approved by member states and MEPs through the co-decision process.

Reacting to the back-loading proposal, analysts at Deutsche Bank warned the 900 million figure may have to be revised if there are any major delays to the commission receiving legal approval from EU lawmakers to proceed with its plan.

Auction volumes will be reduced by 400 million allowances in 2013, by 300 million in 2014 and by 200 million in 2015. Those volumes will be returned to the market at the end of the third trading period, in 2019 (300 million) and in 2020 (600 million).

Rémi Gruet of wind power trade association EWEA said the proposed back-loading was "not enough to re-establish an effective carbon market
in Europe”. A higher volume of allowances should be back-loaded to halt the switch from gas to coal that is already happening in electricity production, he said.

The UK government is also likely to see the 900 million figure as too low. In October, an official said the EU would have to permanently remove 1.7 billion allowances. [...]  

Prices in the EU ETS have been severely depressed by oversupply, linked to the economic downturn in Europe, to an influx of cheap credits issued by the UN under the clean development mechanism (CDM), and to generous allocation of free EU allowances during the ETS’ second phase (2008-2012).

On 12/11/12, EU allowances for December delivery – the benchmark contract – closed at €9.08 per tonne of CO₂ equivalent. Carbon prices had increased ahead of the announcement, which happened after the market closed, but they dropped back to about €8.50/t CO₂e after the proposal had come out one day later. [...]  

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The European Wind Energy Association were also highly critical of the measure.

**European Commission climb-down on including airlines in ETS set back for global emissions trading**

[Salman Shaheen, International Tax Review, 13 November 2012] Airlines are celebrating the Commission’s decision to suspend the inclusion of non-EU flights in the Emissions Trading Scheme (ETS) in favour of a global solution, but environmentalists fear it is a major setback for any such International Civil Aviation Organization (ICAO) brokered system.

Bowing to strong pressure from Russia, India, China and the US, the EU’s climate Commissioner Connie Hedegaard announced that the Commission would suspend the inclusion of non-EU flights in the ETS for one year. Hedegaard hopes that the suspension will facilitate a less fraught environment to negotiate a global solution through the ICAO. “Finally we have a chance to get an international regulation on emissions from aviation,” said Hedegaard. [...]  

“Commissioner Connie Hedegaard's announcement that she has 'stopped the clock' on the imposition of the EU ETS on flights to and from non-EU countries represents a significant step in the right direction and creates an opportunity for the international community,” said Tony Tyler, Director General and CEO of the International Air Transport Association. “The Commission’s pragmatic decision clearly recognises the progress that has been made towards a global solution for managing aviation’s carbon emissions by the ICAO.”

Environmentalists are concerned, however, that the move is a significant step back and may even hamper efforts to provide a global solution.

"I think the concession may prove to have reduced pressure on ICAO to find a workable global solution by autumn 2013 and to have weakened the negotiating position of the EU to push for non-EU countries to include aviation in some form of carbon pricing mechanism,” said Jacqueline Cottrell of Green Budget Europe.

On the other hand, Cottrell points out the EU cannot now be blamed for the failure of ICAO negotiations in the future.

Hedegaard said that if the ICAO negotiations do not bear fruit, the EU will press ahead with including all flights into and out of its territory in the ETS. But Cottrell is not confident that the ICAO can provide a solution.

"I hope the ICAO will produce a more global solution [...] and a global mechanism for setting a carbon price within the aviation sector," she said. "On the other hand, ICAO does not have a particularly good reputation when it comes to finding a solution to reducing greenhouse gas emissions from aviation and it has singularly failed so far to do so."

The full article is available here.

**EU Energy Efficiency Directive published**

[Petra Sieber, 19 December 2012] After the EU Energy Efficiency Directive came into force on 5 December, it has to be transposed into national law by June 2014. Member states will be obliged to annually report on progress towards meeting their efficiency targets based on either energy consumption, energy savings, or energy intensity.

The directive determines that by 2020, a maximum of 1,474 million tonnes of oil equivalent of primary energy should be consumed in Europe. This level puts EU on track to reach the 20 percent energy efficiency goal and requires contribution on different levels: 15 percent reduction by lower energy use, two percent reduction by tougher emission standards for cars and vans and the remaining three percent reduction through new eco-design measures.
“One of the directive’s main requirements is an obligation on energy suppliers to deliver an annual 1.5 percent energy saving among end-users”, reports ENDS Europe. “Member states can opt out from this obligation scheme. Examples of possible alternative policy measures to meet this objective, such as energy or CO₂ taxes to reduce end-use energy consumption [...] should be notified to the commission by 5 December 2013.”

Read an article by ENDS Europe and find the Energy Efficiency Directive online.

Sustainable solutions for Europe’s crisis: Towards a resilient Green Economy

[Nicholas Stern, Teresa Ribera and Laurence Tubiana, EuropeanVoice.com, 01 March 2012, modified by Petra Sieber] Not austerity measures, but investment in a green economy will boost growth. Europe’s response to the crisis cannot be limited to fiscal austerity and structural reforms. A focus solely on deleveraging and structural reforms risks enormous economic and social dislocation. Europe therefore needs a plan to re-launch jobs and growth.

Simultaneously, the current reform of the European economy must address long-term challenges, such as resource scarcity and climate change. Europe has the world’s highest net imports of resources per capita, making it highly vulnerable to resource shocks. An extra three billion people will enter the middle class by 2030 and will compete for increasingly scarce and costly global resources.

We already face growing scarcity, rising prices, and intense competition for resources. And there is clear evidence that these ‘megatrends’ played a crucial role in the current crisis. For example, asymmetric economic reactions to rising energy and commodity prices over the period 2005-08 contributed fundamentally to the European crisis. Some European countries were better equipped to ride out and even benefit from the commodity-price boom; others continued to grow only at the expense of increasing trade deficits, and public and private indebtedness.

Austerity problems

It is becoming increasingly clear that a focus only on austerity and structural reform will neither create jobs and restore public finances, nor lay the foundations for mid-term prosperity. Investment in the ‘green economy’ can connect these two timeframes, creating growth and jobs now, and laying the foundation for European prosperity in the future.

In the short term, it is vital for governments to kick-start growth. If not, the debt burden of a number of European countries will be unsustainable. Currently proposed structural reforms can bear fruit only in the longer term. Today, demand and business confidence are low, and most governments’ room for fiscal stimulus is limited. Nonetheless, near zero real interest rates on perceived ‘safe haven’ assets (UK and German government bonds) indicate that there is a dearth of productive investments, and a surplus of savings. In some parts of Europe, capital and labour are sitting idle.

Now is therefore the right time to invest in long-term productive assets and reduce Europe’s internal imbalances. Resource efficiency is a key driver of future economic competitiveness and resilience. There are substantial economic savings to be made, and the scale of transformation is huge. No other sector offers the same logic of scale, opportunity and necessity. Small public initiatives to address market failures can stimulate investments in Europe’s green infrastructure, creating local growth and jobs, and European benefits. A European approach could involve a green infrastructure fund, with a dedicated revenue stream, which could leverage significant investments.

Budget issues

Governments also need to consolidate their budgets, while promoting jobs and growth, and undertake structural reforms to enhance competitiveness. However, such reforms risk lowering demand and causing social unrest. Green tax reform offers the opportunity to address fiscal consolidation in a more coherent way. Shifting excessive labour taxes to under-taxed resource consumption can create employment incentives and improve real wages, boosting jobs and growth. Reducing labour taxes progressively according to income can also address broader equity concerns.

Europe already has extensive and positive experience with environmental tax reform, largely in Germany and Scandinavia. The European Commission estimates that one-third of Eurozone states could boost jobs and growth by shifting taxes from labour to dirty resources.

Finally, there is also the opportunity to create the conditions for long-term growth. Price competitiveness is an important part of intra-European imbalances, but Europe cannot compete with emerging economies by focusing solely on prices. Innovation is clearly central in the age of scarcity
and competition. Europe needs to strengthen innovation to reduce resource imports and exposure to resource shocks, and lead the booming market for green and low-carbon goods and services. But competitive green industries cannot be created from scratch.

The European budget and national reform packages must prioritise support based on the capacities of industries to innovate, and the potential for European benefits. Public intervention can address market barriers to innovation and release rapid cost and efficiency improvements. They should be applied to better fit with sound economic analysis and take account of a compelling European, positive-sum logic to innovation.

Europe cannot afford to lapse into misguided short-termism, preparing the ground for future crises. A coherent plan for a green and innovative economy should be central to the response. It offers the means for short-term job creation and growth, by building the European infrastructure, resilience and intellectual capital necessary to compete and prosper in the long term.

The report of Green Budget Europe’s CETriE project shows the merits of smarter taxes for economic recovery (see GBE activity). Read more.

Eleven EU countries agree on financial transaction tax

[Petra Sieber, GBE, 19 December 2012] In the context of the economic and financial crisis, the idea of a financial transaction tax (FTT) regains support for two major reasons. It raises revenue, forcing the traditionally under-taxed financial sector (exemption from VAT of most financial services) to make a fairer contribution to budget consolidation and simultaneously helps to discourage risky trading.

“Talks on the tax are one element of European Union efforts to create banking rules that could help prevent a repeat of the debt crisis which continues to ravage euro-zone finances. European finance ministers also addressed efforts to create a euro-zone banking union involving centralized oversight of financial institutions”, writes Spiegel online.

However, there are not enough Member States supporting such a step in order to impose the tax across the entire European Union. Countries like the Netherlands, Sweden and the United Kingdom remained strictly opposed out of fears the tax could harm the competitiveness of their financial markets.

In such cases, the EU treaty allows for "enhanced cooperation" if at least nine states reach an agreement. In October, finance ministers of eleven euro-zone countries declared their support: Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain.

Members of the Economic and Monetary Affairs Committee (ECON) in the European Parliament recommended to the plenary to vote in favour of FTT in early December. In a next step, the European Council still has to accept the proposal based on Commissioner Šemeta's draft law before the tax could be levied by 2014.

Read a GBG paper on FTT (in German).

2030 EU Energy and Climate Policy Framework

[Constanze Adolf, GBE, 10 December 2012] The European Commission will present a Green Paper in the first month of 2013 in order to consult the public and to gather input for a "2030 communication on the EU energy and climate policy framework" later in the year. Issues that might be discussed include the target combination (Renewable Energy Sources (RES), Greenhouse Gas (GHG) Reduction and/or Energy Efficiency), the future of RES promotion, the energy market design, industrial policy and competitiveness, and how to approach national and sector effort distribution for GHG and energy saving objectives.

Debate on EU road charging rules for cars

[Petra Sieber, GBE, 10 December 2012] "The European Commission is considering EU rules on road charging for cars and other light vehicles to harmonise existing legislation, widen the use of the polluter pays principle and finance investment in road infrastructure.", writes ENDS Europe.

The commission has opened a consultation until 4 November aiming to address the issue of lack of legislation for vans and cars which, unlike lorries covered by the Eurovignette Directive, do not pay any charges. The commission seeks to collect public opinion on charging vehicles for "at least the marginal costs of the wear and tear of the infrastructure and the main external costs (i.e. noise, pollution and congestion), while for other costs, such as construction costs, the choice of options should be kept wider" (European Commission).
Possible measures in order to move towards the full application of the 'user pays' and 'polluter pays' principles include distance-based charges (tolls), time-based charges (vignettes) or CO₂-based charges (fuel taxes), which would require a clear separation of the CO₂ component in energy taxation. Future legislation should aim at eliminating market distortions compared to other means of transport, ensuring the financing of transport investments and generating revenues.

Read ENSD Europe's article or the European Commission's Background Document for the consultation.

**7th Environmental Action Programme: 'Living well, within the limits of our planet'**

On 29 November, the European Commission published its proposal for the 7th EAP, which will provide the strategic direction for Europe's environmental policy for the next 7 years. Environmental groups see a lack of specific targets and demand a timeframe for action.

GBE also contributed to the consultation on the 7th EAP proposal, and was pleased to recognise some elements of its thinking in the document, but disappointed by the lack of specific targets.

**EEB welcomes respect for planetary limits in 7th EAP proposal but misses concrete targets**

[EEB Press Release, 29 November 2012] [...] The EEB is in particular encouraged that the Commission correctly identified the key challenge which Europe needs to address today, namely unsustainable consumption and production. This contributes to a plethora of environmental problems including toxic pollution, decreased biodiversity and climate change.

Jeremy Wates, EEB Secretary General, said: "The costs of maintaining Europe's excessive consumption through our use and abuse of nature's resources have become prohibitively high - both for the economy and for the environment. The 7th EAP can and must provide a way forward out of the economic crisis which is environmentally sustainable. The Commission's proposal takes us part of the way there but leaves many elements to be decided later."

The lack of targets in the Commission's proposal is a particular concern, especially as this was explicitly asked for by both EU Ministers of Environment and the European Parliament. [...] Download the Commission's proposal here. Read the full EEB press release online.

**Minister calls for EU green law relaxation**

[ENDS Europe, 11 December 2012] Europe should make environmental legislation more flexible to halt the offshoring of its industry and the import of goods from countries with weaker environmental rules, Portuguese economy minister Álvaro Santos Pereira said on Monday.

Speaking after a meeting of competitiveness ministers in Brussels, which led to the adoption of conclusions on a stronger European industry, Mr Santos Pereira said the EU needed to “relax some of its regulations”. “Europe is often too concerned with maintaining very fundamentalist rules which hurt our industry and our employment. It is not acceptable that Europe should be losing industries unnecessarily to other parts of the world because of our environmental or commercial policy,” he added.

The Portuguese minister's remarks are stronger than the conclusions agreed by the competitiveness ministers, who requested that the European Commission “take care that no unnecessary burdens [on industry] are created by EU regulation”.

More hard-hitting was a joint letter by Mr Santos Pereira and fellow ministers from Spain, France, Italy and Germany published on Tuesday in the Wall Street Journal.

In the letter, the ministers warned that Europe is not coping with changes in the world economy and calls for a review of policies, including environmental ones, which have an impact on industrial competitiveness.

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For further news on developments in the European Union, please see also the GBN Special on Carbon Pricing.

**8. Green Budget Reform Worldwide**

This section aims at providing a review of selected changes in environmental fiscal policy worldwide. Arranged by geographic regions, you can find information on countries in North America, Asia as well as Africa.

Viewing the topic in a broader context, we also included a report on the outcomes of the 2012 UN Climate Change Conference in Doha.
**Doha 2012: UN Climate Change Conference under scrutiny**

[Petra Sieber, GBE, 13 December 2012] After two weeks of negotiations, Doha’s COP 18 has delivered disappointing results, especially concerning binding emission reduction targets outside the EU and a new climate finance package, fundamental as the existing one is due to expire this year. Scientists repeatedly warned that current policy might lead to a temperature rise of at least 4°C until 2100, causing changes that could probably not be tackled by adaptation anymore. However, the conference did not prepare the world for an exit strategy. “The door to stay below 2°C remains barely open. The science shows it, the data proves it,” Christiana Figueres, head of the UN’s climate secretariat said during the closing talks.

*Capacity of UNFCCC questioned*

In view of the low ambition level at Doha and previous Climate Conferences, the potential of UNFCCC negotiations to come up with a binding solution was seriously questioned. However, experts do not see any other platform that could tackle climate change better on the same required scale: “In the end, any alternative process would face the same problems,” Green MEP Satu Hassi explained. “With any process that includes the main emitters, the key problem countries would still be the same.” If the G20 or the Major Economies Forum were supposed to do a better job, many developing countries would be deprived of their voice at the talks.

*Countries will draft parts of new climate deal by 2014*

[ENDS Europe, 10 December 2012] [...] Under last year's Durban Platform, governments agreed to reach a new global climate deal by the end of 2015. In Doha, they [...] agreed that “elements of a negotiating text” for the new global climate deal should be available by the end of 2014, so that a draft negotiating text can be ready by May 2015. [...] Countries have also agreed to “identify and explore” in 2013 ways of raising ambition before 2020. But no real agreement was reached on raising ambition pre-2020 outside of the Kyoto Protocol, even though countries promised to do so as part of the [sic] Durban Platform.

*Climate finance*

Developing countries had asked for the $10bn per year rich countries gave in climate finance over 2010-2012 to be doubled for 2013-2015, as part of a plan to scale up to the $100bn per year promised by 2020. This will not happen. The deal reached on long-term finance contains no immediate financial commitments. Developed countries will be encouraged to commit “at least to the average annual level with which they provided funds during 2010-2012” in the coming years, the UN climate secretariat said in a statement. Germany, the UK, France, Denmark, Sweden and the European Commission confirmed finance pledges for the period up to 2015 totaling $6bn (€4.6bn). [...] Observers say rich countries’ failure to make strong pledges on climate finance has weakened developing countries’ trust in the talks and made emerging economies less likely to increase ambition on mitigation.

*Kyoto*

The EU got its way on a new commitment period of eight years, rather than the five favoured by many developing countries. But developing countries won a pledge that emission reduction commitments under the protocol will be reviewed by 2014, with a view to increasing ambition. [...] [However, the number of countries joining the binding agreement went down significantly from over 190 in the first to only 37 in the second period, including the EU-27 and 10 other countries. This means, that the reduction targets of Kyoto II encompass barely 15 percent of global emissions.] After the EU reached internal agreement on the subject of surplus assigned amount units (AAUs) late in the talks, it was decided that the credits can be carried over into the new commitment period, as Poland had wanted. But the EU will not allow AAUs to be used to meet its own climate objectives, while Australia, Japan, Norway, Switzerland and other countries have promised not to buy the credits. Only developed countries that have signed up to new Kyoto commitments will be able to transfer and acquire offset credits from the UN’s clean development mechanism and joint implementation scheme. That means Japan and New Zealand will no longer be able to buy these carbon offsets. [...] Republished with permission of ENDS Europe. A 14-day, no obligation trial is available from [http://www.endseurope.com](http://www.endseurope.com)

Read a summary of the outcomes by C2ES.

Texts agreed on advancing the Durban Platform, long-term finance, Kyoto and loss and damage; Joint statement from the European Commission and Cypriot EU Presidency.
Reaction from UN secretary general Ban Ki-moon, the UK, France (in French), Business Europe, Greenpeace, Climate Action Network EU and the least developed countries group.

Side Event to COP 18: Removing fossil fuel subsidies for a sustainable energy future

[IISD, 30 November 2012] Research by the OECD and the International Energy Agency (IEA) finds that removing fossil fuel subsidies could reduce global emissions by up to ten percent by 2050. This would make a substantial contribution to keeping the global rise in temperature to below two degrees by 2050. Reductions in fossil fuel subsidies would also remove significant fiscal burdens from governments and make funding available for redirection to climate change mitigation and other priorities.

Fossil fuel subsidies five times greater than climate finance

[The Price of Oil, 3 December 2012, summarized by Petra Sieber] In 2009, G20 leaders pledged to phase out fossil fuel subsidies, but very little concrete action has followed. Part of the reason for this failure is the lack of clarity on how much money governments spend on fossil fuel subsidies. Greater transparency would allow for more precise figures, for increased efficiency in spending, reductions in global reliance on fossil fuels and greenhouse gas emissions. Some countries may choose to retain some fossil fuel subsidies that they deem “efficient”, but regardless, both the subsidy and any rationale for not removing it should still be revealed.

As shown in the paper, the total global amount of fossil fuel subsidies provided in 2012 is likely to be at least 775 Billion Dollars. According to the analysis, fossil fuel subsidies in rich countries are, on average, five times greater than those same countries’ pledges towards climate finance (support to developing countries to address climate change and its impacts).

Download the two pages Factsheet here.

US: What does the election outcome mean for climate policy?

[Petra Sieber, 18 December 2012] Barack Obama’s re-election seems to be not only a good sign for social and environmental policy, but also for the green business sector: “Clean energy was a big winner yesterday,” said Frances Beinecke, President of the Natural Resources Defense Council. “American voters not only re-elected a president who made green jobs a cornerstone of his first term and his campaign, they also rejected some of the shrillest champions of Big Oil and Big Coal.”

However, climate change definitely played a minor role during Obama’s election campaign, reflecting the low priority that is generally attached to the issue in American society. However, the current situation in the US puts pressure on the President to act and delivers even more arguments in favour of a green policy shift: the risks of a warming climate including lessons from hurricane Sandy, a weak economy requiring innovation and the need for deficit reduction.

“Many of the fiscal challenges confronting Washington – tax reform, entitlement reform, deficit reduction, avoiding deep defense and domestic cuts – could be eased by additional revenue. A carbon tax is one potential source – and if used, for instance, to offset payroll or other taxes, could be revenue-neutral”, writes Eileen Claussen from C2ES on her energy blog.

In a report for BusinessGreen, Marc Gunther explores whether President Obama’s victory and the looming fiscal cliff could open the door for a US carbon tax.

In early December, Democrat-leaning think tank Center for American Progress published a paper calling for carbon taxation. This shows that the proposal of carbon pricing has finally reached political mainstream in the US. Download the issue brief “A Progressive Carbon Tax Will Fight Climate Change and Stimulate the Economy” here.

Since two years, the US Treasury Department has supported research on whether and how a “green tax” could be integrated into the American fiscal system. The study “Effects of Provisions in the Internal Revenue Code on Greenhouse Gas Emissions” will be published only after the elections in 2013. Read a German article here.

US: Waxman-Markey Bill
Carbon emission policy could slash debt, improve environment

[Henry A. Waxman, Sherwood Boehlert, Edward J. Markey and Wayne Gilchrest, Washington Post, 24 February 2012, summarized by Florian Mugavero] In the run-up to the US elections, Democrats Henry A. Waxman and Edward J. Markey teamed up with Republicans Sherwood Boehlert and Wayne Gilchrest to pen a arguing that a carbon tax could tackle both the environmental and the fiscal crisis the US faces in the Washington Post, which was printed on 24 February and is summarised here.
Warning that the US debt ceiling is likely to have to be raised again at the end of the year, the former and current Congressmen argue that an overhaul of green taxes could help address the "seemingly intractable challenges" of debt and climate change.

"The debate over how to reduce our nation's debt has been presented as a dilemma between cutting spending on programs Americans cherish or raising taxes on American job creators," they write. "But there is a better way: we could slash our debt by making power plants and oil refineries pay for the carbon emissions that endanger our health and environment. This policy would strengthen our economy, lessen our dependence on foreign oil, keep our skies clean – and raise a lot of revenue."

The group argues that the best approach would be to revive plans first put forward by Waxman and Markey in 2008 for a national emissions trading scheme, noting that such a scheme could "raise 200 billion Dollars or more over 10 years and trillions of dollars by 2050 while cutting carbon emissions by 17 percent by 2020 and 80 percent by 2050."

"A market-based policy would be a catalyst for international action, help protect US families from ecological disasters and level the playing field for clean-energy sources such as wind and solar," they continue. "It would spur research into and development of electric batteries, carbon capture, storage technologies and the like."

"And it would provide urgently needed certainty for business and industry. During the past Congress, the chief executives of leading energy, chemical and manufacturing companies endorsed comprehensive climate legislation. They told us that they have deferred hundreds of billions of dollars of investments until they know what they will be required to do to protect the planet."

"And they said that delay in addressing climate change puts our country’s competitiveness in jeopardy, allowing China to race ahead of the United States in building the clean-energy industries of the future."

The foursome finally make clear that their aim is not to propose a particular policy solution but to start a discussion.

"That is why they believe the time is right to begin considering new options. If budgeting is ultimately about choices, enacting a policy that reduces dangerous air pollution while providing hundreds of billions of dollars in debt relief should be a no-brainer. No other policy would do as much for our economy, our security and our future as putting a price on carbon."

Read the original article by The Washington Post online.

For more information about the Waxman-Markey Bill, click here.

**Indonesia: Government raises fuel subsidy quota**

*[Petra Sieber, GBE, 18 December 2012]* As the amount of subsidized fuel for 2012 was expected to be used up by mid of December, the Indonesian Government approved an additional quota of 1.23 million kiloliters. As a result, the total consumption of subsidized fuel this year will reach over 45 million kiloliters, leading to an even higher state spending due to rising oil prices. In order to limit expenses, the government wants to make use of an online monitoring system installed at gas stations and thereby ensure that the subsidised fuel is only consumed by targeted users. A government proposal to increase fuel prices in April 2012 was turned down by lawmakers in reaction to violent public protests.

Indonesian economists highlight the negative effects of soaring subsidies on national budget and spending capacity, on Indonesia’s external balance and economic growth in the long run. "The delay in adjusting the price of subsidized fuel will have an immense effect, injuring other economic sectors as well," said Bank Indonesia (BI) Governor Darmin Nasution. Besides, he mentioned that mainly the upper middle class benefitted from the current policy. For this reason, the subsidies do not only harm economy but also widen social inequality.

Read articles by *Jarka Globe* and *The Jakarta Post*.

**Protests in Jordan in response to price increases**

*[Naharanet.com, 19 November 2012]* Hundreds of Jordanians have demonstrated outside the prime minister’s offices in protest against fuel price hikes that have met with public outcry over the past week, an AFP journalist said.

Around 500 protesters marched two kilometers (more than a mile) from the headquarters of Jordan's joint unions body in west Amman to the premier's building, chanting "Those raising fuel prices want to see the country burn," and "Beware the people's wrath."
"The people want the fall of the regime," some chanted.

Jordanian unions staged a strike on Sunday to protest against the fuel price rises, which could see the cost of household gas rise by 53 percent.

Friday also saw unprecedented protests sparked by the fuel issue that included calls for King Abdullah II to go.

Calling for the king's overthrow is punishable by imprisonment in Jordan, so the slogans were a major departure for a kingdom previously spared protests on the scale of other countries swept up in the Arab Spring.

Prime Minister Abdullah Nsur on Saturday defended the price hike, saying the decision was "unavoidable" given the country's $5-billion (3.9-billion-euro) budget deficit, and that the measures would save $42 million by the year's end. [...] The Jordan News Agency has claimed that up to 3.3 million Jordanians, 70 percent of the country's population, have received cash as a fuel subsidy after the government raised the prices of oil derivatives in November, claimed Jordan's finance minister Suleiman al Hafez on 12 December.

Hafez said a total of 630,000 applications by low- and medium-income families had been accepted, receiving a total of JD300 million as the first installment of an annual JD300 million the treasury had allocated for compensation.

More here and in the Vancouver Sun.

**Bangladesh: IMF delays US $141 million credit due to lack of oil price reform**

[Jacqueline Cottrell, GBE, 15 December 2012] The International Monetary Fund has delayed to January 2013 the release of 141 million Dollars credit to Bangladesh by two months as the country has yet to carry out key reforms including domestic fuel price adjustments. One reason for the delay was the government's failure to reform fuel prices.

Bangladesh had pledged to introduce a price adjustment formula for oil products in the domestic market that would fully reflect changes in international oil prices.

The country also made a commitment to contain growth in fuel subsidies given to state-run Bangladesh Petroleum Corp (BPC), and account for fuel import costs fully in the next budget, in order to prioritize spending on social and development projects and reduce price distortions.

The current situation is clearly not fiscally sustainable – since mid-2010, Bangladesh has been increasing the number of oil-based power plants in the country. However, this has serious implications for energy security, as Bangladesh currently meets almost all of its oil needs through imports, which have increased significantly since 2010.

BPC purchases oil products from the international market and sells them at lower rates in the domestic market, resulting in significant losses.

The IMF and World Bank have long called on Bangladesh to fix its domestic oil pricing policy to better reflect movements in international oil markets. The country last raised oil prices by up to 43 percent in 2011 via four hikes.

BPC incurs an estimated loss of 30 US cents per litre on the sale of gasoil and kerosene and 14 cents per litre on furnace oil. The country spent 6.17 billion Dollars on oil and oil product imports in the fiscal year to June 2012, more than double the level in the previous year, as it bought more fuel at higher costs for power plants in order to ease electricity shortages.

Further reading: Bdnews and Platts.

**Egypt: Subsidy reform launched**

[Jacqueline Cottrell, GBE, 15 December 2012] Egypt's cabinet has approved the phase-out of subsidies on 95-octane gasoline and said it would set quotas for the sale of other subsidised fuels from April 2013.

This development is partly due to a preliminary deal reached with the International Monetary Fund for a 4.8 billion Dollar loan to support the state's finances. The deal included an agreement to rein in wasteful spending on hefty fuel subsidies.

Many ordinary Egyptians are worried that the IMF deal will mean tough austerity measures, so these steps will test the public response. Economists say the terms are not onerous and the government insists steps will still protect the poor.

While petroleum subsidies are primarily set to target Egypt's low-income groups, the actual beneficiaries have generally been the rich. Studies show that 20 percent of subsidies benefit 80 percent of the country's poor, while the remaining 80 percent benefit 20 percent of those who are better off. More than two thirds of total government sub-
9. Links and Publications

**Europe’s common future: Ways out of the crisis**

*Heinrich Böll Foundation, December 2012* The EU is not only in a debt crisis, it also faces a crisis of confidence: two crises that mutually reinforce one another. The nationally spun controversies over long-term counter-strategies and the social distortions in the countries affected by the crisis not only threaten to break up the euro zone, they also jeopardise the project for a unified Europe.

All of this is taking place within the framework of yet another crisis – that of democracy. In the current climate, “more Europe” sounds like more political centralisation for many Europeans. The citizens of the EU will only perceive Europe as their own when they themselves can also make decisions about the course Europe’s future should follow. Now is the time for a broadly based public debate on alternative proposals for the future of Europe.

Find further information [here](#).

**Higher Environmental Taxes as Solution to the Economic and Financial Crisis**

With his recent publication, Kai Schlegelmilch provides with a possible solution for the EU countries’ current dilemma.

Find the text [online](#).

**Powering Africa through Feed-in Tariffs**

*Friends of the Earth, Heinrich Böll Foundation and World Future Council, December 2012* The book shows how renewable energy feed-in tariffs (REFitS) are helping roll-out renewable technology across Africa, providing the energy poor and the economy with the clean, safe, reliable and affordable electricity that’s needed for development, while leapfrogging the fossil fuel dependency of the North to pursue a low carbon pathway in the face of dangerous climate change.

As the multiple case-studies explored in the book show, REFitS – originally pioneered in Europe – can be effective both on-grid and off-grid if adapted to local circumstances, and have the potential to drive local socio-economic development, deliver energy access and empower communities and the energy poor through local control and ownership.

However, to meet Africa’s needs at the speed and scale required without burdening the energy poor, costs must be distributed across the population fairly, based on usage and ability to pay, while the international community can provide extra financial support, such as through ‘top-up’ payments via a Global REFiT Fund, in line with existing obligations under the UNFCCC and repayment of the climate debt.

Read the summary of the new book, the full publication should follow shortly.

**A Review of Fossil Fuel Subsidies in Colorado, Kentucky, Louisiana, Oklahoma, and Wyoming**

*Doug Koplow and Cynthia Lin, Earth Track, December 2012* This report provides a detailed inventory of state support to fossil fuel production and consumption. Around the world, government subsidies to coal, oil and gas are largely untracked at the state, provincial or local levels. These gaps are unfortunate: in the aggregate, sub-national subsidies transfer billions of dollars per year to fossil fuel industries and consumers. They are additive to federal supports, further distorting the economics of specific projects and investment incentives across energy options.
By compiling state data on subsidies, the report illustrates how pervasive these policies are, despite concerns over global warming and fiscal deficits.

Find the full report online.

**Cultivating Governance: Cautionary Tales For Biofuel Policy Reformers**

[IISD and Global Subsidies Initiative, November 2012] The policy brief analyzes the current developments around the emerging U-turns on government support to biofuels internationally. Based on desk research as well as interviews with stakeholders, it seeks to provide guidance for biofuel policy reformers on good governance principles in view of pressures from different interest groups.

The messages may be of special relevance in light of the European Commission’s proposal of 17 October 2012 to limit the use of food-based biofuels to 5 per cent until 2020 in contributing to the 10 per cent target of renewable energy in transport. Download the policy brief here.

The policy brief was launched on December 4, at the European Parliament to support a high-level discussion. Read the event’s press-release online.

**A strategy for restoring confidence and economic growth through green investment and innovation**

[The Pew Charitable Trusts, Dimitri Zenghelis, 16 April 2012] This report warns that the private sector is not investing in green innovation and infrastructure due to a lack of confidence arising from uncertainty about current energy and environment policy in many advanced economies.

The report concludes: "Credible green policies can boost confidence and increase economic activity, provided policy risks are reduced to the point where green investment is seen as a better means to restoring net worth than sheltering saving in ‘risk free’ assets earning zero real interest."

Find the Full Report online.

**The Climate Change Performance Index 2013: A comparison of the 58 top CO₂ emitting nations**

[Germanwatch and Climate Action Network, November 2012] The Climate Change Performance Index is an instrument supposed to enhance transparency in international climate politics. On the basis of standardised criteria, the index evaluates and compares the climate protection performance of 58 countries that are, together, responsible for more than 90 percent of global energy-related CO₂ emissions.

Further information is available here.

**Environmental Tax Reform: Principles from Theory and Practice to Date**

[Dirk Heine et al., July 2012] This paper looks into principles of environmental tax design and makes an assessment of environmental tax systems and reforms of Sweden, Germany, Turkey and Vietnam. The study shows Sweden to have been most advanced in environmental taxation system (first reform in early 1990s). The country has one of the biggest renewable shares in total energy consumption (45.8%), while using hardly any coal but the highest share of nuclear power. Although Vietnam has no serious taxes for coal, natural gas and light fuel oil externalities, it reaches 47.4% of renewables in total energy consumption. Germany (9.4%) and Turkey (11.9%) are left far behind. The paper concludes that national policies need reforms in terms of levelling taxes across emission sources, aligning taxes with external damages, and scaling back redundant energy taxes.

Download the working paper here.

**Use of Economic Instruments and Waste Management Performances**

[European Commission DG ENV, 10 April 2012] This report presents the findings of the research undertaken on the use of Market-Based Instruments (MBI) to promote improved waste management. Based on an analysis of the relationship between the performances of the waste management systems of the EU Member States and their use of MBI, the opportunity of moving towards a European common approach for the use of MBI in the waste sector is explored.

Rather than attempting to cover the whole landscape of MBI being applied in the EU-27, a limited set of instruments has been addressed:

- Charges for waste disposal and treatment (Landfill/ Incineration taxes and fees)
- Pay-as-you-throw (PAYT) schemes
- Producer responsibility schemes for specific waste streams

Read the final report here.

**International Fuel Prices 2010/2011**

[GIZ, April 2012] The 7th edition of the International Fuel Prices report provides with an over-
view of the retail prices of gasoline and diesel in over 170 countries. It outlines problems of the utmost importance and suggests pathways for fixing the pricing mechanisms, including advices for countries with (1) ad-hoc pricing, (2) regular price reviews and (3) passive or no regulation. The paper highlights the importance of increasing accountability and transparency of taxation principles, and criticizes fuel subsidies. It also strongly urges to make information on fuel prices, subsidies and pricing mechanisms easily accessible in order to encourage global and national debates as well as new approaches and policies.

It further explores recent trends and case studies on fuel prices and fuel pricing policies in developing countries.

Find additional information and the report online.

**OECD Environmental Outlook to 2050: The Consequences of Inaction**

*[OECD, 15 March 2012]* The report urges countries struggling with immediate challenges of stretched public finances and high unemployment not to neglect the longer term. Action needs to be taken now to prevent irreversible damage to the environment.

Based on model projections, this edition of the Environmental Outlook paints a possible picture of what the environment might look like in 2050. It focuses on four areas which were identified by the previous edition of the Outlook as as “Red Light” issues requiring urgent attention: climate change, biodiversity, water, and health and environment.

Find the highlights, key facts and full report [here](#).

**Green Budget 2013: National Funding Priorities for the Environment**

*[World Wildlife Fund et. al., March 2012]* This report highlights the environmental and conservation communities’ National Funding Priorities for the Fiscal Year 2013. Prepared annually by a coalition of national environmental and conservation organizations, it illustrates how federal investments can help meet the environmental challenges of a changing climate, develop clean energy resources, and sustain lands, waters, and other natural resources in the U.S.

Download the report [here](#).

**Increasing doubt on climate credentials and sustainability of Europe’s biomass use**

*[BERC and SIG, February 2012]* A major increase in imports of wood fuel to Europe from the US could do more harm than good for our environment, a new report has revealed.

Read and download the report “Biomass supply and Carbon Accounting for Southeastern Forests”, produced by BERC (Biomass Energy Resource Center), Forest Guild and Spatial Informatics Group (SIG), [here](#).

Ariel Brunner, Head of EU policy at BirdLife Europe said “Chopping down forests around the world to burn them in Europe is not “green energy” if it threatens wildlife habitats and increases current greenhouse gas levels”.

Burning wood pellets – or biomass – in European power stations is playing an increasing part in the efforts to reach the EU renewable energy target. Burning wood is also considered carbon neutral under the EU Emission Trading Scheme (ETS), allowing power companies that switch from fossil fuel to wood to make a profit by selling their emission allowances to other operators that will use them to burn more fossil fuel.

The European Environment Agency’s Scientific Committee stated that there is a ‘serious accounting error’in EU bioenergy policy, because biomass is not actually carbon neutral as currently assumed by EU policies. Burning wood often releases as much if not more carbon than fossil fuels, and it can take many decades for this to be reabsorbed by new growth. Furthermore, there is no guarantee that the re-absorption will happen, where forests are not re-planted or conditions change. This casts a shadow over the usefulness of biomass as an energy source over the period in which emission reductions are vital.

BirdLife Europe, FERN and the EEB urge the European Commission to properly take into account the carbon emissions from biomass. They call on the Commission to urgently modify its bioenergy policy to ensure we only use biomass that truly reduces emissions, without harming biodiversity and ecosystems. Biomass must be recognised as a scarce resource to be used efficiently, with priority given to material use, with energy extracted at the end of the life cycle.

For more information, please contact ariel.brunner@birdlife.org
French Governmental report on public subsidies that harm biodiversity
[Centre d'analyse stratégique, February 2012] This report was commissioned by the French Ministry for Analytical Strategy and concerns public subsidies in France that are harmful to the environment. It points out eleven policy recommendations to eliminate or reduce such harmful incentives in the future.
Download the Summary in English or the Full Report in French.

Walking the talk - practical options for making the 2014-2020 EU MFF deliver on climate change
[IEEP, Keti Medarova-Bergstrom, Axel Volkery, February 2012] This report provides a thorough examination of proposed Regulations on EU Cohesion Policy and the Connecting Europe Facility. It pays specific attention to the proposed ‘tracking’ of climate change expenditure (Rio Markers) as an important tool for climate mainstreaming. It finds that the proposed Regulations indicate the introduction of a number of positive developments and novel governance mechanisms for better mainstreaming of climate change concerns, among which provisions for thematic concentrations and ex-ante conditionalities.

The Institute for European Environmental Policy also puts forward recommendations on how to tackle outstanding challenges, particularly with regard to improving the methodology on tracking climate change expenditure and its application under the future Cohesion Policy and the Connecting Europe Facility.
Download the full report here.

Unfolding the green ‘elements’ of the Commission’s Common Strategic Framework 2014-2020
[IEEP, Keti Medarova-Bergstrom, Axel Volkery, January 2012] How should spending under the main EU funds be aligned with the Union's principal objectives in the next budget period after 2013? How do the objectives of the Europe 2020 Strategy, environmental as well as economic, get translated into investments on the ground? These are the questions that were to be addressed in a new kind of planning document for five key funds – a Common Strategic Framework (CSF).

This IEEP Policy brief analyses the Commission's staff working document on the Common Strategic Framework for the 2014-2020 EU cohesion, rural development and fisheries funds which was published on 14 March 2012. It discusses both the opportunities and weaknesses to advance the mainstreaming of climate change and the environment in the funds.
Find the IEEP Policy Brief online.

Low Carbon Green Growth Roadmap for Asia and the Pacific
[United Nations, 2012] The proposal underlying this report is the environmental tax reform (ETR), which, implemented by more and more countries, could create synergy and more visible “cooling effects”.

The UN Background Policy Paper “Environmental Tax Reform: Major findings and policy implications from a multi-regional economic simulation analysis” emphasizes the possibility of unilateral ETR for developing countries.
Download the report here.

Green Policies in the EU: A review
[International Labour Organization, European Union, International Institute for Labour Studies, November 2011] The discussion paper examines a variety of green policies that EU Member States have implemented to address environmental sustainability. The paper starts with presenting available green policy instruments, such as regulations, tax instruments, the EU emission trading system, research and development (R&D) and public investment. It further discusses how these instruments are adopted in different EU Member States. In addition, existing green labour market policies in the EU are examined and the policy gaps are discussed.
Download the discussion paper.

Mobilising Investment in Energy Efficiency
[OECD and IEA, 2012] Taxes, loans and grants, trading schemes and white certificates, public procurement and investment can be powerful means of mobilising the finances needed to achieve policy goals by implementing energy efficiency (EE) measures. The role of economic instruments is to kick-start the private financial markets and to motivate private investors to fund EE measures.

This IEA analysis addresses the fact that, to date, relatively little effort has been directed towards evaluating how well economic instruments work.
Using the buildings sector to illustrate how such measures can support energy efficiency, this paper can help policy makers better select and design economic instruments appropriate to their policy objectives and national contexts. Find detailed information and the report [online].

**Cohesion Policy and Sustainable Development**

[IEEP, October 2011] The purpose of this study was to examine how Cohesion Policy could contribute to managing the shift to the green economy and to support the development of the framework for the 2014-2020 EU Cohesion Policy. The study assessed the impact of Cohesion Policy investments 2007-2013 on the environment and the way in which sustainable development considerations have been integrated into planning, implementation and follow-up at the strategic, programming and policy level. It also made a number of recommendations on how the integration of sustainable development into cohesion policy could be improved. Read the [Final Report](#) or the [Executive Summary](#).

**Fuel Taxes and the Poor: The Distribut- ional Effects of Gasoline Taxation and Their Implications for Climate Policy**

[Thomas Sterner, Published by RFF Press 2011] The book challenges the conventional wisdom that gasoline taxation, an important and strongly debated instrument of climate policy, has a disproportionately detrimental effect on poor people. Increased fuel taxes carry the potential to mitigate carbon emissions, reduce congestion, and improve local urban environment. As such, higher gasoline taxes could prove to be a fundamental part of any climate action plan. Reporting on examples of over two dozen countries, the book sets out to empirically investigate the claim of fuel taxation being regressive. The authors conclude that, as a general rule, fuel taxation is a progressive policy particularly in low income countries. Rich countries can correct for regressivity by cutting back on other taxes that adversely affect poor people, or by spending more money on services for the poor. Meanwhile, in low-income countries, poor people spend a very small share of their money on fuel for transport.

For more information please contact the author Thomas Sterner or the press officer Karin Backteman. Find the book [online].

**The Case for a Carbon Tax**

[Shi-Ling Hsu, Published by ISLAND Press, 2011] The book examines the four major approaches to curbing CO2: cap-and-trade; command and control regulation; government subsidies of alternative energy; and carbon taxes. Weighing the economic, social, administrative, and political merits of each, the author demonstrates why a tax is currently the most effective policy. Hsu does not claim that a tax is the perfect or only solution, but that unlike the alternatives, it can be implemented immediately and paired effectively with other approaches. As a result, Hsu considers carbon taxation a simple and straightforward way to cut carbon emissions and prevent the most disastrous effects of climate change. Find the book [online].

**Australia’s Climate Change Plan: “Securing a Clean Energy Future”**

[Australian Government, 2011] The Australian Government has developed a comprehensive plan to move to a clean energy future. The key elements contain:

- Carbon Price setting: fixed like a tax in the first three years from 2012 before moving to an emissions trading scheme in 2015
- Household assistance: two rounds of tax cuts and increases in pensions, allowances and benefits; household transport fuel consumption will not be subject to a carbon price
- Supporting jobs and businesses: assistance to selected emissions-intensive, trade-exposed industries and others
- Promoting Renewable energy and Energy Efficiency
- Land use: support for farmers to pursue climate change action on the land and enhance biodiversity

Read the [study](#) and an [overview](#) of the Clean Energy Legislative Package.
World on the Edge: How to Prevent Environmental and Economic Collapse

[Lester R. Brown, 2001] We are in a race between political and natural tipping points. Can we close coal-fired power plants fast enough to save the Greenland ice sheet and avoid catastrophic sea level rise? Can we raise water productivity fast enough to halt the depletion of aquifers and avoid water-driven food shortages? Can we cope with peak water and peak oil at the same time?

These are some of the issues Lester Brown distills in his book, providing proposals to reclaim our future. Our challenge is to think globally and develop policies to counteract environmental decline and economic collapse. The question is: Can we change direction before we go over the edge?

Download the book as PDF for free here.

10. Upcoming Events

EU Sustainable Energy Week
24-28 June 2013, Brussels and all over Europe
EU Sustainable Energy Week (EUSEW) is a core activity of the Sustainable Energy Europe Campaign. Every year hundreds of organisations and individuals participate in the EUSEW.
Through bottom-up efforts, organisers of EUSEW Energy Days, events and activities connect directly with citizens and energy stakeholders at the local, regional and national levels. The combined results of EUSEW efforts are helping Europe reach its energy goals.
Find further information on the website.

ESEE 2013 Conference: Ecological Economics and Institutional Dynamics
18-21 June 2013, Lille, France
The 10th International conference of the European Society for Ecological Economics will deal with the topic “Institutionalisation of Ecological Economics: a European Perspective”, using both interdisciplinary and transdisciplinary theoretical approaches.
During the four-day event, issues such as governance, policies and institutions, resources and environment, actors and behaviours will be addressed, particularly with regard to a Socio-Ecological Transition.

The conference will be mainly held in English, only a few sessions might be organised in French.
Please find further information on registration on the conference website.

World Sustainable Energy Days
27 February - 01 March 2013, Wels, Austria
The World Sustainable Energy Days are one of the largest annual conferences in this field in Europe, offering a unique combination of events. For more than 20 years, experts and decision makers from all over the world have attended the events - in the last years, the conference attracted more than 10,000 participants from over 100 countries!
The conference makes an important contribution to raising awareness for green energy and energy efficiency.
Find detailed information and the conference programme online.
11. Editors and founders of Green Budget News

Best wishes from the founders and the editors for 2013!

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