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To: the Heads of State and the President of the European Council

Cc: Manuel Barroso, President of the European Commission, Martin Schulz, President of the European Parliament

Make use of the European Semester · Input to the European Council, 20-21 March 2014, Brussels

Dear Heads of State, dear President of the European Council,

I am writing to you as former German Minister of Finance from 1999-2005 who welcomes the Commission's 2014 Annual Growth Survey (AGS) which provides a set of general recommendations that, if properly followed up, can play a positive role in supporting a transition to a more resource efficient and sustainable economy in the EU Member States.

The European Semester provides a particularly powerful opportunity to implement innovative political solutions and to contribute to the required fiscal consolidation with the least economic impact. However, the extent to which Environmental Fiscal Reform policies have been mainstreamed in the European Semester process has been limited to date. So far, the Semester has prioritised fiscal adjustment, mainly by supporting the austerity agenda. The overall consequences of fiscal consolidation and structural reforms in the EU Member States tend to be overlooked.

With this letter I invite you to take the next important step and to systematically ensure that the National Reform Programmes for your country contain very concrete and specific recommendations to enhance the macroeconomic performance and to pave the way to sustainable fiscal policies that lead not only out of the crisis but also towards a greener economy.

I ask you to consider the findings of a major study¹ on carbon and energy tax and pricing reforms in six EU Member States as best practices, showing that macroeconomic objectives contribute to the delivery on the environmental and climate objectives and social equality.

The study fully underlines the priorities on tax shift set in the Annual Growth Survey 2014, showing that carbon and energy taxes can produce better economic results than conventional taxes, as well as helping to cut emissions. They offer less pain, and more gain. Europe needs a fiscal recovery, it needs to cut its emissions and it needs a strategy for growth. Carbon and energy taxes and an effective ETS can be a powerful part of the solution.

This is not the only reason why looking more closely at carbon-energy taxes makes sense. The current picture of energy taxation in Europe is not sustainable. Tax rates on different fuels vary by over 50% 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, help all our economies and our climate.

Rising energy bills are however a massive political issue in many European countries. Driven by the cost of fossil fuels, consumer energy prices are rising everywhere. Energy taxation however tends to produce a benefit for consumers overall when judged against other forms of taxation. The economic benefits of avoiding the negative impacts of conventional taxes work across the economy, benefitting the least well-off across their household budget and in terms of their expendable income.

Heads of States around Europe should think hard about fiscal, social and environmental sustainability when formulating policies to bring about a recovery.

I would like to thank you for your attention and trust that you will take the recommendations into account to ensure that the European Semester will live up to its full potential.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans Eichel', is displayed on a light green rectangular background.

Hans Eichel

Attachment: Executive Summary “Carbon Taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe’s fiscal deficits.”

¹ For more details see the “Carbon and Energy Tax Reform in Europe and energy taxation may raise significant revenues while having a less detrimental macro other forms of indirect and direct taxation. <http://www.foes.de/internationales/green-budget-europe/gbe-projekte/cetrie/?lang=en>