GreenBudgetEurope

European expert platform on environmental taxation and green fiscal reform

Questions for designated Commissioner for Economic and Monetary Affairs

While recent economic analysis suggests that the economic situation in most EU Member States is improving, the consequences of the crisis will remain a huge challenge and budgetary consolidation one of the main concerns for national governments. That means that the overriding challenge for many European governments today is to reduce major fiscal deficits with the least collateral damage to the economy.

Environmental fiscal reform (EFR), the consistent orientation of taxes and government spending towards environmental sustainability, has great potential to aid economic recovery, create jobs, consolidate budgets and to improve incentives for low-carbon and resource efficient economic development.

Carbon and energy taxes, as well as carbon pricing, can raise significant revenue while having a less detrimental macro-economic impact than other taxes, such as VAT or income taxes (for evidence see e.g. the **CETRiE** and **COMETR** projects). This gives EFR an important potential role in the transition to a Green Economy.

In the Flagship initiative for a Resource-Efficient Europe, the European Commission calls on member states to increase what they refer to as “growth friendly” taxes on the environment and resources, while at the same time lowering social security contributions or earmarking the revenues for environmental purposes or budgetary consolidation.

Furthermore, the Flagship initiative for a Resource-Efficient Europe calls for “environmentally harmful subsidies to be phased out with due regard to the impact on people in need by 2020” (European Commission 2011). Achieving this milestone will save a significant amount of financial resources – in just 18 Member States, for example, 54 bn Euros are lost each year because of company car taxation schemes alone (Copenhagen Economics 2010).

However, in the past, Country Specific Recommendations in the European Semester process have not focussed sufficiently on environmental fiscal policy measures, and have certainly not resulted in an increase in environmental tax revenues.

Given the high potential advantages of Environmental Fiscal Reform (EFR) to achieve the Europe 2020 goals and incentivise innovative low-carbon investment for the green economy we would like to know:

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1. **The headline of the Europe 2020 strategy is "smart, sustainable and inclusive growth".**

    A) **Given that green taxes are widely acknowledged to be "growth-friendly" taxes, what will you do to strengthen green taxes within the European Semester process, both at EU and Member State level?**

    B) **The EU has set itself a target of reforming all environmentally harmful subsidies by 2020, with due regard to people in need. How do you propose to drive forward this reform process?**

2. **How will you ensure a higher level of implementation of EFR measures, i.a. through enhancing a "greening of the European Semester"? (For example, including measurement and benchmarking methodologies for resource efficiency of carbon and a lead indicator and targets?)**

3. **How will you enhance EFR policies beyond the European Semester, i.a. by abolishing the unanimity rule for taxation within the next treaty change?**

Please come back to us with any questions or suggestions.

Sources

European Commission (2011). *Roadmap to a Resource Efficient Europe.* Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 20.9.2011, COM(2011) 571 final.

Copenhagen Economics (2010). *Taxation Papers: Company Car Taxation*. Working Paper no.22, 2010, European Commission, DG TAXUD, Brussels.

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