GreenBudgetEurope

European expert platform on environmental taxation and green fiscal reform

PUBLIC CONSULTATION ON THE EUROPE 2020 STRATEGY

A. European Semester 3.0: Strong policy choices needed to rebuild momentum

The European Semester should be further developed to become an effective governance and enforcement mechanism that can ensure coherence between national fiscal policies and overarching sustainable development objectives. To this extent an Environmental Fiscal Reform (EFR) should be implemented via the European Semester; and member states "government spending" and investment plans scrutinized closely.

With the European Semester the EU intends to establish a governance mechanism enfolding member states' macro-economic and fiscal policies. The main focus of the European Semester process currently lays on budget discipline, although other policy areas like labour market reforms, taxation or social and other sectorial policies (e.g. energy infrastructure or transport) can find entrance into the process as well.

However, at this moment the assertiveness and impact of the European Semester is mixed. Annual delivery can't be enforced, the implementation of National Reform Plans and Country Specific Recommendations is not compulsory. On top, macro-economic governance priorities are often overriding the goals of Europe 2020. In short; negative incentives still dominate, while the macro-economic coordination through the European Semester could help restore fair market conditions and eliminate distortions in competition, i.e. to use the market for what it can give as a positive contribution to welfare, development and green growth.

A smart recovery includes environmental and climate protection as integrated part of the solution rather than a burden

Environmental Fiscal Reform (EFR) and targeted government spending towards environmental sustainability though has great potential to aid economic recovery, create jobs, consolidate budgets and to improve financial incentives for low-carbon and resource efficient economic development. EFR policies, implemented via Market Based Instruments can enhance the EU´s genuine sustainable competitive advantage and success in a decarbonising global economy by combining innovation, investment and climate policies.

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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.

As a result, it can correct market failures, improve economic efficiency, help develop new industries that provide sustainable and local jobs, create a clear, predictable environment for eco-innovative investments and contribute to restoring fiscal stability after the recession by raising additional revenues. Market Based Instruments can modify the outcome of market activity because they improve the system of price signals by internalising external costs and offer more flexibility and support for businesses to achieve objectives and encourage efficiency and innovation.

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.

"One third of the Member States have space for such a tax shift while another third have scope to improve the design of existing environmentally-related taxation." (European Commission 2014, p. 10)

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).

B. Getting smart out of the crisis: EFR as a sustainable remedy

However, in the past, CSRs in the European Semester process have not focused sufficiently on environmental fiscal policy measures, and have certainly not resulted in an increase in environmental tax revenues. Instead of strengthening the use of Market Based Instruments to send strong market signals, EU member states do not fully exploit the opportunities the transition to a low-carbon economy offers for the innovation and modernisation of industry and boosting employment. A latest report commissioned by the European Commission puts the figure of external costs of the EU's energy mix in 2012 at between €150 and 310 billion (Ecofys 2014, p. ii). Subsidies distort market signals and hinder the transition to a resource efficient and low carbon economy.

Fiscal policies consistent with EU climate, energy and resource efficiency objectives will have to focus on promoting low-carbon development in EU member states and neighbouring regions. In this regard the EU's public investment and financing support provided by the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the EU funds inside and outside the EU have to further promote environmental sustainability in all their actions and infrastructure investment projects. Rebuilding Europe's energy and transport infrastructure, its production industry and consumption pattern requires large amounts of investments over the long-term. Long-term investments require a legally stable and politically predictable environment. The European Semester should ensure such conditions by inter-linking horizontal long-term sustainable development targets, with the aim to establish an effective performance framework to ensure progress in all areas. It should include and align the activities and contributions of European public banks, the EIB and EBRD, and EU funds to the overarching social and environmental sustainability objectives.

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

1. Stress that EFR creates long-term and crisis-resilient green growth and jobs and contributes to increased competitiveness; calls on the Commission to ensure that the AGS and the entire European Semester cycle supports achievement of EU environmental policy goals, notably in areas of water and waste management;

2. Reiterate the need of phasing out market-distorting environmentally harmful subsidies by 2020 and shift 10 % of taxes away from labour to polluting activities as important sources of governmental income and with a high potential to enhance energy independence;

3. Call for a lead indicator and target for resource efficiency of carbon, to be included in the European Semester;

4. Stresses that improving resource efficiency is crucial given that resource efficiency can help European businesses capture growing markets and create savings in more efficient economies; Reiterates its call to integrate the resource efficiency agenda beyond energy aspects as comprehensively as possible in the European Semester;

5. Encourages the European Commission and Member States to include in the European Semester the use of European Structural and Investment Fund for maximising the impact of fiscal policies towards the decarbonisation of the power sector, and the decrease and decentralization of energy production and consumption.

Please come back to us with any questions or suggestions.

Sources

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