



Environmental Tax Reform and the **European Trading System**

**in the context of the EU
climate and energy policy**

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A system divided in itself ...!

1. ETR is in the jurisdiction of member-states and presents a great variety within the EU. However:
 - The Energy Tax Directive, currently in process of revision, provides for minimum rates.
 - Car ownership and use is taxed in all member-states at various rates, but not on an emissions basis.
2. ETS places a cap on CO₂ emissions only. Member states allocate tradable emission permits up to the cap. The “market” has no depth and prices have twice collapsed. Emissions from road, air, sea transport and households are excluded.

... and anyway inadequate!

- The aim of ETR is to cover environmental costs and that of ETS to reduce emissions.
- Current performance of both in the EU is far from achieving either target.
- Most studies estimate environmental costs at around 20% of gdp. The Stern Report places climate change costs alone at 5% of gdp. By comparison Eurostat shows green taxes peaking off at 2.3% of gdp in 2001.
- ETS in its present form has neither created a market for pollution permits nor an incentive for steady reduction, or for serious growth of green industries.

Can ETS develop into a market?

Yes! Provided certain conditions are fulfilled:

1. Application of ETS to all energy consumers, including all forms of transport.
2. Replacement of national allocation by auctioning of permits, without exceptions or derogations. Starting bid set in relation to national target.
3. Regulation of the amount of permits in relation to the level of economic activity. A flexible mechanism of issue per month or quarter should be put in place.
4. Coordination of the ETS with the post-Kyoto mechanism for green certificates and investment allowances.

ETR: which way?

- On the assumption that ETS covers well CO₂ emissions, green taxes should cover all other environmental costs, with the twin aim of:
 - decoupling development from energy (energy saving)
 - decoupling energy from carbon (restructuring of the energy sector).
- Starting with a new Energy Tax Directive we should see:
 1. Substantial increases on coal and oil taxes
 2. Tax on electricity of non-renewable origin
 3. Taxes on car use especially in congested areas
 4. Taxes on shipping and aviation
 5. Elimination/reduction of taxes on bioclimatic buildings and renewable energy investment

Is this enough?

- No! ETS and ETR must be complemented by a radical reform of the institutional framework for construction and physical planning.
- Urban area systems represent the biggest firms on earth and must be sustainable, particularly in terms of:
 - Their general planning, design and operation
 - Transportation and other utility systems
 - Construction materials (primary and recycled)
 - ETR will help by a revision of property, transport and other utility taxes towards sustainability.

The ludicrous cries for postponement

- Every day we realise that climate change is happening at an alarming tempo.
- If not arrested, it will cause in the next generation enormous disasters and cost.
- The current recession, which is used as an excuse for inaction, is a child's toy by comparison.
- In fact a radical ETR is best solution of the crisis, by the growth of green technology, green industries and the millions of jobs that they generate.
- Unbelievers should only be reminded of the different fates of the Japanese and U.S. auto industries. The environmental bet of **doing more with less** produces marvellous results, even in business.

Time is running out

- Achieving the EU target of a temperature rise below 2° C appears doubtful.
- Drastic measures should have been adopted yesterday; today will not suffice; tomorrow might be a disaster. We were fighting for a CO2/energy tax **15 years ago!!!**
- Climate change is not the only nightmare. Life quality and the environment are deteriorating, species are lost even without climate change.

Must we burn SUSTAINABILITY in the furnace of energy overuse?