

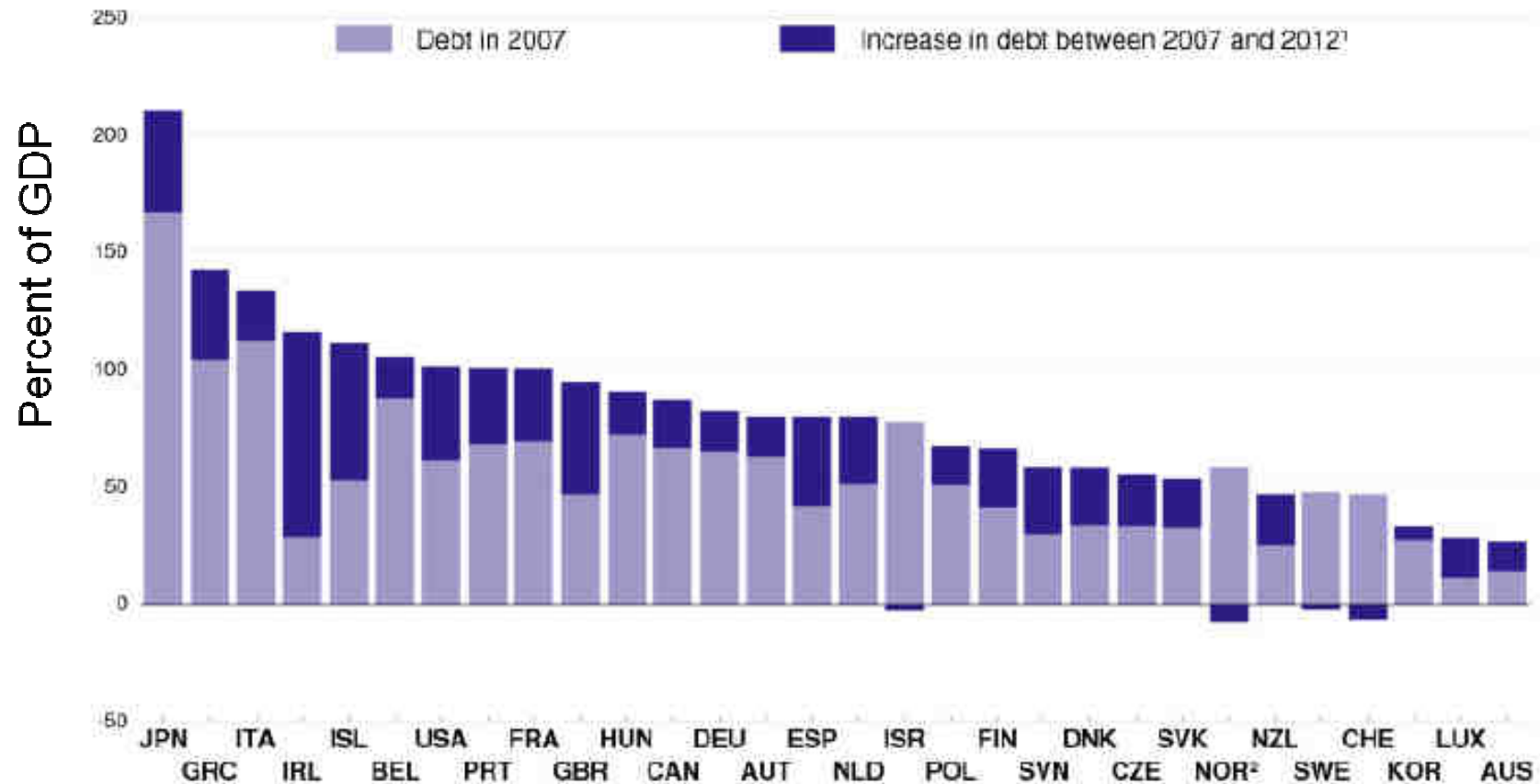


# The potential for environmental fiscal measures to contribute to budget consolidation

Symposium organised by the Belgian EU Presidency:  
Growth and green tax shifting in an era of fiscal consolidation

Bruxelles, 15 December 2010  
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# Government debt is reaching historical highs in many countries

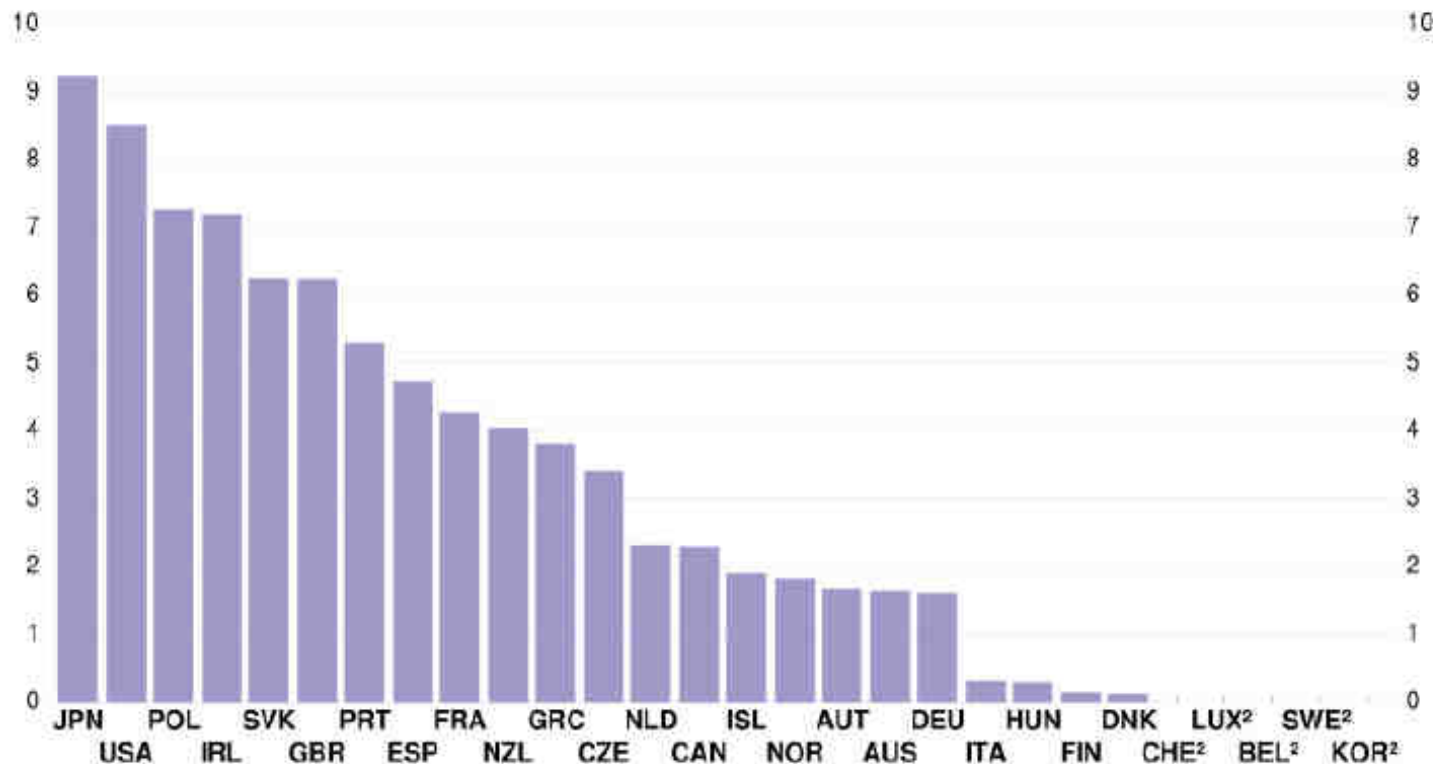


1. This includes cumulated deficit for 2008-12; debt-increasing equity participations in companies and the impact of GDP growth.
2. Cumulated deficits correspond to mainland only.

Source: OECD Economic Outlook 88 database.

# Merely stabilising government debt levels will be a daunting task

Required change in underlying primary balance to stabilise debt by 2025, <sup>1</sup>  
in per cent of potential GDP



1. Change in the underlying primary balance between 2010 and 2025, based on gradual but steady consolidation paths (as set out in OECD Economic Outlook 88, No. 88, November 2010, Chapter 4).

2. No consolidation is needed to achieve the target.

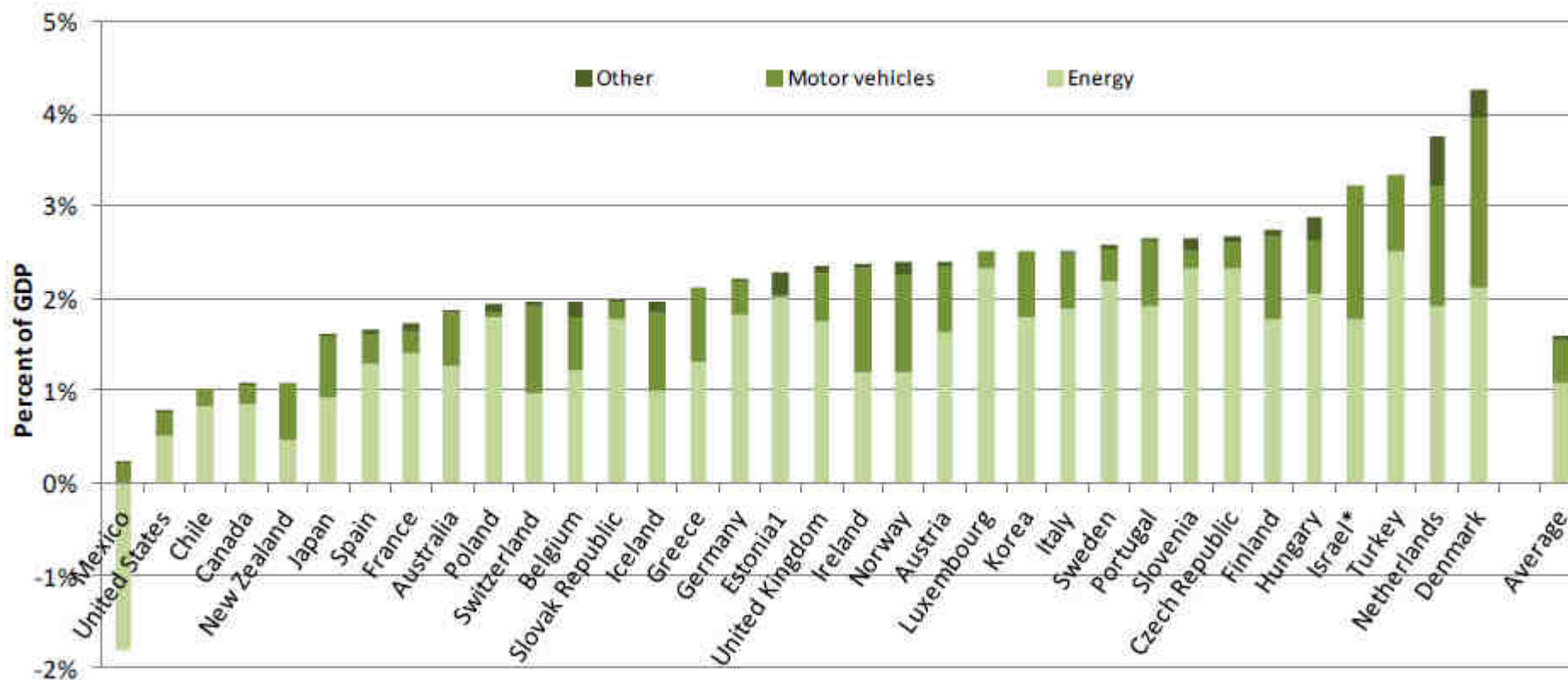
Source: OECD Economic Outlook, No. 88, November 2010.

# Environmentally-related taxes

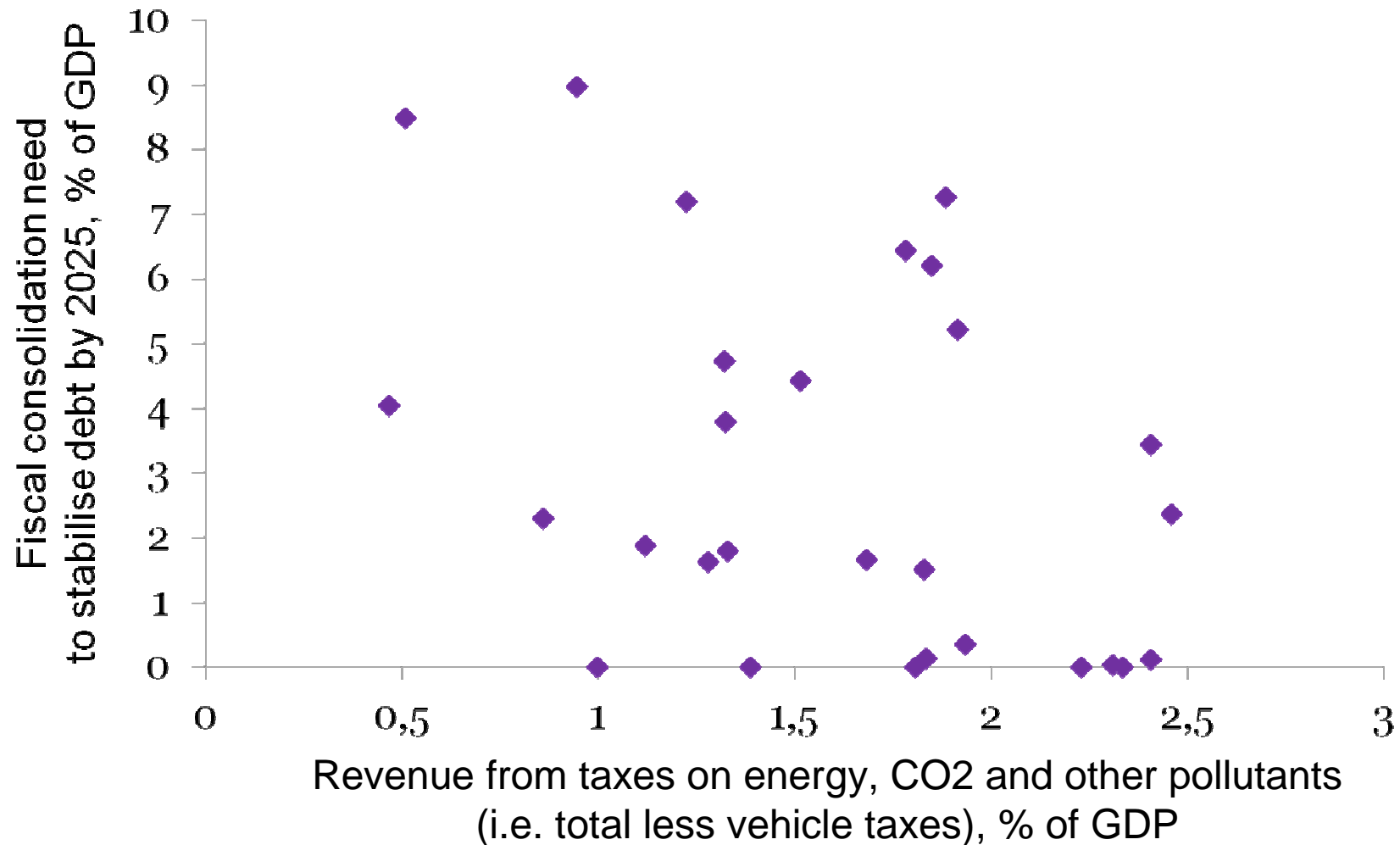
*Includes:* taxes on energy, CO2, vehicles and pollutants

*Excludes:* royalties and taxes on natural resource rents

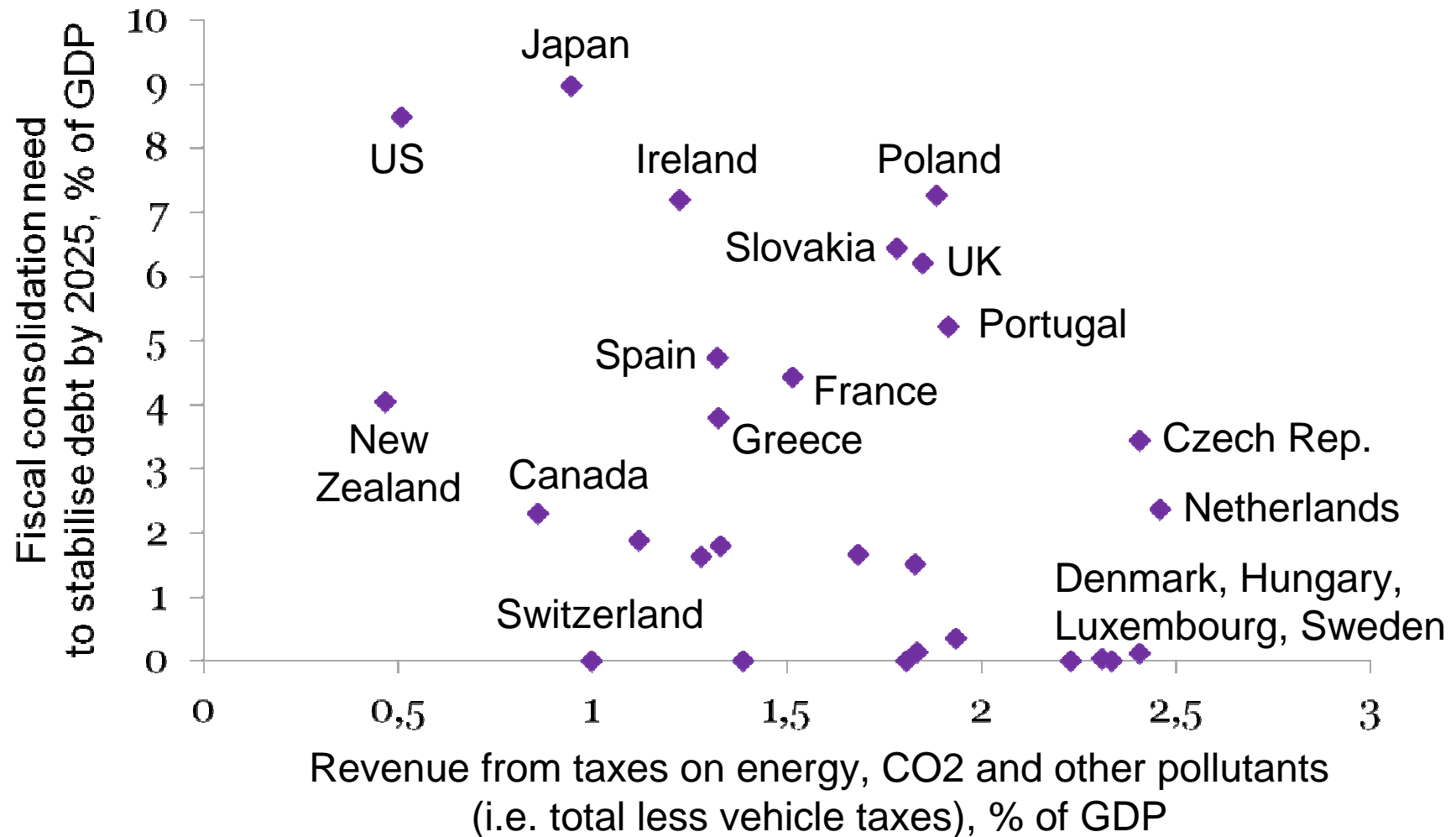
Revenue as % of GDP



Scope for convergence:  
countries needing *large* fiscal consolidation  
collect relatively *little* environmental taxes



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# Examples of fossil-fuel tax expenditures: consumption

From OECD contribution to G20 report with IEA-OPEC-World Bank

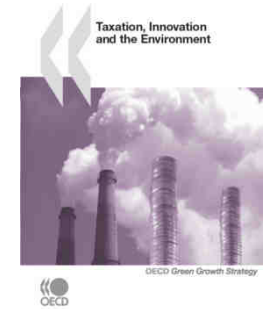
- **Low tax rates or exemptions on diesel for agriculture & fisheries:**
  - US\$ 8 billion for agriculture sector in OECD countries
  - US\$ 1.1 billion for fisheries sector in OECD countries
- **Reduced VAT rates and VAT exemptions, eg for heating fuels:**
  - e.g. Italy, Korea, UK
- **Automatic tax cuts and subsidies when fuel prices rise:**
  - in Mexico – with low oil prices, leads to net revenues, but with high oil prices in 2008 led to subsidies amounting to 1.8% of GDP.
- **Tax exemptions to fuel used by public sector:**
  - e.g. France had excise duty exemptions for natural gas used for heating by public agencies and fuel used by military, but recently been stopped.

# Examples of fossil fuel tax expenditures: production

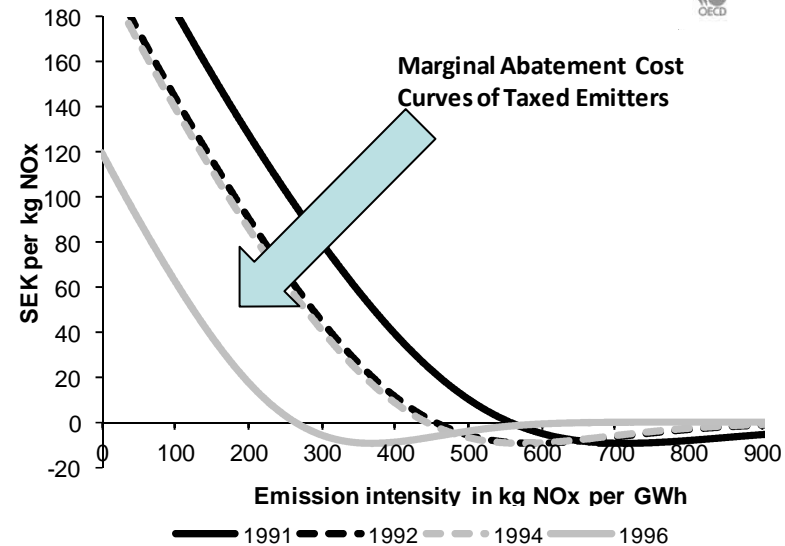
From OECD contribution to G20 report with IEA-OPEC-World Bank

- **Tax deductions for depletion of oil and gas fields and coal deposits:**
  - e.g. producers in US can deduct a fixed percentage of gross revenue; amounted to US\$ 0.6 billion. Termination proposed in 2011 budget.
- **Accelerated tax depreciation allowances for capital equipment:**
  - depending on the royalty and tax regime for fossil fuel production, tax deduction of depreciation at a faster rate than that at which equipment becomes economically obsolete can represent an indirect subsidy.
  - e.g. for oil sands in Canada annual cost of tax advantage is 0.02% of GDP. Phased-out by 2015.
- **Tax exemption for fossil fuel producers' own energy use:**
  - common in most OECD countries for coal mining, oil extraction, refineries, etc.
  - e.g. in Germany estimated to be worth 0.01% of GDP.

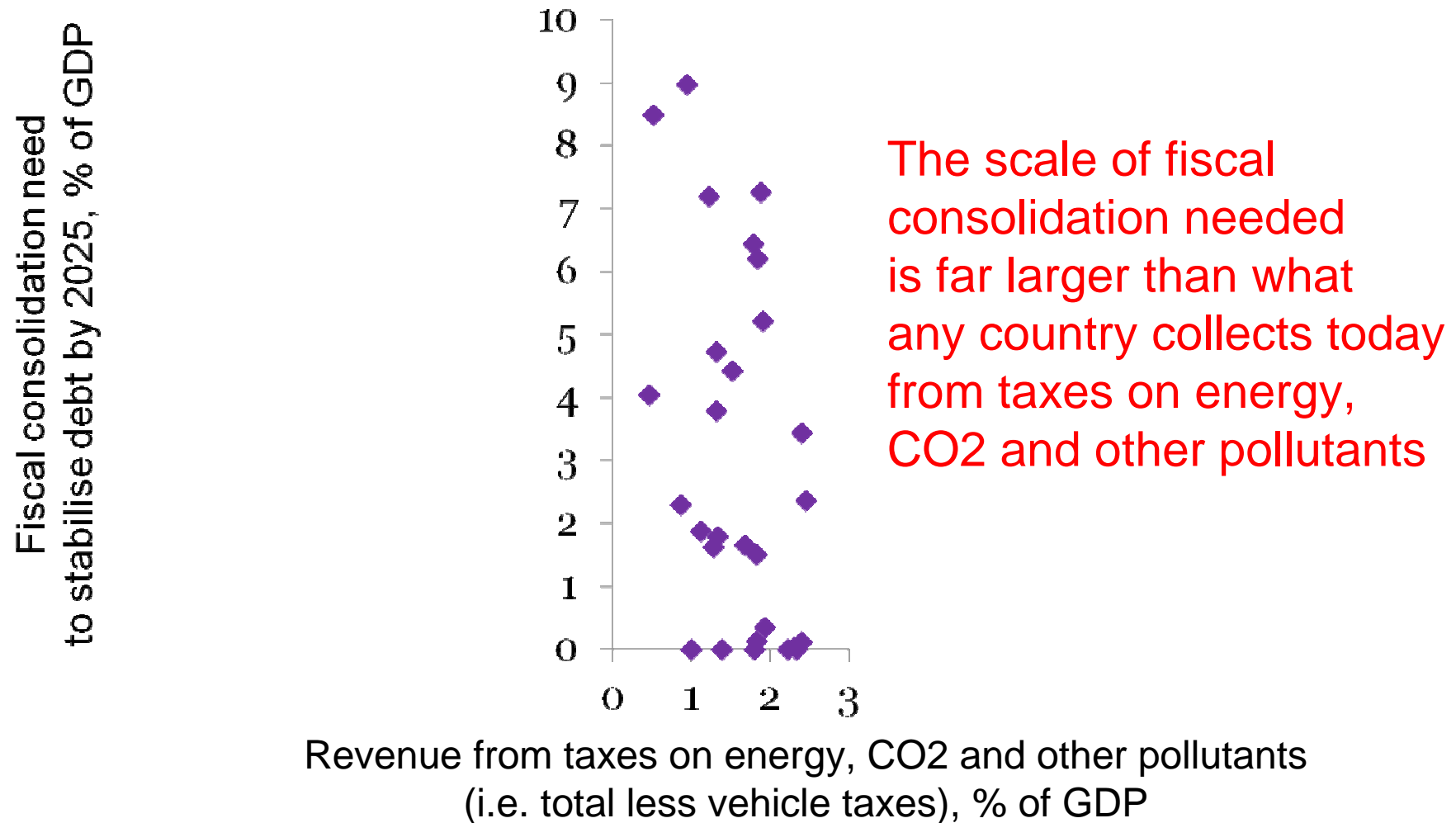
# Findings from new OECD study: *Taxation, Innovation and the Environment*



- Swedish NO<sub>x</sub> tax
  - Patents increased; emission intensities declined; Marginal Abatement Costs fell
- Swiss VOC tax
  - Firms were quite innovative and found many practical solutions beyond patenting
- UK Climate Change Levy
  - Firms subject to 80% tax reduction innovated less

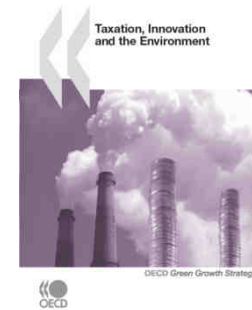


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countries needing *large* fiscal consolidation  
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# OECD wants to hear your views

Find more information about the report  
*Taxation Innovation and the Environment*  
[www.oecd.org/env/taxes/innovation](http://www.oecd.org/env/taxes/innovation)



Fossil fuel subsidies:  
[www.oecd.org/g20/fossilfuelsubsidies](http://www.oecd.org/g20/fossilfuelsubsidies)

Green Growth Synthesis report due for OECD Ministers in May 2011



Take part in the stakeholder dialogue  
starting via [www.oecd.org/greengrowth](http://www.oecd.org/greengrowth)

