

Taming the Bull: How Europe became a climate leader

Final Version



Dr. Anselm Görres – President, Green Budget Germany
2nd Seoul Initiative Policy Forum, 3-5 Sep. 2007, Bangkok
“Application of Economic Instruments for Green Growth”

Taming the Bull – A short story and five questions

- Prologue: The Story of Zeus and Europa
- 1. Question: Who are we, what do we stand for?
- 2. Question: Why is Europe ahead of North America?
- 3. Question: How did we get there, to the EU's leadership role in the climate fight?
- 4. Question: What did Germany do?
- 5. Question: Where do we go from here?
Possible lessons for Asia/ other regions

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Germany's Green Budget Reform – Exhibit 2

Question Nr. 1:

**Who are we and what
do we stand for?**
**(Introducing GBG
and GCET No. 8)**

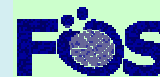
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Germany's Green Budget Reform – Exhibit 3

About “Green Budget Germany” (GBG/FÖS)

- **Nonprofit NGO**, founded in 1994, members welcome!
- Main Topics: **Environmental Fiscal Reform** (EFR) with
 - Ecotax Reform(ETR)
 - Emission Trading (ETS)
 - Subsidy Debate (expand positive/ reduce perverse ones)
 - and other **Market-Based-Instruments**
- Target Groups: **Business, academia** and **politics**
- Books, articles and newsletters in German or English:
ÖkoSteuerNews and **GreenBudgetNews**.



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Green Budget News 16 – 08/2006

European Newsletter on
Environmental Fiscal Reform

Voices from the USA in favour of ETR
British industry calls for more climate protection
GBG annual international conference

**TAX
BADS,
NOT
GOODS**

German edition:
ÖkoSteuerNews

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**Readers of
our two
newsletters:**

- 7.000 in D
- 4.000 abroad

**...and how
about you?!?**

...it's easy:
www.foes.de

SELECTED WORLDWIDE ECOTAX PRESENTATIONS BY GBG-MEMBERS
After some time we realized that **GBG is not only an NGO but also a travel agency**

Europe: Barcelona – Berlin – Hamburg – Krakau – London – Madrid – Malta – Munich – Paris – Prag – Riga – Tallin – Vienna

N.America: Boston – Cleveland – Montebello – Ottawa – Portland – Sacramento – Sta. Barbara – Vancouver – Washington, D.C.

Thank you very much for inviting me to this great conference! (Particularly to the ROK Govt. who paid my ticket...)

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We proudly present...

**Eighth Global Conference on Environmental Taxation:
From 18th to 20th October 2007 in Munich, Germany**

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Christian Ude

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gtz

European Environment Agency

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Question Nr. 2:

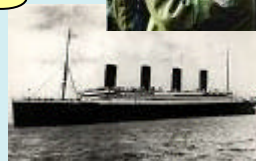
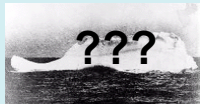
Why is Europe ahead?
(But most welcome back, North America!)

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Had "W" been captain of the Titanic, his last words probably would have been doubting the iceberg



Icebergs???
Pure speculation!

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For the worldwide public, the world's most famous green leaders appear to come from the US



"The debate is over. We know the science and we see the threat. Most of all, I say that we know the time for action is now."

"We have everything we need to begin solving this crisis, with the possible exception of the will to act. But in America, our will to take action is itself a renewable resource!"

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So welcome back to the debate and our global tasks, USA and Canada!

And congratulations to your Oscar, dear "Al Green"!

But we Europeans, too, have some green leaders!



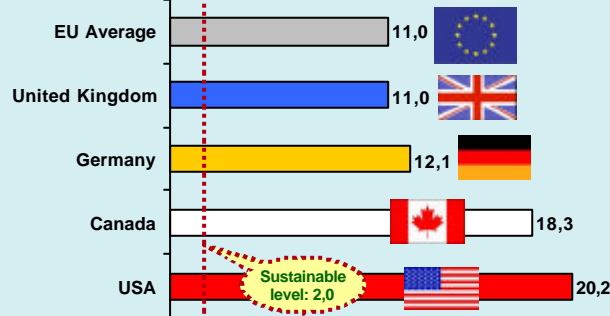
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CO₂-EMISSIONS PER CAPITA (IN METRIC TONS; 2005)

The average North American produces almost twice as much CO₂ as the average European



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HIGH SIMILARITY OF LIFE STYLES

We wear the same clothes, listen to the same music, even use the same toothpaste and drugs...



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BIGGEST DIFFERENCES IN ENERGY-RELATED SECTORS

... but European trains are better, cars more compact, and homes have more insulation, less AC



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POPULAR PROPOSALS TO IMPROVE ECO-PERFORMANCE

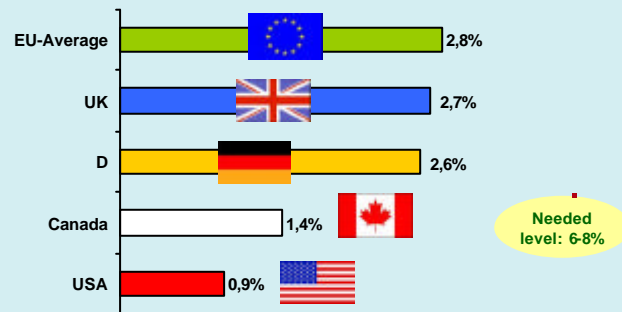
A lot of remedies are offered for North America to catch up – but perhaps not always the right ones

Popular Remedy	Some big buts
More “nuclear” energy?	UK and Germany (18%) have lower share than the US (21%)
Better technology?	Europe and North America have basically identical technologies
More moral education?	Sorry to disappoint, but we are no better humans than you!
More subsidies?	Within our tool kit, subsidies make up a very small part

But then what! ? **How about looking at energy prices and taxes?**

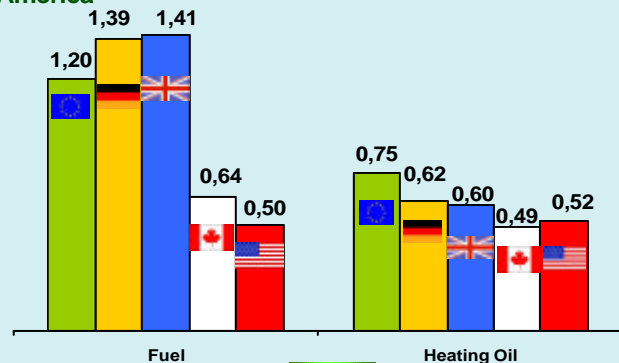
PERCENTAGE SHARE OF ECOTAXES IN GROSS DOMESTIC PRODUCT

The European level of ecotaxes is twice or three times as high in North America

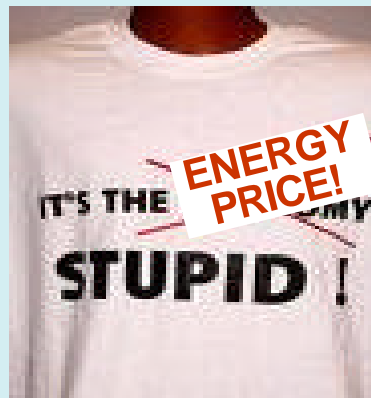


ENERGY PRICES 2006 (EURO PER LITER)

European energy prices are much higher than in North America



REMEMBER THE CLINTON CAMPAIGN OF 1996?



SO WE HAVE TO MAKE UP OUR MINDS:



LESS ENERGY?

CHEAPER ENERGY?

Tertium non datur!

Question Nr. 3:

**How did the EU become climate leader?
(By giving market instruments priority!)**

The ETR debate in many EU countries has led to a wide spread consensus throughout Europe

1970/80ies:
Wild array of Ecotax proposals



Early 1990ies:
EU-wide consensus emerges

- **Concentration on energy/CO₂:** not 150 different ecotax candidates!
- **Careful escalation/ no shocks:** Slow, but steady growth, 3-5% p.a.
- **Concrete blueprints:** (like Green Budget Germany 1994)
- **Budget neutrality:** No rise in tax quota – no gain for State
- **Shifting of tax burden:** From labour to nature
- **Export protection** for energy intensive branches
- **European and global dimension** of ecofiscal debate and reform

All EU countries have some kind of green taxes

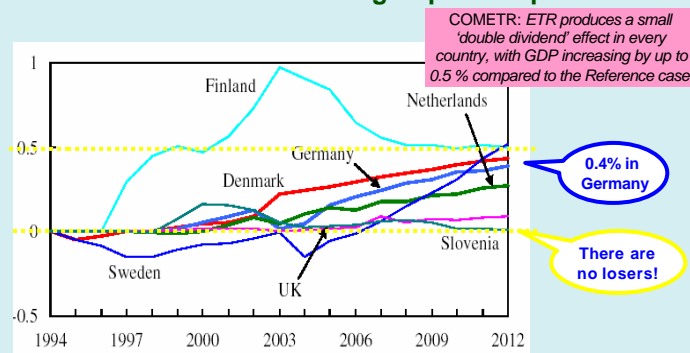
	Belgium	Denmark	Finland	France	Germany	Italy	Holland	Norway	Sweden	UK
Taxes										
CO2										
SO2										
NOx										
Fuels										
S in fuels										
Car sales and use										
Diff. annual car tax										
Water effluents										
Waste-end										
Dangerous waste										
Aviation noise										
Tyres										
Beverage cont.										
Packaging										
Bags										
Pesticides										
CFCs										
Batteries										
Light bulbs										
PVC/phthalates										
Lubrication oil										
Fertilisers										
Paper, board										
Solvents										
Raw materials										
INTRODUCED:	1996		2000		2004					

1. Witness of EU-Creativity!
2. Many roads to Rome!
3. Autonomy from neighbours!
4. Similar situation in new MS

Examples from EEA 2005

GDP-EFFECT OF ETR (DIFFERENCE TO BASE CASE IN %)

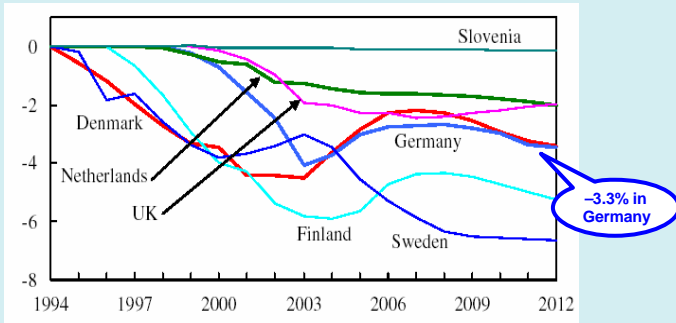
Positive GDP-effects of ETR go up to 0.5 percent



Source: COMETR 2007

EFFECT OF ETR ON GHG EMISSIONS (DIFFERENCE TO BASE CASE IN %)

Ecotaxes reduced GHG emissions by 2-6 percent



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EU Emission trading – a fast and impressive career

- **Early and quick start**, no wait for others to join (first mover – perhaps because of unanimity rule blocking ecotax progress)
- Many **surprises and small miracles**:
 - Comparatively weak resistance from industry (give-away!)
 - Europeans first to implement US-invented tool (usually other way round!)
- **Beauty of 0,05/99,95**: only 1.800 plants vs. 3.2 Million firms in D
- Most deficits of first round corrected in Phase Two:
 - Overgenerous and free allocation **reduced in 2008-2012**
 - Closing of loopholes, less complexity
 - From Grandfathering to Benchmarking
- **An economist's dream**: Almost perfect market, zero-base, virginity of property rights original distribution....

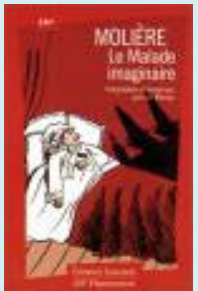
ETS-Price per ton
Phase 1: 0.09 €
Phase 2: 20 €
(Aug. 2007)

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One of the most played plays in this debate is from Molière – works fantastically since 1673!



So beware of Phantom Pain!

- Very frequent and popular disease
- Particularly with business people
- Car drivers also quite often affected
- Tabloids love to fight for the poor victims!

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In the summer of 2000, there were anti-ETR demonstrations throughout Europe



Unlike many other EU governments, the red-green coalition didn't back down under pressure...

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Languages differ, but attitudes are universal...



**“Mas vale un diablo conocido
que un angel por conocer”**

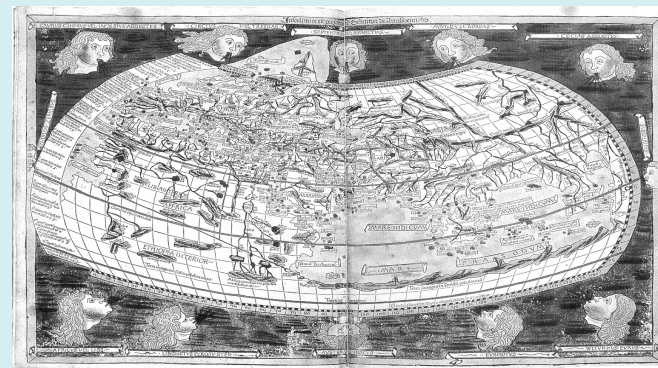
(Spanish: *Better a known devil than an unknown angel*)



“Dear God, make me chaste, but not right away”

(Ascribed to Saint Augustine as a young man)

Until Galileo, people believed the earth to be a disk

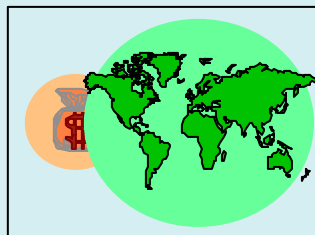
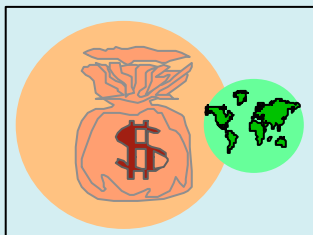


COMPETING VIEWS OF THE WORLD

For today's "Ecological Ptolemaians", the economy still constitutes the center of the world...

View of "Ecological Ptolemaians"

In Truth: Economy only Subsystem



Brecht's Galilei: "Do we have to assume, that what is large revolves around what is small, or is it not rather the other way round?"

Despite all problems and setbacks, Europe can be proud of its progress

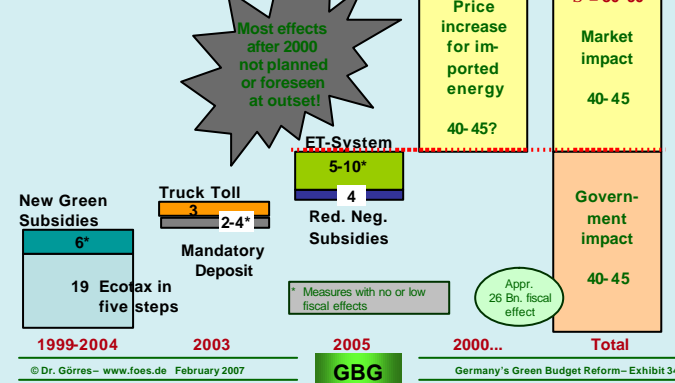
- **EU-Energy-Tax-Directive** (one pen stroke makes ecotaxes law for 10 new members)
- **Burden Sharing** of Kyoto-Targets; introduction of Emission Trading 2005
- Many excellent **command and control** measures (bio-fuel mix, particulates, REACH..)
- Promotion of **Renewable Energies**
- Positive role in **Post-Kyoto-Agreements**
- **A multitude of instruments and a wealth of experience, both on EU as on member states level**
- **Combined with clear priority for market-based tools**



Question Nr. 4:

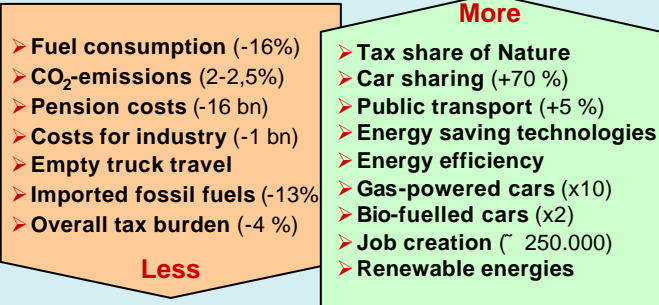
What was and is going on in Germany?
(great steps, great goals, less courage for MBIs...)

Government and market impacts add up to 80 to 90 billion Euro

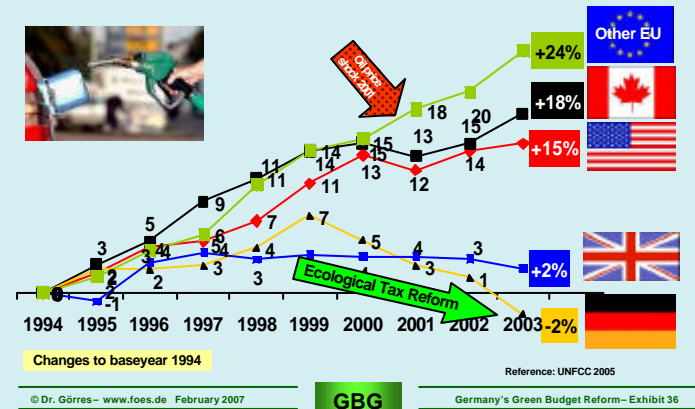


POSITIVE EFFECTS ON NATURE, INNOVATION AND LABOUR

First Results of Ecotax Reform (and price hikes)



INCREASE IN GHG-EMISSIONS IN TRANSPORT (IN PERCENT)
Ecotaxes can reverse the trend in transport emissions



TOTAL CHANGE IN OILIMPORTS FROM 1998-2005 IN MILLION BARRELS PER DAY
While the US increased their oil imports by 26 percent, Germany reduced theirs by 13 percent



Saving energy perhaps less costly than fighting wars for oil...

Al Gore seems to like the German ecotax reform

“For the last fourteen years, I have advocated the elimination of all payroll taxes – including those for social security and unemployment compensation – and the replacement of that revenue in the form of pollution taxes – principally on CO₂. **The overall level of taxation would remain exactly the same.** It would be, in other words, a revenue neutral tax swap. But, instead of discouraging businesses from hiring more employees, it would discourage business from producing more pollution.

Global warming pollution, indeed all pollution, is now described by economists as an ‘externality.’ This absurd label means, in essence: we don’t keep track of this stuff so let’s pretend it doesn’t exist.”

Al Gore at New York University, 18th September 2006



Red-green environment policies: successful for economy and environment, politically less so

- Total package of 40-45 bn., reinforced by world market effect of similar size
 - Strong positive effects on environment, much less fuel imports
 - Positive on employment and growth, net relief for business!!
 - Net decrease in tax burden
- Highly controversial
 - Constant opposition from business and conservatives, even after successes
 - Limits and losses because neighbours didn't join us (tank tourism to LUX, A...)
 - Presently almost standstill

➢ Ideal constellation: Wider consensus in society, more support from elites
 ➢ Excellent marketing and communications paramount!

Future campaigns should not stress dangers, but innovation, benefits and future jobs



Even our MoE officials in Berlin came up with quite funny promotion ideas

Bad eyes



By turning off the light earlier, you get..



Movie about energy-conscious driving
http://www.bmu.de/files/allgemein/video/mpeg/bmu_spot_engl.mpg

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Germany also profited from some particular conditions in the country

- **Proportional vote** put innovative green party in Bundestag
- Possibly the world's **strongest NGO scene**
- Dedicated "**instrument champions**" like Binswanger, Weizsäcker etc. and NGOs (BUND, FÖS..)
- **Courageous politicians** like Jürgen Trittin
- **Recycling via payroll taxes** base for red-green alliance in this point
- Many **economists in favor** (but only few outspokenly so)
- **Generous exemptions** reduced hostility from industry
- After two world wars and Holocaust, perhaps strong motivation to bring something better to the world

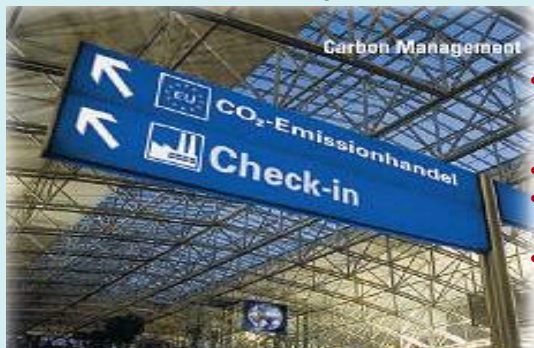


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Air traffic should be a primary target for the German Government and all European countries



- VAT on flights out of EU
- Ticket tax
- Kerosine tax
- Integration with ETS

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Question Nr. 5:

Where do we want to go from here?
(Let's move from goals to measures!)

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Looking back to 1994-98, we can see how much progress we've made in the meantime

- + **Great texts** move the world: Al Gore, Stern Report, IPCC-Reports, EU-Greenbook on MBI, EU-Gipfelerklärung
- + **USA/Canada** rejoin debate, even **China** seems to move...
- + Europe: More and more **ready to assume global leadership**, through brave acts and even braver declarations...
- + Many EU countries **on the verge of a new ecotax debate**
- + New order of debate: **defining goals first, then instruments**
- + New political scenery: **Top Down** meets Bottom up ? **VIPs** and establishment discover the climate challenge (at last!)
- + Conservatives rediscover conservation (Cameron, Merke

Nicolas Sarkozy , 6.5.2007: „La France fera de ce combat son premier combat.“



Even the new Simpsons Movie puts the climate threat in the center



EU takes the lead in Climate Change Policy

Firm EU commitment by 2020 to:

- ▶ Cut EU GHG-emissions by 20% (30% if USA, India, China make similar commitments!)
- ▶ Raise share of renewable energy to 20%
- ▶ Increase level of biofuels in transport fuel to 10%

"This text really gives European Union policies a new quality and will establish us as a world pioneer"



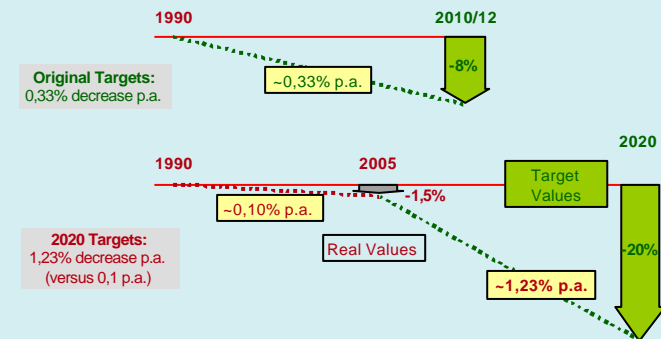
Even stronger commitment by D:

- ▶ Cut GHG-emissions by 40%
- ▶ Spend 3 Bn Euro annually on subsidies
- ▶ Multitude of smaller measures

"We can say to the rest of the world – Europe is taking the lead. You should join us in fighting climate change..."



To reduce EU-15 emissions by 20 percent, we need to be twelve times faster than until 2005



As much as we look:
There's less and less oil in the tub

And if there were – we cannot risk
to burn it all in the next few years!



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TRANSITION FOSSIL TO SOLAR (1)

There's a nice new bathtub of solar energy –
only how can we get out of the old, fossil bathtub?



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Possible lessons for Asia and other regions

- EU has highest level of energy prices in the world and prepares measures that will raise it even further
- We are the first continent to reduce CO₂-emissions (slowly)
- EU could do this and find support for an ambitious progressive climate policy because of
 - a tradition of strong government and the defence of public goods – no aggressive anti-state, anti-tax rhetoric
 - a strong culture of NGOs, particularly in Middle and North EU
 - strong democracies in member countries, plus reduced populist pressures in Brussels through indirect voting
 - Excellent EU staff with great analytical foundations and bright economists
- We are no superhumans. It does remain a small miracle why our climate policy is so much better than our agro-policy...

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→ Let's not forget: Cheaper energy is about
as good for climate protection as cheaper
cigarettes are good for fighting cancer



“Socialism collapsed because it did not
allow prices to tell the economic truth.
Capitalism may collapse because it does not
allow prices to tell the ecological truth.”


Oystein Dahle,
former Vice President of Esso for Norway and the North Sea

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Here some practical suggestions about what you and I can do

- Read New York Times or SZ, less Frankfurter Allgemeine (since 1994, I haven't found one MBI-friendly article in FAZ)
- Don't vote for parties that ignore the climate threat or fight market based instruments
(If you need to be in such a party, work to change their position)
- Watch your personal CO₂-balance
- Drive more BMW (= Bike, Metro, Walk) 
- Compensating air miles is a good idea
(but no substitute for tickets taxes, ET or other strong tools)
- Never forget: this is a political issue at first
(an issue of personal ethics only at second or third place)

Something's foul in this planet, not because people are bad or sinful, but because of failing institutions, corrupt elites, and misleading prices!

Personally, I leave my family car at home and use the new company car most of the time



So we've come to the final question:



What will you do next Monday morning?
(After you did your booking for GCET-08 Munich?)

USA

Merci beaucoup

CAN

Danke vielmals!

THANK YOU UK INDLY!

Muchas gracias ES

?? ? ? ? ? ? ? ? ? ? ?

ANNEX SLIDES

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About “Green Budget Germany” and the author

- **Green Budget Germany** (Förderverein Ökologische Steuerreform e.V./ FÖS) is a nonprofit organisation, founded in 1994. Membership open to everyone.
- We participate in the **German and European Ecotax and Emission Trading Reform** with own contributions and through **communication in and with the business, scientific and political communities.**
- Among other publications, we publish newsletters in German in English: **ÖkoSteuerNews** and **GreenBudgetNews.**
- **Dr. Anselm Görres**, born in 1952, economist and former McKinsey Consultant, is manager and entrepreneur in Munich Germany (www.zmm.de).
- He is co-founder and President of FÖS/GBG. He has written books and many articles about ecotaxes in Germany.



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Emission trading in the EU – a fast and impressive career (Timetable)

- **1997:** Kyoto Protocol is agreed. Courageous “as if” – EU proceeds long before Kyoto is ratified
- **2000:** Green Paper on greenhouse gas emission trading within the European Union
- **2001:** EU-Commissions first proposal for an emission trading directive
- **2003:** Historical record: From Text book to law book in less than three years. ET directive is adopted by all member states.
- **2004:** Everybody waiting for Russia to rubber stamp Kioto
- **2005:** Emission trading starts in the EU
- **2007:** First period of Emission Trading ends successful, but with ridiculous price (0,07 Cts). Second period (2008-2010) has more auctioning, less grandfathering, and less generous allocation.

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EXECUTIVE SUMMARY (1)

For the environment, there were almost exclusively positive effects

Positive Effects	Negative Effects
<ul style="list-style-type: none"> • Energy becomes gradually more expensive (until oil price shocks accelerate price increase) • ETR provides steady incentives for behavior change and innovations by entrepreneurs and individuals (instead of detailed prescriptions what to do) • From 2000-2004, transport fuel sales fall by >2% p.a. (first time in after-war history!) • CO₂-emissions: 2.4% less until 2003, 3% until 2010 • Use of ETR to subsidize better building insulation etc. • Energyefficiency becomes purchasing criterion • Each year, 0,5-1,5% more public transport passengers • 10% growth of gas-powered cars • Double-digit growth of solar thermal installations • Important factor to fulfil Germany's Kyoto obligations 	<ul style="list-style-type: none"> • Nuclear energy and coal not included • Electric power tax partly offset by price cuts from deregulation • In some areas, inelastic customer reactions to higher prices • Lack of institutional reforms to facilitate customer reaction, i.e. in rented apartments • Exemptions gave little or no efficiency incentives for energy intensive industries

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Germany's Green Budget Reform – Exhibit 60

EXECUTIVE SUMMARY (2)

In economic terms, ETR has generated clear benefits for pension system and labour market

Positive Effects	Negative Effects
<ul style="list-style-type: none"> Relative simple legislation, only one new tax (electricity); moderate steps over five years; no shock effects Complications only due to exemptions (industry, public transport, energy-intensive, bio-fuels, cogeneration) Almost €20 bn. fiscal returns 90 Percent used for reduction of labour costs (pension insurance) 200.000 to 250.000 new jobs created Industry relieved by app. €1 bn., many companies net winners; many technological innovations Part of general tax reduction reform, therefore reduced national tax and contributions quota Social burden for people not profiting from lower pension rates offset through lower taxes (in most cases) Correction of decades-long abuse of pension system for social aims/ German unity etc. 	<ul style="list-style-type: none"> Generous exemptions lead to fiscal losses from these branches Revenue loss in border regions from drivers filling up in neighbour states Phantom pain of perceived burden may have had negative influence on some investors/ managers (e.g. Opel-Boss Forster lost a bet because he actually believed in net cost burden for Opel) Actual pension reduction much lower than in theory (loss of credibility!)

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EXECUTIVE SUMMARY (3)

Only in the political balance sheet, the negative effects slightly dominate

Negative Effects	Positive Effects
<ul style="list-style-type: none"> For most of the year 1998-2005, ETR was a political burden for the Red-Green Coalition Indirect recycling via pension system is complicated and difficult to sell, often criticized Use of revenues for non-environmental purposes is neither really understood nor appreciated Inconsistent public demands: calls for budget neutrality as well as spending for green projects Pro-business parties attack generous exemptions for business (after fighting for them!) Ecotaxes are perceived as socially unjust (for families, students, pensioners) Permanent attacks from yellow press and car lobby (ADAC) No recognition and support from winners, but hard attacks from real and perceived losers 	<ul style="list-style-type: none"> German Energy Policy gains high recognition within EU and overseas In 2000, Schröder cabinet holds firm against populist protest, making only symbolic changes Majority of serious press and academic community in favor Towards end of 2005 campaign, Katrina turns energy policy into an asset with many voters CDU, CSU, and FDP still fight ETR – but promise to sustain it ETR-debate converts even marxist greens to market advocates!

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EXECUTIVE SUMMARY (4)

In sum: ETR is a phantastic product, but needs smart selling against populist and tabloid pressures

- Argue **chances and innovation**, not threats and doom
- Show **simplicity** of stepping **from fossil into solar bathtub**
- Win politicians with fiscal and practical advantages
 - **First tax in history actively asked for by citizens**
 - Efficient and unbureaucratic, **lowest admin cost of all taxes**
 - **More efficient than most other eco-instruments**
- Win economists with beauty of **prices saying the truth**
- Win labour and people with **jobs, jobs, jobs** (double dividend)
- Revenue: Combine **recycling, debt reduction and green projects**
- Make **reform package to combine ETR with social relieves**
- Put small and mostly phantom **cost of today in relation to saving the future** of our kids and our beautiful planet
- **Forge rainbow coalition** of enlightened conservatives, innovative business people and progressive parties
- **Involve competent and enthusiast NGOs** like GBG

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