

The Political Economy of Environmentally Related Taxes

Presentation

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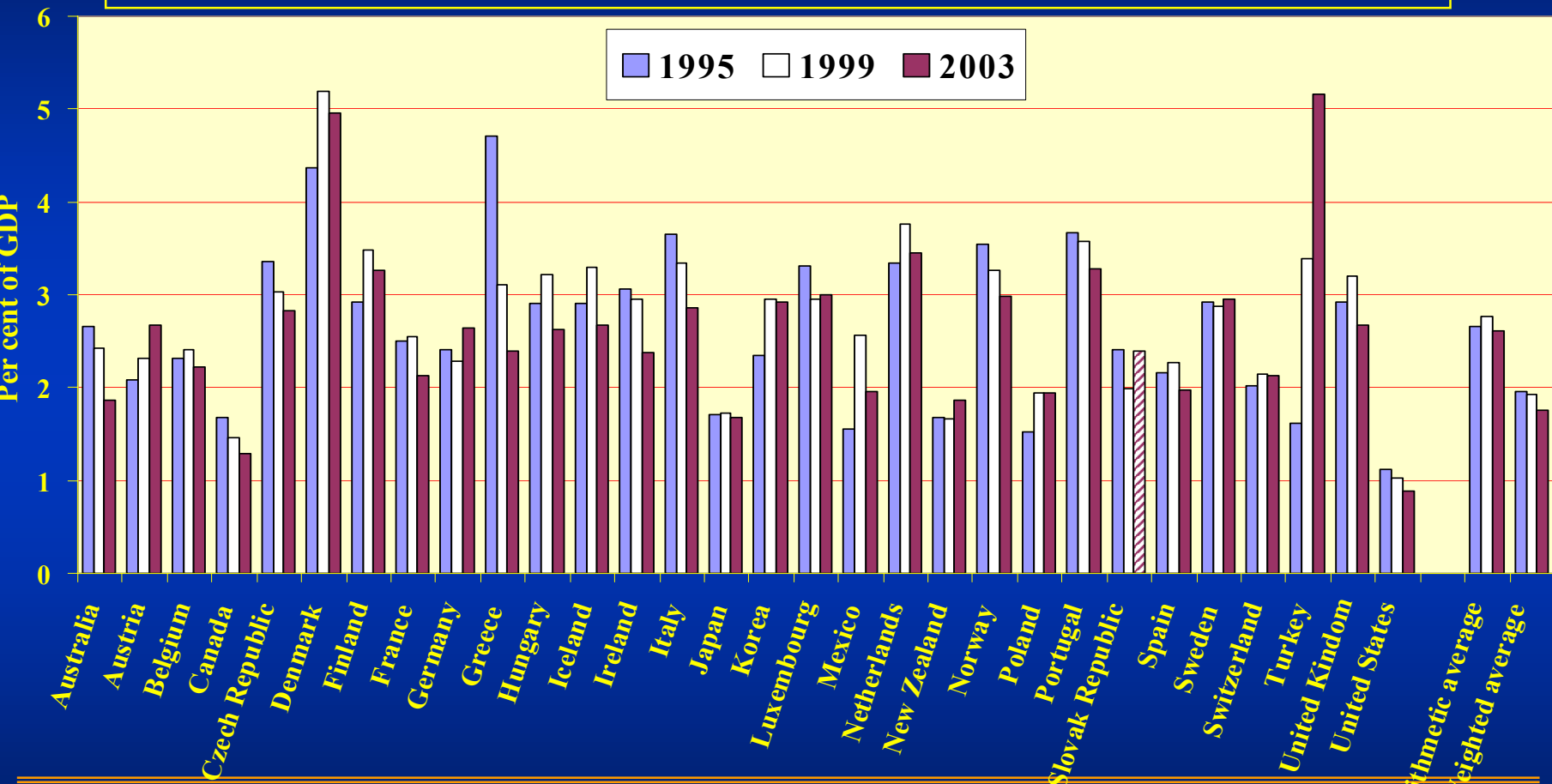
at the International Conference on
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Introduction

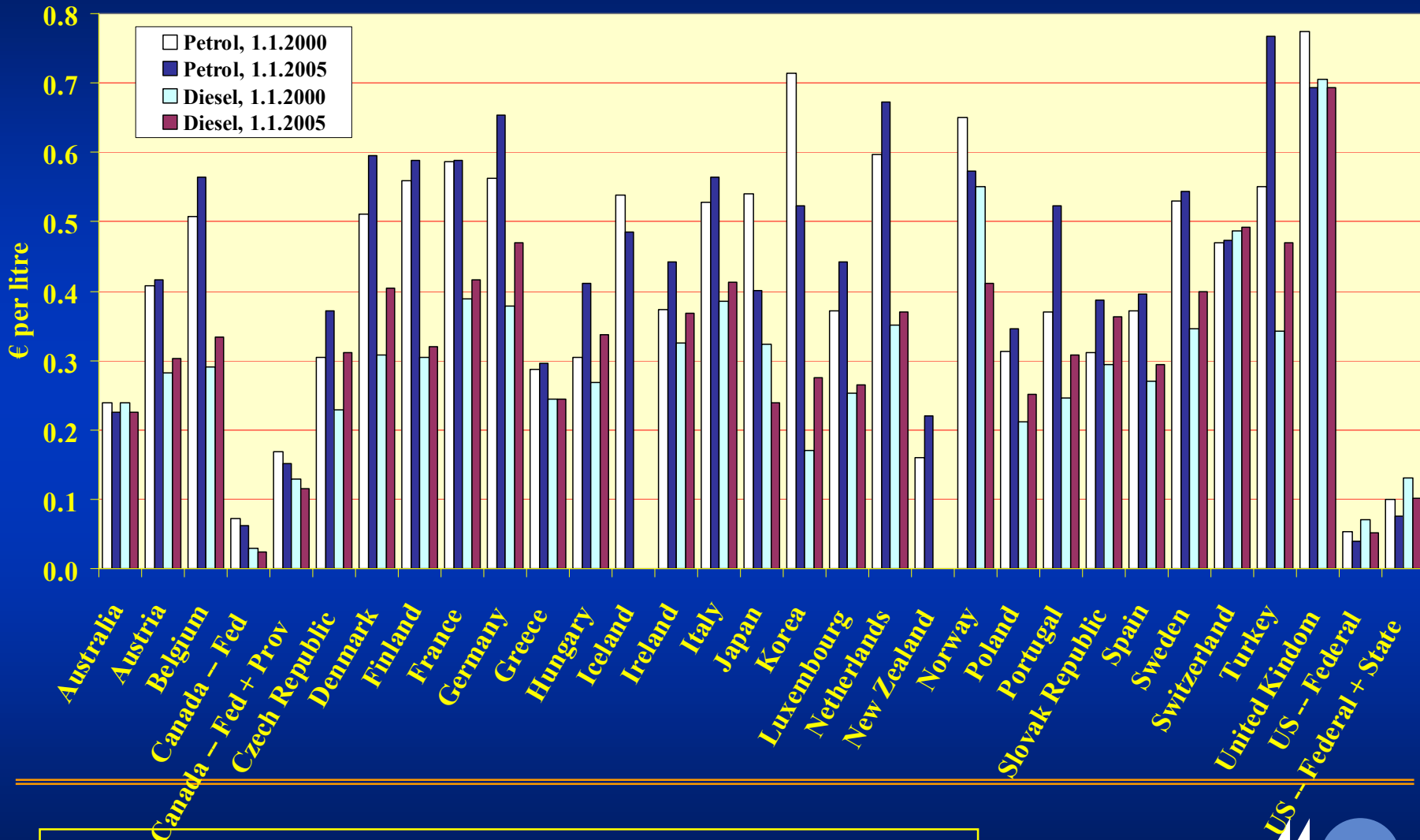
- A new OECD report on environmentally related taxes will be issued in June 2006.
- It builds on a large number of *case studies* undertaken over the last 4 years.
- It also draws heavily on information contained in the *database* on instruments used for environmental policy (available at www.oecd.org/env/policies/database).
- It includes findings of ENV work on *instrument mixes*.
- Additional *literature searches* have been undertaken.

Revenues from environmentally related taxes in per cent of GDP



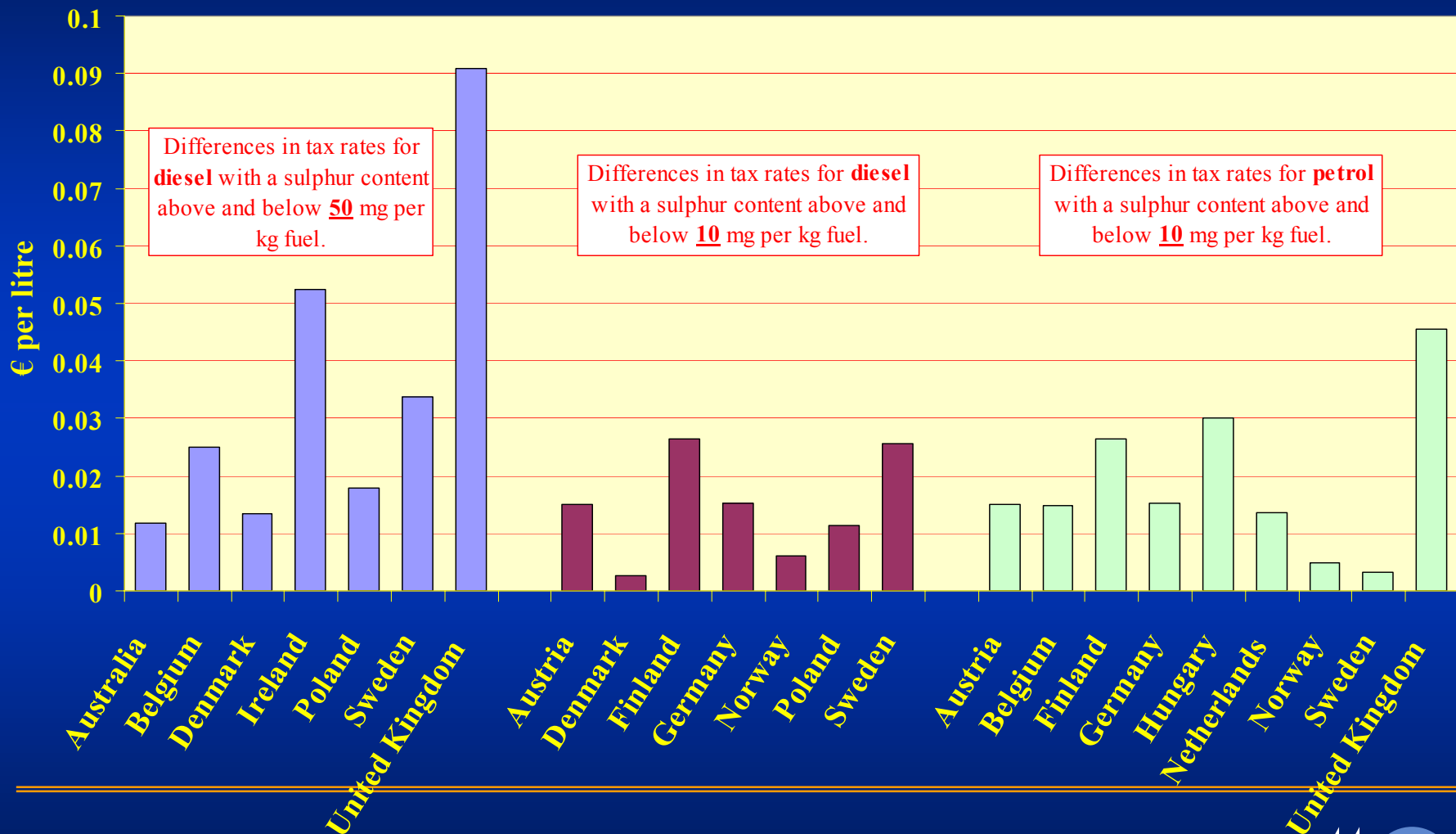
Source: www.oecd.org/env/policies/database

Petrol and diesel tax rates in OECD



Source: www.oecd.org/env/policies/database

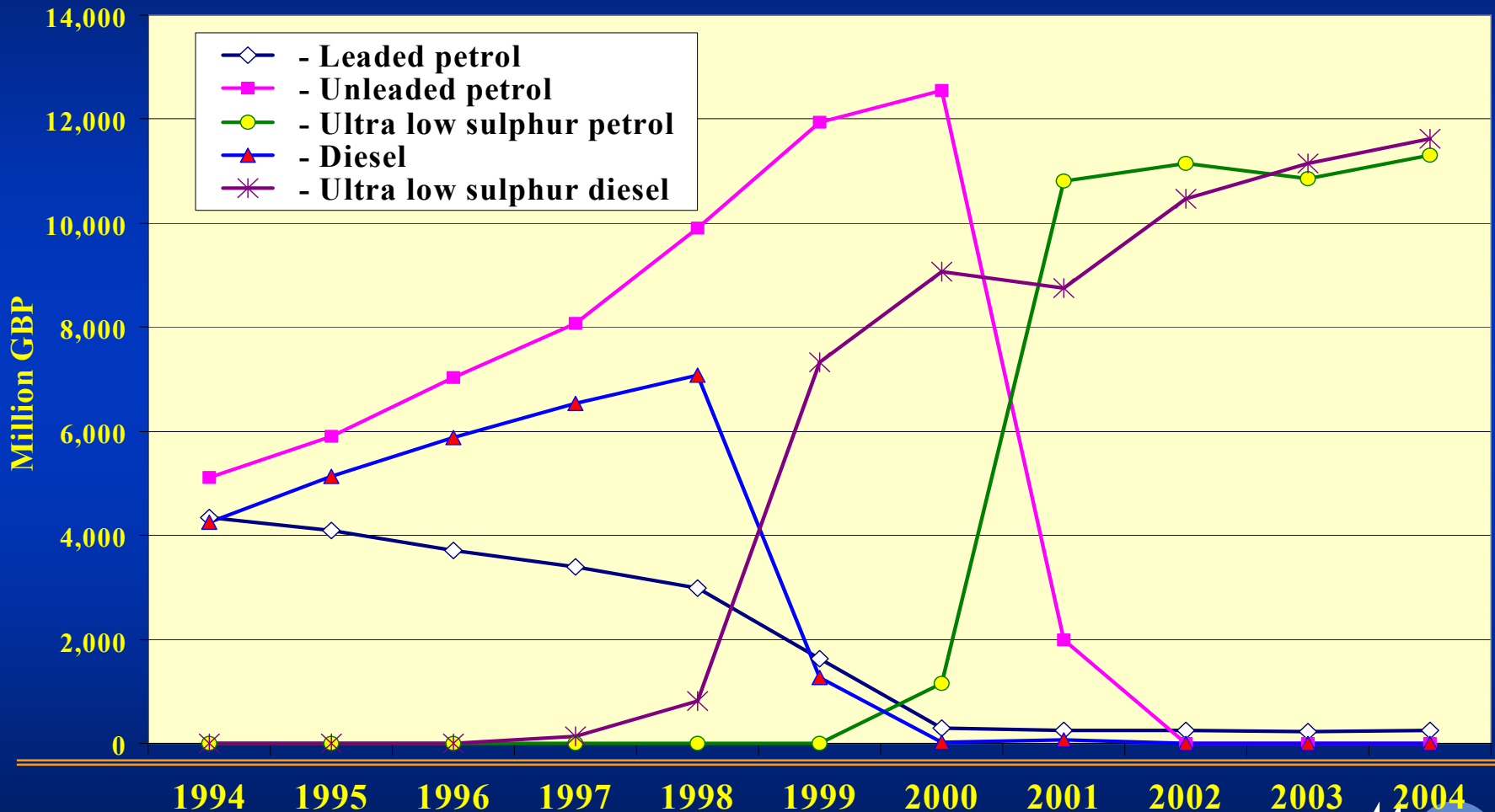
Sulphur differentiation in fuel tax rates



Source: www.oecd.org/env/policies/database

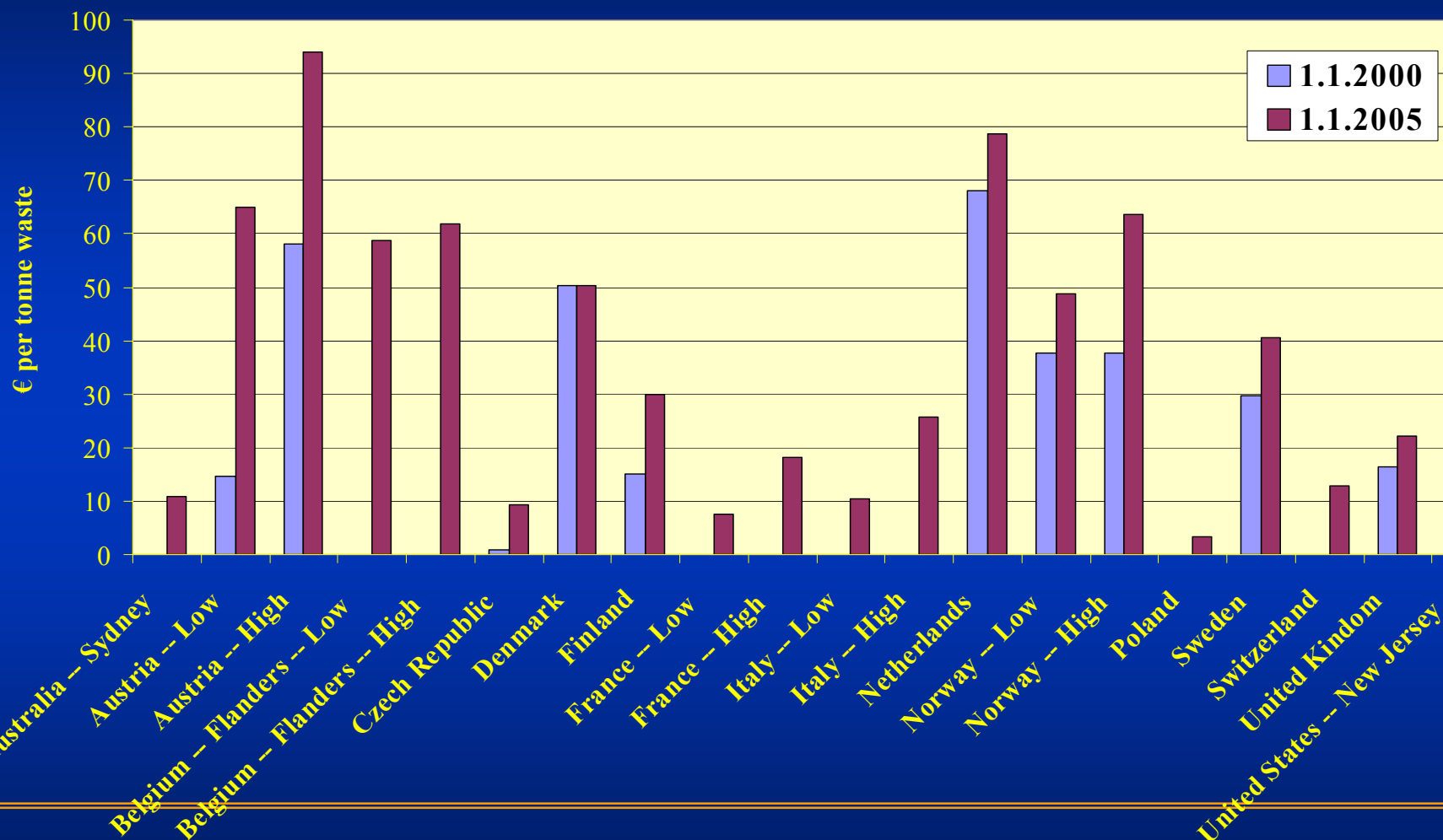
Sulphur differentiation in UK tax rates

Revenues raised on different fuel types



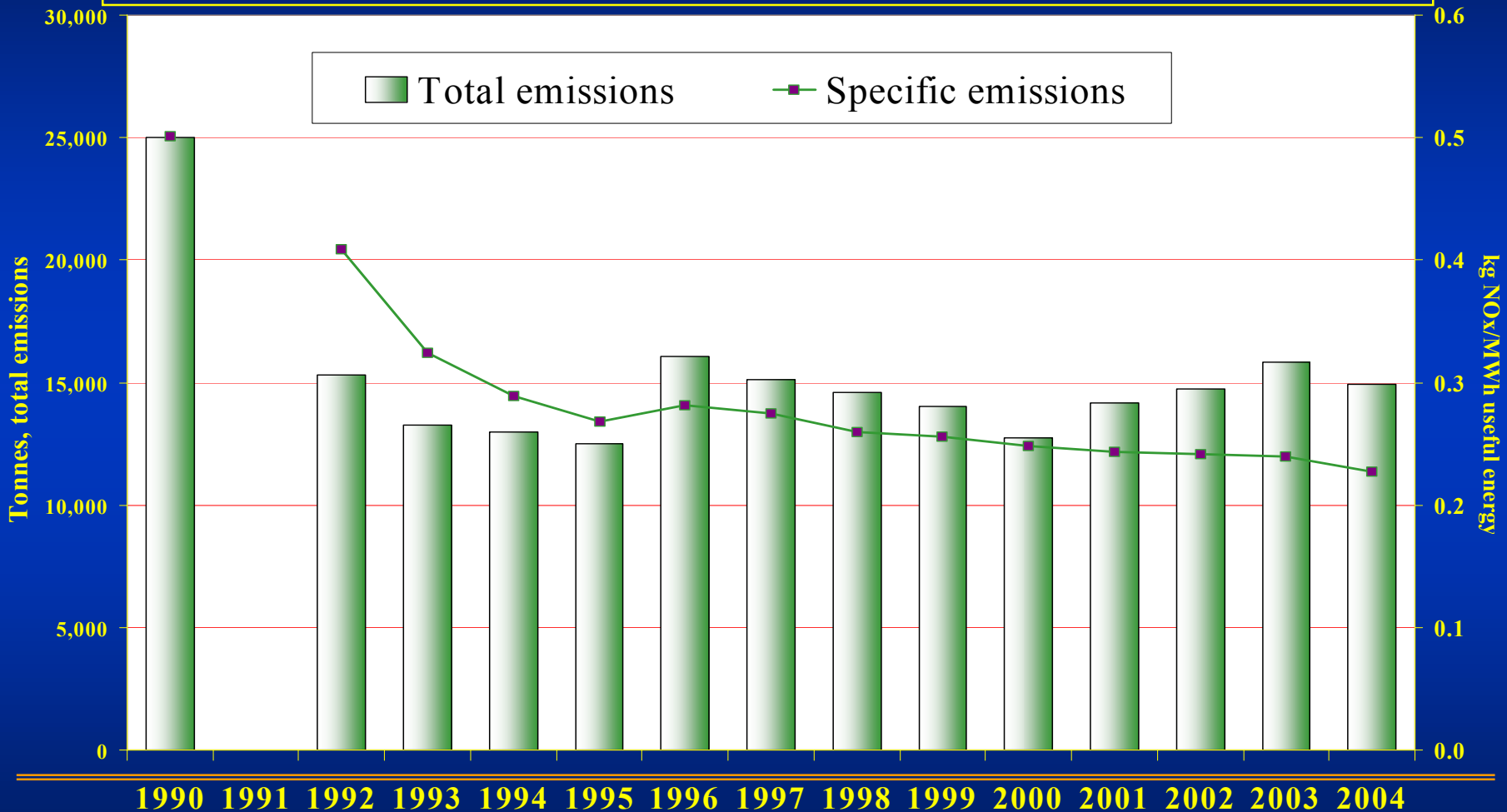
Source: www.oecd.org/env/policies/database

Taxes on landfilling of waste



Source: www.oecd.org/env/policies/database

Impacts of the charge on NO_x emissions in Sweden



Sectoral competitiveness

- Steel study: OECD-wide tax reduce CO₂-emissions by 19% in OECD and 4.6% on a global basis.
- Cement study: CO₂ tax or emission trading scheme with auctioning in Annex B (except USA and Australia), reduce global carbon emissions by around 2 %.
- Studies show: In spite of *some* carbon leakage, global reductions in CO₂- emissions can be achieved.
- Economic instruments to reduce GHG emissions *are* likely to have negative impacts on sectoral competitiveness.
- Ways of limiting the impacts:
 - Recycling of tax revenue to the given sectors is likely to reduce the environmental effectiveness of the policy.
 - Border tax adjustments.

Impacts on income distribution

- Direct effect: Most studies show a regressive direct impact of environmentally related taxes.
- But: Indirect effects reduce the regressivity.
- Important to address the distribution effects, otherwise there is a risk that measures might not be introduced.
- Countries should consider creating mechanisms to ensure that distributional concerns are addressed in the decision making process.
- “Mitigation” measures reduce the environmental effectiveness of taxes.
- Countries should use “compensation” measures that maintain the price signal of the tax.

Enhancing political acceptance

- The ‘acceptance’ of an economic instrument seems to be related to the *degree of awareness* of the environmental problem the instrument is to address.
- It is thus advisable to “prepare the ground” for later instrument implementation by providing *correct and targeted information* to the public.
- The degree of political acceptance also depends on the perceived *‘fairness’* of the instrument in question.
- Political acceptance could be strengthened by creating a common understanding of the problem at hand, its causes, its impacts, and the impacts of possible instruments, *e.g.* by *involving relevant ‘stakeholders’* in policy formulation.

Effective and efficient instrument mixes require ...

- A good understanding of the environmental issue to be addressed;
- A good understanding of the links with other policy areas;
- A good understanding of the interactions between the different instruments.

Examples of interactions between instruments

- A labelling system can help increase the effectiveness of a tax by *providing better information* to the users on relevant characteristics of different product the tax applies to. The price elasticities of concern can hence increase.
- Combining a tax on energy use with targeted subsidies for better isolation of buildings can be a good way to *address split incentives*.
- The combination of a tax and a voluntary approach can *increase the 'political acceptability'* of the former – by limiting any negative impacts on sectoral competitiveness – at the cost of reduced environmental effectiveness or increased economic burdens placed on other economic actors.

Examples of interactions between instruments (Cont.)

- Combining a tax and a tradable permits system can help *limit compliance cost uncertainty* – compared to the application of a trading system in isolation.
- On the other hand, such a combination would *increase the uncertainty related to the environmental effectiveness*.
- There is also a danger that a regulatory instrument applied next to an environmentally related tax could *unnecessarily restrain the flexibility* for polluters to find cost-effective abatement options offered by a tax.

Conclusion

- Environmentally related taxes *can* be effective and efficient instruments for environmental policy.
- The environmental effectiveness and economic efficiency of the environmentally related taxes applied in OECD member countries could, however, be improved further if existing exemptions and other special provisions included in the taxes were scaled back, ...
- ... and if the tax rates were better aligned with the magnitude of the negative environmental impacts to be addressed.

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Further information

www.oecd.org/env/policies/database

www.oecd.org/env/taxes

www.oecd.org/env/waste