



The role of economic instruments in EU environmental policies

Dr Jane Feehan
European Environment Agency





The European Environment Agency

- We are a specialised EU agency, producing reports and developing indicators on Europe's environment
- We provide decision-makers with the information needed for sound and effective policies to protect the environment and support sustainable development
- 32 member countries; first EU body to open its doors to EU applicant countries. EEA members: The 25 EU Member States and three EU candidate countries (Bulgaria, Romania and Turkey); Iceland, Norway and Liechtenstein; Switzerland, 1 March 2006



Where are we?.....





Overview of this presentation

- What are market-based instruments, and what can they do for the environment?
- New EEA report: 'Using the market for cost-effective environmental policy'
- The application of market-based instruments for waste management: some examples





An early tax in the USA

- White phosphorus, used for production of 'strike-anywhere' matches in the mid 19th century
- Serious health problems - phosphorus necrosis
- Red phosphorus: a safer but more expensive substitute in a very competitive market
- John Andrews (economist) made public the problems, alternatives and approaches in other countries
- John Esch (congressman) achieved adoption of 1911 bill imposing a prohibitive tax on white phosphorus matches (\$ 0.02 per 100, now \$1.20)





What are the advantages of market-based instruments?

A problem: Many of the goods and services we produce and consume are incorrectly priced because of *hidden costs* which are not reflected by the prices that we pay up-front. MBIs can take account of these hidden costs – ‘internalising externalities’

They can also

- Promote behavioural change
- Implement the polluter pays principle
- Help encourage technological innovation
- Raise revenues





Types of market-based instruments

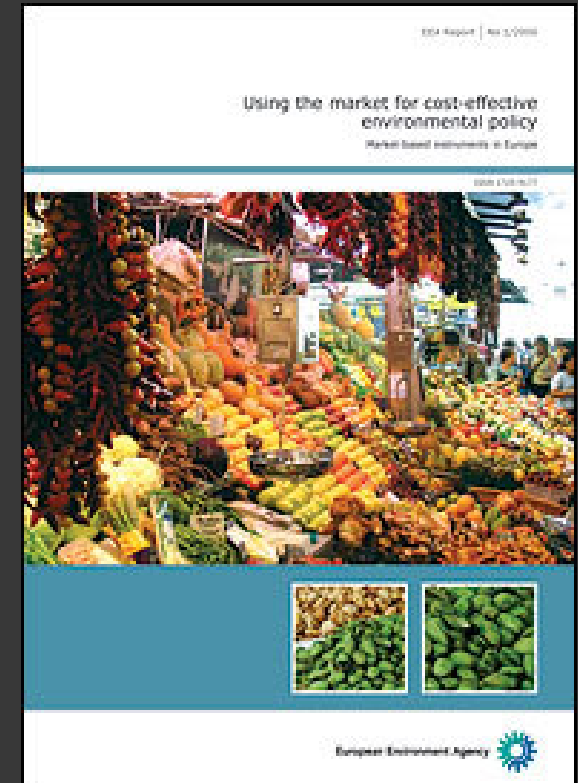
1. Tradable permits
2. Environmental taxes
3. Environmental charges
4. Environmental subsidies and incentives
5. Liability and compensation schemes



'Using the market for cost-effective environmental policy': a new EEA report

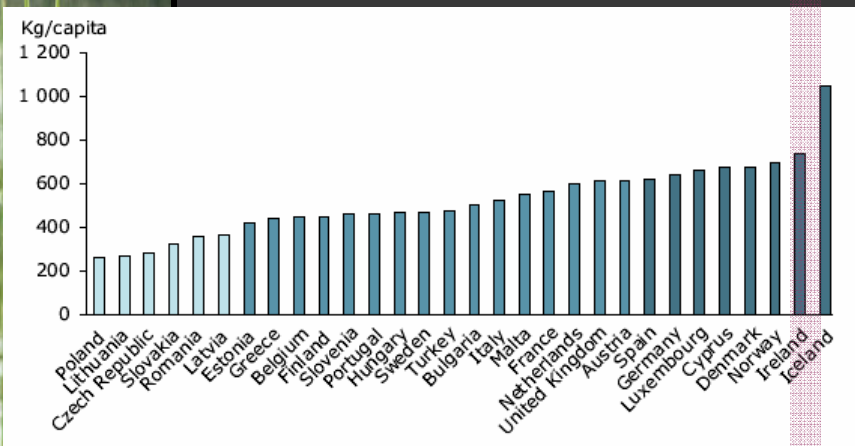
Covers the use and impact of:

- Emissions trading
- Environmental taxes and charges
- Deposit-refund systems
- Subsidies
- Liability and compensation

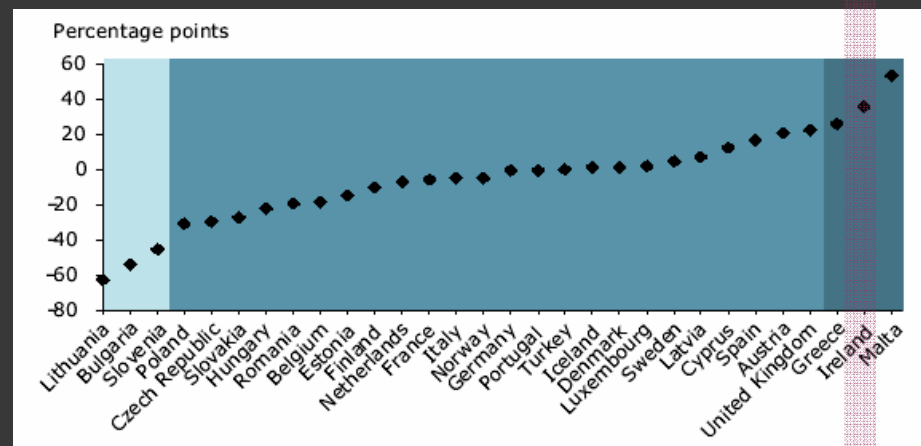


Municipal waste generation

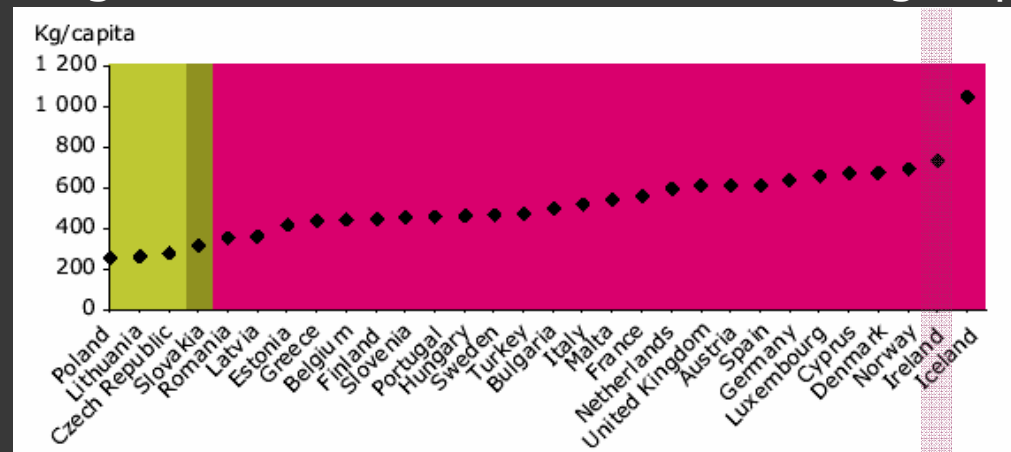
Municipal waste generation per capita, 2003




Change 1995-2003 in municipal waste generation compared with EU-25 ave.



Municipal waste generation distance to the '300 kg/capita target', 2003





Market-based instruments and waste management: some examples

- Landfill taxes: industry vs. households...
- The Irish plastic bag levy: simple and successful
- Danish packaging tax: directly related to environmental impacts
- Dutch vehicle disposal levy: supporting implementation of end-of-life vehicles Directive

.....do these promote prevention?





Instruments work better if....

- They are well-designed in themselves, and as part of a wider package of instruments;
- The reasons for having them, and how revenues will be used, are clearly communicated;
- The levels at which 'prices' are set reflect both an incentive to change behaviour, *and* a realistic analysis of affordability.





A checklist for success

- Instrument champion
- Picking the winners
- Simple, understandable and transparent
- Realistic structure and rates
- Give advance notice...
- ...and stick to what was announced
- Maintaining equity in implementation
- Making sure that people can respond
- Indexation, or even escalation



