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EUROPEAN NEWSLETTER ON ENVIRONMENTAL FISCAL REFORM

Editors:

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Dear friends of the ecological tax reform,

In spite of the announced federal new elections in Germany, the ecological fiscal reform is blessedly no longer disputed. Even the current christian-conservative opposition, which has refused ecotaxation so far, had to concede, that the option of an abolishment does no longer exist (Christian Wulff, prime

minister of Lower Saxony, 23.5.2005). The highest-circulating German press, BILD, which has featured a populistic ecotax-opposition in the past, also acknowledged, that a liberal-conservative government can not – and will not reduce the ecotaxes, for the lost revenues would cause annuity insurance contributions to rise.

http://www.bild.t-online.de/BTO/news/2005/05/29/was_wird_anders_regierung/was_wird_anders_regierung__schwarzgelb.html

Combining the abatement of labour costs with a higher tax charge of environmental pollution has proved to be successful. So it is all the more deserving that Japan's ecological fiscal reform seems to be on the brink of its final breakthrough. On this account our special is this time dedicated to the progress made there.

In March Swiss decided with an active involvement of Green Budget Germany to introduce an emissions-related CO_2 levy on fossil fuels from 2006, which is designed to be redistributed to the citizens.

Whereas the EU remains diffident regarding a kerosene tax, emissions trading, which is also covered in this edition, more and more turns out to be a success story.

We would appreciate it very much if you would continue to notify us of people and organisations we could send our newsletter to. You are also more than welcome to send us some articles about the situation in your country concerning environmental taxes, possibly written in a journalistic style. Please contact us beforehand.

Your Editors

2. GREEN BUDGET REFORM ON EU-LEVEL

Energy taxes and emissions trading: possible double regulation?

[Jacob Klok, Swedish Ministry of Finance] In 2003 the EU Council adopted two major Directives, both bearing considerable influence on how Member States shall regulate their industries in order to fulfil environmental and internal market policies.

The first is the Energy Tax Directive, setting out a common framework for the taxation of all the major energy types: mineral oils, natural gas, coal and electricity. The second is the CO_2 Emissions Allowance Trading Directive, which establishes a comprehensive system for Greenhouse Gas emissions trading within the EU.

The two instruments of energy taxation and GHG emissions trading are meant to complement each other, as parts of a comprehensive and coherent package of policies and measures implemented at the State and Community levels to fulfil environmental and internal market objectives.

One adverse effect of the implementation of the two Directives is that some industries might become subject to a double regulation of both energy taxation and emissions trading. Some industries might even be seen to become subject to triple regulation, as an effect of increased electricity prices when power companies pass on their increased CO_2 abatement costs to end users. Industries competing on global markets are not, in the same way, able to pass on additional abatement costs.

This article first briefly sums up the issue as it has been dealt with on the EU level. Then it looks at how some EU Member States have been responding, until now, to the possible problem of double regulation between emissions trading and energy taxation. Finally some general reflections on the issue raised are presented[1].

[1] For a thorough analysis on the interaction between different climate policy instrument in European Member States consult "INTERACT – Interaction in EU climate policy" (EU project

The issue

The new Energy Tax directive went into force the 1 of January 2004, covering now all the main energy types mineral oils, natural gas, coal and electricity with a common structure and minimum rates. The new structure sets the rules for the national application of energy tax exemptions (e.g. households and bio fuels), reductions (energy intensive enterprises and agreements), and differentiations (e.g. business and non-business use). The new Directive should make it easier for Member States to use energy taxation as a way to fulfil environmental policy objectives without disturbing the workings of the internal market.

The greenhouse gas allowance trading directive establishes a scheme for greenhouse gas emission allowance trading within the EU. The scheme is meant to constitute a central element in the effort to achieve the EU GHG emissions reduction target of 8 percent in 2008-12 compared to 1990 levels, in accordance with the EU agreement on internal burden sharing.

The trading system is based on the national allocation of emission allowance permits to a limited set of activities in the energy and industrial sectors (refineries, combustion, iron and steel, paper and pulp, building materials). It enters into force on 1 January 2005 with a three-year initial phase. Here, Member States are obliged to allocate a quantity of emission allowance permits consistent with a path towards achieving the Member State target. From 2008 to 12, in the Kyoto phase, the allowances allocated shall be consistent with the Member States obligation to limit its GHG emissions.

With the start of the emissions allowance trading on 1 January 2005, some industries could be subject to both energy taxation and the GHG trading system.

The possible conflict between the two directives was foreseen in the statements to the minutes of the Council meeting in which the energy tax Directive was adopted. On the basis of a proposal from the Commission, the Council undertook to *"positively examine tax measures, which will accompany the future implementation of a Community emissions-trading scheme, particularly in order to avoid cases of double taxation"*.

The relation between emissions trading and taxation is also addressed in the emissions trading directive. Indent 23 of the preamble states that "*where activities are covered by the Community scheme, Member States may consider the implications of regulatory, fiscal or other policies that pursue the same objectives. The review of the Directive should consider the extent to which these objectives have been attained*". In indent 24 it is furthermore added that: "*The instrument of taxation can be a national policy to limit emissions from installations temporarily excluded*".

Finally, Article 30 stipulates that the commission shall draw up a report on the application of the Directive considering, among other things: "*the relationship of emissions trading with other policies and measures implemented at Member State and Community level, including taxation, that pursue the same objectives*".

The Commissions has taken the first step towards addressing the possible problem of double regulation, stating that:

> "The Commission considers that the two instruments [of energy taxation and emissions trading], as far as they pursue the same objective, should in principle not apply to the same entity. Thus some adjustment of energy tax rates for those entities participating in the trading may have to be considered…The opportunity of presenting an initiative (proposal for a Directive for instance) has to be assessed in the communication"

United Kingdom

The UK has not needed to make any significant changes to its national legislation

EVK2-CT-2000-0067
www.sussex.ac.uk/spru/environment/interact.

as an effect of the new Energy Tax Directive. All businesses in the UK are subject to mineral oil duty rates and a Climate Change Levy (CCL), both of which tax energy products above the minimum levels set out in the Directive. Certain energy intensive enterprises are granted an 80 percent reduction in the CCL rates in return for signing up to climate change agreements to reduce their emissions and/or energy use.

In the latest Budget, the government did not announce any changes to the current energy taxation structure. However, to create a level playing field between different climate change policies, the government has announced that those sectors with negotiated climate change agreements (which entitle them to a discounted rate of climate change levy) can keep their discounts if they join the EU ETS.

Germany

In order to bring its national energy tax legislation into line with the energy tax directive, Germany has to introduce a tax on coal for heating purposes and make some changes to its national definition of energy intensive businesses in order to align it to the definition provided in the Directive. Both of these changes have to be implemented from 2007.

As part of an ecological tax reform mineral oil, natural gas and electricity tax rates have been successively increased in Germany from 1999 until 2003. In the ecotax law special reductions for "industrial business" are provided, including energy intensive businesses that are generally in international competition. Companies belonging to the definition of "industrial business" are subject to a reduced rate of 60 percent of the full amount of the energy tax rate per energy source (e.g. the tax rate on electricity of 20.50 euro is reduced to 12.30 euro). If the burden of the reduced energy tax rate is higher than the tax relief obtained as a result of reductions in pension contributions, the manufacturing sector will get a further reduction of 95 percent of the exceeding tax burden back. Companies have in any case to pay a tax burden of 512.50 Euro.

In Germany, discussions on how to cope with the mix between energy taxation and emissions trading are not very advanced yet. According to a source from the German Ministry of Environment, the need to change the energy tax system as an effect of emissions trading all depends on the targets set in the emissions-trading scheme. If National Allocation Plans turn out to be weak, it might in fact be necessary to raise the level of energy taxation in order to meet the Kyoto targets.

If, however, the emissions-trading scheme proves to be effective, one model being discussed is to apply a reduced energy tax rate to energy consumed by those particular installations that take part in the emissions trading, while increasing the rates for the remaining energy consumption. As the energy-intensive parts of a company are covered by the EU wide emissions trading system, equal environmental incentives and a level playing field are provided for the heavy processes particularly vulnerable to international competition. The remaining energy consumption, such as heating and lightning, is not particularly vulnerable to international competition and could therefore carry a higher tax burden, possibly the regular one. Special rules may be required, however, for certain installations, such as aluminium smelters, where the distinction between energy intensive and not energy intensive processes does not follow the coverage of the emissions trading Directive. These could, for instance, be in the form of tax-free thresholds to provide for a low average tax rate, which is important for competitiveness, and a high marginal tax rate, which is important from an environmental and innovation point of view.

Discussions on this model concern, in particular, how to treat energy-intensive enterprises that are exempted under the current legislation but not covered by the emissions-trading scheme and therefore,

according to the suggested model, not be eligible for reduced energy tax rates. It is another problem that not all enterprises covered by the emissions-trading scheme are burdened by it. It has to be researched in detail which enterprises that are burdened and which ones that benefit.

Austria

In Austria, existing energy taxes on mineral oils, natural gas and electricity were raised considerably, and a new tax on coal was introduced in connection with a recent general reform in the national tax system. As an effect of the energy tax directive, Austria has also increased the national rate on commercial diesel slightly and adjusted its energy tax reimbursement scheme for energy intensive enterprises.

Austrian enterprises used to be exempted from the energy tax on natural gas, and electricity used as heating fuels exceeding a threshold of 0.35 percent of the value added of their output. Enterprises paid full tax for other heating fuels (heavy fuel oil, LPG and gas oil for heating purpose). Calculations showed, however, that the 0.35 threshold did not ensure compliance with the new minimum rates in every case. Therefore, the threshold has been increased to 0.5 percent, and minimum rates have to be respected in any case now. This means in practice that energy-intensive enterprises have to pay net energy taxes of 0.5 percent of value added or the minimum rate – whatever is the higher amount. In order to keep the change revenue-neutral, the reimbursement scheme has been extended to cover mineral oil products used as heating fuels as well. The new legislation was passed by Parliament in July 2004.

In Austria, energy taxation and emissions trading has not been linked in spite of demands by energy producers and industry for compensation from the added burden of emissions trading through energy tax reductions . Industry also feels that the introduction of emissions trading calls for a relaxation of the Austrian commitment to move towards renewable energy under the renewables directive.

Netherlands

Besides the excise duties on mineral oil products, the Netherlands has an Energy Tax on the consumption of gas, electricity and mineral oils. In order to preserve international competitiveness, the energy tax initially mainly focused on small-scale energy consumption. Later, medium-scale energy use was also included. Natural gas was taxed up to a ceiling of 1,000,000 m3 per year and electricity up to a ceiling of 10,000,000 kWh per year. Industrial energy conservation for large-scale energy users was instead realised in the context of long-term agreements. However, as an effect of the energy tax Directive, the Netherlands have brought large-scale energy consumption above the former ceilings under the existing national energy tax scheme. Tax rates on electricity above 10,000,000 kWh, however, can be avoided if the company joins a voluntary agreement on energy preservation.

Dutch industries have raised demands for energy tax reductions in return for participation in the emissions trading system (alternatively a release from the existing demand to participate in the agreement system in return for energy tax reductions). The government has not yet taken a position on this question.

Denmark

Denmark has made some minor changes in the national energy tax legislation in order to implement the energy tax directive, including a small increase in the mineral oils tax paid by energy intensive companies choosing not to enter into an energy-efficiency agreement.

Denmark applies a CO_2 tax on the energy consumption of all businesses. Energy-intensive enterprises are entitled to a 75 percent reimbursement of the CO_2 tax paid for a range of predefined industrial processes that has been identified as energy intensive. To be identified as energy-intensive, the effect of a CO_2 tax of 50 DKK pr. ton CO_2 on the

relevant production unit has to be higher than 3 percent of the value added of the unit and at least 1 percent of the turnover of the products manufactured by the company. International competition, and competition with national non-energy-intensive companies, is furthermore taken into consideration when energy-intensive processes are identified. Enterprises that enter into an agreement about energy efficiency are entitled to a 97 percent reimbursement of the CO_2 tax paid for the energy intensive processes.

In order to secure against double regulation, Denmark has introduced a 100 percent reimbursement of CO_2 taxes paid for heating fuels used in production processes covered by emissions trading. In this way the tax has now been removed in areas where the direct burden of the emissions trading system is expected to be the highest. Enterprises still have to pay CO_2 tax for the use of space heating and electricity. However, the government has pledged to take a closer look on the connection between emissions trading and CO_2 taxation, when practical experiences with the trading system has been obtained, including a better idea about the price levels on allowances, electricity and heat.

Sweden

Sweden has a general energy tax on electricity, mineral oils, coal and natural gas and a CO_2 tax on mineral oils, natural gas and coal. The service sector, households and district heating enterprises pay the full energy and CO_2 taxes on fuels used for heating purposes and the full energy tax on electricity.

The manufacturing, agricultural, horticultural and fishing sectors and combined heat and power generation are subject to tax reductions. The energy tax on fuels used for heating purposes is zero. The energy tax on electricity has also been zero, but as an effect of the new energy tax directive, enterprises in those sectors now have to pay the minimum electricity tax rate (0.5 euro per MWh). Meanwhile Sweden is also introducing a scheme for voluntary long-term agreements providing that energy intensive industrial enterprises that enter into the scheme will be exempted from the energy tax on electricity if they undertake measures that lead to increased electricity efficiency, broadly equivalent to what would have been achieved if the standard rate had been observed.

The manufacturing, agricultural, horticultural and fishing sectors and combined heat and power generation furthermore enjoy a reduction of the CO_2 tax, which from January, 1 2004 amounts to 79 percent of the full rate being paid by the other sectors of the economy. Energy-intensive enterprises in the manufacturing, agricultural, horticultural and fishing sectors can be subject to further tax reductions according to the 0.8 and 1.2 percentage rules.

The issue of possible double regulation from CO_2 taxation and emissions trading has been addressed in an emissions trading expert committee, with representatives from the Government offices, administration and business. In an intermediate report, presented in spring 2004, the committee suggested to abolish the CO_2 tax on industry sectors covered by the emissions-trading scheme (and thus not the energy sector). Interested parties are currently being heard about the report.

In its latest budget proposal the Swedish government acknowledges that plants taking part in the emissions trading system (except for certain power stations and oil refineries) also pay CO_2 tax on their consumption of heating fuels, and therefore are subject to double regulation. A coordination of the two instruments is therefore necessary in order to achieve effective environmental steering, while preserving the international competitiveness of Swedish companies. However, as the emission trading system hasn't started yet, it is not sure what the price of emissions allowances will be. It is therefore too early to decide how the coordination of instruments should occur. The government intends to return to the question in the spring of 2005.

Reflections

In so far as they pursue the same objectives, the application of both energy taxation and CO_2 emissions trading to the same production process will cause an inexpedient double regulatory burden and thereby raise the risk of policy failure. It therefore seems important that Member States be allowed to exempt enterprises from energy taxes if they are covered by the emissions-trading scheme.

It is still far from certain, however, that the emissions-trading system will in fact provide the promised reductions in CO_2 emissions. This will not be the case if emissions allowances are allocated generously by Member States. Thus, any adjustments of energy tax rates should only occur as far as it can be established with a high degree of certainty that the emissions-trading system will in fact provide equivalent incentives as the energy taxes that it is supposed to replace.

Taxes on energy used by the trading sector might also have significant fiscal objectives. In those cases, there might be other good reasons to maintain the tax. This very much depends on whether the trading system is based on the free allocation of allowances (grandfathering), as it is generally the case today, or whether Member States would be allowed to auction all, or at least a larger part of the emissions allowances.

If emissions allowances are allocated for free, financial transfers do not, as with taxes, flow from the enterprises to the state, but rather between the trading enterprises. Making this system even less similar to a national tax is that a large part of the financial transfers will occur internationally, mainly from countries with strict emission limits to countries with more amble limits. If emission allowances were instead to be auctioned, transfers would instead occur from the covered enterprises to the state. In fiscal terms, this would make the emissions-trading system much more similar to the national tax that it is supposed to replace. Also making the case for auctioning the main allocation mechanism is a question of administrative costs. While the current system of grand-fathering involves a high degree of government and EU intervention in the hole process of elaborating and controlling national allocation plans, the use of auctioning involves the market mechanism more fully, by leaving it up to the enterprises themselves to decide the demand for allowances at the given supply level of supply.

Let's have a clean fight . . . Companies are calling for greater fairness from European action to combat pollution

[Paul Dillon, The Times, 29 Mar 05] Legal challenges are stacking up throughout Europe from companies dissatisfied with the new measures under the Kyoto Protocol to cut greenhouse gas emissions. The dissatisfaction is unsurprising: the measures, from the European Commission, could make or break companies.

The Emissions-trading scheme has proved highly contentious since it began on January 1. Under the scheme each EU member has a limit set on the amount of carbon emissions that it can produce without charge. In turn, this limit is then distributed to companies – in the UK through what is known as the National Allocation Plan. But already companies are claiming that the Government's allocation contains serious anomalies.

European companies are already challenging the way in which carbon emissions are allocated under the scheme. A Dutch chemicals company has taken the Dutch Government to court claiming that the scheme is unfair and detrimental to its business. The company says that the emission cap stymies innovation and argues that as the limit is based on historical data it is being punished for past efficiency. A decision is expected soon, although it is likely that the case will go all the way to the European Court of Justice.

German companies have also been unhappy with their allocations, with more than 800 filing complaints and several making legal

challenges in local courts. Notably, BP has said that it will challenge the scheme if its German allocations are not amended. Similar cases are springing up all over the Continent.

With businesses in the UK starting to make noises about their allocations, the British Government may be the next in line for a judicial review. The system is designed to balance the needs of business with environmental imperatives. The Department for the Environment, Food and Rural Affairs, which allocates the allowances, consulted widely with industry on how best to go about it. The allocations are based on the amount of carbon emitted between 1998 and 2003, and although this approach was initially preferred by industry it has led to claims of anomalous and unfair results.

Complaints by British companies generally relate to the size of each allocation- a significant business issue as the allowances are a tradable commodity like oil or gas. Any company that exceeds its allocation must buy more allowances on the open market. To put this into perspective, carbon emission allowances trade for about 11 euros a tonne (the figure changes weekly). So having an allowance surplus of 100,000 tonnes would produce a "green" windfall of more than 1 million euro (£700,000). If a company finds itself short by the same figure, it faces a yearly loss of 1 million euro. This could put installations out of business and explains why the allocations may eventually be subject to legal challenge.

For example, one installation that had emissions of just over 1,000 tonnes in 2002 and 3,000 tonnes in 2003 has been allocated more than 16,000 tonnes. Another company, which had a clear pattern of declining emissions on a particular site and a figure of 40,000 tonnes in 2003, has an allocation of more than 840,000 tonnes. This appears to have given them a windfall of more than 5 million euros.

Any rules covering so many sites is likely to yield anomalies. But the apparent scale of the inequity produced by the National Allocation Plan, favourable and unfavourable, is breathtaking. It seems that while some company directors may be jetting to the Bahamas others may see their companies go out of business.

Most confusingly for a system designed to cut emissions, 60 per cent of British installations have received allocations greater than their most recent baseline verified emissions. The EU directive requires that member states' allocation plans do not discriminate between companies or sectors in a way that will unduly favour certain undertakings or activities. So the UK anomalies are unlikely to pass unnoticed by the European Commission.

Putting aside those anomalies, the UK allocation was already in difficulties before it was implemented. Late last year, the Government asked the EU for an increase in allowances for the power sector, long after its original plan had been approved. The Government was clearly unhappy with its allocation at the outset – it felt it insufficient to meet the needs of business. Only recently has it accepted the original limit, with the reservation that it will still challenge the EU over the 20 million extra tonnes that it wants.

Given the number of legal challenges on the Continent, and the extent of the inequities caused by the UK allocation, it is perhaps surprising that there has been no challenge in the UK so far. The time for a judicial review may have already passed, although this does not preclude a challenge against the scheme itself. If either kind of challenge were to succeed, the Government would face further embarrassment in Europe.

For the moment, it appears that the Government has avoided reprisals for its questionable allocation of carbon emissions. But the next stage – for allocations for between 2008 and 2012 – will be more aggressive. Companies will share in a smaller portion of the emissions cake, and the Government may not be as lucky next time round. With the recent announcement by power companies that electricity will be more

expensive as a result of the allocations – and a general election imminent – the Government may not be out of the woods just yet.

Climate Change and Taxation: A Plea for an Effective System of Fossil Energy Taxation

[Eberhard Rhein, European Policy Centre, Brussels, 4 May 05] 2004 is the fourth warmest year on record, the three even warmer ones having all having been registered after 1995. All available evidence, including from NASA, points to a persistent trend towards global warming, essentially due to human emissions of $C0_2$.

Humanity also knows enough about the disastrous consequences resulting from climate change for the earth's fragile eco-system. There is therefore widespread agreement among experts, including from the USA, about the urgency of reducing the level of $C0_2$ emissions.

The rich post-industrial societies of the planet – USA, Europe, Japan, Australia and Canada, Russia – have so far been primarily responsible for global warming. They contribute 60 percent to global $C0_2$ emissions. It is therefore up to them – and not yet to developing countries – to take resolute action.

Such action must go far beyond the 6 percent reduction of CO_2 emissions that the most advanced Kyoto signatories are committed to reach between 1990 and 2012.

Kyoto is just the beginning of a secular process during which humanity needs to radically change its life style and energy supply. With the Kyoto Protocol, we shall gradually become aware that CO_2 emissions bear a cost to society: it will cost European or Japanese utilities and industrial companies 10 euro or more to emit a ton of CO_2 beyond their (generous) quota allocations. Kyoto will, however, only concern a few thousand big industrial companies world-wide, not the rank and file citizens who will continue to enjoy comfortable heating of their houses and unrestrained mobility as if global warming did not concern them.

In order to win the battle against global warming we need to harness 500 million European citizens (and subsequently Americans, Japanese, Chinese…) against it. How?

Certainly not by public appeals to save fossil energy and resort to renewables. Such appeals will be necessary, but not enough. In order to change the behaviour of hundreds of millions of citizens, we should look for more effective means than moral suasion. We need an effective system of incentives and disincentives.

Why not use taxation as a pervasive and easy-to-handle instrument for reducing CO_2 emissions? Why not seize the opportunity of forthcoming tax reforms in order to devise tax systems that are conducive to "sustainable development"?

To that end, Europe should remodel its tax system around three basic principles:

- Tax consumption rather than income or property;
- Tax consumption of goods more than of services;
- Tax consumption of fossil energy dramatically higher than any other consumption.

Why should this be so?

For a very simple reason. Fossil energy is too cheap: In real terms oil and gas are no more expensive today than 25 years ago! If we want to replace it, at the earliest possible juncture, say by 2060 rather than by 2100, by renewable energy we have to follow a two-pronged strategy:

- Make it much more expensive;
- Encourage R&D on renewable energy sources.

So far, Europe has done a little bit on promoting R&D, though far too little. It has done even less on making fossil energy more expensive.

The political class has lacked the courage to do so, afraid that voters would not appreciate such action. Germany has made a try in 1998 with a small increase of the excise tax on gasoline/diesel. But that reform was ill devised, with exemptions for "sensitive sectors", and badly explained to the citizens, who were made to believe that the extra tax would reduce non-wage costs and therefore create more jobs. The result has been disappointing.

What should be the building blocks of a "green tax system"?

- First, the tax system should be simple and transparent. That must be a primary objective for any tax reform. To that end, the majority of citizens should be exempt from direct taxation and not have to file any tax declarations. Income tax should be due only for incomes > 15,000 euro p.a.
- Second, the majority of citizens should contribute to the financing of government functions via VAT and specific excise taxes.
- Third, the normal VAT rate should be around 20 percent, as is the case in France, Belgium or Italy, Slovakia and others.
- Fourth, the present differentiation of VAT rates needs an overhaul. Is it still appropriate to "subsidise" the consumption of food when Europeans suffer increasingly from obesity? It would be more intelligent to differentiate between the consumption of goods and services. In the interest of sustainability services – repairs, maintenance, sports, TV, cinemas, education or books – should be subject to reduced rates rather than foodstuffs.
- Fifth, taxation of fossil energy should become a major source of government revenue.

Europe is far from having reached the peak of that taxation, even though gasoline taxation is very high compared to countries like the US, Saudi Arabia or Iran. How should the present incoherent system of excise taxation on energy be streamlined towards the objective of climate change?

- First, governments have to explain to their citizens that high energy taxation is necessary both to reduce the consumption of fossil energy and the emission of $C0_2$ emissions and to raise government revenues.
- Second, diesel, gasoline, fuel, coal and natural gas should be taxed on the basis of their carbon content/$C0_2$ emissions: Fuel for heating is as damaging for the climate as is diesel for running cars or tractors. There is therefore not reason for taxing heating fuel less than automotive diesel.
- Third, we need to generalise road user fees for both truck and passenger cars as the instrument for financing European motorways. It is irrelevant how these are collected, at toll stations as in France or Italy, by electronic devices as in Germany and Austria, or at the border as in Switzerland. The user fees should cover the totality of costs caused by traffic, including external costs to the environment and global climate.
- Fourth, aviation and shipping, both maritime and fluvial, have to be subject to the same type of energy taxation as any other users of fossil energy.

Such a system can be put in place with a minimum of legislative changes in any of the 25 member states. Indeed, its key elements have been put in place in the fall of 2004 by EU Directive on minimum excise tax rates for various types of fossil energy.

But in order to have the necessary impact on the consumption of fossil energy three key changes will have to be made:

- The full inclusion of aviation and shipping;
- The harmonisation of minimum tax rates irrespective of what different energy sources are being used for. Concretely this implies that fuel will be taxed at the high rates applicable to diesel whether used for domestic or industrial heat.

- The minimum tax rates will have to be raised progressively.

The Commission should therefore propose the necessary amendments.

It will face stiff resistance from industry, shipping, aviation and consumers. They all will have to bear substantially higher excise taxation on energy consumption. Citizens in northern Europe will also have to pay user fees for motorways (which must not be offset by reduced excise taxes on gasoline/diesel).

In view of overcoming such opposition it will be necessary to provide for a progressive phasing in of these higher rates over a period up to 10 years.

Even with these changes fully implemented the impact will be felt only slowly.

Energy consumption is not very sensitive to price changes. We therefore need quite a high level of taxation in order to reduce energy consumption. More important, governments will have to convey a clear message that the price of fossil energy will go up steadily over the coming decades, by a combination of market forces and taxation. Only then will business and consumers invest in low consumption cars, heating installations, insulation, and renewable energy.

We shall therefore see changes with a time lag of several years, the more so if tax rates are raised progressively.

Will high energy prices not undermine European competitiveness?

That is a myth spread by lobbies:

- The share of energy costs in most of the manufactured products produced and exported by Europe is less than 5 percent. If it were much higher Europe would not be capable of competing with the USA or other countries with substantially lower energy prices.
- The bulk of the higher energy prices caused by rising taxation will have to be borne by European consumers. For them higher energy taxation is compensated by lower income taxes.
- Very few energy-intensive industries – metals, cement, glass, paper or base chemicals – will find their international competitiveness impaired. Some of these productions are likely to move out of Europe anyhow because of environmental restrictions or unfavourable resource basis. In order to facilitate their adjustment governments should provide for transitional regimes. In extreme cases, the EU might consider special import levies to compensate the higher energy charges.
- Europe will introduce its new regime of energy taxation during a 10 year period or so. Citizens and companies will therefore have time for adjustments.
- Europe will exert growing pressure on its trading partners to follow suit and make energy more expensive.

Is a system of flexible energy taxation more effective than the Kyoto regime of $C0_2$ emission quotas?

That depends very much on their respective quantitative shaping: Generous attribution of emission quotas will certainly be less effective than high fossil energy taxation.

Taxation is more pervasive. It directly affects the price level of fossil energy in all the variety of possible uses, from electricity to individual car transport. It constitutes a direct incentive to save fossil energy. It is easy to administrate, with a minimum of tax evasion.

Emission quotas – to be manageable – can only be attributed to the main emitters in industry. Their leverage is thus smaller than that of broad tax regimes

It is possible to combine emission quotas for heavy emitters of $C0_2$ and excise taxation for other emitters like transport, households and small business, though this would not be an ideal answer.

Figures show car industry failing on climate change commitment

[T&E, Brussels, 11 May 05] Today's Financial Times reports that European car

manufacturers reduced CO_2 emissions from new cars last year at only half the rate needed to meet their voluntary commitment with the European Commission.

According to the FT report, "Provisional figures for CO_2 emissions from new cars show the European industry produced an average efficiency of 160 grams per kilometre last year, down only 1.8 percent on the previous year. To meet the target of 140g/km by 2008 the carmakers need an annual rate of improvement of 3.3 percent".

Ivan Hodac, secretary general of the European Association of Automobile Manufacturers (ACEA) is quoted in the article, "The road ahead is difficult. But there is absolutely no reason to conclude today that we will not reach the target".

Jos Dings, Director of T&E said, "Since the agreement was made in 1998, the car industry has been putting most of its effort into marketing bigger, heavier, more powerful cars – this strategy is incompatible with the Commission's stated target of 120g/km and these new figures appear to prove that." "Rather than living in denial about its failure, the industry should support calls for a legally binding, flexible and transparent system that gives real incentives for manufactures to achieve the 120 g/km target. This target is essential for Europe to meet its climate objectives and to reduce its EUR 100 billion per year dependency on oil imports."

The Car Industry's Voluntary Agreement

In 1998, the European Commission and the European car industry represented by the European Automobile Manufacturers Association (ACEA) reached an agreement on the reduction of CO_2 emissions from cars. In this agreement, ACEA's main commitments were:

- to achieve an average CO_2 emissions figure of 140 g/km by 2008 for all new passenger cars sold in the EU classified as M1 in Council Directive 93/116/EEC
- to bring to the market individual car models with CO_2 emissions of 120 g/km or less by 2000

The European Commission also concluded agreements on CO_2 emissions from cars with the Japan Automobile Manufacturers Association (JAMA) and the Korean Automobile Manufacturers Association (KAMA) for their sales in the EU. The only deviations are the time frame (2009) and the estimated target for 2003 (JAMA).

For further reading T&E provides a comprehensive download titled "Reducing CO_2 Emissions from New Cars: A progress report on the car industry's voluntary agreement and an assessment of the need for policy instruments".

http://www.t-e.nu/docs/Publications/2005pubs/05-1_te_co2_cars.pdf

Letter to the ECOFIN Council

[EEB, FOE, FON, T&E, Brussels, 7 Apr 05]
Dear Minister, the ECOFIN Council has decided to have a discussion on new finance mechanisms for development assistance at its next meeting on April 12th in Luxembourg. One proposal on the table is the introduction of kerosene taxation in the EU and Member States, and we ask you to take this opportunity to achieve a decisive step on this issue.

This would be a timely moment, given that aviation contributes with a fast growing share to the serious threat of climate change. The tax exemptions for aviation harm the environment, distort competition with other means of transport and undermine the fiscal base of state budgets.

The most effective way of taxation would be an EU-wide kerosene tax including important neighbouring countries. We call on those governments that opposed a kerosene tax in the past to give their consent to a unanimous vote for the kerosene tax in the ECOFIN Council.

But even if unanimity is not attainable, there are other viable options for progress: Council-Directive 2003/96/EC allows the introduction of a kerosene tax on domestic flights and intra-community flights. The Netherlands have already introduced a kerosene tax for domestic flights of 206.28 Euro per 1000 litres from January 2005. We strongly urge you to follow this example (in case your country has domestic flights). A recent study by the University of Wuerzburg has proven that international law allows for a tax on kerosene consumption on domestic flights independent of the origin of the fuel (http://www.umweltbundesamt.org/fpdf-l/2853.pdf). Therefore, airlines cannot avoid the tax by tanking abroad.

In addition, we ask you to change your bilateral air service agreements with other Member States (as well as third countries) in order to allow for kerosene taxation for intra-community flights. Concerns over competitiveness can be effectively addressed if a number of Member States make a start and convince the others to follow.

The ECOFIN Council should also ask the Commission to provide the legal framework for kerosene taxation in the air service agreements of the European Union with third countries. The recently negotiated agreement with Chile is a positive example that this is possible. The Commission should insist in the ongoing negotiations with the USA that US-airlines may be subject to kerosene taxes on intra-community flights if Member States decide to take this option.

The Commission currently prepares a communication on the different economic instruments to address the impact of aviation on the climate. In different studies it has been shown that, besides kerosene taxes, en-route emission charges can be used to address greenhouse gas emissions of aviation. These instruments can be introduced within a short period of time and the revenues can be recycled back into the economy, e.g. by cutting labour taxes, thus increasing competitiveness.

We support the initiative to use the revenues for official development assistance for Africa, if it would be additional to current support. If it would just replace existing assistance, we would favour the option to use (part of) the revenues to cut labour related taxes or social security contributions in the EU (which forms an essential part of the environmental fiscal reform we favour).

We are strongly convinced that the introduction of a kerosene tax does not harm the competitiveness of the European Union but that it is an important element to accomplish fair competition between the different modes of transport.

The derogation of civil aviation from fuel taxation was introduced in 1944 to help the infant industry. Times have changed; please do not grandfather this start-up privilege forever. Over 60 years later, there today are others who might need support and solidarity.

Yours sincerely,

John Hontelez (Secretary General European Environmental Bureau)

Martin Rocholl (Director, Friends of the Earth Europe)

Christian Baumgartner, (Secretary General International Friends of Nature)

Jos Dings (Director, European Federation for Transport and Environment)

Aviation industry must unite on climate change

[British Airways News Release, 17 Mar 05] British Airways' chief executive Rod Eddington has urged the global aviation industry to work together to reduce its impact on climate change or face the risk of additional taxation.

Speaking today at the Aviation and Environment summit in Geneva, Mr Eddington said the industry must unite to develop an effective strategy to reduce carbon dioxide emissions as well as promoting its past environmental achievements. If it does not, he warned, governments will view the

industry as an easy target for taxes to fund non-aviation projects.

Mr Eddington said: "The recent suggestion by French President Jacques Chirac that our industry can be used as a "cash cow" to solve the problems of Africa is just the latest in a long series of proposals to tax or charge aviation with environmental levies in some way. If we are to resist damaging and punitive proposals of this sort, we need to define and promote our industry response more clearly."

British Airways says that emissions trading is the most economically and environmentally effective way to reduce carbon dioxide emissions levels. The airline is currently trading emissions in a voluntary British government scheme and supports the inclusion of aviation into the European Union's emissions-trading scheme from 2008.

Mr Eddington added: "Our experience is that trading is a workable approach and need not be excessively costly. A tax would not only be bad for the economics of our industry, it would also be bad environmental policy. Taxes which doubled the cost of aviation fuel and cost airlines and their passengers £50 billion each year would cut less than 0.5 per cent off the growth of air traffic over a 30 year period."

Mr Eddington said also that improvements in air traffic management systems – such as shorter flightpath routes, less stacking and the use of continuous descent landings – can cut emissions by up to 12 per cent. He added that many air traffic management systems are government controlled and governments have an important role to play in delivering improved environmental performance through better infrastructure.

Airlines look to climate change

[CNN, 18 Mar 05] As European Union officials consider imposing a tax on airline fuel, carriers are looking to take the lead and reduce their impact on the environment.

Airline officials at an Aviation and Environment summit in Geneva are discussing how to address climate change or face the risk of additional levies. Environmentalists are lobbying hard for an airline fuel tax, which -- unlike automobile and other transport fuel -- is not taxed. This comes after EU carriers reacted angrily to a proposal from France and Germany for a "humanitarian" jet fuel tax at a meeting of top finance ministers in London in February.

"The industry must unite to develop an effective strategy to reduce carbon dioxide emissions," said Rod Eddington, CEO of British Airways, at the summit. "If it does not, governments will view the industry as an easy target for taxes to fund non-aviation projects."

Currently the airline industry is suffering from high fuel prices, which are set to increase after U.S. crude oil hit record levels above 57.6 dollar a barrel on Thursday. The industry is also struggling to recover from the travel crisis after September 11, 2001.

But the European Federation for Transport and Environment argues that a tax would "reduce the climate change impact of aviation, the fastest-growing emitter of greenhouse gases." The federation says the taxes should be used to help "third-world aid" and make European firms more competitive, especially if the revenue is used to offset taxes on corporate profits. Supporters of the tax believe it would bring aviation into line with other transport forms, such as rail and road, which already pay taxes. Yet airlines argue that a tax will have little effect on consumption. "Taxes which doubled the cost of aviation fuel and cost airlines and their passengers £50 billion ($96 billion) each year would cut less than 0.5 percent off the growth of air traffic over a 30 year period," says Eddington. He believes that improvements in air traffic management systems -- such as shorter flight path routes, less stacking of airplanes above airports and the use of continuous descent landings – could cut emissions by up to 12 percent.

Currently international rules mean that the aviation industry is exempt from fuel taxes. In

September 2004 the International Civil Aviation Organization blocked any move toward a tax for at least three years.

EU air tax to fund aid

[Brian Johnson, EUpolitics.com, 16 May 05] EU finance ministers agreed on Saturday to impose a levy on air travel to fund development aid in Africa. The scheme, one of a number of proposals the EU is evaluating in order to meet promises to slash global poverty, would be compulsory in some countries, and voluntary in others. "This will be a voluntary contribution which some member states propose to turn into a mandatory contribution but we are leaving this open," said current head of the EU presidency, Luxembourg's prime minister Jean-Claude Juncker.

The idea echoes French President Jacques Chirac's plan, for a 1 US dollar tax on airline tickets, proposed in January at the World Economic Forum in Davos, Switzerland. That scheme was thought to be unworkable. However restricting the levy to the EU would not require changes to international agreements. A special report drafted for the finance ministers argues that a tax on airline tickets would be relatively simple to implement on a flat rate basis on all flights and would have no significant avoidance problems.

The proposal suggests that a tax of 10 euro on EU flights, and 30 euro on international flights could raise 6 billion euro a year, but EU ministers expect the levy to be significantly lower. "This contribution could be one or two euros," said Belgian finance minister Didier Reynders.

The proposal has support from a number of countries, including France, Germany, Spain and Belgium. But several member states such as Austria, Greece, Ireland and Hungary are deeply opposed, citing the practicality of the plan and possible damage to their tourist industries. "We do not support it. It would penalise regions of the EU that are geographically disadvantaged. It would not be a good way to raise revenue to help developing countries," said Greek finance minister, Georgios Alogoskoufis. "I wouldn't favour an EU-wide tax," said Irish finance minister Brian Cowen. A number of the EU's newest member states have also ruled out the idea, over concerns with their own financial situations, ahead of joining the eurozone.

Europe's airlines fiercely opposed Saturday's decision, saying they would fight to dump the proposal. "This is misguided and unhelpful as the airline industry is hardly making any money at the moment. If ministers want to alleviate global poverty they should look at the oil industry," said an easyjet spokesman. "The last thing the aviation industry needs is ministers meddling and indiscriminately imposing a tax for a purpose that has nothing to do with the airline industry."

Controversial proposals for a tax on airline fuel, the 'kerosene tax', were quietly dropped at the weekend meeting in favour of the ticket levy. The ministers also agreed to European Commission proposals that EU member states should aim for an increase of development aid to 0.56 percent of gross national income by 2010, and 0.7 percent by 2015.

The levy on airline tickets will be revisited in June after the commission puts forward its own ideas on the proposal.

T&E Response to European Air Ticket Tax Proposal

[T&E, 17 May 05] EU finance ministers agreed on Saturday to a voluntary levy on airline tickets to fund development aid. The aviation industry opposed the proposals and strongly criticised the agreement in media coverage over the weekend.

Jos Dings, Director of T&E said, "British Airways calls this extremely modest proposal 'absurd' and 'illogical', but the same can be said of the aviation industry's current tax privileges. The sector pays no fuel taxes, there is no value added tax (VAT) on international tickets, and both aircraft manufacturers and

airlines have received billions of Euros of direct and indirect aid.

It is also both 'absurd' and 'illogical' that the industry has done nothing to reduce emissions of greenhouse gasses (GHGs) – when it is the fastest-growing source."

European Transport must no longer be exempt from Climate Policy

[Eberhard Rhein, European Policy Centre, Brussels, 4 May 05] On February 15, 2005 the Kyoto Protocol formally entered into force. It commits the EU to reduce its CO_2 emissions by 8 percent between 1990 and 2012. To that end, member states have imposed emission ceilings upon the principal polluters, in particular the energy sector, cement, chemical, steel and metal industries. For any emissions beyond the ceilings granted, polluters will have to pay a price by buying CO_2 emission certificates. Presently these cost € 17 per ton of CO_2.

For technical reasons, the transport sector is exempt from emission ceilings. How to impose and monitor such ceilings on millions passenger cars and trucks? The EU has so far failed to impose equivalent measures on the transport sector. This paper pleads in favour of action to be taken by the EU in view of reducing CO_2 emissions stemming from transport.

The transport sector is the biggest CO_2 polluter. It is responsible for 28 percent of EU CO_2 emissions while contributing only 10 percent to its GDP. Cars and trucks are by far the main culprits with 84 percent of all transport emissions, followed by aviation with some 13 percent. The transport sector is also the sector whose CO_2 emissions keep rising dramatically. In 2010, they are expected to be 40 percent beyond the reference level of 1990, while industrial emissions will have declined by 10 percent. These trends indicate the need for curbing emissions from transport. What sort of action should the EU take?

In the interest of "sustainable development", which will become a constitutional objective (Art. I, 3), Europe will have to transport fewer goods and people more effectively. The EU will be able to reach that objective only progressively. There is no panacea. It cannot forbid people to move around or to ship goods from one end of the large Union to the other. Nor can it prescribe what modes of transport to use: cars, trucks, busses, trains or planes.

It can, however, give incentives to use more energy-efficient modes, e.g. buses rather than passenger cars, trains or ships rather than trucks or planes. More important, it can offer incentives to the automobile industry to develop more energy-efficient engines. Whatever action the EU may take, it is important to convey a clear message to all operators that the transport sector will have to make its contribution to mitigate global warming. In the past the EU has failed as much on communication as on substance.

There is only one effective way to curb traffic and make it more energy-efficient: make it substantially more expensive. To that end, the EU possesses one effective instrument: excise taxation. Taxation on gasoline, diesel and kerosene must be increased substantially but progressively. The purpose of higher taxation is not to collect higher taxes but to give clear signals to potential buyers of cars, trucks or buses, and above all to automobile manufacturers and industrialists that transport will become significantly more expensive in the future.

What should this mean concretely?

- The EU must impose on transport –by cars, trucks, rails, aviation or shipping – the complete charge of infrastructure wear and tear and pollution (noise pollution, damage to human health, buildings & structures and climate pollution). All experts agree that the industry is far from covering all these direct and indirect costs.

After several years of intensive discussion EU transport ministers have agreed in April 2005 on the principle of levying taxes or tolls on trucks covering the cost of infrastructure. No more! This will lead to some increase of the

cost of transportation but fall short of addressing the impact on climate. Still, the agreement is a step in the right direction. First, it will reduce the level of "subsidies" presently offered to the transport sector; second, it will oblige member states to introduce more transparency into the system of road user fees.

- The EU should, as a second act, increase the user fees for highways/ roads in line with the climate pollution caused by the transport sector, leaving modalities up to member states, regional and local entities to decide.
- The EU should align diesel tax rates to the higher ones on gasoline. There is no reason to subsidise traffic by lower excise rates on diesel. This should happen over a period of 5-8 years in order to allow the industry to adapt.
- The EU should subject civil aviation to a kerosene tax corresponding to its CO_2 pollution. In order to overcome the resistance from the aviation and tourist industries it will have to start with a relatively low level of taxation to be increased progressively. The EU transport ministers have recently raised this issue without reaching a consensus. The "tourist member" states (Greece, Italy, Spain and Portugal) are strongly opposed to such a measure.

The above measures will raise hell with millions of car and truck owners, industrialists, tourist business etc. The peripheral regions will cry more than those living in the central EU areas. The automobile industry will join the chorus by pointing out its invaluable contribution to employment and exports. It will therefore be necessary to carefully prepare public opinion. Europe will need a wide discussion on climate change and its implications for our future.

The EU Commission will have to play a central role. It has to demonstrate that raising the cost of transport, especially of individual transport and trucking, will neither undermine European competitiveness nor make millions of jobs redundant. The Commission will have to underline the long-term importance of adapting our transport system to the long-term requirements and changes on the global climate and energy front. The sooner Europe will realise the necessary changes ahead of us the more successful will it be in developing energy-saving technologies.

Transport is a highly sensitive sector that requires long lead times to adapt. That is why a serious debate should start rather today than tomorrow. It will in no case be possible to exempt the transport sector from Kyoto Protocol II that will have to take effect as of 2013. But action cannot wait until then.

Action can only be taken effectively at the European level. No individual country will have the courage to act on its own. Action is legally possible and overdue: After all, the transport sector is one of the three areas, alongside with agriculture and foreign trade, for which Europe is supposed to have been defining "common policy action" since 1958!

Environment "as important as economy" – EU poll

[Environment Daily, 02 May 05] Almost nine in ten EU citizens say environment policy is "just as important as economic policies," according to a new opinion poll of attitudes to green issues. Environment commissioner Stavros Dimas has hailed the findings as giving the EU a "clear mandate to continue working to deliver a high level of environmental protection".

The Eurobarometer survey updates a poll on attitudes to the environment carried out in 2002 and incorporates for the first time views in the ten new member states. It finds that 85 percent of respondents want policy makers to consider environment policies as equal in importance to economic and social policies.

Slightly more, 88 percent said environmental concerns should be "taken into consideration" when making decisions in areas such as economic policy. Almost three quarters of

people (72 percent) thought that the state of the environment influenced "very much" or "quite a lot" their quality of life – a figure comparable with the perceived influence of economic (78 percent) and social (72 percent) factors.

Friends of the Earth said the findings should make Commission president José Manuel Barroso rethink his rhetoric of prioritising economic development. "It shows that the current obsession in Brussels of putting the economy above social and environmental factors is wrong," EU policy director Martin Rocholl said.

Four areas of policy emerge from the survey as of greatest concern to EU citizens: water pollution, man-made disasters such as oil spills, climate change and air pollution. Each was picked out as a "main worry" by almost half of respondents. Fewer were concerned about chemicals (35 percent said it was one of their top-five worries), waste (30 percent), the use of GMOs in farming (24 percent), biodiversity loss (23 percent) or "consumption habits" (13 percent).

The survey also found great differences between the old EU 15 and the new EU 10 member states: climate change was the number one worry in the old members, but ranked only seventh among the new ones, behind concerns over water and air pollution and waste treatment.

Meanwhile trust in environmental groups and scientists as sources of environmental information has declined slightly, whereas trust in the media has increased significantly. The number of people thinking that the EU is the best level of government to tackle environment issues rose slightly to 33 percent. The same proportion believes national government to be the best level.

EU public opinion analysis:

http://europa.eu.int/comm/public_opinion/index_en.htm

3. GREEN BUDGET REFORM IN SINGLE EUROPEAN COUNTRIES

State subsidies to transport in Hungary

[Hungary: András Lukács and Lázár Pavics, May 2005] Since 1991, the experts of the Clean Air Action Group (CAAG – a national federation of Hungarian environmental NGOs) have been making calculations concerning the state revenues expenditures relating to transport. In 2004, a new study was undertaken by CAAG, financed by the European Commission's PHARE ACCESS Program and the Hungarian Ministry of Environment and Water. This resulted in the most comprehensive study ever on this issue in Hungary. The report was published in March 2005. Here we present a summary of the results concerning road motor vehicle transport.

In 2004 the state revenues from taxes and charges on cars and trucks amounted to 560 billion Hungarian forints. Most of this (390 billion Hungarian forint) came from excise duties on fuels. Further items between 10 and 50 billion Hungarian forints are the following: registration tax, annual tax on motor vehicles, tolls, transfer duties on motor vehicles, tax on company cars, and environmental product fees.

State expenditures or uncollected revenues relating to road motor vehicle transport added up to about 4700 billion Hungarian forints. This meant a deficit of more than 4100 billion Hungarian forint. This can be considered as the amount of subsidies for road transport, which in turn equals to 20 percent of the GDP in 2004. From this, state revenues relating to cars amounted to 480 billion Hungarian forints, and the expenditures exceeded 2000 billion Hungarian forints, which means that the amount of subsidies was more than 1500 billion Hungarian forint. State revenues related to road freight transport were 80

billion Hungarian forints, whereas expenditures amounted to 2600 billion Hungarian forints. Thus the amount of subsidies was more than 2500 billion Hungarian forints. Beyond that, the damage caused by heavy goods vehicles is estimated to at 1000 billion Hungarian forints; however, most of this is paid by all the participants of transport, primarily owners of private cars. (Thus, as regards transport as a whole this is not an external cost but an enormous cross-financing within the sector that cannot be supported by rational arguments.) These are mean values; the approximated deviation is about -30 percent and +50 percent.

Where does this huge amount of state expenditures and loss of revenues come from? The first source is the environmental and health damage of about 2000 billion Hungarian forints. Then comes the governmentally tolerated practice of seeing private use of passenger cars as company costs: such tax evasion leads to a loss of revenues of more than 600 billion Hungarian forints. In 2004 the national and local governments spent about 460 billion Hungarian forints for road construction and maintenance. Free parking added up to a subsidy of about 360 billion Hungarian forints. Congestion costs were approximately 150 billion Hungarian forints. Fuel manipulations (e.g. fuel smuggling) resulted in a loss of 160 billion Hungarian forints.

The amount of money gained by road hauliers from tax-fraud, smuggling, and infraction of traffic safety rules and other regulations equalled to about 300 billion Hungarian forints. The competitive advantage of road hauliers was about 100 billion Hungarian forints because the state deprives railway transport, its primary competitor, of this amount of money in a way that contradicts the principles of the market economy.

The afore-mentioned figures apply only to 2004. Nevertheless, we ought to take into consideration that similar subsidies have been accumulating earlier year after year. Unpaid competitive advantage that accumulated in the previous years benefited the owners of cars and trucks with further subsidies of 4700 billion Hungarian forints in 2004 (2500 billion Hungarian forints, and 2200 billion Hungarian forints, respectively), if we assume that all these subsidies should be repaid within 15 years. In 2004 subsidies for motor vehicle road transport amounted to nearly 9000 billion Hungarian forints, 44 percent of the GDP.

These amounts include only those subsidies that could be quantified by the researchers. Further research is needed to quantify still a number of items. An example is the one-sided information and often misinformation in the media that favour car and truck transport over other transport modes.

Another example is the cost of future risks. The fact that our society is more and more based on the opportunities provided by road transport might lead to enormous further costs in the future. These opportunities are now largely the basis for how our settlements develop, how the economic actors establish their relationships, and how individuals organize their life. As environmental pollution increases exponentially, the oil reserves of the Earth will become more scarce and expensive to extract, economies based on foreign energy sources might be threatened by political uncertainties (e.g. in Iraq), and world population will be increasing continuously. If road transport suffers a serious setback as a result of any of these reasons or their combinations, highways, malls built in the suburban areas, housing estates with accessibility only by car, just-in-time producing factories etc. will be much less used or even have to be abandoned completely. Consequently, the social and economic structure of the country in such a case will have to be entirely transformed. It is evident that this would require tremendous expenses that are not included in the above mentioned calculations.

The full study can be found in Hungarian at: http://www.levego.hu/konyvtar/olvaso/kozl_tam.pdf

Unfavourable development in the taxation of transport in Hungary

[Zoltán Szabó, Clean Air Action Group, Hungary] In addition to the already generous subsidies to road transport, the Hungarian Parliament modified the taxation rules so that the commuting by car becomes even more attractive.

Until now if someone commuted by his or her own car, he could get the fuel costs and 3 Hungarian forints (1.1 Eurocent) per kilometre reimbursed by his or her workplace without paying any taxes. In May 2005 the Hungarian Parliament raised this 3 Hungarian forints to 9 Hungarian forints, and it also permitted that anyone can get this reimbursement, not only the owner of the car. As practically no control exists on who is using the car and how many times, this latter measure widely opens new possibilities for tax evasion.

The Clean Air Action Group (CAAG) wrote a letter to Ferenc Gyurcsány, Prime Minister of Hungary, to Tibor Draskovics, Minister of Finance and as well as to the Budget Committee of the Parliament explaining the various reasons why this move is harmful from an environmental as well as economic point of view. In the letter CAAG pointed out among others that this will increase tax evasion and reduce state revenues.

The notion of avoiding paying taxes by employees accounting their personal commuting as business trip is widespread not just in Hungary. By making the cost of car use inexpensive, these types of developments constitute a disincentive for more rational commuting habits.

Many European countries face similar tax evasion, so a co-ordinated European effort is needed to tackle the problem.

The letter to the Prime Minister can be found (in Hungarian) at:

http://www.levego.hu/kiadvany/allamhaz/szgk-gyurcsany_05.pdf

Green tax reforms: Swiss should take the EU as an example

[Swiss: Green Budget News] On March 22nd WWF and Greenpeace Swiss presented a Green Budget Germany study, which compares CO_2 taxes and green budget reforms in Switzerland and the rest of Europe. This action was meant to convince the Federal Council to adopt a CO_2 tax designed to implement the CO_2 law passed in 2000. The study shows that even though most countries in the EU 15 have already introduced such taxes and reforms, Switzerland is lagging far behind.

The study is available in French and German and can be downloaded on the following site:

http://www.eco-tax.info/4fakten/GBGstudy.html

Swiss government approves carbon tax and levy

[Swiss: Environment Daily, 30 Mar 05] Switzerland's government approved two fiscal instruments to cut carbon dioxide emissions on 23 March. A CO_2 tax of SFr35 (23 euro) per tonne will be imposed on most fossil fuels from January. A separate climate levy of up to 1.6 centimes per litre will apply to petrol and diesel.

The measures are being introduced to bolster Swiss efforts to comply with its Kyoto protocol commitment to limit greenhouse gas emissions. They were among four options floated nearly two years ago and put out to public consultation last October.

Revenues from the CO_2 tax are to be recycled to the Swiss population through an annual SFr46 rebate on health insurance bills. Companies will also benefit in proportion to the size of their workforce. Firms can seek to be exempted if they can show that they would suffer competitively and can demonstrate voluntary measures to cut emissions.

The levy on transport fuels is being introduced for a two-year trial period. If it has not helped bring down emissions sufficiently by the end of 2007 it could be extended,

though possibly only to diesel. Revenues estimated at SFr70m per year are to be independently managed and invested in promoting bio fuels, making buildings more energy efficient and in foreign projects to cut CO_2 emissions under the Kyoto protocol JI and CDM flexible mechanisms.

Follow-up: See press release

http://www.uvek.admin.ch/dokumentation/medienmitteilungen/artikel/20050323/02218/index.html?lang=fr

backgrounders on the CO_2 tax

http://www.uvek.admin.ch/umwelt/div/00800/index.html?lang=fr

and climate centime

http://www.uvek.admin.ch/umwelt/div/00801/index.html?lang=fr

and Swissinfo news report

http://www.swissinfo.org/sen/swissinfo.html?siteSect=105&sid=5624432

Emissions trading: Commission decides on Polish allocation plan

[Poland: EU Press Releases, 8 Mar 05] The European Commission today took a decision on Poland's national allocation plan for CO_2 emission allowances under the EU emissions-trading scheme, which will reduce the total volume of allowances by 141.3 million tonnes (16.5 percent) for the period 2005-2007. With more than 1,100 installations in Poland covered by the trading scheme, the Polish plan is the largest among the new Member States and one of the four largest in the EU. The EU emissions-trading scheme ensures that greenhouse gas emissions from the energy and industry sectors are cut at least cost to the economy.

Environment Commissioner Stavros Dimas said: "Poland plays a very important role in EU emissions trading. Through its decision, the Commission clears the way for Polish companies to participate in emissions trading and ensures that there is no over-allocation on the market."

The Polish allocation plan

The Polish allocation plan covers 1,166 installations. The Commission has accepted a total allowance volume of 717.3 million tonnes for the 2005-2007 trading period. This is a reduction of 141.3 million tonnes, or 16.5 percent, below the volume originally proposed by the Polish authorities. The Commission found that the Polish allocation plan exceeds projected emissions and that it contravenes several criteria of the Emissions Trading Directive, including on *ex-post* adjustments (see table). All companies listed in the Polish plan qualify for trading, but they will be able to start doing so only once Poland has reduced the total number of allowances and amended the allocation plans as requested by the Commission.

The Polish allocation plan was accepted on the following conditions:

- the total volume of allocations is reduced by 47.1 million tonnes per year;
- no special reserves are set aside;
- no provisions are included for *ex-post* adjustments of the quantity allocated to installations, including for new entrants;
- information is provided on the manner in which new entrants will be able to begin participating in the trading scheme.

The Polish authorities have requested to exempt 221 small installations in the buildings material sector from the scheme. They estimate that such installations would account for less than 0.2 percent of the emissions covered by the present Polish national allocation plan.

Assessment of national allocation plans

National allocation plans show how many CO_2 emission allowances Member States plan to allocate for the 2005-2007 trading period, and how many each plant will receive. The Commission's task is to scrutinise the plans against 11 allocation criteria listed in an annex to the Emissions Trading Directive. The most important criteria seek to ensure that the plan is in line with the projected emissions of a Member States. Other criteria relate to non-discrimination issues, EU competition and state aid rules and technical

aspects. The Commission may accept a plan in part or in full. If it accepts a plan unconditionally, the Member State can take a final allocation decision.

In the cases assessed so far, the Commission has requested changes in three areas of general importance:

- if the volume of allowances for the 2005-2007 trading period does not allow the country to meet its Kyoto target during the first commitment period 2008-2012;
- if the volume of allowances for the 2005-2007 trading period is inconsistent with assessed progress towards the Kyoto target, i.e. the allocation exceeds projected emissions;
- if a Member State intends to make so-called "ex-post adjustments" to allocations i.e. it plans to redistribute allowances among the participating companies during the 2005-2007 period. This would create uncertainty for business and hamper the market exchange of allowances.

In each case where changes are necessary, the Commission has indicated the steps to be taken by the Member State to make the plan acceptable to the Commission.

Status of national allocation plans following this decision:

The Commission has now concluded the assessment of a total of 22 plans: Austria, Belgium, Cyprus, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Sweden, Spain and the UK. The assessment of the plans of the Czech Republic, Greece and Italy is ongoing.

More information on climate change policy is available at:

http://europa.eu.int/comm/environment/climat/emission.htm

and on national allocation plans at:

http://europa.eu.int/comm/environment/climat/emission_plans.htm

Spain and UK "facing rising carbon challenge"

[Spain: Environment Daily, 09 May 05] Predictions of a further surge in already buoyant Spanish greenhouse gas emissions due to reduced hydroelectric capacity have been confirmed in a report by labour union CCOO and NGO WorldWatch.

In the first quarter of 2005, emissions reached 50 percent above 1990 levels compared with Spain's Kyoto protocol target of a maximum 15 percent increase by 2008-12, the bodies said. Their report also records a 4 percent increase in emissions in 2004, to 46 percent above 1990 levels, slightly up on official estimates.

Joaquin Nieto of CCOO blamed "contradictory" government policy, particularly over its national plan (Nap) for the EU's industrial carbon dioxide (CO_2) trading scheme. Without drastic measures the country will need to spend 100 million euro annually in emissions reductions abroad to pay for reductions not achieved at home, five times more than estimated in the Nap, the report says.

* Meanwhile, the UK's deteriorating performance on greenhouse gas reductions has been returned to the spotlight in an analysis by independent forecaster Cambridge Econometrics.

Britain's 2010 emissions are likely to be 12.75 percent below their 1990 level, just enabling the country to meet its Kyoto protocol target of a 12.5 percent cut between 1990 and 2008-12, it said on Monday. The government's separate target of CO_2 emissions 20 percent below 1990 levels by 2010 is completely unachievable, it adds.

Even the 12.75 percent forecast depends on the government significantly restricting allowances in the second phase of the EU's industrial emission trading scheme. It also assumes that the price of allowances rises to UK£42 (62 euro) per tonne of carbon by 2010. UK emissions are projected to start

increasing again, by about 0.75 percent per year, after 2010.

* In a related development, Denmark reduced its carbon dioxide emissions by a huge margin of 8.4 percent in 2004, according to official figures released in April. However, the underlying fall is put at only 0.7 percent after adjusting for weather variations and changes in the country's substantial electricity exports. Meanwhile, renewable energy continued to grow strongly, up by 1.1 percentage point to 15.4 percent of gross consumption in 2004.

Securing the future: Prime Minister launches new UK sustainable development strategy

[United Kingdom: British Embassy Berlin, 8 Mar 05] The Prime Minister, Tony Blair, today said the Government would lead by example in promoting sustainable development at the launch of the UK's new Sustainable Development Strategy on 7 March. He said:

"By joining up thinking and action across all levels of government, and by setting long term objectives, the Government is dedicated to securing the future for all. I want to use this new strategy as a catalyst for action."

Launching the cross-government strategy in London today, Environment Secretary Margaret Beckett said the aim was to show how people could be involved in making more sustainable choices. Mrs Beckett said:

"Sustainable development is vital to building a decent future for everyone. The Government is leading by example but the strategy can't be delivered by the Government alone. The Government wants to ensure everyone has the opportunity to get involved – for local or global benefit."

The headline points of the strategy are:

- A new task force under Sir Neville Simms on sustainable public procurement will draw up a national action plan to make the UK a leader in the EU by 2009.
- A new scheme to enable Government departments to offset the carbon impacts of their air travel by April 2006. When there is no alternative to flying, Government will compensate for carbon dioxide released from our flights by investing in renewable energy and energy efficiency projects.
- Community Action 2020 – Together We Can – will launch in the autumn. It will give local groups support, information and training to influence what goes on where they live. They will be given specific support to help influence local authorities' Sustainable Community Strategies and local development plans.
- Local action will be backed up by:
  - giving everyone access to "data-on-the-doorstep" – by 2010 we will develop a new comprehensive set of web-based maps and statistics that will give complete information about the quality of everyone's local environment in England.
  - consulting later this year on improved powers for environmental protection for the Environment Agency.

The Government is giving the independent Sustainable Development Commission, chaired by Jonathon Porritt, a new role as the watchdog on the performance of government in delivering sustainable development. This will help drive action to ensure delivery of our sustainable development goals.

The new UK Strategy was launched alongside a new Framework for Sustainable Development across the UK, shared between the UK Government, the Devolved Administrations and the Northern Ireland Office. The Framework was launched in Edinburgh by Jack McConnell MSP, First Minister of Scotland and Carwyn Jones AM, Welsh Assembly Environment Minister and by Paul Murphy MP, Secretary of State for Northern Ireland in London.

The new UK Strategy and UK Framework have been developed following the extensive "Taking it on" consultation launched in April 2004. Over 900 individual responses were

received; responses were also received from each English region through a process of regional dialogue and a series of workshops were held.

Further information:

UK Government's Sustainable Development website: http://www.sustainable-development.gov.uk

Tories Launch Climate Change Strategy

[United Kingdom: Friends of the Earth, 14 Mar 05] Friends of the Earth has welcomed today's speech by Tim Yeo outlining the Conservative approach to tackling climate change. The environmental group welcomed the Shadow Secretary of State for Environment and Transport's recognition of the threat from global warming and the need for the UK to develop a low carbon economy.

Friends of the Earth especially welcomed:

- the emphasis on setting short-term targets as the best means to meet longer term goals;
- the promise to "increase the ability of Parliament to hold Government to account" on carbon dioxide emissions [1];
- the transparent allocation of cuts across sectors;

Tony Juniper, Director of Friends of the Earth, said:

"We genuinely welcome Tim Yeo's call for action on climate change. It is clear that cutting the pollution that is warming up our world can lead to a stronger economy and create jobs. It is also clear that current policies are not enough, and Parliament is failing to hold the Government to account over its patchy record. The annual reports on progress, and greater select committee scrutiny that the Conservatives propose would help ensure that future Governments stay on track."

Commenting on Conservative plans to reduce Vehicle Excise Duty on fuel-efficient vehicles, Tony Juniper said:

"We support Conservative plans to cut Vehicle Excise Duty on low pollution cars, but tax should be increased on gas-guzzling vehicles too. Climate change must be at the heart of this week's Budge. Reforming VED is one of the measures that must be tackled to show that the Government is serious about action on global warming."

The Chancellor, Gordon Brown, is making a keynote speech on climate change tomorrow (Tues). Details on how the Chancellor can put climate change at the heart of his Budget on Wednesday include:

- the establishment of annual "carbon accounts" for the UK. This would assess progress towards UK carbon dioxide reduction targets;
- reforming Vehicle Excise Duty (VED) to reduce tax on the most fuel efficient vehicles, and increase it for gas-guzzlers. Friends of the Earth wants Mr Brown to introduce four new road tax bands – with £50 between each band – to encourage people to buy less-polluting cars. VED for the most polluting cars should be raised to £500 per year (within 5 years), with the cleanest, most fuel-efficient cars charged no VED (starting now);
- introducing measures to force retailers of road and heating fuels to substitute fossil fuels with renewables;
- encouraging householders to go green. This should include financial incentives for installing renewable energy – such as solar panels – in the home; stamp duty reductions for energy-efficient homes and VAT reductions on energy efficient products;
- increasing fuel duty in line with inflation – at the very least – each year; with the money raised used to promote real alternatives – better public transport and streets safe for walking and cycling, particularly for children;
- raising air passenger duty, to start tackling the spiralling environmental damage from aviation.

Tories back Europe-wide tax on aviation fuel – Airlines say environment strategy will cost party votes

[United Kingdom: Andrew Clark, The Guardian, 21 Mar 05] The Conservatives intend to put the brakes on Britain's boom in low-cost air travel by pushing for a Europe-wide tax on aviation fuel, which could lead to as much as £7 being added to the cost of airline tickets.

In an interview with the Guardian the shadow transport secretary, Tim Yeo, outlined environmental measures that will alarm airlines.

He questioned the justification for flying between London and Scotland, and said he would impose stringent financial obstacles to the construction of a new runway at Stansted airport.

Environmental organisations have long argued for a tax on aviation fuel in order to force airlines to pay for the damage they cause in harmful emissions and climate change.

Ministers from France and Germany last month suggested a Europe-wide tax of 300 euro (£208) per tonne of aviation fuel, which would add between 5 and 10 euro (roughly £3.50 to £7) to every fare, with the proceeds to be channelled towards aid for Africa.

Tony Blair opposed the measure, telling MPs that he would not "slap some huge tax on cheap air travel".

In his first detailed comments on aviation policy, Mr Yeo said: "If I was in office on May 6 I would want to straight away talk to my colleagues in Europe about how we could make progress towards a fuel tax. Aviation has to take account of its environmental impact to a greater extent than it has done in the past."

His remarks were attacked by EasyJet, which said a tax would disproportionately hit travellers on a tight budget.

Its spokesman Toby Nicol said passengers already paid £5 air passenger duty on every short-haul flight, which was roughly equivalent to a 100 percent tax on fuel.

"The idea that airlines don't pay an environmental tax already is ridiculous," he said. "Going out to the public six weeks before an election and saying, 'I want to make air travel more expensive,' is a sure-fire vote loser."

British Airways and other big carriers argue instead for an emissions-trading scheme, under which airlines would trade "permits" for pollution.

They say this would be a better incentive towards less-polluting fuel; and they add that the objectives of a fuel tax could be foiled by airlines filling up with vast quantities of cheap fuel in the US and emitting more pollution as they carry it across the Atlantic.

Environmentalists privately suggested that the Conservatives wanted to reach out to voters in rural areas around airports, who were worried about the government's plans for runway development.

Mr Yeo's South Suffolk constituency is close to Stansted. He said he would make it difficult for BAA to expand the airport by preventing it from "cross-subsidising", using funds from Heathrow and Gatwick.

But Friends of the Earth's aviation campaigner Paul de Zylva said: "I think the public is increasingly recognising that it is absolutely absurd for airlines to get away with paying less than 20p a litre for jet fuel."

The group wants the duty to be set at the same rate imposed on petrol for motorists, which, if translated to ticket prices, would put £20 on a short-haul journey and up to £120 on a transatlantic flight.

Passenger numbers on flights between Britain and the rest of Europe went from 51m in 1993 to 97m in 2003.

Mr Yeo said he wanted airlines to print information about environmental emissions on every ticket. He said: "No one can say they are serious about being interested in addressing climate change without addressing

aviation." "If you are going to go from London to Glasgow the environmental impact is often less if you drive."

4. GREEN BUDGET REFORM WORLDWIDE

OECD Ministerial Council Meeting - Chair's Summary

[OECD, 4 May 05] The meeting was chaired by Göran Persson, Prime Minister of Sweden. The vice chairs were Samuel Bodman, US Secretary of Energy and Nobutaka Machimura, Minister of Foreign Affairs, Japan.

Sweden had the great privilege of chairing the OECD Ministerial Council Meeting 2005. The unifying theme was "Enabling globalisation" – one of the most important challenges of our time. Globalisation is both inevitable and desirable. Our task is to make it inclusive and sustainable, seizing the opportunities of open markets, while addressing the needs of those who risk being left behind. Our deliberations showed willingness to shoulder shared responsibility to enable a globalisation that benefits all.

Ministers stressed the need to use all relevant policy instruments in a coherent manner, to foster growth and sustainable development, facilitate investment in energy, push ahead with structural reforms, reduce poverty and ensure a successful outcome of the Doha Development Agenda – all important items for the coming summits the G8, the UN and the WTO. We look to the OECD to strengthen further its role in meeting these challenges. […]

Investing in Energy

Ministers noted the International Energy Agency's estimate that $ 16 trillion in investment will be needed in the energy sector by 2030. In a business-as-usual scenario, the world energy demand and global carbon dioxide emissions will grow by 60 percent until 2030. It is necessary to do more to reduce the impact of increased energy demand on the environment and the climate.

Ministers stressed the need to tackle high and unstable energy prices. This requires action by both producers and consumers to affect demand and supply. Deepening dialogue with the oil producing countries and increased transparency are crucial for market stability.

Ministers underlined that sufficient supply of clean and affordable energy is crucial for economic and social development. Investment in energy technology and infrastructure must be directed towards sustainable, efficient technology with less negative climate impact. To this end we should promote:

- market-based policies and measures;
- transparent, stable and globally consistent mechanisms and frameworks for investment, transfer and dissemination of technology;
- research and development for a sustainable energy system; and
- collaboration between government and industry.

Enhanced energy and resource efficiency will stimulate growth, not impede it. Ministers stressed the need for further liberalisation of energy markets in order to improve competitiveness, efficiency and consumer choice. We should work in both OECD and non-OECD countries to eliminate harmful energy subsidies that needlessly distort the market.

Ministers recognised that developing countries must have equal access to the world's energy resources through the market. We will also work together to bring modern energy services to the 1.6 billion people in the developing countries who lack them.

In the long run, innovation is key in limiting greenhouse gas emissions and securing an affordable and environmentally sustainable energy supply. Ministers will do their utmost to provide the right framework for developing and deploying new technologies. […]

U.S.-German joint actions on cleaner and more efficient energy, development and climate change

[Press and information office of the German government, 23 Feb 05] Germany and the United States have a history of working together bilaterally and multilaterally to promote strong economic growth, reduce harmful air pollution, improve energy security, and mitigate greenhouse gas emissions through such mechanisms as the UN Framework Convention on Climate Change and its Delhi Declaration, the G-8 Action Plan on Science and Technology for Sustainable Development, and the World Summit on Sustainable Development Plan of Implementation. The United States and Germany welcome the continued work in this area under United Kingdom's G-8 Presidency.

Cooperation with Developing Countries

We are particularly committed to working with developing countries to help them meet their own development and poverty reduction priorities, which requires increased access to all forms of cleaner, more abundant, and more affordable modern energy sources, including renewable and efficiency technologies. To this end, we have worked to include major developing countries in our multilateral technology partnerships, to ensure that cleaner, more efficient technologies are appropriate to all major nations and regions of the world. We will broaden and reinforce those activities. We anticipate additional opportunities as we work together to address global environmental, economic and social challenges and opportunities.

Energy Conservation and Efficiency

Considerable economically viable technologies exist, and should be encouraged, for boosting energy efficiency in industrialized and developing countries. Progress on energy efficiency provides one of the greatest opportunities for cost-effective reduction in pollution and greenhouse gases and improvement in energy security. Examples range from highly efficient power stations, through energy-saving products, to fuel-efficient vehicles. Innovative future technologies such as fuel cells and photovoltaics offer great economic prospects. A promising new field is the area of nanosciences. They have the potential of offering higher energy efficiency, in particular more energy efficient commercial and household products, including vehicles, through the use of new materials and new illumination technologies. An intensification of our bilateral cooperation in the field of energy conservation, efficiency and new technologies could accelerate our progress. Grasping these opportunities will strengthen our economy and open up profitable markets for our companies.

The United States and Germany also have a joint commitment to the multilateral Methane to Markets Partnership that will advance the commercial use of methane, a potent greenhouse gas, from coalmines, natural gas and oil reserves and landfill sites. This initiative promises to significantly reduce methane emissions and put them to profitable use as a clean energy source.

Modernization of domestic power generation

Efficient and cleaner production of heat and power from coal and natural gas are advanced by German-U.S. cooperation in the Carbon Sequestration Leadership Forum (CSLF), FutureGen, and CORETECH. These three initiatives will help dramatically advance cleaner heat and power production from coal and natural gas via focused research and development efforts. In the private sector, clean and modern heat and power production

systems are developed, tested and marketed worldwide.

These activities underscore the important contribution of modernization of energy systems to supporting economic growth, improving energy security, and reducing pollution and greenhouse gas emissions. Highly efficient technologies offer great opportunities to cost-effectively reduce energy consumption, pollution, and greenhouse gas emissions. Germany and the United States will make joint efforts to apply these technologies domestically and worldwide, especially in fast growing developing countries.

Innovation for future energy systems

The United States and Germany lead global efforts to develop future energy systems including the use of hydrogen as an energy carrier. Both countries are founding members of the International Partnership for the Hydrogen Economy established by 15 counties and the European Commission in 2003 to conduct advanced research and development in hydrogen and fuel cell technologies. Germany and the United States cooperate bilaterally and multilaterally in the development of hydrogen powered fuel cells use in the transport and stationary sectors. Close cooperation in the research and innovation activities of the United States and Germany for future energy and transport systems, including fuel cells and hydrogen, will be a driving force to make these technologies available and price competitive.

International cooperation for renewable energy

Renewable energies should play an larger role in the portfolio of modern energy systems. Renewables 2004, an international conference convened by the German government, provided a platform to advance renewable energy (e.g., biomass, wind, geothermal, solar, and hydropower) technologies and policies. Both the United States and German governments pledged financial and technical resources to advance development of renewable energy in the overall global mix of heat and power production. Recognizing that a wide range of different renewable technologies offer a variety of possibilities for joint projects on both bilateral and multilateral levels, the German and U.S. governments will work together to fulfil the pledges made at Renewables 2004.

Summary

The United States and Germany will broaden and reinforce their activities in three areas of common action to improve energy security and reduce pollution and greenhouse gas emissions, while supporting strong economic growth:

- First, joint activities to further develop and deploy cleaner, more efficient technologies to support sustainable development.
- Second, cooperation in advancing climate science, and developing effective national tools for policy action.
- Third, joint action to raise the efficiency of the energy sector and address air pollution and greenhouse gas emissions in our own countries and around the world.

We will continue working together and through partnership with the G8 countries under the Action Plan for Science and Technology for Sustainable Development to enhance these efforts.

Consumers Decry Car Ads Claiming 'Virtually Emission Free'

[ClimateBiz referring to an article of Edie News, New York, 12 Apr 05] Following a campaign run by the Alliance of Automobile Manufacturers (AAM) stating that cars were less polluting today than a few decades ago, an overwhelming 22,757 people complained that statements made by the organization were false.

The ad stated that cars were “99 percent cleaner than you think,” adding that “autos manufactured today are virtually emission-free” and that this was “a dramatic improvement over models from just 30 years ago.”

However, as the Union of Concerned Scientists (UCS) pointed out, an average car today will release far more environmentally damaging emissions into the atmosphere than 20 years ago.

Moreover, it states that figures show there are currently only four nations in the world that emit more heat-trapping carbon dioxide from burning fossil fuels than are released by cars and transport alone in the US.

But the ad implies that new cars do not produce harmful carbon or greenhouse gas emissions, when in fact around 1,300 million tons of carbon dioxide pollution are emitted by cars in the U.S. each year. ”With this deceptive ad campaign, automakers are now attempting to hide the harmful nature of their products much like cigarette makers did,” research director of the UCS clean vehicles program, David Friedman said. “New vehicles produce too many harmful emissions for automakers to misrepresent the facts. Instead, they need to put technologies to work to clean up their vehicles and protect our families and kids.”

Data from the U.S. Environmental Protection Agency (EPA) demonstrates that the dirtiest vehicles made today actually release around 40 times more smog-forming emissions than a Ford Escape Hybrid, and even under tighter government regulations, cars will still emit about 350,000 tons of toxic pollutants even if all vehicles met tougher Tier 2 standards.

To counter the auto lobby's untrue claims, UCS has launched its own advertising campaign that will run in the same media outlets as the original advert correcting the misrepresentations by the AAM. Controversially, the counter ad shows a child holding a cigarette. However, the AAM version deceptively implies that their products are clean and healthy for children, and the UCS says its own ad points out that the Auto Alliance is trying to hide the harmful contents of their products much like cigarette makers have done in the past.

“The Auto Alliance must think that if you repeat a lie often enough, people will start to believe it,” Friedman warned. “Their strategy is an irresponsible attempt to shift the focus of the pollution debate completely away from cars and trucks.”

The AAM is the lead group suing to stop landmark state regulations on global warming emissions from vehicles currently underway in California.

Investor Pressure Drives Ford Motor Co. to Prepare Climate Risk Report

[GreenBiz, Dearborn (Mich.), 1 Apr 05] As a result of a shareholder resolution filed with the Ford Motor Co., the country's second largest automaker has announced it will issue a first-of-its-kind comprehensive report later this year that will examine the business implications of reducing greenhouse gas emissions from Ford vehicles – as well as the facilities that produce them. The climate risk report will also examine impacts from possible policy and regulatory changes.

Building on previous reporting of greenhouse emissions from its manufacturing facilities, Ford agreed today to examine the strategic and financial implications of various policy and regulatory greenhouse gas reducing scenarios on the company's business over the next five to ten years. The report will focus primarily on the company's products and facilities in its core North American market that accounts for roughly two-thirds of its annual sales. The Ford report also will assess the evolving role of new technologies such as hybrid and hydrogen fuel-cell vehicles in light of the climate change issue.

“With this agreement, we have turned the corner on a pivotal and pressing issue, as more of our nation's leading companies are getting the message that it is in the best interest of investors and the bottom line to consider and prepare for the financial and business implications of climate change,” said Connecticut State Treasurer Denise L. Nappier. “I congratulate Bill Ford for his

recognition that planning for climate change is not merely an environmental issue, but a key business issue. As a long-term investor, I am hopeful that where Ford leads, others will follow."

Because motor vehicles are the fastest growing source of greenhouse emissions, a growing number of investors are concerned that increasing consumer demand for cleaner vehicles, higher gasoline prices, and current and future government policies limiting greenhouse gas emissions from trucks and cars will put the value of their investments at risk if companies get caught flat-footed.

Several shareholder representatives have been meeting regularly with Ford officials in recent months to discuss the report requested in the shareholder resolution, including ICCR, the Boston-based Ceres coalition and the Connecticut Retirement Plans and Trust Funds (CRPTF). Ford said today it will consult with all three groups in preparing the climate risk report.

The primary filers of the shareholder resolution were the Sisters of St. Dominic of Caldwell, N.J., a member of Tri-State CRI and ICCR, and the Connecticut Retirement Plans and Trust Funds. The resolution was formally withdrawn this week.

"Climate change is both a business challenge and an opportunity for the auto sector, which faces a doubled-edge threat of rising gas prices and a growing worldwide push for greenhouse-friendly vehicles," said Mindy S. Lubber, president of Ceres, a coalition of investors and environmental groups that helped launch the Investor Network on Climate Risk (INCR) just over a year ago. "Ford's commitment to pursue this report shows an important willingness to face this challenge, so that it can better position itself competitively."

Science and environmental groups were also encouraged by Ford's announcement, expecting that the report will include detailed projections on future greenhouse gas emissions from its products, in addition to information on emission from manufacturing facilities. According to the Union of Concerned Scientists, Ford's cars and light trucks sold in 2003 emit about 350 million metric tons of carbon dioxide over their life in addition to the tens of millions of metric tons emitted in manufacturing the vehicles.

"If this report is well done and responsible, it will prepare Ford to excel in competing with companies like Toyota and Honda, which have made greater strides producing vehicles that cut heat-trapping gas emissions," said Kevin Knobloch, president of the Union of Concerned Scientists in Boston. "An honest look will show that investments to aggressively reduce emissions will cost far less than paralysis and inaction. We look forward to being part of Ford's process."

"It's important that Ford analyze the competitive risks of a high emitting fleet when the markets are demanding cleaner vehicles," added Ashok Gupta, director of the Air and Energy Program at the Natural Resources Defense Council. "We hope this exercise will help Ford decide both to reduce greenhouse gas emissions from their vehicles as a key component of their long-term product planning, and to seek government policies that will help them make that transition."

The auto industry accounts for 20 percent of the country's and 12 percent of the world's greenhouse gas emissions. The industry's emissions are currently on track to rise by over one-third over the next 15 years and double worldwide by 2050.

The shareholder resolution that was withdrawn this week requested that a committee of independent directors of the Ford board assess: how the company planned to ensure its competitive positioning in light of emerging GHG regulatory scenarios at the state, regional, national and international levels; how the company planned to comply with California's greenhouse gas standards; and how the company could significantly reduce greenhouse gas emissions from its national fleet of vehicles, using 2004 as a baseline, by 2014 and 2024.

An identical shareholder resolution is still pending before General Motors, the world's largest automaker. Ford said today that the company agreed to prepare the report because: climate change is a serious environmental issue and shareholders are increasingly asking about the risks as well as the opportunities associated with it; shareholder value and environmental responsibility go hand-in-hand; and planning carefully and exercising leadership now on this important issue will strengthen the company's business in the long-term.

The report will be issued by the end of the year and will be developed under the direction of a cross-functional vice-presidential task force that has been working on strategies for addressing climate change since 2003. The Environment and Public Policy Committee of Ford's Board of Directors will review and approve the report before issuing it by the end of the year. The report will also be reviewed by the full board.

In addition to getting input from shareholders, the company will solicit input for the report from climate change experts at the Massachusetts Institute of Technology and Princeton's Carbon Mitigation Initiative. The company will also include input from science and environmental organizations such as the Union of Concerned Scientists and the Natural Resources Defense Council.

US President Discusses Energy at National Small Business Conference

[George W. Bush, 27 Apr 2005] … See, we got a fundamental question we got to face here in America: Do we want to continue to grow more dependent on other nations to meet our energy needs, or do we want to do what is necessary to achieve greater control of our economic destiny? …

Full length version of the speech:

http://www.whitehouse.gov/news/releases/2005/04/20050427-3.html

Canada and Auto Industry Sign Emissions Deal

[Luke McCann, planetark.com, 6 Apr 05] OTTAWA – Canada's auto industry has entered into a voluntary agreement with the federal government to cut greenhouse gas emissions in new vehicles, in an effort to help Canada meet its targets under the Kyoto protocol.

Ottawa and the auto sector said Tuesday the agreement aims to cut emissions by new vehicles by 5.3 megatonnes a year by 2010.

In other words, it would keep greenhouse gas emissions at the present annual rate of 85.2 megatonnes by 2010 rather than rising to the projected annual rate of 90.5 mega tonnes if nothing is done.

To do this, the Canadian auto industry will offer and promote a variety of fuel-saving technologies for new cars and light trucks. Some of these include hybrid powertrains, cylinder deactivation technology and advanced diesel technology.

"I'm particularly proud that we've reached this historic agreement voluntarily, which clearly shows the automobile industry is prepared to do its part to address climate change," Canada's Minister of Natural Resources John Efford said at the signing of the deal in Windsor, Ontario.

A joint government and auto group will monitor the annual performance to ensure progress, and if emissions targets are not met, the government could step in to regulate the industry.

"I do support the approach the government is taking with the automotive sector ... legalizing all this could have been a nightmare," Toronto-based auto industry analyst Dennis DesRosiers said in a note.

"Now that the automotive OEMs (original equipment manufacturers) are going to aggressively address greenhouse gas issues with the vehicles consumers buy new, I hope the government will have the strength to

address greenhouse gas issues with the vehicles on the road," DesRosiers said.

He added that getting older vehicles off the road or getting consumers to better maintain them would do a lot more to help Canada meet its Kyoto commitments than anything the auto industry can do to help improve emissions.

Canada's ruling Liberal party has yet to come up with a final plan on how the country will meet its Kyoto commitments, which the opposition Conservatives say are too tough and green groups say are not tough enough.

In a good year, Canadians buy about 1.5 million new vehicles. About 19 million cars and light trucks in Canada are operating at less than peak efficiency or have old technology.

Can a gas engine use diesel fuel with less pollution?

[James Bauernschmidt, Washington Free Press, Jan/Feb 05] Anyone concerned with rising oil prices and pollution from fossil fuel might like to know about a new technology, which addresses both problems. Its application will put an end to the days of sooty smoke seen from accelerating diesel trucks and buses. The technology involves a slight modification to an engine part that can be mass-produced on existing manufacturing lines.

The technology is the result of over thirty years R&D conducted by Dr. Andrew Pouring, a former professor and chairman of the Dept. of Aerospace Engineering at the US Naval Academy. Through his company Sonex Research, Inc. in Annapolis, his work focused on improving the process of combustion through a combination of chemical and fluid dynamic effects. The technology is manifested in the new design of piston heads inside the engine. The Sonex pistons have uniquely shaped chambers with holes in them which bring about a more complete combustion through the turbulence created by high speed air flows emitted from the chambers. (See diagram below).

The new piston can be used in one of two ways in a direct-injected (DI) engine.

A standard DI diesel engine at compression ratios greater than 16:1 can be equipped with the Sonex piston, enabling overall soot reduction of approximately 50% and a reduction in NOx of 10% without exhaust gas recirculation. This application has little affect on fuel economy. These results were positively evaluated by the world-famous laboratory, Ricardo Consulting Engineers in England.

But the most advantages come when applying the Sonex piston in a DI gasoline engine with compression at 12.5:1 or lower, while using a variety of fuels. This design is called Sonex Controlled Auto Ignition (SCAI). The SCAI process is basically controlled HCCI (Homogeneous Charge Compression Ignition), which manufacturers world wide are seeking to control because of its low emissions and good fuel economy. The beauty of the SCAI process is that it enables a gas engine to run with no spark plugs using either a heavier fuel such as diesel or military fuel JP5 or lighter alcohol fuels with greater efficiency and cleaner exhaust. Using JP5 in a single cylinder engine, the Sonex laboratory measured an overall soot reduction of approximately 90% and NOx reduction of approximately 80%. The need for elaborate aftertreatment of the exhaust is minimized. The result is a much lighter and more fuel-efficient engine which can run on heavier or lighter fuels, including gasoline. Sonex has recently successfully applied their SCAI process to a six-cylinder Subaru gas engine using JP5 fuel under a DARPA (Defense Advanced Research Projects Agency) contract and is confirming its single cylinder results.

Diesel fuel offers several advantages over gasoline. Diesel is easier to make at our overworked refineries. MTBE contamination from gas tanks is not an issue. Diesel fuel is also not explosive (it will extinguish a burning match), so transporting it to gas

stations would not attract terrorist activity. For several years, the US military has been trying to switch to using only a uniform kerosene based fuel (JP5) similar to diesel. Problems of attacks on convoys transporting gasoline have already confronted our forces in Iraq and reaffirmed the need for improvement. Also, because diesel is a heavier fuel, it contains more energy. The US Marine Corps has already applied another version of Sonex technology in their UAVs (unmanned aviation vehicles) with success. The same UAVs are now able to fly 20% farther using heavy fuel thanks to the Sonex technology.

Unlike the hydrogen economy which will require vast changes to our infrastructure taking several decades, a diesel economy can be established now by using Sonex. However, several auto manufacturers either offer no diesel vehicles or diesels which are unavailable in several states because of emissions problems. They no longer have an excuse. With Sonex, much higher EPA standards are achievable. Ultimately, you, the customer, should determine what products are offered. Please tell your elected officials to mandate higher standards for industry.

5. SPECIAL ON GREEN BUDGET REFORM IN JAPAN

Ecological fiscal reform in Japan 2006?

[translated by Oliver Wütscher from an original article by Kai Schlegelmilch, 6 May 05] Japan has not yet introduced eco-taxation. However, the current discussion and resulting proposals envision the introduction effective from 2006, though initially scheduled for 2005.

History of the discussion

As early as 2003, an eco-finance council of the ministry of the environment made its first suggestion for an ecotax, followed by the publication of a report concerning ecotaxes and other instruments in 2004. On the basis of these publications, the ministry of the environment and agriculture proposed the introduction of a tax on fossil fuels in 2005, and three months later, at the beginning of November, the ministry made a concrete recommendation. In return, the eco-agricultural committee of the governing Liberal Democratic Party submitted their conformable concept. On recommendation of the governmental tax commission's report, which provides for a comprehensive discussion of eco-taxation, the LDP & New Komeito Party determined guidelines for the next year's tax reforms on the 15th of December 2004, which explicitly make allowances for ecotaxes, as did the announced draft of a "Kyoto Protocol Target Achievement Plan" based on such measures.

Controversy between the ministry of the environment and of economic affairs

The proposed taxation of fossil fuels (coal, oil) is designed to be a consumption tax, which is (from the point of view of the Japanese ministry of the environment) necessary to meet Japan's Kyoto obligations. In the past few years, greenhouse gas emissions exceeded the 1990 benchmark by 8 percent, so that now a reduction of 14 percent is needed to attain the fixed 6 percent-reduction (reference year 1990) by 2010.

For a long time, the ministry of economics and the industrial association *Keidanren,* on one side, and the Japanese ministry of the environment, on the other side, could not agree on a common position. In December 2004, the advisory board for tax policies in the office of the Japanese prime minister decided initially not to introduce the ecotax with next year's budget and sided with the Japanese ministry of economics (METI) as it had continuously done in the past. With the

discussion about a climate protecting tax in mind, representatives of the entrepreneurship responded as sceptically as anticipated to the concept presented by the Japanese ministry of environment.

It is even more noteworthy that the LDP proposal features not only similar structures, but also higher tax rates than those of the ministry of the environment. The LDP envisages (converted into euros) 1.4ct per litre benzine, whereas the ministry of the environment only called for 1ct. Electricity should also be taxed higher (0.22ct/KWh) than the ministry suggested (0.20ct/KWh). This would result in higher revenues.

The assignment of revenues is also disputed. Liberal Democrats want to use all receipts (4.3 billion euros) for climate protecting measures, whereas the ministry of environment plans – strategically correct – to spent ⅓ of the revenues, converted 1.07 billion euros, on the labour market and the competitiveness of homeland companies. The ministry's concept is expected to save the equivalent of about 52 million tons of CO_2, a 4 percent reduction; the LDP suggestion would spare our environment 65 million tons, a 5 percent reduction.

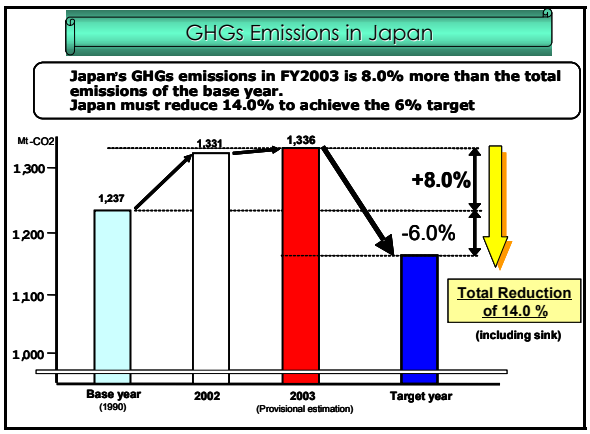
For all that, Japan's low tax rates cannot equal a single step of Germany's ecological fiscal reform, even though both concepts envisage a taxation of all fossil energy sources and electricity. Moreover there are no plans for further increases.

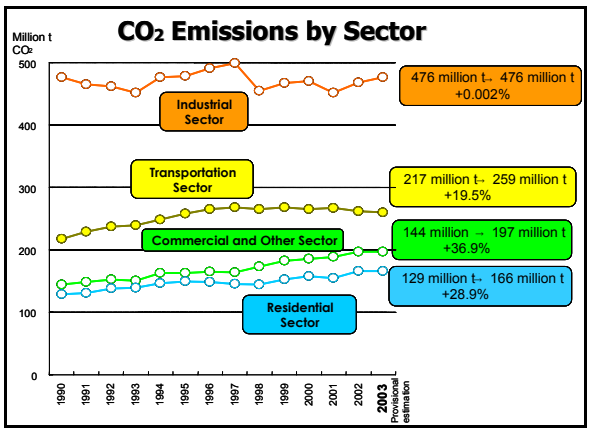
Opportune political situation

Japan comes with auspicious tax conditions to introduce an ecological fiscal reform. With a percentage rate of 5 percent, consumption taxes are low, whereas company taxes are high – an ideal point of departure to change both. The use of ecotax revenues to abate company taxes might be Japan's ideal way, since unemployment is still comparatively exiguous and not a political issue at present. Furthermore reforms might be easier to implement, because of Japan's currently booming economy.

Environmental aspects also show the introduction is reasonable and expedient; since 1990, the sectors of traffic (28.9 percent), services and trade (36.9 percent) and households (28.9 percent) have been particularly responsible for the increase of CO_2 emissions, whereas those of industry have levelled off. On the other hand, industry produces at present the lion's share of emissions (47 percent), compared to 24 percent for traffic and 15 percent for households.

Hence, we can only hope that an accordant reform drive will really be implemented for 2006 without another delay. After all, the author of this article was already given the application to survey the progress and concrete design of ecological fiscal reforms in Europe by a subsidiary body of the METI in 1997. Since then, eight years have passed.





GREENBUDGETNEWS NO. 12 – 05/2005

Calendar of events

- 29 Aug 2003 the Expert Committee on Tax System to Combat Climate Change, Central Environment Council publishes "Draft of Climate Change Tax: Proposal for a national dialogue"
- 13 Aug 2004 the Committee on Global Environment, Central Environment Council publishes "Mid-Term Report on Climate Change Tax and related policies"
- 31 Aug 2004 Ministry of the Environment and Ministry of Agriculture Forestry and Fishery propose introduction of the Environment Tax (carbon tax) for FY2005 to the Ministry of Finance.
- 5 Nov 2004 Ministry of the Environment reveals its concrete proposal of Environment Tax

Environment Division and Agricultural, Forestry, and Fisheries Division of the Liberal Democratic Party submit Tax Reform Proposals (incl. Plan of Environment Tax)

- 25 Nov 2004 the (Government) Tax Commission Report for FY2005 is submitted to PM Junichiro Koizumi "Various tasks regarding Environment Tax must be discussed as soon as possible, based on the discussion of policies and measures on climate change."
- 15 Dec 2004 LDP & New Komeito Party conclude the Outline for Tax Revisions in FY2005 "if deemed necessary, the appropriate vision of the so-called Environment Tax should be discussed immediately."
- 16 Feb 2005 Kyoto Protocol enters into force
- 29 Mar 2005 Government announces draft of "Kyoto Protocol Target Achievement Plan", "Comprehensive discussion on Environment Tax must be advanced seriously."

Drafts of environment tax

<table>
<tr><th></th><th>Proposal by Ministry of the Environment (2004 Nov. 5th)</th><th>Proposal by Liberal Democratic Party Environment Division and Agricultural, Forestry, and Fisheries Division (2004 Dec.15th)</th></tr>
<tr><td rowspan="2">Basic Concept</td><td colspan="2">A fair sharing of burden by all actors based on the amount of GHG released.</td></tr>
<tr><td>Maintaining corporate vitality through promotion of employment.</td><td>Use all revenues on measures against global warming.</td></tr>
<tr><td>Tax Items</td><td colspan="2">All types of fossil fuel and electricity</td></tr>
<tr><td>Taxation Stage</td><td colspan="2">Upstream: gasoline, kerosene and liquefied petroleum gas
Downstream: coal, heavy oil, natural gas, electricity, jet fuel</td></tr>
<tr><td rowspan="3">Tax Rate</td><td>¥2,400 /tc (€ 12.05 /tc)</td><td>¥3,000 /tc (€ 15.06 /tc)</td></tr>
<tr><td>¥0.25 / kWh (electricity)</td><td>¥0.31 / kWh (electricity)</td></tr>
<tr><td>¥1.5 / ℓ (gasoline)</td><td>¥2.0 / ℓ (gasoline)</td></tr>
<tr><td>Revenue</td><td>¥490 billion (€ 2.46 billion)</td><td>¥600 billion (€ 3.01 billion)</td></tr>
</table>

Reductions etc.	• Maintain business competitiveness, avoid radical change in industrial structure • Consideration for low-income earner and SMEs	
	ex: coal and coke used in steel production are exempt, set tax exemption limits for electricity and gas, small quantities consumption is exempt.	
Use of Revenue	340 billion yen for measures against global warming.	All revenues on measures against global warming.
	150 billion yen for maintaining corporate vitality through promotion of employment.	
Implementation	2006 Jan.	
Estimated Effect	52 million tons (approx. ▲4%)	65 million tons (approx. ▲5%)

The tax commission's submission for the financial year 2005

Tasks regarding Individual Tax Items: Global Warming

[Governmental tax commission, Nov 04, extract] The Kyoto Protocol, the global framework for combating global warming which defines targets for greenhouse gas emissions, will come into force in February 2005. As a result, Japan's international obligation to meet the target will be concrete. Meanwhile, our domestic emissions are increasing annually especially in the civilian and transportation sectors, revealing the necessity for an immediate study on additional countermeasures.

As part of this situation, the decision on introducing the Environmental Tax must be based on the characterization of the Environmental Tax within the grand picture of combating global warming by the nation and local governments. At present, the characterization of Environmental Tax in relation to other policy methods is unclear. Therefore, taking the Kyoto Protocol's entry into force into consideration, through the reviewing process of "the New Climate Change Policy Program" (March, 2002), the expected role of the Environmental Tax must be discussed specifically and quantitatively.

The role of Environmental Tax, by nature, weighs on the emissions-reducing effect due to price incentives. Concurrently, utilization of Environmental Tax as a stable revenue source must be met with scrutiny in relation to the current budget for combating global warming and the merits and demerits of a fixed application of the revenue.

Since the Environment Tax involves the people, their understanding and cooperation is a premise upon discussing its introduction. A variety of tasks lay ahead: effects on the national economy and industrial competency, the relationship between current energy-related taxes, the characterization of the Environmental Tax within the whole tax system and so on. These tasks must be discussed immediately, in accordance with the progress of discussions on the grand picture of combating global warming.

Honda to cut CO_2 emissions

[Point Carbon 4 Apr 05] Honda Motor Co has decided to reduce carbon dioxide emissions at its domestic manufacturing plants by 30 per cent in fiscal 2010 from fiscal 1990 levels.

According to the Nihon Keizai Shimbun Honda plans to cut CO_2 emissions to 430,000 tonnes in fiscal 2010 by introducing a

monitoring system to make more efficient use of power at its key plants and taking other emission-reduction measures.

Japanese companies are so far only covered by voluntary emissions reduction targets, but a growing number of corporations in the country set domestic emissions trading targets or aim to purchase emissions reduction credits through CDM or JI credits.

6. GREEN BUDGET REFORM IN GENERAL

Double dividend reconsidered

Conclusions

[William K. Jaeger, Oregon State University] Early proponents of green tax reform believed that it held the promise of large, additional welfare increases when pollution tax revenues were used to finance reductions in pre-existing taxes. The notion that we could tax "bads" instead of taxing "goods" certainly has some instinctive appeal. But the reality that pollution taxes must be paid out of the same income as pre-existing taxes was not fully accounted for in some early analyses. In one estimate, this oversight led to the conclusion that revenue recycling could raise the optimal carbon tax more than tenfold (Nordhaus 1993).

In contrast, opponents of the double dividend idea have relied on comparing the optimal environmental tax to a measure of marginal damages that does not reflect the social value of income. Basing their conclusions on the amenity externality case, they observed that the optimal environmental tax was lower than their measure of marginal damages even when environmental tax revenues were used to reduce revenue-motivated taxes. Efforts to explain this seemingly incongruous result led to speculation that a previously unrecognized "tax inter-action effect" must be at work, and this theory was linked to changes in labour supply and the consequent narrowing of the tax base.

From the perspective presented here, a middle ground emerges. Very large additional benefits from green tax reform may not occur as a general rule. However, the optimal environmental tax *does* exceed marginal social damage, and it does so by 40 to 60 percent, a proportion that is remarkably consistent with the inference made initially by Pearce (1991).

Is there an 'extra' benefit from green tax reform? Yes. Since the optimal environmental tax exceeds the social measure of marginal damages, and the optimal level of environmental quality rises with an increase in revenue requirements, we can infer that there is an additional welfare gain from green tax reform – indeed there is general agreement on this point.

Is there an extra cost to environmental policy? On balance, no. In the case of a production externality where the tax base is likely to broaden slightly, this will lower the excess burden of taxation. In the case of an amenity externality where the tax base is likely to narrow slightly, this will raise the excess burden of taxation. These effects are small and we have no *a priori* basis for expecting a positive or negative effect overall.

Do environmental goals compete with the provision of other public goods? No. The presence of revenue-raising taxes lowers the cost of environmental taxation and increases the level of environmental quality that can be achieved efficiently. Symmetrically, the existence of opportunities to tax pollution will lower the cost of raising revenues and, consistent with the Samuelson Condition, increase the optimal level of public goods provision.

Read the whole article:

http://www.aere.org/newsletter/Newsletter_Nov01.pdf

7. GREEN BUDGET REFORM FOR BUSINESS

Tools for a low carbon economy: The north and south

Within the framework of the Business Leaders Initiative on Climate Change (BLICC), RESPECT invites managers and staff to exchange views on business related climate change developments. The half-day workshop is an opportunity to build climate change knowledge and offer a multi-perspective dialogue on realising business possibilities. The focus will be on new tools for change related to the Clean Development Mechanism (CDM). The session is built upon experience from the Respect Business Leaders Initiative on Climate Change (BLICC) programme (see overleaf). Within this agenda, experts from the Germany Federal Ministry for Environment and business leaders will address relevant climate-related topics with an aim to identify joint interests for potential future collaboration. The session is aimed at business leaders with interest to build competence, realise opportunities and identify risks in this area. It takes place on 7 June 2005 at the Federal Ministry for the Environment, Nature Conservation, Alexanderplatz 6, Berlin. For registration (100 euro) please email your interest along with contact information to: mailto:Meili.han@respecteurope.com

8. GREEN BUDGET GERMANY NEWS

Reduced membership fee for students

[Green Budget Germany, 18 May 05] As decided on this year's general meeting students can now become a Green Budget Germany supportive member for just 30 euro a year. Active membership, which includes a full vote at GBG meetings, is also available for an annual 200 euro contribution.

Future concepts for ecotaxation and emissions trading discussed

[Berivan Pont, Green Budget Germany, 27 Apr 05] On the 15th and 16th of April, GBG and the Academy for Political Formation in Tutzing jointly hosted a conference on the issue: "Ecotaxes - where next? Ecological fiscal reform and emissions trading". People from various backgrounds attended this very fruitful event: people from the private sector, teachers, scholars, professors, politicians, and students.

The goal of the conference was to provide an overview of the current situation in Austria, Switzerland and Germany, confront conflicting views, and carry the debate on sustainability to the European level. The role ecotaxes can play in a sustainable tax system and how such taxes can be combined with the EU emissions trading schedule were also focal points of the speeches.

All block content was insightful and diverse and led to many interesting and animated public debates, namely because of the good selection of speakers. They all came from very different backgrounds and gave the participants a comprehensive overview of all questions debated.

Inbetween sessions, the atmosphere was friendly and casual. People had time to discuss presentations with speakers, or exchange points of views with other participants while taking a stroll in the beautiful garden of the Academy.

A highlight of the conference was the speech "The role of the ecotaxes in a sustainable taxation system" held by Professor Wolfgang Wiegard from Regensburg University. Wiegard, who is a member of the council that assesses Germany's economic development, proved with simple environmental economical rules that every rational taxation system requires an ecotax if society wishes to optimize efficiency and welfare

The Adam Smith Prize for Environmental Economic Policy was awarded this year to Dr. Dieter Ewringmann, director of the Cologne Center for Public Economy, for his long commitment to environmental taxes. In his acceptance speech, he confessed he first met the use of ecotax revenues to abate labour costs with scepticism. But today, he is "thankful that the ecotaxes have been used in this way, despite his past scepticism."

Both scholars reject the popular argument of "ecotax self-evasion". They both maintain that a collapse of the ecotax is not to be expected in the long term either. This is because the goal of environmental taxation is not to cut out all use of fuels and emissions, but rather to attain an acceptable and sustainable volume. Also, energy is taxed in order to cut down fossil fuel consumption until a new energy mix is found.

9. EVENTS

31.5.-3.6.2005 Green Week

Climate change is happening. Over the past century, the average temperature has risen by more than 0.6° Celsius globally and by almost 1°C in Europe. An overwhelming majority of the world's climate experts believe most of the warming is caused by human activities that emit carbon dioxide and other greenhouse gases. Green Week 2005 will look at all aspects of climate change and in particular at the human factor. Our way of life, production, consumption and transport need to change if we want to halt global warming. Green Week encourages everyone to "think aloud" about how we can all change our environmental behaviour. It is aimed at local, regional and national decision-makers, businesses, non-governmental organisations and the general public.

The Official site of the European Commission offers detailed information about Green Week:

http://europa.eu.int/comm/environment/greenweek/index_en.htm

31.5.-3.6. and 5.6.2005 Urban Green Days

Urban Green Days 2005 will take place throughout Green Week (31 May to 3 June 2005) and on 5 June – World Environment Day. Events will be different from city to city, depending on the needs, resources and aims of each community. That may include open-door days, field visits, school events, public events in markets, public squares and shopping centres, seminars and conferences. 2005 UGD highlight in particular climate change with topics such as sustainable transport, energy efficiency and renewable energy. Being part of an annual Europe-wide initiative, UGD will have a larger impact on national and European government levels, and attract more attention by the public and the media than single local events. All UGD events will be showcased on

http://www.urbangreendays.org

3.6.-5.6.2005 Consumption, Globalisation, Environment

This joint Congress of Attac, BUND and Greenpeace in cooperation with the Heinrich Böll Foundation takes place in the University of Hamburg. All speeches will be given in German and will focus on the consequences of consumption in a globalised world.

For further information: http://www.mcplanet.com

7.6.2005 Tools for a low carbon economy: The north and south

The half-day workshop aims to give managers and stuff the opportunity to exchange views on business related climate change developments. For further information and registration please contact Mei Li Han, Respect Climate Programme Manager: mailto:Meili.han@respecteurope.com

7.-8.6.2005 IEMA Annual Conference & Exhibition

This two-day event at the Chateau Impney Hotel, Droitwich Spa, Worcestershire, brings together over 300 professionals within the environmental management, assessment and auditing fields. The plenary session on the 7th June will offer presentations on sustainable development, personal behaviour and on "the environment and Europe". The 8th June presentations will include "The environment as headline news" and "Are we adding Value?" Alongside the plenary sessions, delegates will have the choice of attending various workshops from an extensive selection of environmental subjects, gaining practical tips whilst sharing experiences and contributing to ongoing professional development. For further information please email mailto:events@iema.net or take a look at http://www.iema.net/htmlpage.php?pname=conference2005

28.-29.6.2005 Global Demand for Oil – Recent trends and future prospects

The ninth annual symposium of the Centre for Global energy Studies in Pennyhill Park Hotel, Bagshot, Surrey, will cover a variety of topics from reactions to raising prices and demand for oil, trends in the USA, India and Brazil to renewable energy sources and environmental issues. A download of the full programme and the reservation of places are offered on:

http://www.cges.co.uk/default.asp?cdn=nextevents&pt=Next%20Event&nav=rEvents&lnav=events

18.-21.7.2005 Towards Carfree Cities 5

Towards Carfree Cities V. will be held on 18.-21. July 2005 in Budapest, hosted by Clean Air Action Group, Hungary. The goal of the Towards Carfree Cities conference series is to bring people from around the world together who are promoting practical alternatives to car dependence: walking, cycling or public transport and ultimately the transformation of cities, towns and villages into human-scaled environments full of public space and community life.

More information and registration:

http://www.worldcarfree.net/conference/

22.-24.9.2005 6th annual global conference on environmental taxation in Leuven (Belgium)

The central theme of the 6th ETC will be: *The Promotion of Renewable Energy Sources through Tax or Other Market-Based Measures – Challenges and Obstacles*. This central theme will be developed during the first conference day (September 22nd), by different invited keynote speakers and panels. Traditionally, the second conference day will tackle a broad variety of environment and energy taxation issues, from a multidisciplinary perspective. The registration form and programme can be downloaded on: http://www.law.kuleuven.ac.be/imer/nieuws.html

10. LINKS AND PUBLICATIONS

Stop wasting taxes on inefficiency

A study of the Oeko-Insitute Freiburg for Greenpeace has shown that only half of Germany's subsidies for the national production of hard coal invested in measures to increase efficiency could reduce the demand for electricity by 12 percent. Please use the following link to read about concrete suggestions

http://www.greenpeace.de/multimedia/download/0/828556/0/studie_energieeffizienz_kurz.pdf

Stop subsidies polluting the world

In this position paper the European Environmental Bureau (EEB) pleads for phasing-out and redesigning environmentally harmful subsidies. After a brief analysing of the damage subsidies cause and the benefits their abolishment the text elaborates on several examples that should be reconsidered. Download:

http://www.eeb.org/activities/env_fiscal_reform/stop-subsidies-polluting-world-December04.pdf

The same subject is discussed in another recommendable EEB study entitled "NGO guidelines for promoting national reforms of environmentally harmful subsidies" with a particular focus an EHS in Hungary, the Czech Republic, Poland and Germany. Download:

http://www.eeb.org/activities/env_fiscal_reform/NGO-guidelines-EHS-December04.pdf

The 2005 spring summit and Europe's environment – Making the Lisbon process work for sustainable development

This download comprises EEB's proposals for the 2005 spring summit, stressing "that the Lisbon process is a part of EU's Sustainable Development Strategy, and that this also has repercussions for short-term, immediate policy choices". It additionally includes the Bureau's response to the report of the Kok Group.

http://www.eeb.org/activities/sustainable_development/The-Spring-Summit-and-Europe-Environment-240205.pdf

The United Kingdom Climate Change Levy

This document, prepared by Prof. David Pearce (University College London), assesses the political economy of the UK Climate Change Levy. The levy has contributed to the UK climate change targets. It may well have fared better than some regulations, but whether it has done better than a pure carbon tax is debateable. Download:

http://appli1.oecd.org/olis/2004doc.nsf/43bb6130e5e86e5fc12569fa005d004c/ccf3eef598df1573c1256f8f0033d40b/$FILE/JT00179396.PDF

Basic information about the Kyoto targets and the European emissions-trading scheme

Although the overall Kyoto targets were designed to reduce emissions from industrialised countries to 5.2 percent below 1990 levels, the EU as a block agreed to an 8 percent reduction. This was then re-distributed between the EU15 countries in the 1998 EU burden-sharing Agreement, …

http://www.mjmenergy.com/MZINE/emissions_issue.htm

Environmental taxes, tradable permits, etc.

This website offers a compilation of several documents about the UK climate change levy, tradable permits, and more.

http://www.oecd.org/env/taxes

Higher Taxes – New Jobs?

According to a recent study of the German Institute for Economic Research (DIW) a rise

of the value-added tax and income taxation would create new jobs in Germany if the revenues were used to abate social security contributions. Download:

http://www.diw.de/deutsch/produkte/publikationen/diwkompakt/docs/diwkompakt_2005-007.pdf

EU aviation policy: The voice of the people

In recent months the European Commission collected opinions and views on aviation's contributions to climate change and possible ways to reduce it. The results of this online survey were published in May and will be part of a Communication issued in July.

View results: http://europa.eu.int/yourvoice

Fair Flight

Those who promote taxation of aviation for ecological reasons and want set a good example can take a look at the website of *atmosfair*. This organisation addresses people who voluntarily pay for the greenhouse gases they release by air travelling. http://www.atmosfair.de/index.php?id=9&L=3

External Cost: Research results on socio-environmental damages due to electricity and unite transport

The research results contain a useful list of effects several pollutants have on human health. The following comparisons of damage costs per kWh for coal, gas, nuclear and wind electricity just as the comparison of damage costs between transport modes might serve as a valuable data base.

Download information brochure on external costs: http://www.externe.info/externpr.pdf

View website of the ExternE project:

http://www.externe.info/

New OECD/EEA database on instruments used for environmental policy

This new homepage is a merging of the formerly separate databases on environmentally related taxes and on other economic instruments and voluntary approaches. The joint database has been developed in close co-operation between OECD and the European Environment Agency. It provides queries and information on environmentally related taxes, fees and charges, tradable permit systems, deposit refund systems, environmentally motivated subsidies and voluntary approaches used in environmental policy in OECD Member countries, EEA member countries and countries otherwise co-operating with EEA, not being members of OECD.

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

11. READERS' GUIDE AND IMPRINT

Readers' Guide:

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  Access individual topics in the archive by clicking on them in the directory - you don't have to view the whole document.

We hope you enjoy reading your copy of GreenBudgetNews!

Best wishes from the editors!

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