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EUROPEAN NEWSLETTER ON ENVIRONMENTAL FISCAL REFORM

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1. EDITORIAL

Finally an EU agreement on energy taxation

[Kai Schlegelmilch, Vice-Chairman of Green Budget Germany] On October 27th, the EU finally reached a formal agreement on energy taxes – by chance, but perhaps symbolically, at the Council of Environmental Ministers in Luxemburg. I would like to explain how this agreement came about over the past few years and why this directive is so modest, even as it sets the stage for the next few years.

One small step for climate protection

In 2004, the EU directive to harmonize energy taxation within the EU will finally take effect. The requirement for unanimity watered down the agreement. Nonetheless, several countries have their work cut out for them, and every country will have new options, such as taxation of kerosene.

It took the finance ministers of the EU eleven years to introduce minimum tax rates on all energy sources. As early as 1992, the EU Commission had proposed to introduce a new CO_2/energy tax for environmental reasons. Energy taxes were to increase each year by one US dollar per barrel of oil (159 liters) from 1993 to 2000. The energy tax was to become the centerpiece of the EU's climate policy with which the EU would shine at the first Earth Summit for the Environment and Development in Rio de Janeiro in 1992. But nothing came of all that, nor of a more flexible proposal in 1995. In 1997, the Commission proposed an even more watered down directive to even the playing field on the Single Market merely by prescribing minimum taxes rates for all energy sources for inclusion in current national energy taxes. In other words, unlike in previous proposals the EU tax was not to be added to current national taxes.

In the end, the naysayers became the key to the compromise

Disillusioned by previous negotiations, the German EU Presidency attempted to formulate a low-level compromise in 1999. But the obvious total blockade of Spain, more covered than flanked by other southern EU states and the United Kingdom, left subsequent presidencies little room for anything but minor adjustments. Not until the Spanish presidency, followed by the very intensive and successful negotiations of the Danish presidency, was the stage set for a breakthrough. The Greek presidency then managed to reach a political agreement at an informal nightly session of economic and finance ministers (ECOFIN) on the 20th into the 21st of March 2003. Surprisingly, the Spanish Presidency then provided the breakthrough by making its first constructive compromise, though it paled in comparison to the strictness of the Commission's original proposal. A study by Spain's Finance Ministry provided the argumentation for the consent to the directive just beforehand: all of the effects were found to be positive. Nevertheless, the compromise was designed so that Spain would not have any major new obligations.

Content and consequences of the directive

Starting in 2004, minimum tax rates will take effect for all energy sources. While all EU member states have had taxes – even if sometimes insufficient – on mineral oil for motor fuels and heating oil since 1993, for some countries taxes will be added to natural gas, electricity, and solid fuels, especially coal. Germany's pioneering role in ecological tax reform has paid off. It only has to introduce a coal tax for heating, which only makes up three percent of coal consumption in the country. In contrast, a tax on coal for the generation of electricity, which makes up some 70% of coal consumption, only has to be introduced if the tax on natural gas – a relict of the German tax system – stays in effect.

Otherwise, the greatest breakthrough in the directive was the obligation imposed on accession countries to introduce new energy taxes or to raise existing ones considerably. In addition, some current EU members such as Belgium, Luxemburg, Austria, and Czech Republic, and Poland will have to raise their diesel tax rates slightly, for example. The EU cannot determine what will be done with the revenue; therefore, the possibility of making these energy taxes revenue-neutral is merely mentioned in the preamble. The transition periods, some of which are quite long, are intended to facilitate adaptation. Critics say that each additional task force meeting in Brussels – and there were more than a dozen – added another exception to the directive.

New options like the kerosene tax

It is hard to fathom, but the EU had prohibited taxes on kerosene for commercial flights. In 2004, this relict has been abolished. Now, kerosene can at least be taxed for domestic flights and flights between member states. The chances that this tax will be implemented will probably increase parallel to the success of the joint effort to reduce "gasoline tourism".

A distinction may also be made between commercial and private diesel taxation starting in 2004. Hence, countries will be able to raise the diesel tax rate for private cars to the rate of gasoline to put an end to this often unintended subsidy. This change could be linked to the justified call for a vehicle tax for all cars, with diesels being taxed less than gasoline motors.

A watered down compromise or real progress?

In terms of the original plans of 1992 – or even 1997 – the agreement is a typical, watered down EU text. What else is possible when unanimity is required? And as this unanimity is to be kept in the current draft of the EU constitution, even the most determined optimists have their doubts: experience would suggest that no further, substantial harmonization can be expected with 25 or more states.

In terms of the status quo, the directive is a step forward: the EU is the first region worldwide to implement the principle of energy taxation. Accession states will have to adopt everything, while member states are at least obligated to make minor changes, with some even forced to make major ones. The new options for the taxation of kerosene and the higher tax rate for diesel for private consumption will at least provide more cost equality in the transport sector. Now, it is up to the states that supported these changes to use them to further climate protection at least a little bit.

2. GREEN BUDGET REFORM ON EU-LEVEL

EU energy products tax directive adopted

After six years of difficult negotiations, European environment ministers eventually agreed on a directive concerning EU energy products tax. Although this directive will hardly affect tax levels on energy products in the near-term, it is an important step toward an arrangement of EU energy tax rates.

[Environment Daily 1540, 28/10/03] A landmark EU directive setting minimum tax rates for all energy products is set to enter force on 1 January after being rubber stamped by environment ministers on Monday the 27th of October. The European Commission welcomed the development as "a major step forward". German environment minister Jürgen Trittin also saluted what he called "an important step for climate protection". After six years' difficult and often interrupted negotiations, the directive was finally agreed by EU finance ministers in March.

In September the European parliament called for a reduction in the directive's many exemptions that earlier led EU internal market commissioner Frits Bolkestein to compare it to a Gruyere cheese "with too many holes". None of its suggestions has been accepted by EU governments.

As a result of the numerous compromises required to win the required unanimous backing from the EU-15 states, the directive will have few near-term consequences for tax levels on most energy products. Even so, its existence greatly strengthens the longer-term potential for upwards harmonisation of EU energy tax rates.

In response to the directive's formal approval, the European Commission said it would propose "in the coming weeks" transitional arrangements on how the ten countries due to join the EU next year should comply with the rules.

You find further information here:
http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_283/l_28320031031en00510070.pdf

Taxation of passenger cars in the European Union

Parliament adopted non-binding resolution which broadly welcomes a Commission communication on taxation of passenger cars in the European Union.

[European Parliament, 7/11/03] Members of the European Parliament agree that there is an urgent need to restructure vehicle taxes in the European Union. MEPs also consider that urgent action must be taken at national level to remove barriers to the free movement of persons and cars. The House is convinced that, without environment-oriented taxation, the objectives of the three-pillar Community strategy on CO_2 reduction and the shared goal of achieving a CO_2 level of 120 g/km for new cars by 2010 at the latest are in jeopardy and cannot be realised. MEPs therefore call on the Council to implement the third pillar of the Community CO_2 strategy speedily.

Parliament is of the opinion that the tax structures must be kept simple and transparent and considers that the criteria used for determining the tax should be kept at an absolute minimum. The House considers that both environmental and road safety parameters are important factors which, when they do not contradict each other, must be used as the basis for a revised tax structure.

MEPs find it unacceptable that 10 years after the launch of the Single Market, such a large number of obstacles to transfer of cars caused by administrative practices or procedures still remain. The House is also calling on the Commission to present proposals, before the end of November 2003, as a temporary solution pending measures to abolish registration taxes, and to present proposals to overcome internal market barriers resulting from registration taxes.

All Members States, except France, levy an Annual Circulation Tax (ACT) at levels ranging from €30 to €463 per year. The reporter points out that considering that CO_2 emissions and other unwelcome externalities such as congestion and noise are directly proportional to the use of the car, it may be logical to work towards a tax reform where use and environmental impact, rather than ownership are the focal points. An interesting example is, in that regard, the United Kingdom, which as the only Member State, levies a CO_2 -based annual circulation tax. The UK ACT is consequently considerably lower for cars which emit (relatively) little CO_2 per km.

You find further information here:
http://www.europarl.eu.int/press/index_publi_en.htm

3. GREEN BUDGET REFORM IN SINGLE EUROPEAN COUNTRIES

A new CO_2 tax for Switzerland?

Far out of reach from its Kioto commitments, the Swiss Federal Bureau for Forestry and Agriculture has proposed to introduce ecological taxes. This paper presents many arguments in favour of a Swiss ecological tax reform.

[Kai Schlegelmilch, Vice-Chairman of Green Budget Germany] Switzerland is on the move. Or at least, it is about to be. The CO_2 Act passed in the 90s provides for a voluntary 10% reduction of CO_2 emissions by 2010 below the levels of 1990. If this target is not within reach, the Act stipulates that a CO_2 tax will be implemented in 2004. Studies recently published by the Swiss Federal Bureau for Forestry and Agriculture (BUWAL) reveal that these targets are indeed far out of reach (http://www.umwelt-schweiz.ch/buwal/de/medien/presse/artikel/20030618/00744/index.html). Hence, four ways of reducing emissions by means of taxes have been proposed (http://www.umwelt-schweiz.ch/buwal/de/fachgebiete/fg_klima/news/2002-09-26-00246/index.html).

It seems unclear whether a CO_2 tax will ever be implemented. While no plebiscite would be required (the Swiss have already rejected ecotaxes three times, though the outcomes were sometimes close), it seems that Parliament will not be easily convinced itself – especially after the last elections, in which the Greens did gain votes, but not nearly as many as the conservatives. Nonetheless, the trend should not be overestimated. “Conserving” God’s creation is a prime concern of Christian conservatives as well. Several conservative governments were the first to introduce ecotaxes, some of them quite far-reaching. Among others, Great Britain did so in 1993, Denmark in 1992, and Austria is planning to in 2004. And of course, former German Chancellor Helmut Kohl of the CDU raised the price per liter of mineral oil by some 25 cents during his term – far more than the modest 15 cents under the current SPD/Green government.

The goal must be to convince parliamentarians of the advantages of a CO_2 tax – or better yet: of an ecological tax and finance reform. The arguments against such a reform are well known and need not be repeated here. But the arguments for this reform have become even more numerous:

- All of the instruments are to be linked in an optimal mix to promote environmental and climate protection. Often, though, there is no price instrument. This omission is especially unfortunate as prices are the steering signal in market economies. We thus have to use taxes to change prices to protect the environment. After all, personal incentives are the best way to make distributed information about innovations available and put it to use. In addition, other taxes and levies can be lowered if ecotaxes are raised, thus allowing the structure of the whole tax system to be changed away from labor (“goods”) to energy / resources (“bads”) – the double dividend. Ecotaxes have considerable benefits over command-and-control approaches in that ETR provides constant incentives and requires little enforcement. Environmental protection thus runs automatically.
- Researchers did their homework long ago and showed in numerous studies that ETR offers many macroeconomic advantages in terms of design options and feasibility.
- Many European states have adopted ETR policies. CH has moved from being a forerunner in the debate (all the way back in the 70s) to a straggler: Swiss prices for gasoline and heating oil are some of the lowest in the

OECD.

- The voluntary agreements in the CO_2 Act have not led to a satisfactory fulfillment of the targets, as BUWAL studies clearly show. Between 1990 and 2010, CO_2 emissions were to drop by 10% (heating fuels 15%, motor fuels 8%). Instead, they only sank by some 0.7% according to the BUWAL due to the CO_2 Act. The IEA even expects an increase of 5.6% for 1990-2002, with transport as the main culprit. For more on the CO_2 emissions, see http://www.umwelt-schweiz.ch/buwal/php/druckversion.php?/buwal/de/news/artikel/20030828/01060/index.html.
- The common argument in CH that they should wait for the EU to remain competitive is now the reverse: the EU and numerous member states are waiting on CH. Germany, the most important trading partner of CH, has been implementing a comprehensive ETR since 1999. The environmental success includes the first 4-year drop in gasoline consumption and the first 4-year increase in passengers in local public transport. Now CH is expected – not only by Germany – to close ranks, lest it lose credibility. Austria has also resolved to take further steps toward an ETR – including a net tax reduction. In 2004, France is increasing its diesel tax. All of this opens a policy window for CH for a substantial CO_2 levy or ETR to unfold steering effects, i.e. ideally in several stages starting in 2004.
- The gap in energy prices between Germany and CH brought about by Germany's ETR and the extra income in CH due partially to this gap should be levelled in the mid-term to reduce market distortions. In doing so,
- CH has some positive experience with its initial approaches to economic instruments such as Energy-Saving Funds of Basel and a levy on VOCs. This experience needs to be built upon.
- Investment security is decisive for industry and the population as a whole. The example of the German wastewater tax showed that the mere announcement of its introduction led to comprehensive investments. As soon as companies have a framework to work with, they can easily make their calculations, regardless of what the framework looks like, even if the energy taxes are raised. In contrast, investment insecurity leads to a blockade; a decision for or against CO_2 taxes and ETR thus has to be reached as soon as possible.
- The share of ecotax revenue in Switzerland is below the level in the EU, which contrasts sharply with Switzerland's former pioneer role in discussions about ETR (http://www.statistik.admin.ch/news/pm/0350-0303-10.pdf).
- After years of political infighting, on 03/20/03 a political decision was reached and formally confirmed on 10/27/03 that all EU members states – including the accession states – will have to harmonize their energy taxation by at least implementing minimum tax rates for all energy products. In the process, new options have been made possible, such as increasing the tax rate of diesel for private cars to that of gasoline.
- In addition, all inland flights and flights between two EU member states are subject to a tax on kerosene if the bilateral flight agreement between the two countries so stipulates (or is changed to do so). Most interestingly, Switzerland used to tax domestic flights but unfortunately repealed these taxes recently for political reasons.
- Irrespective of the EU directive, the exemption of international flights from the value-added tax for the part of the flight over Switzerland should be repealed to restore just costs. Germany is calling for this exemption to be revoked, but the opposition has temporarily put an end to this effort.
- Not raising the control tax and levy rates for energy in CH has led to a de facto reduction of incentives as the rates are devalued by general inflation. Therefore, future tax designs should be automatically inflation-adjusted. Now, communications experts, political scientists, and marketing experts in CH are called upon to act. Alliances must be created and existing ones (such as the support for ETR by MIGROS) revitalized.
- The Swiss parliament must demonstrate its political will to approve the necessary CO_2 tax in 2004 without having to repeat the numerous failures of the plebiscite.
- CH can also hardly fiscally afford not to raise taxes. The national debt of Switzerland has tripled since 1990. Some 3,800 million Swiss

francs are spent each year on the interest for this debt, which only keeps growing – without any positive contribution to increase the competitiveness of Switzerland.

- Switzerland is also one of the most sensitive Alpine regions greatly affected, so its ethical standards should compel it to use the Kyoto protocol to be a forerunner in upholding its duties.
- Other countries are willing to offer assistance and exchange experience and information.

Portugal: Portuguese emissions tax to buy Kioto credits

The Portuguese government is working on new fees on CO_2 and methane emissions. Far from its Kioto commitments under the European burden-sharing agreement, Portugal could use this new tax income to buy greenhouse gas emission credits.

[Environment Daily 1523, 03/10/03] The Portuguese government could introduce taxes on carbon dioxide (CO_2) and methane emissions and use the revenue to offset the anticipated burden of buying greenhouse gas emission credits in the future emissions market. Portugal is one the countries furthest from meeting their Kioto commitments under the EU's burden-sharing agreement.

Junior environment minister Jos Eduardo Martins told Environment Daily the initiative would "collect revenues to acquire emission credits in the international Kioto market" by applying emissions taxes to "the sectors not covered by the EU directive on emissions trading".

The most likely form of CO_2 tax would apparently be a resuscitation of the previous administration's plan to increase vehicle registration fees weighted against their polluting potential. A "restructuring" of fuel duties is also under consideration.

Mr Martins said the new taxes would "apply the polluter pays principle across the Portuguese economy" and "induce behaviour change in consumers". They would not "necessarily" increase the burden on the taxpayer, he added.

A report in the Lisbon daily IO Publico on Thursday indicated that consultations are under way within the government about the introduction of a tax on methane emissions as well. This would chiefly affect cattle farmers, responsible for 54% of methane emissions, and sewage treatment plants, which produce another 40%. The environment ministry also announced that Portugal's long-delayed climate change plan, which was due for public discussion by the end of this year, may undergo a further revision next year to conform to the requirements of the emissions trading directive.

You find further information here:

http://www.europa.eu.int/comm/environment/climat/kyoto.htm

Germany: Industry challenges German energy taxes

German haulage association BGL and an association representing cold storage firms have asked for a repeal of the “ecological tax”, judging it unconstitutional and perilous for German hauliers.

[Environment Daily 1530, 14/10/03] German haulage association BGL and an association representing cold storage firms have filed lawsuits with Germany's constitutional court seeking a repeal of the government's energy tax programme known as the "ecological tax". The court, based in Karlsruhe, has scheduled a hearing on the two complaints for 2 December. In its lawsuit, BGL argues that the ecotax is unconstitutional because it threatens the existence of German hauliers. Alex Schindler, BGL's legal counsel, told Environment Daily that German hauliers pay much higher diesel tax than other European hauliers, especially those in France, Italy and the Netherlands. "We will make it clear to the court that we have lost market share since the ecotax was introduced," said Mr Schindler.

The lawsuit filed by the cold storage firms seeks to have the ecotax repealed on the basis that it is unfairly applied - and therefore unconstitutional. According to German news reports, the cold storage firms contend that while they are subjected to the full brunt of the ecotax, firms in the manufacturing and agriculture sectors either pay much lower rates or are exempted entirely.

Since it introduced the tax in 1999, Germany's Social Democrat-Green government has provided manufacturing and agriculture firms, particularly those using a lot of energy, with certain breaks.

You find further information here:

http://www.bverfg.de

Germany: Two German minister presidents suggest to suppress subsidies

This paper is a critique of Koch and Steinbrück´s proposal to take apart the subsidy system. By giving preference to drivers rather than public transport, their program damages environmental protection.

[Bettina Meyer, Barbora Pokorna and Virginie Barras, FÖS, 06/11/03] On 30 September, two German Minister-Presidents, Ronald Koch (CDU) and Peer Steinbrück (SPD), presented the so-called "biggest subsidy suppression program in the post-war history of Germany". This program is scheduled for three years, from 2004 until 2006. Designed to suppress 4% of existing subsidies to alleviate the economy, their plan is very critical from an ecological point of view. First, it proposes to reduce subsidies for home ownership by three percent, while the government proposes to replace it entirely with a program to encourage people to renovate old accommodations in cities. The distance lump sum of 40cts per kilometre would be reduced to only 35cts per kilometre, whereas the Government has decided to lower it to 15cts. As for coal subsidies, it remains unclear whether the reductions are to replace or be added to dismantling in accordance with the coal compromise. Besides, this new plan does not affect many other ecologically unproductive subsidies, such as the adjustment of diesel taxation to the levels unleaded gasoline, restrictions of the changes for atomic energy or the abolishment of value-added tax exemptions for international air traffic. On the contrary, the new proposal would tend to abolish subsidies for ecologically useful projects. For instance, they plan to include tax moderation for public transport in the subsidy dismantling to save 4,400 million euros.

This method of suppressing subsidies is not very courageous and does not leave any chance for political creativity. Some weak aspects of the system will be attenuated, but not corrected. The proposals are not sufficient to link together ecological modernization, budget reorganization, and future investments.

You find further information here:
http://www.spiegel.de/politik/deutschland/0,1518,267754,00.html

Spain on its way to get councillors for environmental topics in its ministries

[Henriette Gupfinger, ÖGUT, 3/11/03] Javier Arenas, Vice-President and Environmental Minister of Spain, announced that "very shortly" a council will be created to find 180 ways and projects for sustainability. About 26 billion euros will be invested. The projects shall be implemented between 2004 and 2012. The Spanish Autonomies, such as Catalunya, will receive special treatment and are allowed to organise their own projects and control. One of the projects could be a soft form of environmental taxes, as the main purpose is to reduce energy consumption.

Spain: Balearics tourism ecotax abolished

Spain's Balearic regional parliament abolished a tourist ecological tax introduced in 2002 by the former Socialist-Green regional government to raise money for environmental protection.

[Times Online, 31/10/03] The controversial Balearic ecotax is set to be abolished on November 1 after the election of a conservative government in the Balearic Islands in May.

The tax was introduced last year by a coalition government of socialists and greens in an effort to offset some of the damage caused by mass tourism. Visitors to the Balearic islands of Majorca, Minorca, Ibiza and Formentera paid an average of €1 (70p) per day, adding up to €56 (£40) to the cost of a two-week holiday for a family of four.

The money was spent on environmental improvements such as upgrading footpaths and cycle routes, restoring old windmills and dry-stone walls, and the planting of native species of olive and almond trees on land previously reserved for tourist development.

The tax certainly had its admirers, among them the British Guild of Travel Writers, who gave it their prestigious Globe award. Regular visitors to the Balearics supported the principle of an ecotax but admitted that there were flaws in the way it was implemented.

The biggest problem was that the money had to be collected by hotels rather than at the airport, imposing an extra burden on hoteliers and ignoring the 25 per cent of tourists who stay in unlicensed apartments and villas or with property-owning family and friends.

"If the tax had been implemented fairly and with the agreement of the tourist sector, we would have supported it," said Tomeu Deya, director of the Majorca Tourism Board, who blames the drop in visitor numbers last year in part on the new tax. "The ecotax has damaged the image of tourism, but despite its abolition, we will not neglect the environment," said the new Balearic president Jaume Matas, the former Environment Minister in Madrid, who believes that his political contacts with the Aznar Government will help the Balearics far more than an unpopular tax.

Patricia Barnett, director of Tourism Concern, is less than happy with the passing of the ecotax. "The fact that the tax has been ditched is very disappointing. I've just come back from the Dominican Republic and paid $30 tourist tax and there wasn't a murmur of complaint." Miquel Rosselló, regional spokesman for the United Left-Green Party accused "certain sectors of the hotel industry" of "selfishness and lack of solidarity" in pushing for the tax's suppression. Ex-tourism minister Celestí Alomar described the abolition as "a wasted opportunity".

Madrid: still waiting for the Reformation

On the occasion of a conference on ecological tax reform in Spain, this paper analyses the reasons why ecological tax reforms are so difficult to be set up in some European countries, and particularly in Spain and in Portugal.

[Anselm Görres, Chairman of Green Budget Germany] A conference of ecological tax reform in Spain's Ministry of Finance – for a long time, that seemed as likely as a congress on birth control in the Vatican. Several officials from the Ministry took part in the conference, but they were reluctant to wear the buttons we were passing out. "Tax Bads, not Goods" in black letters on a yellow background – not exactly the kind of thing to move you up the ministerial ladder. Overall, Spain has held rather stubborn positions under its current conservative government in a number of European debates, be it the Iraq war, the future EU constitution, or "just" environmental issues.

So I suppose we can be pleased that the Instituto de Estudios Fiscales of the Ministerio de Hacienda and the Institute for Fiscal Law at the largest University in Madrid, the prestigious Universidad Complutense, organized the event on "Energy Taxation and Sustainable Development" at all. In addition to the usual basic issues and concerns, the debate focused on the European energy tax directive and the upcoming emissions trading market. In light of the success of the conference, the Spanish deserve to be congratulated for their initiative and encouraged to continue the dialogue. After all, the Spanish government will not be able to get around having to fulfill the Kyoto criteria, and environmental tax reform could prove to be a pragmatic way of preventing CO_2 emissions.

Kurt Deketelaere, one of the organizers of the annual Global Conference of Environmental Taxation, has described the trials and tribulations of the European energy taxation directive (http://www.europarl.eu.int/meetdocs/committees/econ/20030707/ECON20030707.html). His conclusion: compared to the grandiose goals of the EU (polluter-pays principle, Kyoto objectives, etc.) or even to the previous proposals of 1992, 1995, and 1997, this directive is anything but an ecological breakthrough. The European Parliament justifiably criticizes the numerous exceptions ("a shopping list for almost every country"), especially for flights. The most important conclusion is that Europe will have to abandon the principle of unanimity if there is to be any progress in fiscal matters in the future. Indeed, the directive probably only came about at all because the accession countries are soon to be admitted to the Union. Unanimity with 25 members would probably have been impossible. Indeed, the quick introduction of environmental taxation among the ten new member states constitutes a major success for the directive that cannot be overstated.

Alberto Cornejo Pérez presented the official line of the Spanish Ministry of Finance. The Ministry principally rejects "ecotaxes" because the inelasticity of energy demand is held to be an immutable truth. In other words, the Spanish energy market is the only one in the world not to react to price signals. Tax increases will thus only lead to inflation, and who wants that? The assumption of inelastic energy demand was criticized as counterfactual and ideological in the discussions in Madrid.

It is thus hardly surprising that ecotaxes only make up 20 million euros of Spain's total tax revenue of 188,000 million. That amounts to one thousandth, compared to 16 percent of the total tax revenue in Germany (80,000 million of 420,000 million). As usual in conservative environmental policy, those who damage the environment a little less than the average receive subsidies in Spain.

The current prices for diesel and electricity are so low in Spain that the country is one of the few affected at all by the EU directive formally passed on October 27th. This blow is softened a bit by the long period of transition, which does not even start until 2006, and proceeds in very small steps after that.

Prof. Bokobo of the Autonomous University of Madrid investigated the modest approaches of regional ecotaxes in the 19 Spanish provinces. It is not always clear whether the motives were fiscal or ecological. The constitution of Spain leaves little leeway for the provinces to levy their own taxes.

One of the important roles that Madrid plays is its close connection to Latin America, which is why there were conference participants from Costa Rica and Panama. Gabriela González García of Costa Rica proposed that the current gasoline taxes be increased and taxes introduced on energy consumption and production. After all, Coast Rica has the greatest biodiversity in the world relative to its population (3.8 million).

Prof. Carlos Rosselló Moreno began his lecture with a confession of his love for cars and went on to expound upon a number of frightening inconsistencies and a great degree of hypocrisy among nations. For example, he explained that Germany was one of the few countries in the EU that does not have a levy on new cars because it is a major automobile manufacturing country, although such a tax would greatly affect the selection of car types by consumers. But the incredible increase in trucking in the past six years – a million just in Spain, 38 million in the whole EU – is also forcing passionate car drivers like Rosselló to act. The tenor of his message – nobody is perfect – may be comforting to those who need the failings of others to excuse their own, but we take it more as an incentive to increase our efforts at home.

Back in the 80s, Portugal shifted the focus of its taxation to indirect taxes. Despite the scarcity of energy, that arrangement makes it harder to introduce energy taxes, which would then also affect industry at least partially. Thus, according to Professor Claudia Soares of the Catholic University of Lisbon, energy efficiency is extremely low all over the country. Nevertheless, Portugal ranks surprisingly well in international comparisons of ecotax statistics, but only because car taxes make up such a large part of total tax revenue. In reality, neither general economic policy, nor the taxation of cars is heavily based on ecological criteria. One of the reasons for the low admittance of free enterprise environmental instruments is the attitude of the Greens in Portugal. They are still very strongly influenced by the communists and reject ecotaxes for allegedly affecting the poor inordinately. In Germany, interestingly enough, it was the ecotax debate that made the hippies among Germany's Greens into ardent followers of Adam Smith.

The initially very progressive ecotaxes in Holland started out in the opposite direction. At the beginning of the 90s, Holland had comparatively high direct taxes and low indirect taxes, combined with rising unemployment. With the support of the unions, a successful double-dividend campaign allowed for steps to be taken that required the courage of a pioneer – and brought Holland recognition all over Europe. Today, Victor Cramer – the ecotax expert at the Dutch Ministry of Finance – finds everything to be much more difficult. Major consumers of energy benefit from degressive tax rates down to zero as consumption increases. Ironically, greenhouses are exempt from the very taxes intended to prevent the greenhouse effect. Nature fights back by making the tomatoes from Dutch greenhouses taste so bad.

British ecotax researcher John Snape came to Madrid from the industrial town of Leeds to give an interesting speech on the special features of green tax legislation in Great Britain. As with transport, everything is different than on the continent: in no other European country does industry carry such a large part of the ecotax burden, and households so little. At the same time, road traffic is highly taxed. Perhaps all of this is possible because England lost almost all of its industry under Maggie Thatcher, and has no true automotive industry anyway.

Most of the Spanish participants at the conference felt that Spanish negotiating talent had once again enabled a breakthrough, this time with the ecotax directive. But in reality, Spain managed to make sure that countries with less energy taxation than itself – most of all, the accession countries – will not be able to compete with Spain without having to make more than marginal or purely superficial concessions.

When talk turned to emissions trading, Miguel Buñuel González found that praise was due mostly to the Commission for making this project a success – one that Germany by and large has not comprehended in its full implications. (It is probably nothing short of an historical wonder that the Kyoto Protocol, which has not even been completely ratified at the European level, has led to the creation of certificate trading, which will soon be made into national law though it has never been practiced in any member state – A.G.) A number of factors led to this success. Emissions trading was able to overcome the rule of unanimity as the decision was not made by the Council of Finance Ministers, but rather by the Council of Environmental Ministers. The national lobbies seem to be just as surprised by this upcoming instrument innovation as the native Americans were by the arrival of Columbus. In the end, experts from the political scene are coming to the hardly surprising conclusion that the one or the other industrial association will soon be harkening back to the days of ecotaxes, when you could still work out such great exceptions for industry. We always suspected that certificate trading was so popular among a lot of ecotax opponents because no one expected it to be implemented anytime soon. One disadvantage that certificates trading will have over the ecotax is that the certificates are very insecure when it comes to international monetary flows: will the Portuguese and Spanish be selling certificates to the Germans in five years, or vice versa? And will exporting nations then see the export of certificates as a welcome source of revenue, or as the sellout of their own industrial potential?

As Kurt Deketelaere added, the important thing is that Kyoto is not that important for us Europeans anymore. After all, we have decided to meet the Kyoto targets whether Russia signs on soon or not at all. At least at the level of European goals, we are not afraid of increasing energy efficiency. We know it will only benefit us, regardless of whether the others play along or not.

In her lecture in both English and Spanish, Ana Yábar Sterling analyzed the EU’s emissions trading scheme, which will take effect in 2006 for the 25 member states. In the past few months, a few points in the directive have been modified. In the first phase (2005-07), states will be able to auction off 5 percent of their rights; in the second (2008-12), 10 percent.

The national emission plans (NAPs), which members have to ratify and present to Brussels by the end of March 2004, must not contain any discrimination and have to offer information to market players and reward forerunners. The issues that still need to be resolved include a regulation for new emitters to the national market, the number of rights assigned to the national authorities for corrections, and the transfer of rights from closed businesses. To prevent double assignments, states will have to prove that they are in line with their Kyoto duties. Ms Sterling concluded that Spain still has a lot of work to do compared to Germany if it is going to fulfill its duties.

Austria: No agreement yet on ecopoints system for Austria

The European Parliament and Council delegations did not find an agreement on the proposal for freight transit through Austria. However, they should reach an accord on 25 November during a conciliation meeting.

[European Parliament, 12/11/03] No agreement was reached at Conciliation Committee meeting on the "ecopoints" system (the proposal for a regulation establishing a transitional transit system applicable for 2004 to heavy goods vehicles travelling through Austria). The Parliament and Council delegations did not even meet formally, as the Council failed to attend. Commissioner Loyola de Palacio told MEPs that the members of the Council delegation had been unable to reach agreement among themselves on the proposal.

For its part, the EP delegation felt that, before taking any decision, more facts and figures were needed on the exact number of ecopoints to be used by different categories of lorries, and in particular the Euro 3 category, for the period 2004-2006 (the scheme may be extended to 2005 and 2006). Mrs De Palacio promised that these details would be made available.

It was decided that the next and final Conciliation meeting would be held on Tuesday 25 November. EP Vice-President Renzo Imbeni (PES, I) and rapporteur Paolo Costa (ELDR, I) regretted that the meeting had not produced an agreement but were confident that this would happen on 25 November. The EP delegation will meet on 18 November in Strasbourg to prepare for the final Conciliation meeting.

You find further information here:
http://www.europarl.eu.int/press/index_publi_en.htm

Austria: Necessity, expenditure and results of substituting the production factor of resources by the production factor of labour

In this paper prepared for a lecture at the Liberal Academy, Hans Peter Aubauer presents a theory of market self-regulation pursuing ecological, global and social goals

[Hans Peter Aubauer, University of Vienna, 30/08/03] Natural resources have to be distributed justly between generations. This is the ecological goal. They also have to be divided justly between countries and their citizens. This is the global and the social goal. These goals have to be realised with a minimum of market intervention. This is the economic goal. These interventions are necessary to establish the self-regulation of the market via price differences for products and services. Self-regulation has to pursue the ecological, global and social goal by itself. For this purpose, prices must completely contain all costs that customers causes. However, the costs they currently do not pay are transferred as "external costs" to the current and future general public. These external costs are both positive and negative, and they can be extremely large. The external costs are incurred because one production factor (labour/knowledge) is far too expensive and another production factor (resources/energy) is far too cheap.

Resources are taken from their natural sources and stocks in high-grade quality (e.g. energy or materials) and given back to natural sinks in inferior quality (e.g. pollutants or waste). The area need to produce the products and service for a given population unit (city, state, etc.) is that area's "ecological footprint". To arrive at the ecological and global goal, the ecological footprint of a given area has to be gradually reduced. It can be shown that certificates can be useful to this end of reducing the size of the footprint. The social goal can be achieved by distributing the certificates uniformly among citizens; the economic goal, by trading them. Labour costs drop and wages grow as resource prices rise. Labour-intensive and knowledge-intensive products and services that become cheaper will replace resource-intensive ones, which will become more expensive. The partially very great positive and negative external costs will be internalised in prices. The average price level will remain nearly unchanged. The substitution of one production factor (resources/energy) by another (labour/knowledge) neither lowers gross national product nor prosperity. On the contrary, it can be shown in the case of suitable boundary conditions (replacing the origin country principle by the destination country principle) that a country may have competitive advantages if it is the only one to reduce its ecological footprint.

Read the whole article (in German): http://www.foes-ev.de/news25/artikelaubauer.html

Norway plans new energy tax system

In this text, Henrik Hasselknippe exposes the various difficulties that government and experts face in creating a new Norwegian energy tax system in harmony with European guidelines.

[Henrik Hasselknippe, Research Fellow, The Fridtjof Nansen Institute, Norway] According to Norway's draft budget for 2004, the current energy taxation system is to be replaced by a new electricity tax system for industry next year. This action follows investigations by the Efta Surveillance Authority (ESA) into whether the current tax exemptions for industry constitute state aid in violation of EU guidelines.

The Norwegian electricity tax system introduced exemptions for some energy-intensive industries as early as 1992, while industry as a whole was exempted started in 1994. The only commercial activity covered by the electricity tax system in the past few years has been the use of electricity in administration buildings. Following the introduction of new guidelines for environmental state aid in the EU in 2001, this differentiated regulation of the electricity tax has been the subject of much debate between Norway and ESA. Although not a member of the EU, Norway is bound by EEA/Efta agreements, including regulations concerning possible illegal state aid measures. As a result of these debates, and in particular the possibility that ESA rulings will require industry to make up for some of the indirect financial contributions they have received through their tax exemptions, the electricity tax will be removed for all production purposes from January 2004, leaving only the taxation on households. This corresponds to a loss of revenue of €173 mill (NOK1,350 mill) in the first half of 2004 and approximately €64 mill (NOK500 mill) in the second half. The tax is also removed for the public sector, but here the government is countering the loss of revenue through changes in the framework of the national budget and direct transfers to the municipalities.

Proposals for a new electricity tax system specifically designed to comply with EU regulations will be introduced in the revised 2004 budget with the initial aim of introducing the new system in July 2004. A special advisory group with representatives from business, academia, various governmental organisations and NGOs has been appointed to propose solutions for a new tax system, and their report should be delivered in March 2004.

In the meantime, the government is introducing measures to reduce electricity consumption and encourage more use of environment-friendly energy. Energy conservation measures have received somewhat of an upswing in Norway, in particular following last year's spikes in electricity prices. Transfers to the Energy Fund administered by the government agency Enova will total approximately €75 million in 2004 (NOK590 million), aiming to contribute to the "environmentally sound and rational use and production of energy". Nevertheless, the impact of these transfers on electricity consumption is likely to be diminished by market signals arising from expectedly high electricity prices.

However, several issues that will have to be taken into consideration for the design of a new system so that the tentative start-up date of July 2004 seems overly optimistic. First, any new system will have to be carefully designed to prevent new problems with ESA. Thus, any new system is likely to resemble, at least in part, the new EU Directive on Energy Taxation. In particular, the possibility for industry to have their electricity tax reduced, or even removed, as a result of entering into energy efficiency agreements is seen as a likely component of a new Norwegian electricity tax. The drawing up of such agreements, which will of course also have to be closely watched by ESA to ensure that they don't constitute illegal state aid, will take a substantially longer time than the government is currently signalling. In comparison, the design of the previous electricity tax system, with lengthy debates in the Norwegian parliament, lasted for about two and a half years.

A second consideration is its possible interaction with a greenhouse gas emissions trading system (ETS). The final plans for a Norwegian ETS, scheduled to enter into force from 2005, are expected in the first quarter of 2004, coinciding with the deadline for Member States' allocation plans under the EU ETS. It is important that the introduction of these two systems avoid any possible "double taxation" and that they be introduced as complementary measures rather than two more or less competing or conflicting instruments with the same ultimate aim.

Introducing these additional parameters into the equation strongly suggests that the redesigned Norwegian electricity tax system is still quite some way down the road, leaving January 2005 as a more likely date for its introduction.

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Denmark: Danish water tax with complex effects

This article describes the different approaches to the effects of the Danish water tax.

[Søren Dyck-Madsen (DEC), Virginie Barras (FÖS), 4/11/03] The Danish Environmental Protection Agency stated in a recent Press statement that there has been a strong correlation between the consumer price for water including the water tax and the efforts to save water in Denmark. The EPA concludes that this case shows that price signals do change habits positively. In the water case, we have seen a 40% reduction of water use in Denmark.

These water savings must be seen mainly as a result of a high Danish water price, which consists of four elements: The costs of processing and distributing the water, the price of the waste water treatment, the water tax and the VAT. For households, the water tax is added to the costs of processing and distribution and the costs for the treatment of the waste water, resulting in a very high price for consumers and hence in an incentive to save water. According to critics, the waste water treatment charges are high enough to give profitable incentives for water savings without a complementary tax. Considering that a green tax's aim should be to change consumer behaviour, some critics see the tanned water tax as more fiscal than ecological. The other problem is that the water tax is collected for all water use in households without respect to water shortages, generating protests in the parts of Denmark that do not suffer from water shortage. The third discussion about the water tax is that all its revenue goes into the state budget to cover general state expenditures, like most other Danish green taxes. Critics argue that at least some of the revenue should instead be used for additional environmental protection, specifically for ground water protection. To improve water savings, the Danish government should continue to inform citizens on ways to save water and encourage them to equip houses with water-saving toilets and water meters.

For industry, the water tax is reimbursed, but this do not mean that water savings has not been accomplished as the consumer price for water even without the water tax is sufficiently high to trigger water saving incentives. In one point the Danish water tax has been very effective triggering huge savings of water: waterworks. They have to pay the tax for lost water exceeding 10% of the water actually produced. For the waterworks the price for lost water from the pipes initially is very low, since it amounts only to the marginal costs of producing the water. By making them pay the water tax, the marginal price for lost water exceeding 10% almost rose six-fold, forcing the waterworks to pay a lot of attention of water savings and actually do a lot of repairing on the pipes.

You find further information here: http://www.ecp.wroc.pl/edu/01_05_30/drinking.html and http://www.mst.dk/udgiv/Publications/2002/87-7972-025-0/html/kap17_eng.htm

Implementation of energy taxation directive within the ecologic tax reform - focus on the Czech Republic.

The Czech Government has been working on a revenue-neutral ecological tax reform since Summer 2002. As a country acceding to Europe, Czech Republic must now also apply the new European energy taxation directive.

[Milan Šcasný, Charles University Environment Center, Czech Republic, 17/11/03] The almost endless debate on an energy taxation Directive within the European Union has finally stopped - at least for a few days or years, one should add. The *Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity* was approved on 27 October 2003. The Directive sets a minimum for tax rates on energy products used as propellants or heating fuel and on electricity and requires each Member State to implement them by 1 January 2004. Every acceding country will have to implement the Directive by 1 May 2004, the day of full EU membership. Although the fiscal arrangements made in connection with the implementation of this Community framework are a matter for each Member State to decide, according to point 11 of the Preamble *"Member State might decide not to increase the overall tax burden if they consider that the implementation of such a principle of tax neutrality could contribute to the restructuring and the modernisation of their tax systems by encouraging behaviour conductive to greater protection of the environment and increased labour use"*, which means that the energy taxes can be and should be implemented via the ecologic tax reform introduction while the particular economy suffers from high unemployment.

Ecologic Tax Reform in the Czech Republic: The Coalition Agreement and the Government Agreement signed in Summer 2002 explicitly included a commitment of the Czech Government to start without any delay to work on the preparation of a revenue-neutral ecologic tax reform. The interministerial working group on Ecologic Tax Reform (hereafter "ETR") was established in January 2003. This group is preparing the concept and proposal of ETR. An external research team has been contracted by the Ministry of the Environment to consult the group and provide proposal on the ETR design as well as to assess the impacts involved by ETR introduction in the Czech Republic. The concept of ETR should be prepared and presented to the Czech Government by the Czech Ministry of the Environment in collaboration with the Czech Ministry of Finance within the second quarter of 2004 (according to the Governmental Decree No. 639 from 30 June 2003), and relevant acts should be prepared by the end of 2004.

Meanwhile, several Act proposals and Act amendments that have a connection to ETR were discussed and approved by the Czech Government and Parliament as the main parts of Public Finance Reform. The new Act on Excise Tax and the Act on VAT are two of the most important ones. The Ministry of Industry and Trade has prepared the proposal on Energy Policy that includes six variants. However none of them includes ETR. In parallel, the Ministry of the Environment has prepared the version 7, the Active Policy on Climate Protection. This version includes the ETR as one of the main tools. The Ministry of the Environment has also worked out a proposal to support electricity and heat production from renewable energy resources. All of these variants and proposals are currently being discussed within the Government, and we can expect results very soon.

Implementation of the Directive on Taxation on energy products and electricity:

The Czech Government and Ministry of Finance in particular had already chosen the excise tax on mineral oil in the end of 2002 as the best resource and the mineral oils as the most appropriate tax base to get additional revenue of state budget to decrease the budget deficit and unsustainable state of all public finance (the first proposal on public finance reform was prepared in December 2002). The Directive proposal was discussed within the ETR working group in parallel. As the result, the excise tax rates on the most of tax bases were already defined within the new Act on Excise Tax No. 353/2003 above the minimum level required by the European Commission. These rates will be in force from 1 January 2004. Hence, the implementation of the Directive does not present any problem for motor fuels and oil in the Czech Republic. However, there are two exemptions. Although the natural gas is included as a tax base within the Act, the tax rate for natural gas used for heat production is zero, nor are electricity and solid fuels - coal and coke - taxed. The absence of relevant taxation for these products within the Czech law seems to be bigger problem for implementation than the rates themselves. Especially if one considers that the Czech Government is looking to find additional revenue to lower continuously growing state budget deficits and public debt. A comparison of Czech rates for 2004 and EU minimum rates are shown in following tables.

Table: Comparison of EU and Czech excise tax rates.

PRODUCT	2003/96/EC	Rates in the Czech Rep., 2004 in CZK	in €	difference in €
Motor fuels				
Unleaded petrol per 1000 litres	359	11 840	371	12
Leaded petrol per 1000 litres	421	13 710	430	9
Gas oil (diesel) per 1000 litres	302	9 950	312	10
Bio-fuels (69% of diesel in the CR)	0 to 302	6 866	215	
LPG per 1000 kg	125	3 933	123	-2
- special use	41	1 290	40	-1
Kerosin per 1000 l	302	9 950	312	10
Natural gas per GJ	2.6	3 350	105 per t	-0.40
- special use	0.3	387	12 per t	-0.05
Heating fuels				
Gas oil per 1000 litres	21	660	21	-0.3
Heavy fuel oil, 1% sulph./1000 kg	15	472	15	-0.2
Kerosin per 1000 l	0	0	0	0
LPG per 1000 kg	0	0	0	0
Natural gas in GJ (EU), t (CR)	0.30 / 0.15	0	0	-0.3
Coal and coke per GJ	0.30 / 0.15	-	-	-0.3
Electricity per MWh	1.0 / 0.5	-	-	-1.0

Notes: “Special use” as defined in Article 8(2) Proposal Directive 8084/03 (EC 2003). The EU’s minimum tax rate on diesel and kerosene will be 330 € starting on 1 January 2010. There are dual tax rates on natural gas, solid fuels and electricity used as a heating fuel in non-businesses (households) and the business sector, respectively, in the EC proposal. Leaded petrol cannot be used in practice in the Czech Republic. The exchange rate from 1 October 2003 is applied; 31.89 CZK/€. * Special rate applied for agriculture (“green diesel”) is reported for Czech rate.

Conclusions – how to implement the Directive: The Czech Government – like every other government of the acceding countries - is currently preparing for a possible request for the transitional periods to implement the Directive for the European Commission. The final opinion should be finalised and sent to the European Commission no later than three months after the Directive has been issued. The Czech Government is now discussing the possible transitional period of about 3 - 4 years only for gas used for heat, electricity and solid fuels; the reason is described above.

My conclusions could be as follows: The Directive should be implemented within the ETR so the economy can benefit from cutting other taxes, especially ones that can lead to a modernisation of the tax system by encouraging employment. If the acceding country asks for the transitional period, the effect on relative prices of substitutes should be carefully considered. For instance, if the country wishes to postpone the introduction of tax on coal, a postponement of the introduction of a tax on natural gas used for heat production should be considered. The transitional period should consider the time necessary for technical and administrative arrangements related to the implementation of requirements, especially if a particular tax has not existed in law up to now, but the period should not be unreasonably longer. We will see in coming two months how each acceding country will address the issue.

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Hungarian greens protest against the 2004 state budget plans

Hungarian environmental NGOs mobilize themselves against reduction of state support for public transport associated to the increase of rate of the motorway construction program.

[Andras Lukacs, Clean Air Action Group, 12/11/03] On the 28th of October, 17 Hungarian environmental NGOs, including the Clean Air Action Group, the National Society of Conservationists, WWF Hungary and BirdLife Hungary held a demonstration before the Hungarian Parliament. The environmentalists handed over a petition addressed to Prime Minister Peter Medgyessy in which they protested against the financial restrictions seriously affecting the environment. They expressed their concern about the reduction of state support for railways and public transport and about the acceleration of the motorway construction program. They asked for modification of the State Budget Bill for 2004 now being discussed by the Parliament. The petition was handed over to State Secretary Tamas Katona, who promised that these demands will be considered by the government.

Pictures about the demonstration can be seen at: http://www.levego.hu/sajto/2003/Kolts_tuntetes_kepek.htm

Green success in Hungary

On the 27 October 2003, the Committee on the Budget and Finances of the Hungarian Parliament held its first discussion on the State Budget Bill for 2004. After presentations by the Finance Minister, Csaba Laszlo, and several members of the Parliament, the President of the Clean Air Action Group (CAAG), Andras Lukacs, made a 10-minute speech about the advantages of an environmental fiscal reform and about CAAG's concrete proposals for next year's state budget. At the same time, CAAG's 334-page study and 12-page brochure on EFR was distributed to all participants. The Chairman of the Committee, Mihaly Varga, highly appraised CAAG's work, and during the further discussion several speakers, including the Finance Minister, referred to CAAG's proposals.

Hungary: Changes in the Hungarian taxation system

The Hungarian Parliament has introduced several new environmental taxes on air, water and soil pollution. Even though the main purpose of those new taxes is to increase revenue for the state budget, the Clean Air Action Group greeted this decision.

[Andras Lukacs, Clean Air Action Group, 12/11/03] The Hungarian Parliament approved several modifications of the tax system that environmental organizations have been demanding for many years. Although these modifications were decided upon mainly because of the budgetary needs of the state and the requirements of the European Union rather than due to environmental concerns, the Clean Air Action Group greeted them as a serious step in the right direction. The Parliament introduced an environmental load fee on air, water and soil pollution. A new energy tax was introduced in accordance with the EU directive, but it will be 40% higher than required by the directive. The VAT on electricity was raised from 12% to 25%, the annual car tax was raised by more than 20%, and the tax on company cars by 100%. A 25% VAT was introduced for construction areas (until now no VAT existed for them), which might help stimulate the renovation of old buildings instead of construction in green areas. A new type of registration tax was also introduced that disfavours the buying of old cars. Personal income tax was reduced, though its positive effects are neutralized by an increase in the social security tax. There is also a very negative result of all the positive changes: the extra revenues will be used to build new motorways.

Poland: Environmentally harmful subsidies in the Polish fiscal system

This paper summarizes the main points of the Polish system of subsidies on energy installed during the transition period. It explains why these subsidies, which concern enterprises as well as households, are destructive for the environment, and why it is so hard to get rid of them.

[Wojciech Stodulski, ISD, 12/11/03] There are not a lot of environmentally harmful subsidies in the current Polish fiscal system. However, such subsidies are remainders of transient systemic solutions used during the period of transformation. Nowadays, subsidies could be reduced to favour the development of environmental friendly technologies and products and to support programs that promote innovations in environmentally sensitive sectors of economy, *e.g.* energy, industry, transport and agriculture.

About 70% of the energy used in economy, transport and municipal sectors in Poland is produced with hard coal and lignite. It is supposed that not only the supply side of the energy sector, such as producing, transferring, distributing and selling energy, but also the demand side, such as final user consumption, is to some extent subsidized. Energy subsidies limit the efficiency of energy conservation undertaken by businesses, budgetary entities and households, as well as limiting the rational use of motor fuels, electrical and heat energy in those sectors. Despite many attempts to eliminate such subsidies from sectors intensively using motor fuels and energy carriers, we have not succeeded up to now.

The subsidies used in Polish fiscal system are usually the following ones:

- Subsidies and preferential conditions for loans and credits for investments in real assets, tax exemptions and tax reductions which are formal because they were included in existing law
- Exempting commercial entities performing environmental harmful or burdensome activities from environmental liabilities; usually a subjective process and occasionally decided by the representatives of governmental agencies and bodies
- Concessions for non-compliance with obligatory environmental regulations and failure to pay charges based on current informal decisions of environmental authorities
- Subsidies for housing and households and enterprises connected to electrical energy and heat pricing (lower rates and prices because of social and political requirements and against the environmental and social equity principle).

At the same time, the government intends to implement transparent principles for subsidies of environmental goals through direct grants or indirect preferences in loans and credits as well as through fiscal preferences supporting the development of environmentally friendly manufacturing processes and products.

The energy sector in Poland takes advantages of subsidies for producers and users of energy in Poland. The subsidies used are implemented in the following forms:

- guarantees of the state budget for credits taken by energy utilities in commercial banks for co-financing of the modernization and environmental restructuring of the business
- preferential interest rates for any loans taken by energy utilities in public finance institutions or in commercial banks
- preferential tax rates for some fuels, raw energy resources, energy carriers used in indirect taxes *e.g.* VAT
- non-use of excises for some energy products
- subsidies of hard coal exports and realising coal mines of the debt against the State Treasury, self-governments, insurance funds and environmental funds
- acceptance of non-compliance by coal mines and energy entities with mandatory environmental standards (suspensions and postponement of payments of environmental fines) as well as unsatisfactory performance of environmental liabilities (tolerance for the inadequate extent and intensity of environmental activities by selected enterprises and delays in the implementation of the environmental law of the EU
- regulation of energy tariffs and prices for final users in housing, the budgetary sector and

big state-owned enterprises according to social and political, but not commercial criteria (not covering all operational, investment and external environmental costs)

- subsidizing the motor fuels used by farmers.

There are some destructive effects from subsidizing energy carriers and electrical energy and heat in Poland:

- pushing out commercial banks and other financial institutions from the environmental capital market
- weak impact of fiscal instruments on the conservation and rational use of energy by producers and final users
- maintaining the economically inefficient and environmentally harmful structure of energy use in the economy and in households
- costs savings because of tolerance for delayed and only partly complying of environmental liabilities
- non-regarding of environmental requirements by the commercial entities
- weak incentives for taking decisions about energy saving and using more environment friendly fuels and energy products by final users.

In the Third National Environmental Policy (the National Environmental Policy for 2003 – 2006 with perspectives for 2007 – 2010), the Polish government declared a total elimination of existing hidden and formal subsidies for fuels and energy carriers in a period of few years:

- in 2003 – 2006, identification of areas and scale of occurrence of different forms of fuel and energy subsidies; assessment of distribution effects for different fuels and energy users;
- in 2007 – 2010, final elimination of environment harmful subsidies for fuels and energy in energy, agriculture and transport sectors.

4. GREEN BUDGET REFORM WORLDWIDE

Canada: Vast Canadian expanses fuel wind-power push

The Canadian wind power industry counts on the exploitation of the winds that blow across the province of Saskatchewan to increase its production.

[Reuters News Service, 15/09/2003] The Canadian Prairie province of Saskatchewan plans to take exploit the relentless winds that howl across its vast, flat wheat fields, giving a boost to Canada's fledgling wind power industry. Provincially owned utility SaskPower said this week it will add 150 megawatts of wind power over the next four years to its current capacity of 22 MW capacity, with help from Alberta's ATCO Power ACOx.TO .

"No matter what the season is, we are a windy province," said Larry Christie, a spokesman for SaskPower, noting the consistently brisk winds are ideal for generating power.

Generations of Saskatchewan farmers have used windmills to pump water for cattle, providing some relief to an otherwise flat skyline. The sight of SaskPower's 13-storey turbines on the horizon often cause people to pull off the highway for a closer look, Christie said. "We've been dealing with the wind for a long time in this province, and I think people think it's a great idea," Christie said.

The southwest corner of Alberta, home to Canada's largest wind farm, is a particularly windy spot because of the velocity winds gain coming over the Rocky Mountains, said David Phillips, senior climatologist with Environment Canada. "All the wind just swooshes down and through the Prairies," Phillips said, noting Canada's coastlines are also very windy.

Despite this gusty abundance, Canada currently produces only 312 MW of wind power, or less than 1 percent of its energy requirements, leaving the country blown away by world leader Germany, which produces 12,000 MW, according to the Canadian Wind Energy Association.

"There's a growing momentum occurring, but we're still moving more slowly than many other countries," said Robert Hornung, the lobby group's executive director. Canada is also known for its rich fossil-fuel and hydroelectric resources, making capital-intensive wind energy a more expensive choice. But the country, as a signatory to the Kioto protocol on climate change, has also promised to reduce greenhouse gas emissions by 2010, and harnessing wind power is an attractive way to help accomplish that goal, Hornung said. The wind energy association wants the federal government to commit to a goal of 10,000 MW of wind power by 2010, or 5 percent of Canada's requirements, and to provide subsidies and mandated wind power use to help the industry compete with cheaper power sources, he said.

Some critics take another approach, saying Canada should have stricter air pollution laws, which would raise the costs of traditional power producers, making wind power more attractive without subsidies.

"I would prefer to get renewables into the generation business as a result of simply being as tough as we think is appropriate on the air emissions from fossil fuel generation," said Don Dewees, an environmental economist at the University of Toronto.

You find other information here:
http://www.saskpower.com

New Zealand: Farm Tax ruled out

[The New Zealand Herald, 23/10/03] New Zealand government ministers and farm sector leaders have announced they are close to agreement on a formula that will avert any need for the controversial levy on farmers to fund research on animals' emissions of greenhouse gases by burping (misleadingly labelled the "F-A-R-T tax", Farmers Against the Ridiculous Taxes, by farmers who demonstrated nationwide against the levy). Inquiries have shown research already funded by farmers can cover this issue.

You find here further information:
http://www.climatechange.govt.nz and
http://www.nzherald.co.nz/pdf/climatepolicy.pdf

USA: Institutional resistance to environmental taxation in the United States

In this article, Richard Westin analyses the reasons why it is so hard to introduce environmental taxation in the USA. The political importance of organisations or associations such as Texaco might be the first cause, but also citizens´ lack of understanding about environmental taxation's real purpose and the unpopularity of levies in general.

[Richard Westin, University of Kentucky, Lexington, USA] The United States is an old democracy that has accumulated a lot of bad institutional habits. It is a difficult political system to penetrate, so it is not easy to rank the factors that have made to progress of environmental taxation so poor in this country. However, one can identify at least the following factors.

1. The campaign finance laws. Since 1907, federal law has prohibited corporations from contributing any money to federal campaigns and a prohibition on labour union funds has existed since the 1940s. Federal law also limits an individual to contributing not over than $1,000 to a federal candidate per election, and not over $20,000 to a political party each year. The parties in turn spend their money on activities that affect federal campaigns. To evade these "hard money" restrictions, "soft money" individuals, corporations, unions or others to designated "non-federal" make contributions to accounts established for the national political parties. In a landmark 1976 decision, the Supreme Court protected soft money contributions from being restricted, on the theory that such funds allow "speech." (The case name is Buckley v. Valeo.) Many consider the decision ludicrous and consider what is really protected is purchasing political influence.

The soft money loophole permits interested persons to wage swift and powerful wars on ideas they oppose. A common use is to support advertising campaigns that support particular candidates in what appear to be efforts not tied to the actions of the political party. Recently enacted legislation attempts to put a stop to soft money, but the new law may invalidated by the courts, if Buckley v. Valeo is applied as controlling legal precedent. To put it bluntly, legislators chase soft money constantly, which exposes them to supporting the ideas of the largest contributors.

Contributions by environmental organizations are modest compared to the massive funds that corporations and associations contribute. Texaco and El Paso Energy Corp., for example, are among the largest donors of soft money. The list of major donors on the Common Cause Website (http://www.commoncause.org/laundromat/stat/topdonors01.htm) reporting on the 2001-2002 data (the latest they have) reveals no environmental group made the list of major contributors. That makes them a weak voice in the harsh world of politics.

2. Lack of public understanding. The concept of environmental taxes is just not part of the American vocabulary. Environmental organizations are often powerful forces at the local level with respect to such things as restricting unwanted development, or at the national level working for clean air, water and protection of endangered species, but they have done virtually nothing to advance the concept of environmental taxation. There are a few exceptions, such as Resources for the Future in Washington, but event their intelligent and well-placed voice is almost never heard on this subject.

3. Taxes as anathema. Taxes are simply unpopular. The tendency in the last 20 years or so has been to bash taxes as a means of becoming politically popular. It has worked well for George Bush and worked very well for Ronald Reagan. When Democrat suggest that taxes should be raised, they are denounced as a "tax and spend" people. Democrats focus instead on the inequity of recent tax cuts, which is politically shrewd. They do not venture into the terra incognita of different forms of taxation. This aversion to taxes blends with the mantra that the US has to be more internationally competitive and that to do so it needs to cut its taxes on business. International competitiveness is a virtual mantra in Congress.

There are some bright spots. There have been local initiatives that have worked well, and Oregon seems open to using environmental taxes and appears ready to fund a serious study of a major changes in the favour a "tax shift." In addition, there is pressure form industry to replace the federal corporate tax with a VAT or national sales tax whose features would improve US international competitiveness. It is conceivable that such a change would open the door to appending green taxes to the new system. It certainly creates an opportunity for industry to invite environmental groups into their alliance (for political help), in exchange for which their might be a commitment to green taxation. At the moment, however, this is just a romantic speculation.

You can find Westin's other publications on: http://www.uky.edu/Law/faculty/westin.htm

The End of the Oil Age

British news weekly The Economist calls for the inclusion of external costs in fossil fuel prices to help shift consumption towards renewables.

[The Economist, 23/10/03] Finally, advances in technology are beginning to offer a way for economies, especially those of the developed world, to diversify their supplies of energy and reduce their demand for petroleum, thus loosening the grip of oil and the countries that produce it. Hydrogen fuel cells and other ways of storing and distributing energy are no longer a distant dream but a foreseeable reality. Switching to these new methods will not be easy, or all that cheap, especially in transport, but with the right policies it can be made both possible and economically advantageous. Unfortunately, many of the rich world's governments – and above all the government of America, the world's biggest oil consumer – are reluctant to adopt these measures, though they would be worthy on several levels: economic, political (end of the addiction to the OPEC) and environmental. Yet hydrogen fuel cells could become a viable alternative to oil. These are big batteries that run cleanly for as long as hydrogen is supplied, and which might power anything in or around your home – notably, your car. Hydrogen is a fuel that, like electricity, can be made from a variety of sources: fossil fuels such as coal and natural gas, renewables, even nuclear power. Every big car maker now has a fuel-cell programme, and every big oil firm is busy investigating how best to feed these new cars their hydrogen. Another alternative likely to become available in a few years is "bioethanol". Many cars already run on a mixture of petrol and ethanol. The problem here is cost. At the moment, the ethanol has to be heavily subsidised. But that might alter when biotechnology delivers new enzymes that can make ethanol efficiently from just about any sort of plant material. Then, the only limit will be how much plant material is available.

Such changes will not occur overnight. It will take a decade or two before either fuel cells or bioethanol make a significant dent in the oil economy. Still, they represent the first serious challenges to petrol in a century. If hydrogen were made from renewable energy (or if the carbon dioxide generated by making it from fossil fuels were sequestered underground), then the cars and power plants of the future would release no local pollution or greenhouse gases. Because bioethanol is made from plants, it merely "borrows" its carbon from the atmosphere, so cannot add to global warming. What is more, because hydrogen can be made in a geographically distributed fashion, by any producer anywhere, no OPEC cartel or would-be successor to it could ever manipulate the supplies or the price. There need never be another war over energy. It all sounds very fine. What then is the best way to speed things up? Unfortunately, not through the approach currently advocated by President George Bush and America's Congress, which this week has been haggling over a new energy bill. America's leaders are still concerning themselves almost exclusively with increasing the supply of oil, rather than with curbing the demand for it while increasing the supply of alternatives. Some encouragement for new technologies is proposed, but it will have little effect: bigger subsidies for research are unlikely to spur innovation in industries with hundreds of billions of dollars in fossil-fuel assets. The best way to curb the demand for oil and promote innovation in oil alternatives is to tell the world's energy markets that the "externalities" of oil consumption – security considerations and environmental issues alike – really will influence policy from now on. And the way to do that is to impose a gradually rising gasoline tax. By introducing a small but steadily rising tax on petrol, America would do far more to encourage innovation and improve energy security than all the drilling in Alaska's wilderness. Crucially, this need not be, and should not be, a matter of raising taxes in the aggregate. The proceeds from a gasoline tax ought to be used to finance cuts in other taxes - this, surely, is the way to present them to a sceptical electorate. Judging by the debate going on in Washington, a policy of this kind is a distant prospect.

http://www.economist.com/printedition/displaystory.cfm?Story_ID=2155717

Discussions about an environmental tax-reform in Brazil

The Ministry of Finance has proposed to connect economic and environmental issues in the constitution as an environmental tax-reform. But the proposal has met with a lot of criticism.

[Henriette Gupfinger, ÖGUT, 4/11/03] The Brazilian constitution permits the different states of Brazil to decide about certain parts of the tax systems on their own. In the last few years, some states have started a tax reform with certain environmental issues. With Marina Silva, a former environmental and political activist, as Minister for Environmental Issues, the interest in an environmental tax reform rose during the last year. In August 2003, a paper (environmental tax and tax reform), was published under the name of the Ministry of Finance, which opened the discussion of changing the constitution as part of an environmental tax reform. One of the proposals is to connect economic and environmental issues in the constitution. The plan met with a lot of criticism. In the meantime, parts of civil society have organised a website to inform the population about the project. More than anything else, the site is used as a campaign tool. The members include Greenpeace, WWF, Friends of Earth and many more. Those organisations state that merely connecting economy and environment is by no means sufficient and will not change anything for the better if no further actions ensue. Part of the NGOs' campaign is mass mailing to the Minster of Finance, Antonio Palocci. The letter says that any tax reform has to further sustainable development. Therefore, environmental tax reform should also lower expenses for salaries. The critics mostly bemoan the lack of understanding of the necessity of sustainable development in the document.

You find further information here: http://www.reformatributariasustentavel.org/

Mexico: Senator makes proposal for an environmental tax reform

As NGOs and political institutions press the Mexican government to plan an environmental tax reform, a Green senator draws the lines of a fiscal reform bound with sustainable development and asks for general citizen cooperation.

[Henriette Gupfinger, ÖGUT, 4/11/03] Just like in Europe, discussions about environmental taxes have also become an important topic in Latin America. In Mexico, for example, NGOs and different political institutions are clearly asking the Mexican government to think about an environmental tax reform. On September 1st, the Green Ecologist Party (Partido Verde Ecologista de México) and its head, senator Jorge Emilio González Martínez made a more or less concrete proposal to the Congress, saying that any reform should have a connection to sustainable development. The government should – the Greens say – invest in renewable energy as the supplies of Mexican petrol might diminish within the next 20 years. A fiscal reform should not only help to invest into new technologies for new energy systems, but provide the Mexican state with enough money to protect the environment, such as the typical forests of the region. The proposal goes even further, saying

that fiscal reform is not sufficient on its own. Science and education are supposed to work together to educate and inform the Mexican people. The economy, the Green Party states, needs to be held responsible for its actions. Finally, farmers – the protectors of nature – should help the government find good solutions. The proposal calls on president Fox to use part of the money from the environmental tax reform to found and/or support special environmental institutions. The proposal ends with the words: "We have not come here today to declare someone guilty (...), but to offer solutions and work together for Mexico."
For more information see: http://www.pvem.org.mx

5. LETTERS TO THE EDITOR

"Dear FÖS team, this material is very interesting. Ecologic has been commissioned by the NZ Business Council for Sustainable Development to prepare a report advocating "Economic Incentives for Sustainable Development" which is intended to include eco-taxes and market-based instruments. Unfortunately, we missed attending the Hamilton conference earlier this year, and from your paper there, some interesting political lessons may be drawn. I was wondering however, what was the "5 DM debate" in Germany, and why was this a mistake? Yours sincerely, Guy Salmon"

"Dr. Mr. Salmon, thank you for your mail and your praise of our material. In 1998, the German Greens demanded that gas prices to be raised to 5 DM per litre (around 2.57 euros, an increase of some 250%) in the long run. Why was 5 DM a mistake? The obvious damage was that of course all of their adversaries treated this as a short-term demand and raised hell against the Greens as cruel tormenters of innocent German drivers. But the more fundamental mistake was overlooked even by most protagonists of green taxes. We should never give the impression that fighting for "ecologically honest prices" means fighting for permanent increases from here to eternity. All we need to do is reach the switching price level, where harmless energy becomes competitive with harmful energy. This switching level of course is not one sharp point, but rather a price range. At the lower level of this range, consumers whose switching costs are lowest and whose flexibility is highest will convert to renewable energy. At the top end, switching will be profitable for most consumers and applications, and there will be no need for further price increases. Best regards, Anselm Görres"

6. EVENTS

06. - 12.12.2003 at COP9, Milano: Strategy workshop

By the WWF European Policy Office (WWF-EPO), NGO Strategy Workshops on EU-25 Energy and Climate Policy after 2004.

The strategy workshop during the Conference of Parties 9 of the United Nations Framework Convention on Climate Change (UNFCCC) is meant to highlight the international dimensions of future EU-25 networking. The EU plays a crucial role in the international climate debate and negotiations. We therefore need a strong EU-25 NGO network to ensure proper EU leadership post-2004 and in the 2nd commitment period. Our COP9 workshop will thus consist of input on the UN-FCCC process and current scientific findings as well as on NGO strategy and activities. This way, we want to introduce new people into the international climate process and to have experienced NGO representatives meet to discuss strategies and prepare for the new phase of the international process.

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mailto:Kathrin.Gutmann@gmx.de

30.05.-31.05.2004, Bonn, Bundeskunsthalle: Global Benefits and Policies

Organizer: EUROSOLAR, WCRE The World Council for Renewable Energy (WCRE) announces: the second "World Renewable Energy Forum: Global Benefits and Policies" will take place May, 30-31, 2004 in Bonn/Germany. The Forum will be organized by EUROSOLAR. The date of

this World Renewable Energy Forum is linked to the International governmental Conference for Renewable Energies, organized by the German government, June,1-4, 2004 in Bonn.
Before this International Conference, the World Forum will address the proposals of international NGOs in the field of Renewable Energy. The WCRE will present an Earth Charter for Renewable Energies at its Forum and discuss it with all non-governmental promoters of Renewable Energies.
Further information: http://www.wcre.org and http://www.eurosolar.org

11.-12.06.2004, Bonn: Renewable Energy – International Conference For Renewable Energies

On 11 and 12 June 2004 Germany will be hosting the International Conference for Renewable Energies. The Conference was announced by the Federal Chancellor Gerhard Schröder at the World Summit on Sustainable Development in Johannesburg in September 2002. More information can be found on the website: http://www.renewables2004.de

7. LINKS AND PUBLICATIONS

Newsletters about ecological subjects

Here are different newspapers which deal with environment that you can consult:

- *Ends Environment Daily*: This news service delivers European environmental news everyday. You can also read recent issues and weekly summaries. http://www.environmentdaily.com/articles/
- *Planet Ark*: This news service gives you up to 40 'World Environment News' stories every day from the Reuters news agency: http://www.planetark.org/index.cfm
- *Point Carbon*: This website gives you access to *Carbon Market News*, a free daily news service on the global carbon market, and on *CDM Monitor*, a monthly coverage of the CDM markets: http://www.pointcarbon.com
- *Japan for sustainability newsletter*: This non-profit communication platform disseminates environmental information from Japan to the world, with the aim of helping both move onto a sustainable path: http://www.japanfs.org/en/newsletter/
- *Eceee News*: Published by the European Council for an Energy Efficient Economy, this newsletter informs of energy efficiency and energy policy in Europe : http://www.eceee.org/latest_news/index.lasso
- *Pricing Urban Transport*: This newsletter is produced by the European Union research project MC-ICAM. Its purpose is to present the role of marginal cost pricing and the incremental costs of transport systems: operating, maintenance, safety and environmental costs. It describes different progress in road pricing worldwide : http://www.mcicam.net/MCICAM-news.pdf
- *Subsidy Watch:* Subsidy Watch contains information on the latest publications on subsidies from around the world, including newspaper articles, academic and government publications, and other English-language sources : http://www.iisd.org/subsidywatch/
- *EEB Newsletter: Metamorphosis* is the European Environmental Bureau's newsletter. It is published 5 times a year and is distributed free of charge to EEB members, a wide range of interested Environmental NGOs, the Press, EU and National Officials, MEPs, Permanent representations and private persons. To submit or consult it online, see : http://www.eeb.org/publication/general.htm

Making prices work for the environment

This new publication describes the EU state of play regarding EFR and proposes ways of moving forward. It explores ways to make progress after the disappointing agreement of 20-03-03 on the EU energy taxation directive. Options for policy progress include extending of qualified majority voting in the taxation area, enhanced cooperation, or action at national level.
Please order copies to: mailto:secretariat@eeb.org
Or download at: http://www.ecotax.info or http://www.eeb.org (in publications)

Worldwide fuel tax overview

This 3rd edition of the GTZ book presents International Fuel Prices in 165 countries in the world, including details on taxation, state financing out of Fuel Taxes, "windfall profits", smuggling etc. The 8 pages of Contents and the Executive Summary are annexed. The full version of 114 pages and 4 MB may be downloaded from http://www.zietlow.com/docs/engdocs.htm

Those who cannot download 4MB may order the full version on a CD-ROM from:

Dr. Gerhard METSCHIES, Senior Transport Advisor, GTZ GmbH, 4413 Transport and Mobility, P.O. Box 5180, 65726 Eschborn/ GERMANY, Tel. ++49 - 6196 - 79 – 1354, Fax ++49 - 6196 - 79 - 80 -1354

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USA : Study Finds Net Gain From Pollution Rules

A report by the Office of Management and Budget concludes that the enforced tough new clean-air regulations had yielded during the last decade five to seven times more benefits in the health and social fields than its costs of complying with the rules. This report could reinforce the work of environmentalists, when Bush administration seems tempted to move away from clean-air regulations and safeguards.

[Eric Pianin, Washington Post, 27/09/03] A new White House study concludes that environmental regulations are well worth the costs they impose on industry and consumers, resulting in significant public health improvements and other benefits to society. The findings overturn a previous report that officials now say was defective.

The report, issued this month by the Office of Management and Budget, concludes that the health and social benefits of enforcing tough new clean-air regulations during the past decade were five to seven times greater in economic terms than were the costs of complying with the rules. The value of reductions in hospitalization and emergency room visits, premature deaths and lost workdays resulting from improved air quality were estimated between $120 billion and $193 billion from October 1992 to September 2002.

By comparison, industry, states and municipalities spent an estimated $23 billion to $26 billion to retrofit plants and facilities and make other changes to comply with new clean-air standards, which are designed to sharply reduce sulfur dioxide, fine-particle emissions and other health-threatening pollutants.

The report provides the most comprehensive federal study ever of the cost and benefits of regulatory decision-making. It has pleasantly surprised some environmentalists who doubted the Bush administration would champion the benefits of government regulations, and fuelled arguments that the White House should continue pushing clean-air standards rather than trying to weaken some.

"I'm sure the true believers in the Bush administration will brand this report as true heresy because it defies the stereotype of burdensome, worthless regulations," Sen. Richard J. Durbin (D-Ill.) said yesterday. "They clearly don't understand that the government regulations are there to protect you -- and they work."

John D. Graham, director of OMB's Office of Information and Regulatory Affairs, which produced the study, said: "Our role at OMB is to report the best available estimates of benefits and costs, regardless of whether the information favours one advocacy group or another. In this case the data show that the Environmental Protection Agency's clean-air office has issued some highly beneficial rules."

But an industry official said the report may have greatly understated the costs associated with environmental regulations. Jeffrey Marks, a clean-air policy expert with the National Association of Manufacturers, said EPA "has traditionally underestimated the costs of regulations on industry. . . . The tendency to choose benefit numbers to correspond to favourable policy choices is strong within the agency."

The findings are more startling because a similar OMB report last year concluded that the cost of compliance with a given set of regulations was roughly comparable to the public benefits. OMB now says it had erred last year by vastly understating the benefits of EPA's rules establishing national ambient air quality standards for ozone and for particulate matter – a major factor in upper respiratory, heart and lung disorders. Also, last year's report covered the previous six years and did not account for the beneficial effects of the 1990 amendments to the Clean Air Act that sharply reduced the problem of acid rain.

Many environmentalists had initially expressed fears that Graham, founder of a Harvard University-based risk analysis institute, would lead a Bush administration assault on regulatory safeguards. But Graham has sided with environmentalists on several key issues, including new rules to sharply reduce diesel engine emissions and the fine airborne particles that contribute to asthma and other serious respiratory ailments. The activists were quick to embrace this month's report.

"The bottom line is that the benefits from major environmental rules over the past 10 years were [five to seven] times greater than the costs," said Kevin Curtis of the National Environmental Trust. "And that's a number that can't be ignored, even by an administration that has blamed 'excessive' environmental regulations for everything from the California energy crisis to last month's blackout to job losses to the failing economy."

Environmental groups and some lawmakers assert that the administration has begun to chip away at clean-air regulations and safeguards just when the country is beginning to see the fruits of decades of tough enforcement efforts. Earlier this month, the EPA issued its annual air trends report showing that, since 1970, emissions of the six principal air pollutants have declined by 48 percent. At the same time, EPA officials put the finishing touches on a "New Source Review" rule change that will enable utilities to extend the lifespan of older, dirtier power plants without installing new anti-air pollution equipment.

But White House officials and Republicans say the administration deserves credit for some of the improvement. They noted that the EPA has approved the new diesel emission standards affecting trucks, buses and off-road machinery in the coming years.

The OMB is required to report annually to Congress on the costs and benefits of federal regulations and unfunded mandates on states and American Indian tribes. This year's report provided cost-benefit analysis on 107 major federal rules approved during the past decade dealing with agriculture, education, energy, health and human services, housing, labor, transportation and the environment. In all cases, the benefits far exceeded the costs of implementing the rule. But the most dramatic showing involved environmental protection.

Previous reports have been controversial because of the unavoidably imprecise methodology used to assess the costs and benefits of a variety of government regulations. In the absence of solid data or documentation, analysts often must rely on educated guesses or long-term impact projections that were prepared when the rules were put into effect.

"The data is prospective rather than retrospective," said Gary Bass of OMB Watch, a watchdog organization. "We don't have an adequate data set. My guess is that if we did, the benefits would exceed the cost in a wider spread than the OMB report shows."

You can find the report here:
http://www.whitehouse.gov/omb/inforeg/2003_cost-ben_final_rpt.pdf

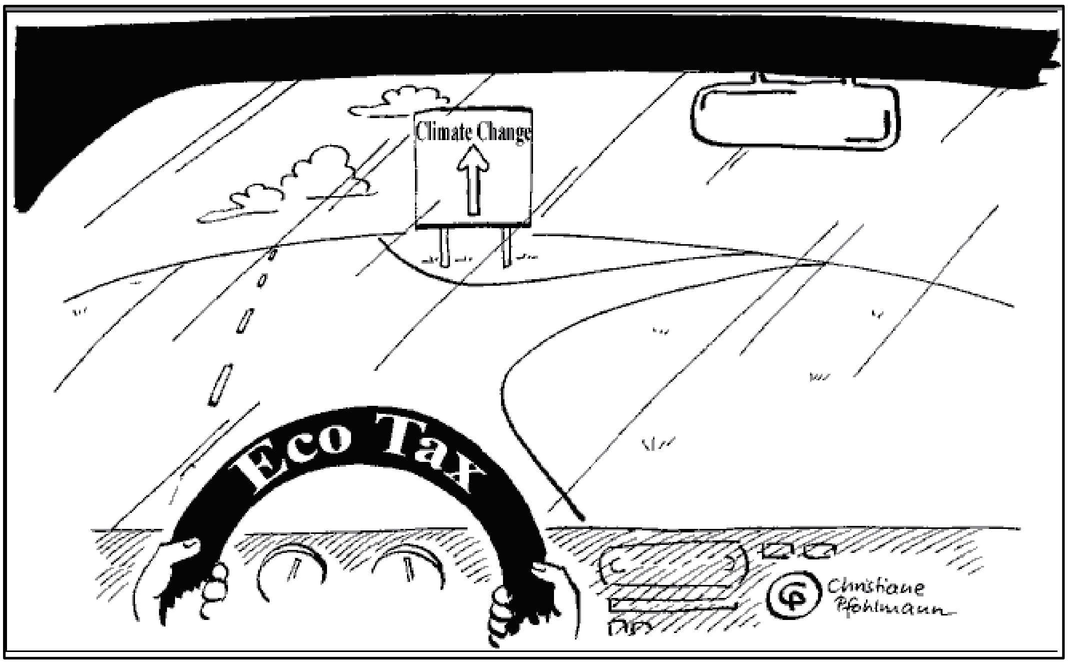
EU: Study ExternE about external costs published

The European Commission has published a study entitled “External Costs - Research results on socio-environmental damages due to electricity and transport” (ExternE) covering the following points:

- Socio-economic research in the field of energy
- Definition of external costs
- Damage assessments
- ExternE methodology
- Applications
- Comparison of damage costs per kWh for coal, gas, nuclear and wind electricity
- Comparison of damage costs between transport modes
- Uncertainties and Reliability
- Frequently Asked Questions
- Future Research Topics
- Extending and Improving the Methodology
- New Applications

The study can be consulted on:
http://www.europa.eu.int/comm/research/energy/pdf/externe_en.pdf

8. SPECIAL



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