
**Federal Council for Sustainable Development
(FRDO-CFDD)**

**Opinion on greening taxation in the framework of sustainable
development**

- **Requested by the Minister of Energy and Climate, Paul Magnette**
 - **Approved by the general assembly on 27 November**
 - **Prepared by the working group on strategies for sustainable development**
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Summary¹

Background

- [a] This opinion was requested by Minister Magnette in a letter of 8 April 2008. The Minister asked the Council to propose possible and desirable green taxes, taking account of the preconditions which the Council mentioned in its opinion of 1999 on energy taxation. Furthermore, he asked the Council to refer to any "good practice" in other countries and propose specific lines of approach in transport, energy and waste/pollution.
- [b] The FCSD has deemed it useful in its opinion first to clarify what it means by concepts such as "environmental taxation" and "greening of taxation" and place these concepts in the context of sustainable development. In the second chapter, the Council lists ten criteria to ascertain whether proposals regarding environmental tax or subsidies take account of a number of ecological, economic and social preconditions. Finally, in the last part of its opinion, the Council formulates a number of recommendations for measures for the greening of taxation, in particular in transport and energy.

***Greening taxation in the framework of sustainable
development***

1. Description of the subject

1.1. Environmental taxation

- [1] By environmental taxation we mean *any form of taxation (including dues, levies, charges and tax exemptions) that has a direct or indirect impact on the environment, in both a positive and negative sense*. Strictly speaking, subsidies do not come under the definition of the concept of taxation but, in accordance with the international literature on

¹ The complete opinion consists of 15 pages.

"environmental fiscal reform"², we do take it into account and in this note consider environmental subsidies as well as environmental taxes:

- Environmental taxes are *levies whose tax base is a physical unit of something that has a proven, specific negative impact on the environment*³
These taxes are usually classified according to the scope of application. For this purpose, three categories can be distinguished, in each case with a non-exhaustive number of examples:
 - o Taxes on *energy*: duties on petrol and diesel, VAT on domestic heating oil, energy levy on gas and electricity
 - o Taxes on *transport*: road tax, vehicle registration tax, eurovignette for heavy lorries, CO2 levy on commercial vehicles
 - o *Pollution tax*: ecotax on products consumed in Belgium (disposable cameras, batteries and particular industrial packaging), levies on drinks packaging, levy on waste water, levy on manure (Flanders), levy on industrial waste, levy on domestic waste (Flanders and Wallonia)⁴.

Often a distinction is also made between environmental taxes concerning

- o *Emissions* (air, water or soil pollution, noise)
 - o *Products* (raw material - e.g. oil, or finished products - e.g. disposable batteries).
- Environmental subsidies are *measures that reduce the cost price of an environment-related product or service for producers or consumers*. This may include direct premiums and tax reductions, exemptions or limitations of levies, etc.

1.2 Greening of taxation

- [2] By greening of taxation we mean *making more extensive use of environmental taxation as an instrument throughout the tax policy of a country or region*. There are two aspects to this:
- More environmental taxes are introduced and/or tax rates on environmentally damaging behaviour are increased
 - More or higher subsidies, tax reductions or exemptions for environmentally friendly behaviour are introduced and/or subsidies, tax reductions or exemptions for environmentally damaging behaviour are phased out or reduced.

1.3 Greening of taxation in the framework of sustainable development

- [3] Placing the greening of taxation in a sustainable development perspective means that in developing environmental taxes or subsidies account is taken of a number of economic and social preconditions. The greening of taxation is not only beneficial to the environment and the climate but also takes account of the possible impact on other aspects of sustainable development.

2. Ten criteria for the greening of taxation in the framework of sustainable development

- [4] *The FCSD has drawn up ten criteria to assess whether proposals regarding environmental tax or subsidy do in fact take account of a number of ecological, economic and social preconditions. They are listed below. Together these criteria provide a basis for evaluating whether and to what extent specific proposals take account of the impact on the various aspects of sustainable development.*

² Cf e.g. European Commission, European Environment Agency, World Bank and the OECD

³ Eurostat definition. Environment refers among other things to the atmosphere and therefore also to the climate and its development.

⁴ For a complete overview of environmental levies in our country, see the Inventory of Environmental Levies of the High Council of Finance (July 2004) and the Fiscal Memento of the Federal Government Department of Finance (www.docufin.fgov.be).

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1. We propose a number of instruments for environmental taxation that are effective and efficient to achieve particular environmental goals in comparison with and taking account of other instruments: regulatory, legislative, voluntary (agreements), social (labelling, etc.) and other economic instruments (e.g. emission trading).
 2. Where this appears useful, we combine environmental taxation with other instruments to achieve the objectives: in this case, we define a "policy mix" in which the instruments are mutually complementary. For instance, in most cases it would be appropriate to supplement the introduction of an environmental tax with initiatives for the provision of information about the tax to citizens and players and to raise awareness among them.
 3. The set of environmental tax measures we propose combines "incentives" and "disincentives" and therefore comprises both tax increases and tax reductions as well as exemptions or premiums ("carrot and stick" approach).
 4. The range of tax measures relates to various areas (energy, transport, housing, use of raw materials and resources, pollution, etc.) and mobilises various players (public authorities, households, companies: shared but differentiated responsibility).
 5. If the proposed environmental taxes hit the less well off more heavily ("regressive" taxes), we combine them with compensatory measures, either within the instrument itself (e.g. exemption for particular categories or social modulation of tax rates) or through other instruments.
 6. If the proposed environmental taxes adversely affect the competitiveness of Belgian companies, we combine them with compensatory measures to safeguard that competitiveness (e.g. exemption for energy-intensive companies). Measures should be taken at the most appropriate policy level to prevent relocation of production and/or consumption, and measures should be taken to ensure coherence between policies at the different levels.
 7. The measures must not jeopardise the balance of the budget and social security. Account should be taken of the fact that these environmental taxes, which are to a large extent "regulatory" (aimed at changing behaviour) and concern goods/services for which there is an elastic demand, will eventually diminish: tax revenue will drop as producers and consumers opt for a recommended and non-taxed alternative.
 8. The greening of taxation should overall strive for budgetary neutrality: on the budget, the introduction of new levies goes hand in hand with a commensurate reduction of other levies, subsidisation of the desired behaviour ("revenue recycling") or financing of e.g. infrastructure projects. There should in any case be clarity about compensation for new levies.
 9. Environmental taxes are introduced both from the angle of the "polluter pays" principle and in view of the objective of modifying undesirable behaviour. In the latter case, environmental taxes have a pronounced "regulatory" character and are intended to encourage sustainable consumption and production. Accordingly, the effectiveness of the measure is a significant criterion. Does the tax have the intended environmental effect? This requires setting pre-determined measurable goals and the results ought to be evaluated in order to make it possible to implement corrective measures.
 10. Environmental taxes should comply with a number of general legal and economic principles: *non bis in idem* (not taxing goods or services twice in the same way), proportionality (levy on goods or services should be commensurate with the external cost it causes), a stable and predictable regulatory framework (including a transitional period when measures are introduced), and cost-effectiveness (the cost of collecting the tax must not exceed the benefit for society).

