

Federal Council for Sustainable Development

(FRDO-CFDD)

Opinion on the CO₂ price signal

- Requested by the Minister of Climate and Energy, Mr Magnette, in a letter of 10 December 2009
 - Prepared by the working group on *energy and climate*
 - Approved by the general assembly on 26 March 2010
-

Summary¹

Summary of the opinion

- [a] In response to a request by Minister Magnette, the FCSD has examined the possible introduction of a CO₂ tax. The FCSD has organised several hearings to enable its members to adjust their positions on the possible introduction of a CO₂ tax. Several experts from various institutions have been heard:
- European Commission
 - High Council of Finance
 - Federal Planning Bureau
- [b] The discussions among the FCSD members on the terms and conditions for introducing such a tax were particularly intense. By holding several meetings, the members were better able to determine their position and demarcate various lines of approach on which there is full agreement within the FCSD. However, the members could not reach agreement on a number of other points.

Elements of consensus

- [c] In order to expedite the transition of our society to a low-carbon economy, the public authorities have various instruments at their disposal. These can be applied as separate or mutually complementary instruments in one or more sectors (households, companies, transport) or sub-sectors. It is for the government/governments to introduce the most effective and appropriate combination of instruments (*policy mix*) to achieve the objective pursued.
- [d] In order to change consumption and production patterns and investment decisions, the public authorities can give a price signal consisting of:
- a “consumption price signal” with a view to encouraging the transition to more desirable production or consumption patterns;

¹ The full text of the opinion comprises 25 pages.

- a "price signal based on external factors" with a view to translating the cost price of negative external factors (social or ecological factors) that are caused by the production or consumption of the product or service in question and that are not incorporated in the market price.
- [e] The FCSD decided to study CO₂ tax as an option among the various instruments forming part of the CO₂ emission price signal.
- [f] The FCSD takes the view that a CO₂ tax should make it possible to cover several additional objectives; it should:
- contribute towards attaining the goals of the energy climate package by enhancing energy efficiency, reducing CO₂ emission, expanding the share of renewable energy and diminishing dependence on fossil fuels;
 - strengthen the competitiveness of the Belgian economy which ensures employment and added value;
 - encourage research and innovation;
 - contribute to a fair transition by strengthening social cohesion.
- [g] Provision can be made for the possible introduction of a CO₂ emission tax according to its effectiveness to:
- change behaviour and investment from high-to lower-carbon goods and services; and
 - compensate the costs caused by CO₂ emission.
- [h] For these reasons, the amount of the tax should:
- (at least partly) reflect the external costs of the pollution caused by CO₂ production and
 - be fixed at a level and with a development (progressive over time) that in the long term leads to change in behaviour and may have a durable impact on investment decisions.
- [i] The FCSD is of the opinion that the possible introduction of a CO₂ tax raises a number of questions that require additional analysis, such as an evaluation of the various possibilities of reducing emissions by sector and by player, evaluation of the effectiveness of the instrument, evaluation of the adverse or contrary impact on energy efficiency caused by other instruments and policy measures, etc.
- [j] It is therefore of essential importance that this tax should be visible, acceptable and understandable for households and companies, which entails a number of actions:
- providing information before the introduction of the tax, stating reasons and indicating an objective from the outset;
 - guaranteeing development over time in the short, medium, and long term (e.g. 2020, 2030, 2050);
 - providing guidance for the measures, in particular by making provision for alternatives;
 - stimulating the adaptive capacity of the players, in particular with regard to investment;

- supplying information about alternatives, as regards consumption and production patterns as well as transport or heating.
- [k] Ideally a CO₂ tax should be introduced worldwide, and if this proves impossible at European level. In the opinion of the FCSD, Belgium should when it holds the European presidency from July 2010 seize the opportunity to relaunch the debate. As regards the question of whether it is desirable to consider introducing a CO₂ tax on Belgian territory, the FCSD refers to its sectorial approach set out in the following chapters (3.1.2. and following). These sectorial recommendations apply to the public sector where they are relevant.
- [l] The FCSD takes the view that consideration should be given to introducing a CO₂ tax in Belgium applicable to households. However, there is no agreement among the members about the procedure for introducing such a tax.
- [m] A CO₂ tax can in the Belgian transport sector be introduced within the framework which the FCSD proposed in its opinion on green taxation as part of the moves towards sustainable development. Such a tax ought to take account of other existing taxes pursuing the same objective. The FCSD advocates that this tax should go hand in hand with an effective, regular and high-performance public transport policy.
- [n] The FCSD emphasises that the introduction of any CO₂ tax should fit in with an environmental programme designed to give a price signal, rather than within a budget programme. The revenue could be used to offset the negative impact of the introduction of the tax and the use of the revenue should make it possible to fully recycle the revenue.

Differences of view

- [o] The members of the Council failed to reach agreement on a number of points:
- Tax base: only CO₂ or CO₂ and energy content
 - Impact on prices and wages (via the wage index)
 - Conditions of application to households
 - Conditions of application to companies
 - Conditions of allocation of tax revenue