

Environmental Fiscal Reform



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Definition

The process of shifting the tax burden from economically feasible projects/activities that are environmentally neutral (no eco-effect) into activities that generate negative environmental externalities that cannot be reversed.

EFR also includes phasing out harmful environmental subsidies; which promote the expansion of various economic sectors such as agriculture, transportation, and energy without taking into consideration the associated negative environmental externalities produced.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Fiscal Reform Instruments

- Environmental Taxation
 - Taxes on Natural Resource Extraction.
 - Taxes on Products, Pollutants and Emissions
- Environmental Subsidies
 - Reforming Environmentally Harmful Subsidies
- Markets for Environmental Goods.
 - Certificate/Emission Trading.
 - Green Labeling (Eco-Labeling)



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Taxation

1. Taxes on Natural Resource Extraction

Definition: Gathering of economic yields derived from the extraction of renewable & non-renewable resources.

Example: Royalties imposed on the extraction of non-renewable resources (oil, timber, gas).



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Taxation

1. Taxes on Natural Resource Extraction

Strengths/Opportunities:

- Coherency/adaptability with existing tax collection systems.
- Sustainable and fixed source of income.
- Better strategy composition.
- Diversity of revenue sources (timber, oil, natural gas, etc)



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Taxation

1. Taxes on Natural Resource Extraction

Weaknesses/Threats:

- Requires a resilient and institutional fiscal framework.
- May be accompanied by non-predicted negative externalities.
- Requires alteration in governance, policies, and regulations



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Taxation

Taxes on Products, Pollutants and Emissions

Definition:

Product Tax: Tax is imposed and collected at the time of sale based on the amount/quantity of environmentally harmful substances forming the composition of the product/service.

Emission Tax: Tax imposed on quantifiable/intensity based fumes and emissions polluting the environment (noise, air pollution, water contamination, soil erosion).

Examples include taxes imposed on pesticides that contain environmentally harmful components



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Taxation

2. Taxes on Products, Pollutants and Emissions

Strengths/Opportunities :

- Solid macroeconomic positioning for the country.
- Low implementation/operational cost.
- Offsetting damage arising from Environmentally Harmful Subsidies.
- Increased financial resource mobilization.
- Increased and extensive R&D
- Increased economic development and integration.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Taxation

2. Taxes on Products, Pollutants and Emissions

Weaknesses/Threats:

- Increased corporate corruption.
- Increased corporate/governmental discrepancies.
- Uncertainty of environmental and economic reactions.
- Resistance and opposition.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Subsidies

Subsidy Definition:

Any measure that keeps prices for consumers below market levels, or for producers above market levels, or that reduces costs for consumers and producers.

Environmentally Harmful Subsidy Definition:

A subsidy that encourages more environmental damage to take place than would occur without the subsidy. In other words, environmentally harmful subsidies are often the result of an externality that has not been internalized within the price of that activity, supplemented by an income transfer or profit accumulation.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Subsidies

There are three types of subsidies:

A. Direct subsidies (grants, loans, and credits).

B. Indirect subsidies (tax exemptions, preferred tax rates, and a below market rate provision for goods/services (electricity, sewer, water)).

C. Direct price support for producers or consumers.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Subsidies

2.2 Reforming Environmentally Harmful Subsidies

Strengths/Opportunities :

- Increases economic efficiency.
- Better distribution of wealth.
- Enhances/facilitates clean energy establishment.
- Reduces environmental damage.
- Encourages R&D.
- Increases the general budget's revenues.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Environmental Subsidies

2.2 Reforming Environmentally Harmful Subsidies

Weaknesses/Threats:

- The risk of subsidy leakage.
- The risk of negative social externalities.
- Rejection by parties already receiving subsidies.
- Collapse of many SMEs.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Markets for Environmental Goods

3.1 Certificate/Emission Trading Definition: is one of the financial resource mobilization schemes where the government establishes an emission trading market that is based on the supply and demand of emission certificates.

The trading between entities is based on an auction; that allows prices to fluctuate up and down according to demand and supply; thus generating revenues for entities that release fewer emissions.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Markets for Environmental Goods

Strengths/Opportunities



- Promotes innovation and creativity.
- Protects the environment / mitigates climate change
- Creates jobs.
- Additional governmental revenue.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Markets for Environmental Goods

Weaknesses/Threats

- Enforcement and Compliance.
- Market speculation.
- ETS certificates possess a high price elasticity of demand.
- Relatively high cost to establish.
- Stakeholders might perceive ETS to be illusive.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

EFR Revenues (examples):

- In 2010, Revenues from environmental taxes within OECD member countries almost totaled 700 Billion USD.
- In 2009, total revenues generated from environmental taxes within the EU was 287 Billion Euros.
- In 2010, Denmark was able to mobilize 461 Million DKK from the Danish Pesticide Tax.
- Between 2007-2008, Australia was able to mobilize 33 Million AUD from the New South Wales Load Based Licensing Scheme.
- Brazil was able to mobilize 170 Million USD within Parana State, through the Brazilian ICMS-E Fiscal Instrument.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Result Driven EFR

- **Fiscal Potency.**
- **Environmental Potency.**
- **Administrative potency and commercial feasibility..**
- **Equity.**
- **Political Adaption.**



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

EFR Strategy

- Preliminary Research and setup.
- Policy Refinement and consolidation.
- Advocacy and Consultation with Decision Makers.
- Gradual/subsequent Implementation.
- Monitoring, evaluation, and Feedback.



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Summary



Università
Ca' Foscari
Venezia



The Energy and Resources Institute

Q&A



Università
Ca' Foscari
Venezia



The Energy and Resources Institute