

Implication of Vietnam's Environmental Protection Tax Law in the green economy transition process

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Outline

Introduction

Transition to a green economy

Overview of Environmental Protection Tax Law in Vietnam

Studies review: Practical implication of Environmental Protection Tax Law in Vietnam

Toward a green economy



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Vietnam's economy model

- Achievements of Doi Moi (Renovation) from 1986: continuous economic growth, vast poverty reduction, welfare improvements, etc
- GDP growth rate: 7.3% of last decade (GIZ, 2011)
- Second fastest growing economy in Asia – middle income country (from 2008)
- On track achieving most MDGs

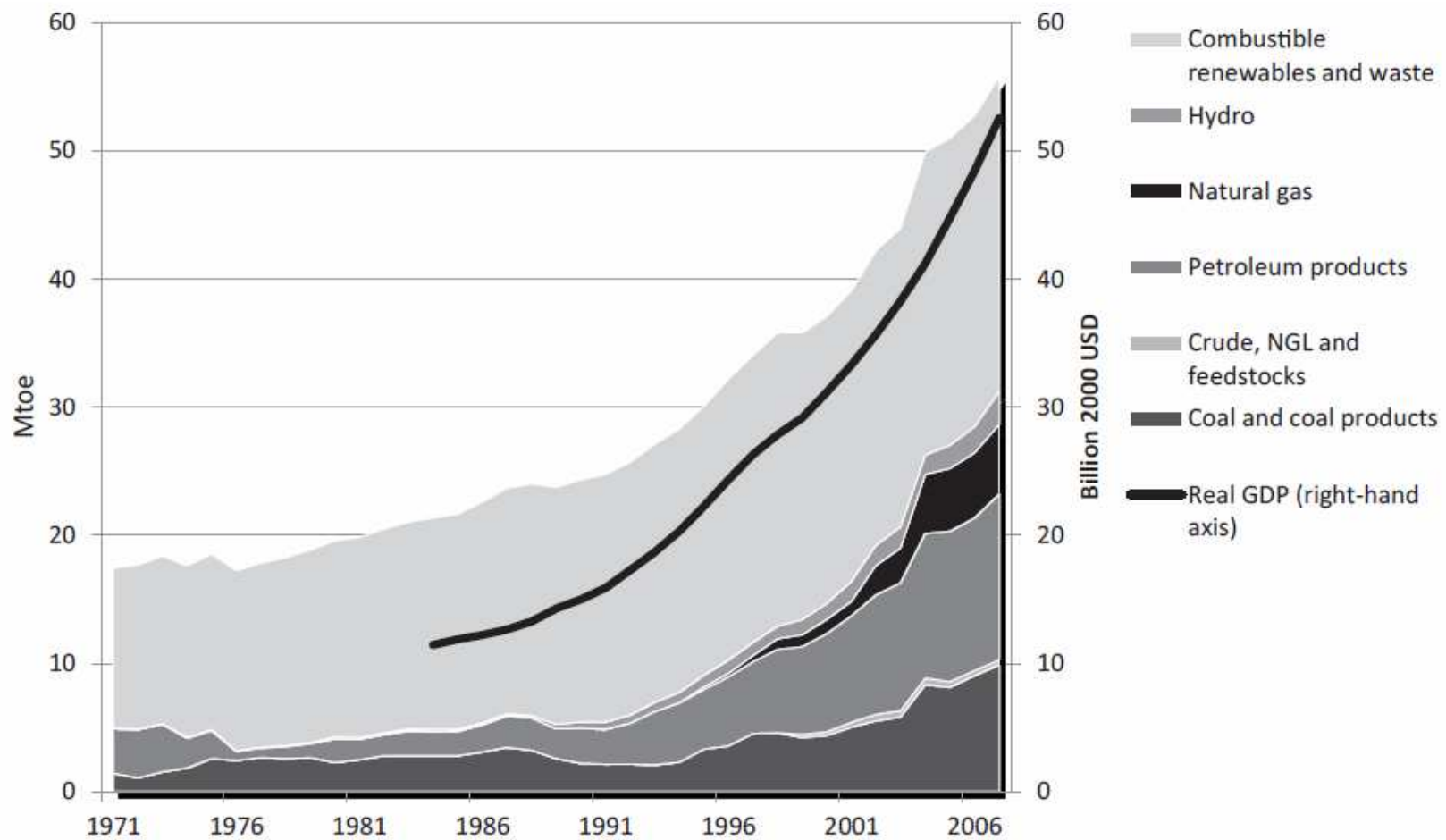


Vietnam's economy model

- Macro-economic uncertainties: high inflation rate, trade deficit, sovereign debt
- Budget deficit: ~ 7% of GDP
- Heavily pressure into the environment
- Carbon intensive & energy inefficiency → rising import dependency in energy sector (UNDP, 2012)
- Global challenges: climate change, financial crisis



Vietnam's energy trends 1971 - 2007



(source: UNDP 2012)



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Transition to a green economy

- **Green Economy:**
 - *Grow sustainably and for long term*
 - *Use natural resource efficiently*
 - *Be more resilient*
 - *Exploit the competitiveness*
- **How to measure the transition progress to a green economy:** traditional GDP, impacts on employment, resource intensity, emission and ecological impact.



Transition to a green economy (cont.)

- **Benefit of green economy**
 - Recognizing the value and invest in natural capital
 - Contributing to poverty reduction
 - Creating jobs and enhancing social equity
 - Substituting renewable energy & promoting low carbon technologies, energy efficiency
 - Grow faster & more sustainably than traditional economy growth



Enabling conditions of green economy

Sound policy framework

Prioritize Government investments

Tax policy & market-based instruments

Enhance capacity building, training & education

Strengthen international government



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Vietnam's greening policies

- **Newly issued policies reduce resource intensity and environmental effect**
 - Legal framework on environmental protection
 - Sustainable development – Agenda 21 Vietnam
 - Climate Change policy: NTPRCC, NCCS, Resolution 24, SPRCC
 - Vietnam Green Growth Strategy

Vietnam's greening policies (cont.)

- **Vietnam National Green Growth Strategy (VGGS)** issued in 2012

Objectives:

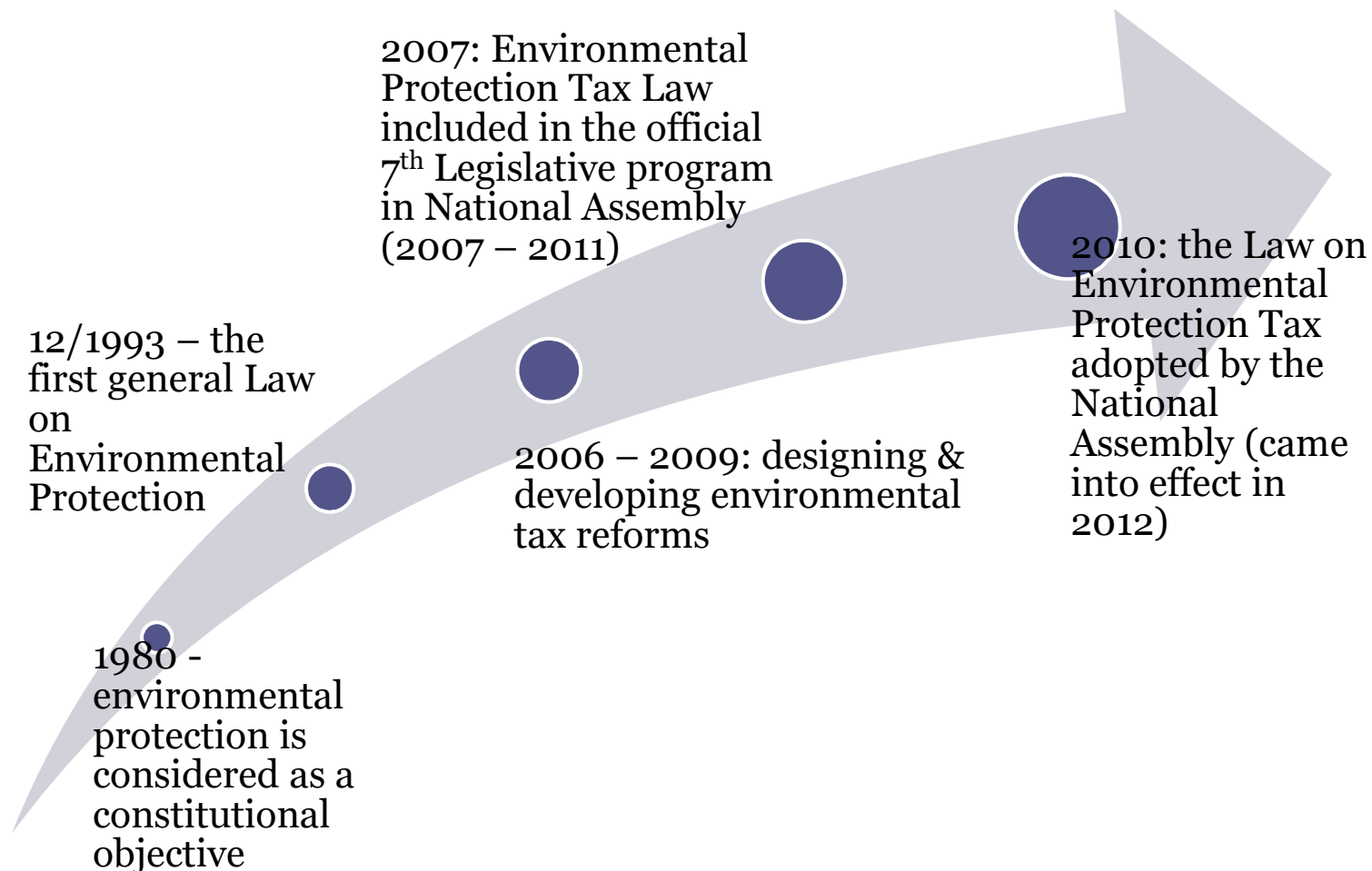
- + Restructure the economy and increase competitiveness through efficient use of resources and address environmental degradation
- + Assess and promote the use of high technology development to increase efficiency in natural resource use, reduce GHG intensity of the economy and respond to climate change
- + Improve the quality through green employment, sustainable lifestyles, green infrastructure/building and restored natural capital

Implementation: Inter-ministerial Coordinating Board with Deputy Prime Minister as the Chairman and a supporting office at MPI

Vietnam Green Growth Strategy road-map



Vietnam's Environment Protection Tax (EPT) development timeframe



Design of Vietnam's EPT in Vietnam

- **Main objective:** establish disincentives for the creation of polluting materials by imposing a tax on “coal and oil-based fuels but also on plastic bags, HCFC, pesticides and other chemical products”
- **Tax objects:**
 - Refined fuel (gasoline, diesel, mazut, paraffin, kerosene) except ethanol
 - Coal
 - Hydrochloroflourocarbon (HCFC) substances
 - Soft plastic bags
 - Subset of harmful chemical substances used in agriculture & forestry

EPT rate in Vietnam from 2012

	Taxable object	Unit	Tax rate range (VND/unit)	Tax rate 2012/13 (VND/unit)
1.	Gasoline, oil, grease			
1.1.	Gasoline (except ethanol)	litre	1,000-4,000	1,000
1.2	Jet fuel	litre	1,000-3,000	1,000
1.3	Diesel	litre	500-2,000	500
1.4	Paraffin	litre	300-2,000	300
1.5	Mazut	litre	300-2,000	300
1.6	Lubricating oil	litre	300-2,000	300
1.7	Grease	kg	300-2,000	300
2.	Coal			
2.1	Lignite	ton	10,000-30,000	10,000
2.2	Anthracite coal	ton	20,000-50,000	20,000
2.3	Fat coal	ton	10,000-30,000	10,000
2.4	Other types of coal	ton	10,000-30,000	10,000
3.	Hydrochlorofluorocarbons (HCFC)	kg	1,000-5,000	4,000
4.	Taxable soft plastic bags	kg	30,000-50,000	40,000
5.	Herbicides restricted in use	kg	500-2,000	500
6.	Pesticides restricted in use	kg	1,000-3,000	1,000
7.	Forest product preservatives restricted in use	kg	1,000-3,000	1,000
8.	Warehouse disinfectants restricted in use	kg	1,000-3,000	1,000

Source: National Assembly of Vietnam



Benefit of Vietnam's EPT

- Enhance the responsibility and awareness of organizations, individuals in environmental protection
- Encourage environment friendly production and consumption
- Encourage technology improvement
- Increase state budget in environmental protection

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Literature review for impact assessment of Vietnam's EPT law

- Two ex-ant studies on impact assessment using General Equilibrium Model are in place in 2010 - 2011 (Dirk Willenbockel commissioned by GIZ, and Ian Coxhead & Nguyen Van Chan from University of Agriculture I)
- There is no ex-post impact assessment on the effect of EPT



Literature review for impact assessment of Vietnam's EPT law

- GIZ study simulated the impacts of EPT on:
 - Producer and user prices,
 - Sectoral output & employment,
 - Commodity structure of demand,
 - Government tax revenue,
 - CO2 emission,
 - Household welfare.
- Scenario: low and high tax scenario
- Based on the data in 2007 of Social Accounting Matrix



Literature review for impact assessment of Vietnam's EPT law

- Ian Coxhead & Nguyen Van Chan's study simulated experiments on 3 key commodities: coal, gasoline and other fuel, and pesticides
- Scenario:
 - Case A: elastic labor supply and there are no transfer from GoV to household increase (base case)
 - Case B: elastic labor supply and GoV uses revenue to increase transfer payment to poor households
 - Case C: supply of all labor types is fixed and there is no Gov transfer to household increase
- Based on the data in 2003 of Social Accounting Matrix

Findings

Impact-	GIZ's study	University of Agriculture's study
Macro economic	<ul style="list-style-type: none">- Refined liquid fuel taxes will be the dominant source of tax revenue- Environmental tax on fuel will have noticeable economy-wide repercussions in high scenario- The rise in transportation service cost will affect transport margin for all non-service commodities	<ul style="list-style-type: none">- Shows the modest but distinct decline in GDP growth (tax on energy → pervasive effects, particularly transportation, fishery, etc)- Wage and other prices are reduced by taxes due to pervasive effects of energy cost

Findings (cont.)

Impact	GIZ's study	University of Agriculture's study
Trade	Exchange rates appreciates & real exports decline slightly	Affect the economy's competitiveness in global market for a wide range of products
Specific industries/ sectors	The tax-induced fuel price increase will raise the production costs & out-put prices of fuel-intensive sector (fishing & transportation)	Energy generation & energy-intensive industries are most heavily affected (transportation, fishery)
CO2 emission	CO2 emission drop by ~ 2.3% under low and by 7.5% under high tax rate scenario (9.3 million tons in 2012 – high tax scenario)	No assess

Findings (cont.)

Impact	GIZ's study	University of Agriculture's study
Household welfare & employment	Household welfare declines significantly across all household groups (not take into account the welfare gains due to environmental impacts)	<ul style="list-style-type: none">- Real incomes for almost household types are reduced (biggest loss from urban households)- Without transfer, the tax sharply raise the poverty (90% poor rural households and 50% poor urban households experience income decline)- impede job growth as increasing the rate of lump-sum transfer to households will not contribute significantly to employment growth

Strengths	Weakness
<ul style="list-style-type: none"> -A good start for the first environmental taxation in Vietnam - Taxes are levied on the consumed physical units rather than on percentages of prices. This corresponds to international best practices as the actual amounts of used unit harm the environment, independent of its price 	<ul style="list-style-type: none"> - Revenue of environmental tax used as usual tax revenue, only environmental fees & charges are for environmental purposes - Missing a number of products that could be harmful to environment like: industrial detergents, cigarettes, etc -Lack of comprehensive supporting policies/ standards/ regulations to implement the law properly (plastic bag, gasoline, etc)
Opportunities	Threats
<ul style="list-style-type: none"> - Receiving financial & technical support from international donors for green growth and climate change mitigation - Lower emission could help to approach the compensation from international community 	<ul style="list-style-type: none"> -Top-down approach of the Government of Vietnam led obstacles in implementation -Horizontal harmonization was not in place (lack of coordination mechanism particularly among ministries) - Social welfare could be affected creating social instability -Tax-induced increase of price could reduce the competitiveness of Vietnam in global economy (especially in trade)



The role of environmental tax law in a green economy transition process - Vietnam case

- **Effective tool for environmental policy:** increase the tax revenue for state budget
 - **Increase the green investment:** energy consumption and energy intensive will be affected most by the tax that encourage the increase of green technology or energy efficiency use technology
 - **One of most effective tools in addressing environmental externalities:** increase in gasoline price positively influences investment for renewable energy, etc
- ➔ Starting point of one enabling condition for the green economy transition process

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Toward a green economy transition

- Environment Protection Tax provided a framework condition and economic incentives for sustainable production and consumption patterns. It could contribute simultaneously to resource efficiency, environmental protection and poverty reduction in Vietnam. However, a lot of obstacle in its implementation and the taxation itself
 - An ex post study to assess the EPT comprehensively should be in place
 - There is a need of developing a comprehensive and proper environmental tax policy and supporting regulation/ standards
 - A mid and long term roadmap for environmental tax should be developed.

Recommendations for green economy transition (cont.)

- Take advantage of the EPT:
 - Environmental tax revenues could also be used to offset cost increase in energy-intensive and employment-intensive industry → the additional revenue should be used for environmental purpose mainly
 - Lower emission could help to approach the compensation from international community (CDM, NAMA, Joint Crediting Mechanism, Green Climate Fund)
- Other enabling conditions for a green economy should be considered: establishing regulatory framework, government investment prioritization, capacity development and enhancing

Thank you for your kind attention!

