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# 2015

## Country-Specific Recommendations in Support of the European Semester Process

# EUROPEAN SEMESTER 3.0

## Strong policy coherence needed to rebuild trust and a sustainable development perspective

The European Semester should be further developed to become an effective governance and enforcement mechanism that can ensure coherence between national fiscal policies and overarching sustainable development objectives. To this extent national Environmental Fiscal Reforms (EFR) should be accelerated via the European Semester; and Member States national public spending and investment plans should be checked against their delivery on sustainable development.

With the European Semester the EU intends to establish a governance mechanism encompassing Member States' macro-economic and fiscal policy reform. The European Semester process currently focuses mainly on budget discipline, enforced by the Stability and Growth pact. However, the European Semester is also the main instrument to implement the Europe 2020 strategy which can – if properly implemented – significantly enhance structural macro-economic stability in the EU Member States.

Now in the fifth year, the assertiveness and impact of the European Semester process remains mixed. Annual delivery can't be properly enforced as the implementation of National Reform Programmes and Country-Specific Recommendations is not compulsory. In addition, macro-economic governance priorities can over-ride the goals of the Europe 2020 Strategy. Often, the costs and benefits of natural resources are not fully captured by pricing, which generates incentives for unsustainable resource use by making pollution or the degradation of natural resources a profitable exercise. The costs for inaction for environmental protection and fighting climate change might endanger the long-term prosperity of Europe. Therefore, we call for the integration of a resource-efficiency indicator within the Stability and Growth pact, aiming at the absolute decoupling of economic development from the use of natural resources.

## Getting out of the crisis sustainably: Environmental Fiscal Reform is the vital remedy

Environmental Fiscal Reform is commonly understood as a package of measures combining an increase of taxes on energy or natural resources, the elimination of environmentally harmful subsidies and targeted government spending towards environmental sustainability with a revenue-redistribution component to protect and/or enhance social equity.

A substantial shift of taxation from labour and income towards resource use in Europe has less detrimental macro-economic but more socially equitable impacts than other taxes, such as VAT or income taxes. Experiences from implemented EFRs show that the measures are associated with lower unemployment and

higher disposable income at the macro level (e.g. EEA (2011), the CETRIE and COMETR projects) than alternative strategies.

EFR policies, implemented via Market-Based Instruments, can

- Correct market failures;
- Improve the price signals by internalising external costs;
- Offer more flexibility, and thus, improve economic efficiency;
- Help develop new industries that provide sustainable and local jobs;
- Create a clear and predictable environment for eco-innovative investments;
- Contribute to restoring fiscal stability.

This would in turn enhance the genuine sustainable competitive advantage and success of the European industry in a global economy by combining innovation, investment and climate policies.

In the flagship initiative for a Resource-Efficient Europe (Europe 2020 Strategy), the European Commission calls on Member States to increase what they refer to as “growth friendly” taxes on the environment and resources, while at the same time lowering social security contributions or earmarking the revenues for environmental purposes or budgetary consolidation.

*“One third of the Member States have space for such a tax shift while another third have scope to improve the design of existing environmentally-related taxation”* (European Commission 2014).

Furthermore, the flagship initiative for a Resource-Efficient Europe calls for *“environmentally harmful subsidies to be phased out with due regard to the impact on people in need by 2020”* (European Commission 2011). Achieving this milestone will save a significant amount of financial resources – in 18 EU Member States, for example, €54 billion is lost each year because of company car taxation schemes alone (Copenhagen Economics 2010).

Policy areas like labour market reforms, sustainable and more coherent taxation or social and sectorial policies (e.g. energy infrastructure or transport) should therefore play a much more prominent role in the Semester process.

## Using the European Semester to foster Environmental Fiscal Reform

The Annual Growth Survey 2015 which launches the European Semester process mainly focuses on a €315 billion investment plan but offers little hope on tangible progress on the Europe 2020 Strategy targets and beyond. Structural reforms and austerity still dominate while the economic coordination through the European Semester could help restore fair market conditions and eliminate distortions in competition, i.e. use the market for what it can give as a positive contribution to well-being, development and sustainable economies.

Up to now Country-Specific Recommendations in the European Semester process have not focused sufficiently on environmental fiscal policy measures, and have not resulted in an

increase in environmental tax revenues. Labour taxes account for 53,3% of total tax revenue in the Eurozone area against 5,7% for environmental taxation (European Union 2014). There is a persistent high unemployment rate of 9,9% (EU28-average) in December 2014 according to Eurostat (2015) combined with an excessive energy import dependence of 52-53% EU-28 average (European Commission 2014a).

A landmark report commissioned by the European Commission reveals that the subsidies and externalities of the fossil fuel and nuclear based power and heat represent a cost of €262 billion per year, versus €58 billion only for renewables and energy efficiency (Ecofys 2014).

Fiscal policies consistent with EU environmental objectives should therefore focus on promoting low-carbon and energy / resource efficient opportunities in EU Member States.

## **Linking Country-Specific Recommendations and better EU budget spending by Member States**

EU funds spent by Member States, notably European Structural and Investment Fund, should further mainstream environmental sustainability, notably in long term infrastructure projects, to contribute to EU environmental and social objectives. Decarbonizing Europe's energy and transport infrastructure, making its industry and its production patterns more efficient, requires large amounts of investments; the scarcity of public money requires that it is spent more effectively with better outcomes.

The European Semester can contribute to better spending of EU funds by Member States. It should be used to strongly link Country-Specific Recommendations and the performance framework of Member States EU funds spending plans to ensure a better contribution to the Europe 2020 Strategy's environmental and social targets.

## **Conclusion: main recommendations**

Given the high potential benefits of Environmental Fiscal Reform and better EU spending by Member States to achieve the Europe 2020 Strategy targets and foster innovative low-carbon investments for sustainable economies, we urge the Commission and the Member States to strongly embed in the European Semester process and reflect in Country-Specific Recommendations:

- **To phase-out all market-distorting environmentally harmful subsidies as soon as possible and by 2020 at the latest;**
- **To increase the share of environmental taxes in proportion of the overall tax revenue –i.e. by shifting taxes away from labour to polluting activities by 5% by 2020;**
- **To link the Country-Specific Recommendations with the use of EU funds by Member States to ensure better spending and maximise benefits.**

As environmental NGOs we have carried out a consultation among our network of members and national experts and are pleased to provide material for consideration in respect of **Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, the Netherlands, Poland, Portugal, Slovenia, Slovakia, Spain, Sweden, UK** as well as the **Eurozone** in general.

## **Europe 2020 Strategy review**

Beyond the European Semester, our organisations have produced recommendations for the Europe 2020 Strategy review, based on our analysis of the current shortcomings and untapped / new opportunities.

They focus on the following main issues:

- Set a resource efficiency headline target in the strategy and related indicators in the European Semester;
- Embed the post-2015 Sustainable Development Goals in the strategy;
- Use the European Semester more ambitiously to phase out environmentally harmful subsidies and foster environmental fiscal reform;
- Link the European Semester's Country-Specific Recommendations and the EU Budget spending by Member States;
- Build the strategy on a new overarching EU goal and a long term economic roadmap;
- Improve transparency and stakeholder involvement.

## **EU public finance**

It is critically important that public funding from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) further mainstreams and promotes cross-cutting environmental sustainability, notably regarding infrastructure projects.

Finding a way to ensure consistency of EU public finance with national Country-Specific Recommendations from the European Semester is needed to maximise joint delivery towards the EU overarching social and environmental sustainability objectives.

The “Investment plan for growth and jobs”, an EU budget based investment initiative aiming at mobilizing investments worth €315 billion into energy, transport and environmental infrastructure, as well as education and research and development, should only finance projects that deliver on the EU's long-term sustainable development objectives. And in line with the EU pledge on inclusive and participatory decision-making, all relevant stakeholders should be involved.

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<http://www2.dmu.dk/cometr/>

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European Commission (2014a). *Member State's Energy Dependence: An Indicator-Based Assessment*. Occasional Papers 196. [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2014/op196\\_en.htm](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op196_en.htm)

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<http://ec.europa.eu/eurostat/documents/2995521/6454659/3-07012015-AP-EN.pdf/f4d2866e-0562-49f5-8f29-67e1be16f50a>

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Shift tax burden from labour to environmentally harmful production and consumption (e.g. causing GHG emissions, increase water scarcity, loss of biodiversity).

Every Eurozone Member State should shift annually 1% from labour towards environmental taxation.

Labour taxes account for 53,3% in the Eurozone Area (% of total tax revenue) against 5,7% Environmental taxation (European Union, 2014).

Realise the double dividend in order to consolidate national budgets in a cost-efficient way and to lower the persistent high unemployment rate (EU28-average 9.9%, in Dec 2014 [Eurostat, 2015]) and the excessive energy dependence of 52-53% EU-28 average.

*European Union (2014). Taxation Trends in the European Union. Eurostat Statistical Books. [http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_structures/2014/report.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/report.pdf)*

*European Commission (2014). Member State's Energy Dependence: An Indicator-Based Assessment. Occasional Papers 196. [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2014/op196\\_en.htm](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op196_en.htm)*

*Eurostat (2015). Eurostat News Release. Euro indicators. 20/2015 – 30 January 2015. <http://ec.europa.eu/eurostat/documents/2995521/6454659/3-07012015-AP-EN.pdf/f4d2866e-0562-49f5-8f29-67e1be16f50a>*

### Indicator

Include a resource efficiency indicator in the Macro-economic governance.

The current Stability and Growth pact does not take external costs of the political measures into account.

Resource efficiency policies, including comprehensive environmental fiscal reform measures will stimulate investment in desired alternatives (e.g. low-carbon technologies, waste management technologies, Landfill tax) in the most cost-efficient way and thus help to achieve a sustainable fiscal consolidation with the least collateral damage to the economy, particularly with the least possible negative impact on growth and employment.

*Vivid Economics (2012). Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits. [http://www.vivideconomics.com/uploads/reports/fiscal-consolidation-and-carbon-fiscal-measures/Carbon\\_taxes\\_and\\_fiscal\\_consolidation\\_Full\\_report.pdf](http://www.vivideconomics.com/uploads/reports/fiscal-consolidation-and-carbon-fiscal-measures/Carbon_taxes_and_fiscal_consolidation_Full_report.pdf)*

### Subsidies

Each Member State should develop a concrete strategy by 2016 on how to phase out all Environmental Harmful Subsidies by 2020 at the latest.

Environmentally harmful activities are still subsidised by public budgets. On the EU level fossil fuels are subsidised by up to EUR 68.8 billion annually (OECD, 2013), including EUR 26 billion in direct subsidies and up to EUR 42.8 billion that Member States and citizens have to pay to compensate for the negative social and health impacts (HEAL, 2013).

A report commissioned by the European Commission (Ecofys, 2014) reveals that the subsidies and externalities of the fossil fuel and nuclear based power and heat represent a cost of EUR 262 billion per year, versus EUR 58 billion only for renewables and energy efficiency.

Member States should set up inventories based on and action plans to abolish Environmental Harmful Subsidies by 2020 which counteract central objectives of the EU, such as ensuring fair market conditions in the Single Market, environmental protection and social cohesion.

*European Commission (2014). Enhancing comparability of data on estimated budgetary support and tax expenditures for fossil fuels. [http://www.ieep.eu/assets/1662/Enhancing\\_comparability\\_of\\_FFS\\_final\\_report.pdf](http://www.ieep.eu/assets/1662/Enhancing_comparability_of_FFS_final_report.pdf)*

*Ecofys (2014). Subsidies and costs of EU energy. [https://ec.europa.eu/energy/sites/ener/files/documents/ECOFYS%202014%20Subsidies%20and%20costs%20of%20EU%20energy\\_11\\_Nov.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/ECOFYS%202014%20Subsidies%20and%20costs%20of%20EU%20energy_11_Nov.pdf)*

*IEEP (2012). Study supporting the phasing out of environmentally harmful subsidies. [http://ec.europa.eu/environment/enveco/taxation/pdf/report\\_phasing\\_out\\_env\\_harmful\\_subsidies.pdf](http://ec.europa.eu/environment/enveco/taxation/pdf/report_phasing_out_env_harmful_subsidies.pdf)*

*IVM Institute for Environmental Studies (2013). Budgetary support and tax expenditures for fossil fuels. An inventory for six non-OECD EU countries [http://ec.europa.eu/environment/enveco/taxation/pdf/fossil\\_fuels.pdf](http://ec.europa.eu/environment/enveco/taxation/pdf/fossil_fuels.pdf)*

*HEAL (2013). The unpaid health bill. How coal power plants make us sick. [http://www.env-health.org/IMG/pdf/heal\\_report\\_the\\_unpaid\\_health\\_bill\\_-\\_how\\_coal\\_power\\_plants\\_make\\_us\\_sick\\_finalpdf.pdf](http://www.env-health.org/IMG/pdf/heal_report_the_unpaid_health_bill_-_how_coal_power_plants_make_us_sick_finalpdf.pdf)*

*OECD (2013). Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels <http://www.oecd.org/site/tadffss/48805150.pdf>*

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#### European Semester process

CSRs should deliver on all Europe 2020 targets with strong CSO's involvement.

Adopt obligatory guidelines to ensure a meaningful, partnership approach based on structured dialogue to deliver on Europe 2020 objectives in the NRPs and CSRs: involving multi-level governance, civil society organisations, and social partners.

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Phase out exemption for so-called fiscal trucks (light trucks, vans, flatbed minibuses are entitled to deduct tax) from NoVA.

Shifting the calculation of the standard fuel consumption tax (NoVA) to a CO2 supplement to car registration tax is the right way. But there are further steps to greening and to increase the equity of traffic tax necessary.

VCÖ (2014). *Stellungnahme zum Entwurf des Abgabenänderungsgesetzes – AbgÄG 2014. Attachment 1.*

BMF. *Vorsteuerabzugsberechtigte Fahrzeuge. Fiskal LKW.*

<https://www.bmf.gv.at/steuern/fahrzeuge/vorsteuerabzugsberechtigte-fahrzeuge.html>

Shift the tax burden in a budgetary neutral way, towards real estate taxes, and environmental taxes.

The reduction of the effective tax in a budget-neutral way by relying more on other sources of taxation less detrimental to growth, such as recurrent property taxes, has gained in importance this year. Unfortunately, the 2012 recommendation, shifting the tax burden in a budgetary neutral way, towards environmental taxes, has not been renewed in the following years.

UWD (2013). *Umweltpolitische Meilensteine für das neue Regierungsprogramm 2013. Positionspapier des Umweltdachverbandes.* [http://www.umweltdachverband.at/fileadmin/user\\_upload/pdfs/Publikationen/Dok\\_09\\_01\\_Positionspapier\\_Umweltpolitische\\_Meilensteine\\_f%C3%BCr\\_das\\_neue\\_Regierungsprogramm\\_2013\\_2\\_.pdf](http://www.umweltdachverband.at/fileadmin/user_upload/pdfs/Publikationen/Dok_09_01_Positionspapier_Umweltpolitische_Meilensteine_f%C3%BCr_das_neue_Regierungsprogramm_2013_2_.pdf)

The mineral oil tax should be index-matched.

The proportion of mineral oil tax (MÖSt; which has not been changed since 2011) has reached a record low on the total fuel price. Compared with neighbouring countries, Austria has the lowest proportion of mineral oil per liter of fuel. As mineral oil tax is a non-index-matched (non-inflation-adjusted) tax, tax revenues are decreasing in absolute numbers for years; in particular, as new cars are becoming more efficient, and a general decline in traffic is observed.

Therefore, the government is required to reduce the massive oil dependence in transport rapidly. Especially commuters urgently need more train and bus services, more initiatives like the 'Österreichticket (Ökosoziales Forum, p. 11).

Ökosoziales Forum (2012). *Ökosoziale Marktwirtschaft für eine zukunftsähnliche Gesellschaftsordnung.*

[http://www.oekosozial.at/uploads/tx\\_osfopage/Policy\\_Paper\\_4.\\_Auflage\\_Mai\\_2012.pdf](http://www.oekosozial.at/uploads/tx_osfopage/Policy_Paper_4._Auflage_Mai_2012.pdf)

BMF. *Budget Vollzugsteuer-Aufkommen.*

[https://www.bmf.gv.at/budget/das-budget/budget-2013.html#Budgetvollzug\\_2013\\_Monatserfolge](https://www.bmf.gv.at/budget/das-budget/budget-2013.html#Budgetvollzug_2013_Monatserfolge)

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Adjust the financial recovery of the costs of water services, including environmental and resource costs; incentive water pricing to increase efficiency and fulfil the polluter pays principle.

The European Commission (EC) assessment of current water pricing policies in the Member States shows that current pricing schemes often fail to combine the objectives of water efficiency and fairness (polluter pays) and do not ensure an adequate degree of cost recovery. A proper water pricing policy should apply the principle of cost recovery to all water services. In many cases, environmental and resource costs of other water services, such as self-abstraction (pumping from groundwater aquifers and surface waters), irrigation, water storage and impoundment for hydropower, energy production (cooling), inland navigation; are simply not recovered.

*UWD (2013). Wassergebührentagung.*

<http://www.umweltdachverband.at/themen/wasser/gewaesser-im-spannungsfeld/wassergebuehrentagung/>

Harmonize energy taxation based on energy content and external costs of different sources in order to set technology-neutral framework conditions for the competition for highest energy efficiency at lowest environmental and health costs.

Raise the diesel tax rate at least to the same level as the petrol rate. Regularly adjust the tax rates in line with inflation to ensure their incentive effect.

The current eco-tax is neither based on the carbon content of fuels nor on other environmental externalities. Diesel even benefits from a doubly reduced tax rate: the volume based levy on diesel is lower than on petrol, despite its higher carbon content (16 per cent) and the higher levels of local air pollutants it generates. This tax structure did not only lead to annual revenue losses of about 6.6 billion Euros (2008), it also induced changes in the car fleet.

*EEB, GBE & T&E (2012). On The Revision of the Energy Tax Directive.*

[http://www.foes.de/pdf/18-04-2012\\_\\_Letter%20to%20EP%20for%20plenary%20final.pdf](http://www.foes.de/pdf/18-04-2012__Letter%20to%20EP%20for%20plenary%20final.pdf)

*OECD (2012). OECD Environmental Performance Reviews: Germany 2012.*

<http://www.oecd.org/env/environmentalcountryreviews/germany2012.htm>

Reduce tax exemptions and environmentally harmful subsidies (company car taxation, commuting allowances/Pendlerpauschale) distorting competition for the benefit of fossil energy sources by 2015.

Car use and commuting is subsidized through the tax deductibility of commuting trips and the tax treatment of company cars as a low taxed fringe benefit. Commuting allowances are distance dependent and higher if public transport is not available. Their eligibility has recently been widened to part-time workers. Removing the distorting effects of car usage subsidies, would strengthen the incentives from pricing road externalities to reduce private transportation (OECD, p. 36).

*OECD. Bericht Österreich.*

*Copenhagen Economics. Taxation papers Company Car Taxation (Attachment III).*

*VCÖ. Steuerliche Begünstigung von Firmenwagen (Attachment IV).*

*Ökosoziales Forum (2012). Ökosoziale Marktwirtschaft für eine zukunftsähnige Gesellschaftsordnung.*

[http://www.oekosozial.at/uploads/tx\\_osfopage/Policy\\_Paper\\_4\\_Auflage\\_Mai\\_2012.pdf](http://www.oekosozial.at/uploads/tx_osfopage/Policy_Paper_4_Auflage_Mai_2012.pdf)

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Shift the tax burden away from labour and entrepreneurship toward less distortive taxes.

Despite a necessary fiscal consolidation, the tax burden on labour and entrepreneurship has not been raised; in fact a reform on taxation on gains from sales of private real property has been implemented. In terms of commuting issues, the burden was reduced for both employees and employers. Among others public transportation costs borne by employers for commuting employees are tax exempted.

*Ökosoziales Forum (2012). Ökosoziale Marktwirtschaft für eine zukunftsähnige Gesellschaftsordnung.*

[http://www.oekosozial.at/uploads/tx\\_osfopage/Policy\\_Paper\\_4.\\_Auflage\\_Mai\\_2012.pdf](http://www.oekosozial.at/uploads/tx_osfopage/Policy_Paper_4._Auflage_Mai_2012.pdf)

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## RECOMMENDATION 2015

## JUSTIFICATION

**Taxation**

Significantly shift labour taxes to environmental taxes.

To lower labour taxes in a neutral way, apply the standard VAT to environmentally harmful products such as fuel heating (coal) in households and set up a fuel-neutral energy tax which takes into account the CO2 content.

Belgium has the highest implicit tax rate on labour (ITR) in Europe while it has the second lowest share of environmental taxes as a percentage of total taxation (4,1%) among EU Member States. In this regard, Belgium is far from implementing the shift of taxation from labour to resource use that would make its economy more resource efficient and sustainable while fostering job creation.

*European Commission (2013). Tax burden on labour.*

[http://ec.europa.eu/europe2020/pdf/themes/20\\_tax\\_burden\\_on\\_labour.pdf](http://ec.europa.eu/europe2020/pdf/themes/20_tax_burden_on_labour.pdf)

*Eurostat (2013). Taxation trend in the European Union.*

[http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_structures/2013/report.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2013/report.pdf)

To reach Belgium's 2020 climate targets, reduce greenhouse gas emissions in transport and address congestion by improving the public transportation system; raising road pricing or congestion charges; and scaling back tax exemptions for company cars and fuel cards.

Belgium is not reaching its non-ETS climate target. It is one of six Member States (Austria, Belgium, Finland, Ireland, Luxembourg and Spain), for which the latest European Environmental Agency projections indicate that 'implementing additional measures is not expected to be sufficient for them to achieve their 2020 targets. All these Member States will have to implement additional measures or use flexibility mechanisms to comply with the ESD'.

Additionally, Belgium is the second most fragmented territory in the EU according to the European Environmental Agency.

In a working paper on Company cars and commuting expenses, OECD highlighted in 2014 that "The total annual subsidy per car [due to the under-taxation of the benefit in kind] is highest in Belgium, at EUR 2 763 per year per car. Finally, according to the EU working paper 2013 of the EU Semester, congestion costs Belgium up to 2% of its GDP annually.

*European Environmental Agency (2014). Trends and projections 2014.* <http://www.eea.europa.eu/publications/trends-and-projections-in-europe-2014>

*European Environmental Agency (2011). Landscape fragmentation in Europe.* <http://www.eea.europa.eu/publications/landscape-fragmentation-in-europe>

*OECD (2014). Personal Tax Treatment of Company Cars and Commuting Expenses. Estimating the Fiscal and Environmental Costs.*

[http://www.oecd-ilibrary.org/taxation/personal-tax-treatment-of-company-cars-and-commuting-expenses\\_5jz14cg1s7vl-en](http://www.oecd-ilibrary.org/taxation/personal-tax-treatment-of-company-cars-and-commuting-expenses_5jz14cg1s7vl-en)

*European Commission (2013). Commission Staff Working Document for Belgium.* [http://ec.europa.eu/europe2020/pdf/nd/swd2013\\_belgium\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/swd2013_belgium_en.pdf)

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## Governance

Belgium should urgently improve its climate and energy governance and decide on the division of its 2020 climate and energy targets between federal and regional level.

Projections for greenhouse gas emissions in 2020 indicate that Belgium will miss its 15% reduction target by 11 percentage points. It also remains unclear how isolated initiatives taken by the various authorities will ensure that the collective target is met. This general lack of coordination and effort-sharing agreement between authorities is also the main concern with regard to the national renewable energy target of 13% by 2020, together with the need to complete transposition of the Renewable Energy Directive.

*European Commission(2014). Working paper on Belgium. [http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_belgium\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_belgium_en.pdf)*

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## RECOMMENDATION 2015

## JUSTIFICATION

**Investment**

Improve energy efficiency to reach Bulgaria's 2020 target by stepping up efforts to improve energy efficiency of public and private buildings. Large scale energy renovations of private buildings are particularly needed to reduce energy poverty. Increase excise duty on gas and electricity for business use.

Bulgaria is the most energy- and carbon-intensive economy in the EU and has one of the highest energy trade deficits.

Energy efficiency is seen as part of a long-term solution to lower energy bills, which have recently sparked widespread public discontent. Public funding for energy efficiency projects in housing estates is held back by unclear institutional responsibilities for the maintenance of multi-family residential buildings and the functioning of house-owners' associations. An improved policy framework and greater use of Cohesion Policy funds could promote innovative financing schemes and thereby increase the energy efficiency of buildings, district heating and the cogeneration fleet.

Excise duties on gas and electricity for business use are relatively low. Their increase would be a means to strengthen incentives for the efficient use of energy.

*European Commission (2014). Working paper on Bulgaria. [http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_bulgaria\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_bulgaria_en.pdf)*

Step up efforts to increase renewable energy in the energy mix and reduce energy dependency to fossil fuels.

The current policy measures are insufficient to reach Bulgaria's renewable energy target for 2020. In addition, the authorities have recently set temporary grid access tariffs exclusively for renewable energy producers, with a negative impact on the renewables sector.

*European Commission (2014). Working paper on Bulgaria. [http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_bulgaria\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_bulgaria_en.pdf)*

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Reduce the high level of taxation on labour, particularly for low-income earners. Shift taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes.

Increase the existing landfill tax to divert waste from landfill, introduce an incineration tax in order to make recycling economically viable. Keep the landfill tax higher than taxes for incineration.

Improve protection of agriculture land by increasing taxation to reflect real external costs of land use change to non-agriculture use and limit the number and scope of exceptions from the tax.

Set mining and extraction tax to reflect the real external costs and value of the minerals owned by the state.

### Investment

Boost employment and other social programmes in structurally disadvantaged regions, especially in areas with declining coal and lignite mining.

This part is a repetition of part of CSR 2 from 2014. No further steps to implement environmental tax reform were taken, so it remains a valid and important recommendation.

The Czech Republic needs to use fiscal instruments in order to achieve the targets set by the Waste Framework Directive and its own Waste Management Plan approved in 2014. These recommendations were formulated by the EC in the Roadmap for the Czech Republic regarding the WFD.

The speed of land use change to built-up areas, especially road infrastructure, industrial and commercial zones in the Czech Republic is alarming. In 2013, 2900 ha of agricultural land was transformed to built-up areas and infrastructure, almost 8 ha per day. In only 13 years, surface for built-up areas increased by 28700 ha (3,5%), currently built-up, infrastructure and other areas, including re-cultivations, represent 10,6 % of area of the Czech Republic. Although fees for change of land use from agriculture to other were increased in 2010, current legal proposals aim to decrease the fees and set a number of exceptions which make this tool ineffective.

While total revenue for extractions of minerals in 2012 reached CZK 71 billions, the fees collected by the state and municipalities were only CZK 596 million, or 0,8%. The fee needs to motivate the more efficient use of resources and substitution of non-renewable resources by renewable ones. The fees collected should reach at least 30% of the market value of the extracted mineral.

Northern Bohemia and Moravia-Silesia are two of the regions with highest unemployment rates and acute structural and social problems. These problems are only compounded by the decline of mining operations in these regions. The state needs to prepare programmes to react to the decline in anthracite mining in Silesia, where private Brzkov mine is only running with a state subsidy, and prepare a strategy to solve the situation of miners steady decrease of mining jobs (230 only in 2013) in Northern Bohemia taking into account mining phase-out by 2030.

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Adjust State Energy Strategy to reflect increasing energy efficiency of the economy and real economy of renewable sources.

The State Energy Strategy, long overdue, is again scheduled for approval in mid-2015. The current Strategy draft does not reflect the impacts of increasing energy efficiency on energy end-use consumption after 2015 and its scenarios do not properly take into account economic potential of renewable resources, reduction of costs and trajectory of technological change. The State Energy Strategy needs to set a basis for a much needed stabilisation and long-term planning in the energy sector. It needs to be based on reality.

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### **Subsidies**

Remove subsidies from energy sources with high external environmental impacts such as coal-biomass co-incineration and biological waste incineration.

The current support scheme is targeted to support heat and power production from co-incineration of biomass and biodegradable waste in coal power plants and waste incinerators. Although these options are considered as renewable energy in the EU, these technologies have very low energy efficiency and use the scarce resource – biomass – in the least efficient way. Incentives for biodegradable waste incineration represent a subsidy to unsorted municipal waste incineration, undermining the efforts to reduce, reuse and recycle and to use biodegradable waste in better ways, such as composting or biogas stations.

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Reintroduce ordinary (full) taxation of energy used in the Trade and Service sector.

Energy taxes on energy used in the sector of Trade and Service only influenced competitiveness marginally or not at all. An enterprise or sector should only be able to achieve reduced taxes on energy, if it is able to demonstrate real competitiveness problems, clearly related to energy taxes. A governmental working group has calculated that full taxation in Trade and Service would reduce the electricity consumption in Trade and Service by 20 %.

*Danish Energy Agency (2013). Klimaplan. Mindsket reduction af elafgift i handels- og serviceerhverv. [http://www.ens.dk/sites/ens.dk/files/klima-co2/klimaplan-2012/Baggrundsnotater/mindsket\\_refusion\\_af\\_elafgift\\_i\\_handel\\_og\\_service.pdf](http://www.ens.dk/sites/ens.dk/files/klima-co2/klimaplan-2012/Baggrundsnotater/mindsket_refusion_af_elafgift_i_handel_og_service.pdf)*

Adjust car taxation to the newest technological developments and CO2 emissions standards of the most efficient vehicles on the market.

In 2007, Denmark got a new taxation of cars, reflecting the energy efficiency of the car. This regulation boosted the sale of small and energy efficient cars and reduced the sale of big and inefficient cars. However, the regulation is not prepared to follow the technological development, as it has a static tipping point at 16 kilometers per liter petrol and 18 kilometers per liter diesel. Today most small cars run longer than these limits, due to the technological development and EU requirements for new cars. As accidental consequences there is no longer a strong incentive to buy the most energy efficient cars based on new technologies, the average registration tax per new car is nearly 50 % below the 2007 level, the total fleet of cars has increased by nearly 10 % since 2007 and the revenues from registration tax has been reduced by 35 % since 2007.

Considerably increase the tax on PVC and phthalates and re-introduce inflation adjustments for environmental taxes.

The tax on PVC and phthalate, introduced in 2000, has been a great success because it has considerably reduced the use of phthalates in Danish industries. The use of phthalates has lowered to less than one third. However, the value of the tax has been considerably reduced, as it is not adjusted to inflation. A considerable tax increase is needed to get phthalates out of medical equipment, where it is especially harmful.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Subsidies**

Consider phasing out all subsidies to fossil fuels, e.g. reduced excise for fuels used for non-road purposes, as well as tax exemptions and investment supports to the fossil fuel including oil-shale based activities.

Estonia started to reform environmental harmful subsidies by lifting excise exemptions for non-road use of fuels for the forestry, construction and mining sectors in 2012 and for the heating sector, but since there has been little or no progress towards eliminating exemptions for the agricultural and fisheries sectors, market distortions and an unequal treatment of the sectors are the results.

**Governance**

Strengthen the institutional capacity of the Ministry of Economy and Communication in order to implement objectives set by the EU and new climate and energy policies, by creating an independent competent agency dealing with energy efficiency and low carbon economy.

The IEA recommended to the Government of Estonia to 'Consolidate existing energy efficiency activities into a single body with long-term funding and adequate capacity to improve the targeting, integration, effectiveness and profile of energy efficiency measures.'

*IEA (2013). Estonia 2013. Energy policies beyond IEA countries.*  
<http://www.iea.org/Textbase/npsum/estonia2013SUM.pdf>

Strengthen the institutional capacity and administration of the transport and mobility sector, including governance structures and an organizational set-up that better integrates transport and land-use planning.

The Estonian Road Administration, the main national institution implementing transport policies, lacks the capacity to effectively implement sustainable mobility goals, as indicated in the road network development strategy.

Estonian Road Administration (2013). Strategy 2013-2015.  
[http://www.mnt.ee/public/2013/Strategy\\_2013\\_eng\\_v2.pdf](http://www.mnt.ee/public/2013/Strategy_2013_eng_v2.pdf)

**Investment**

Consider support schemes for investments into decentralized renewable energy production and increase support of the public sector for energy efficiency measures.

The IEA also saw the need for increased subsidies to support energy efficiency measures.

*IEA (2013). Estonia 2013. Energy policies beyond IEA countries.*  
<http://www.iea.org/Textbase/npsum/estonia2013SUM.pdf>

**Taxation**

Consider introducing a CO2-based vehicle registration tax.

The energy intensity of Estonia's transport sector continues to be very high and the fleet of new cars in Estonia is the most energy intensive in the EU. These trends are not changing despite the increased fuel excise duties. In the absence of additional measures Estonia is unlikely to meet its greenhouse gas emission target, in particular if no additional measures are taken in the field of transport.

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Increase resource taxes, such as for mining, freshwater and waste.

By introducing a mining tax, the Finnish state could build a fund or safety reserve through which it could cover emergency situations, such as leakages from mining sites to surrounding waters. This should be totally feasible as the Finnish mining sector is considered to be one of the most lucrative areas in the world due to its lack of extra costs.

Fresh water is abundant in Finland, whereby its use has not been taxed as in many other countries. This should not be taken for granted as drinking water will be scarce in many parts of the globe in the next few decades. Consequently, it could be in the Finnish interest a) to regulate its consumption through the introduction of new taxes, and b) to prepare for the commercial sales of drinking water to third countries.

Increase tax on domestic and industrial waste.

This could act as an impetus to the further recycling of natural resources, whereby a minimum of recyclable material would end up in incineration plants.

Tax peat equally to other energy sources.

Subsidies to peat industry (EUR 88 million in 2014) should be removed as the overall impact of energy production based on peat is worse than any other option (measured by CO2 emissions per produced energy unit, eutrophication caused to fresh waters and the sea, as well as permanent loss of biodiversity).

### Subsidies

Phase-out environmental harmful subsidies, especially in the transport, agriculture and energy sector.

In Finland there are over EUR 2 billion of harmful subsidies to transportation, EUR 1,4 billion to agriculture and around EUR 1 billion to fossil fuels (Finnish Ministry of Finance 2013, Finnish Ministry for the Environment 2013). These subsidies could be used instead for budgetary consolidation or earmarking.

*Finnish Association for Nature Conservation (2014). Harmful subsidies as barriers to sustainable development. The price of subsidy policy in Finland and the developing world. Executive Summary*  
[http://www.foes.de/pdf/2014-02-Harmful-Subsidies\\_Exec\\_Sum.pdf](http://www.foes.de/pdf/2014-02-Harmful-Subsidies_Exec_Sum.pdf)

*Finnish Association for Nature Conservation (2014). Harmful subsidies as barriers to sustainable development. The price of subsidy policy in Finland and the developing world. Report in Finnish*  
<http://haitallisettuet.files.wordpress.com/2013/11/sll-haitallisettuet-pdfjulkaisu-24022014.pdf>

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## RECOMMENDATION 2015

## JUSTIFICATION

**Subsidies**

Commit on a calendar to phase out all subsidies and tax exemptions benefitting to fossil energy by 2020, and to kerosene in particular.

Every year in France, more than 20 billion euros are missed due to fossil energy tax exemptions or related taxes. This is not efficient environmentally (increasing GHG emissions) neither economically (as it supports importation of fossil energy and contains technology innovation). The sectors, which are exempted (totally or partially) of energy taxes, are also exempted of the carbon tax as the carbon component is included in the energy taxes. This is the case of kerosene in air transport for instance, whereas it's the most polluting transport mode.

Progressively increase the gazole tax level to the level of the petrol tax rate.

The shortfall is almost EUR 6,9 billion for the under-taxation of gazole only. The increase in gazole taxes will be coherent with health policy against cancer. It could also raise significant revenues for deficit of the health care system. French government has increased by two cents the tax on the liter of gazole but the effect is very weak given the current decrease of oil price and the gap is still very important.

Phase out the gazole tax rebate to lorries.

The tax rebate given to lorries costs EUR 350 million. Road transport should be less subsidized to enable the transition. All these exemptions are not helping the energy transition of these sectors. France has a very oil-dependent freight as more than 85% of freight is made on road.

Very late in modal shift, for person transport as for freight, notably due to the postponement of the tax on lorries.

A new measure needs to be implemented to replace the "ecotax on lorries" to internalize the road transport externalities and find new resources for transport funding.

Five years after its adoption in the Grenelle law and after many delays, the French government decided not to implement this measure.

This has induced a high cost for the public budget and a severe lack of resources for funding of transport, notably because of the breaking of the contract with Ecomouv. Externalities are still paid by the ratepayers/collectivity.

The tax rebate to taxis should be phased out.

Taxis are paying a gazole price which is below the EU legal minimum price. France risks penalties if not increasing the price.

Phase-out public support to local and regional airports.

Whereas air transport is the most polluting transport mode, it benefits from different tax exemptions and subsidies. As a matter of consequence, train transport seriously suffers from this unfair and artificial competitiveness.

The French state and regions give generous subsidies to local airports that would not be profitable without. As the Commission reviews its state aid rules, French public authorities should decide to phase out public support to airports very early.

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## Taxation

Increase the carbon price contained in energy taxes to at least EUR 30 in 2017, EUR 37,5 in 2018, EUR 44 in 2019 and EUR 50 in 2020.

President François Hollande has announced in January that the carbon price would be a condition of success for the Cop21 that France will host in December 2015. This declaration is encouraging as the petrol price has decreased rapidly and needs to be compensated by an increase of the taxes on energy and carbon. Otherwise, investments in energy efficiency and low carbon solutions for transport will be slowed-down and delayed, despite their positive impact on jobs and energy security.

As part of the general fiscal reform, the French government should fix a EUR 60 price on the ton of CO2 for 2020.

The French government has implemented a carbon base in the energy taxes (TIC). The carbon price is EUR 7 in 2014, but compensated for most energy sources in 2014 and will be EUR 14 in 2015 and EUR 22 in 2016.

Compared to other countries, the price signal is too weak (the horizon is only 2016) and very low and will not be sufficient to drive innovation and research & development in low carbon technologies, or reduce greenhouse gases emissions enough to reach national objectives (division by 4 of GHG emissions by 2050).

Decide on a calendar to phase out all exemption from the energy and carbon tax by 2020, starting in 2014 with the suppression of the TIC exemption in refineries.

The tax revenues will partly fund the CICE (tax credit for companies). The tax shift does not fairly benefit to households and businesses. As the government plans the great fiscal reform, it should take these elements into account and give a better place to carbon and energy taxation in the French fiscal reform. Indeed, energy taxes are among the most efficient fiscal measures to fight against climate change, but also to build a strong economy.

Therefore, the carbon base should increase to save GHG emissions in a more efficient manner as well as to build a true low carbon technologies sector in France.

Apply a reduced VAT rate on public transport tickets and a normal rate on air transport tickets (20%), as in numerous other EU countries.

The VAT rate applied on transport tickets, whether it's air transport or local busses, is today the same: 10%. The VAT system is ignoring the environmental impacts of these different services. While France could apply the full rate to air tickets (without negative social effect), the government could also decide to reduce the VAT rate on public transport to 5,5% as a "service of first necessity". It's important to note that the VAT rate on public transport doubled in less than 3 years, at a time when the EU should reduce its energy consumption and the transport organizers (which are local and regional authorities) seriously suffer from this increase.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Taxation**

Shift 10 % of tax burden from labour to environmentally harmful conduct (e.g. causing CO2 emissions) and resource consumption in a budgetary neutral way.

Green taxation does not only help to achieve environmental goals cost-effectively, it also may raise significant revenues with less detrimental macro-economic impacts than other forms of direct and indirect taxation. A tax shift could render Germany's economy more growth-friendly, foster green innovation and contribute to maintaining a balanced budget.

*Vivid Economics (2012). Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficits.*

[http://www.vivideconomics.com/uploads/reports/fiscal-consolidation-and-carbon-fiscal-measures/Carbon\\_taxation\\_and\\_fiscal\\_consolidation\\_Full\\_report.pdf](http://www.vivideconomics.com/uploads/reports/fiscal-consolidation-and-carbon-fiscal-measures/Carbon_taxation_and_fiscal_consolidation_Full_report.pdf)

*FÖS (2014). Zuordnung der Steuern und Abgaben auf die Faktoren Arbeit, Kapital, Umwelt.*

<http://www.foes.de/pdf/2014-01-Hintergrundpapier-Steuerstruktur.pdf>

**Subsidies**

Reduce tax exemptions/reductions and environmentally harmful subsidies.

Tax exemptions/reductions and environmentally harmful subsidies distort competition for the benefit of fossil energy sources by 2015, that make up to more than 52 billion Euros per year.

*UBA (2014). Umweltschädliche Subventionen in Deutschland.*

[http://www.umweltbundesamt.de/sites/default/files/medien/376/publikationen/umweltschaedliche\\_subventionen\\_in\\_deutschland\\_aktualisierte\\_ausgabe\\_2014\\_fachbroschuere.pdf](http://www.umweltbundesamt.de/sites/default/files/medien/376/publikationen/umweltschaedliche_subventionen_in_deutschland_aktualisierte_ausgabe_2014_fachbroschuere.pdf)

**Focus on**

Phase out exemptions and reduced tariffs for industry on energy consumption concerning electricity tax, EEG apportionment and network charges, amounting for revenue losses of approximately EUR 16 billion in 2014.

Justified by maintaining international competitiveness, these financial benefits of approximately EUR 16 billion in 2014 keep energy costs low for industry while the financial burden is carried by consumers and national budgets. For the industry, the fiscal incentive to improve energy efficiency is weakened. The legal rules are complex, costly in administration and inconsistent as they are not based on a uniform definition of energy intensive businesses exposed to international competition.

*FÖS (2013). Ausnahmeregelungen für die Industrie bei Energie- und Strompreisen.* <http://www.foes.de/pdf/2013-09-Industrieausnahmen-2005-2014.pdf>

*FÖS (2013). Reform der Begünstigung der Industrie bei der EEG-Umlage.* [http://www.foes.de/pdf/2013\\_06\\_EEG%20Umlage\\_Industrieverguenstigungen\\_aktualisiert\\_final.pdf](http://www.foes.de/pdf/2013_06_EEG%20Umlage_Industrieverguenstigungen_aktualisiert_final.pdf)

*FÖS/DIW/Arepo/FAU (2013). Vorschlag für die zukünftige Ausgestaltung der Ausnahmen für die Industrie bei der EEG-Umlage.*

[http://www.foes.de/pdf/2013-11-FOES\\_DIW\\_Arepo\\_FAU\\_Vorschlag\\_Ausnahmen\\_EEG.pdf](http://www.foes.de/pdf/2013-11-FOES_DIW_Arepo_FAU_Vorschlag_Ausnahmen_EEG.pdf)

Reform company car taxation: the levy should be based on ecological effects and thereby reduce perverse incentives for higher car usage and purchase of more expensive vehicles. Tax deductibility of purchase and running costs must depend on increasingly strict CO2 emission standards per kilometer. Instead of taxing private use of company cars at a flat rate, the levy should be based on usage.

By the current tax treatment of company cars, the German State creates a subsidy of about EUR 4.6 billion per year, undermining the effectiveness of environmental taxation. As only 40 per cent of annual registrations of new vehicles are private cars, company cars that are sold after a short time on the used car market have significant influence on the total German car fleet.

*FÖS (2012). Steuerliche Behandlung von Dienst- und Firmenwagen – Ökologische und soziale Fehlanreize beseitigen.*

<http://www.foes.de/pdf/2012-10-Themenpapier-Dienstwagenbesteuerung.pdf>

*FiFo, FÖS, Klinski, S. (2010). Steuerliche Behandlung von Firmenwagen – Analyse von Handlungsoptionen zur Novellierung.*

[http://www.foes.de/pdf/2011\\_Firmenwagenbesteuerung\\_lang.pdf](http://www.foes.de/pdf/2011_Firmenwagenbesteuerung_lang.pdf)

*Copenhagen Economics (2009). Company Car Taxation – Subsidies, Welfare and Environment.*

*OECD (2014). Personal Tax Treatment of Company Cars and Commuting Expenses: Estimating the Fiscal and Environmental Costs.*

<http://dx.doi.org/10.1787/5jz14cg1s7vl-en>

Phase out tax exemptions for aviation and improve the ticket tax.

Although aviation is the most environmentally harmful mode of transportation, it profits from immense tax breaks: international flights are exempted from the value-added tax (VAT) and flight fuel is exempted from energy taxation. In Germany, these subsidies add up to approximately EUR 10.5 billion annually, while the total revenue of the ticket tax and the auction of CO2-certificates is less than EUR 1 billion. As these tax breaks cannot easily be abolished due to international treaties and there is no effective ETS, national ticket taxes are needed to lower these environmental harmful subsidies.

*Universität Chemnitz (2013). Die Luftverkehrsteuer – Auswirkungen auf die Entwicklung des Luftverkehrs in Deutschland.*

[http://www.foes.de/pdf/2013-11-20\\_Gutachten\\_TUChemnitz\\_Luftverkehrsteuer\\_Final.pdf](http://www.foes.de/pdf/2013-11-20_Gutachten_TUChemnitz_Luftverkehrsteuer_Final.pdf)

Reduce indirect and hidden subsidies for fossil energy sources.

While costs of renewable energies are reflected by the EEG surcharge on private energy bills, direct and indirect subsidies for fossil energy sources remain intransparent (e.g. EUR 2.5 billion for coal in 2014), making the energy transition appear costly.

*FÖS (2015). Was Strom wirklich kostet.*

<http://www.foes.de/pdf/2015-01-Was-Strom-wirklich-kostet-kurz.pdf>

*FÖS (2013). Was die Energiewende wirklich kostet.*

<http://www.foes.de/pdf/2013-09-Studie-Was-die-Energiewende-wirklich-kostet.pdf>

*FÖS (2010). Staatliche Förderungen der Stein- und Braunkohle im Zeitraum 1950-2008.*

[http://www.foes.de/pdf/Kohlesubventionen\\_1950\\_2008.pdf](http://www.foes.de/pdf/Kohlesubventionen_1950_2008.pdf)

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## Taxation

Harmonise energy taxation based on energy content and external costs of different sources in order to set technology-neutral framework conditions for the competition for highest energy efficiency at lowest environmental and health costs. Raise the diesel tax rate at least to the same level as the petrol rate. Regularly adjust the tax rates in line with inflation to ensure their incentive effect.

The current eco-tax is neither based on the carbon content of fuels nor on other environmental externalities. Diesel even benefits from a doubly reduced tax rate: the volume based levy on diesel is lower than on petrol, despite its higher carbon content (16 per cent) and the higher levels of local air pollutants it generates. This tax structure did not only lead to annual revenue losses of about EUR 6.6 billion (2008), it also induced changes in the car fleet.

*GBE and The Green 10 (2012). On The Revision of the Energy Tax Directive.*

[http://www.foes.de/pdf/18-04-2012\\_\\_Letter%20to%20EP%20for%20plenary%20final.pdf](http://www.foes.de/pdf/18-04-2012__Letter%20to%20EP%20for%20plenary%20final.pdf)

*OECD (2012). OECD Environmental Performance Reviews: Germany 2012.*

<http://www.oecd.org/env/environmentalcountryreviews/germany2012.htm>

*FÖS (2012). Für eine ambitionierte Revision der EU-Energiesteuerrichtlinie.*

<http://www.foes.de/pdf/2012-11-Stellungnahme-ETD-Vorschlag-Zypern.pdf>

Abolish reduced VAT rates (of currently 7 per cent or full tax exemption) on goods and services that are deleterious for health or environment. The taxation of national flights was an important first step to tackle market distortion in the German transport sector but should not diminish efforts to include international aviation as well.

Research and experience have shown that a broad application of reduced VAT rates is inefficient. It distorts consumption behaviour and results in fiscal revenue losses and higher administrative costs. Distributional concerns could be addressed more effectively by more targeted expenditure programmes. Hence, simplification and greening of the VAT system could eliminate perverse incentives for consumption and strengthen price signals, encouraging more sustainable purchasing and consumption behaviour.

*COM (2012). Assessment of the 2012 national reform programme and stability programme for Germany.*

[http://ec.europa.eu/europe2020/pdf/nd/swd2012\\_germany\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/swd2012_germany_en.pdf)

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Ensure a stable, more balanced and streamlined tax system for companies, including by phasing out distortive sector-specific taxes. Reduce the tax wedge for low-income earners, *inter alia* by improving the efficiency of environmental taxes, and by modifying accordingly the personal income tax system. Step up measures to reduce tax evasion (first of all VAT fraud) and tax avoidance, and create a more equitable car taxation system.

It is highly commendable that the Commission recommends alleviating the tax burden on low-wage earners and shifting taxation away to environmental taxes. At the same time it should be noted that the present flat-rate personal income tax is very unjust as it is an enormous tax subsidy to the richest part of Hungarian society, who really do not need that subsidy. At the same time this measure has deprived the public budget from a sum equaling about 1.5 % of the GDP annually. It improved neither the performance of the economy, nor the employment rate (the latter should have been obvious from the start, as it aided those who had a job and those for whom it was not a problem to find a job).

*Napi.hu (2013). Kiderült: így kaptak százmilliárdokat a tehetősek a kormánytól. [http://www.napi.hu/ado/kiderult\\_igy\\_kaptak\\_szazmilliardokat\\_a\\_tehetosek\\_a\\_kormanytol.569902.html](http://www.napi.hu/ado/kiderult_igy_kaptak_szazmilliardokat_a_tehetosek_a_kormanytol.569902.html)*

Tax fraud and tax avoidance is one of the main obstacles for the proper functioning of the market. According to the Commission Staff working document for Hungary 2012, 'The Hungarian tax system is characterised by significant tax evasion as indicated by the large shadow economy and signs of undeclared work. The size of the shadow economy is estimated at nearly 24%, i.e. substantially above the EU average of 16%.' At the same time, the Hungarian Government seems unwilling to implement any serious measures to combat the shadow economy, which is clearly shown by the recent big VAT scam. A large part of the tax evasion and tax avoidance is also a stimulus for environmentally harmful activities (like excessive car use and truck transport). For example, it is estimated that the revenue foregone due to accounting the purchase and use of cars for private purposes as company car purchase and use equals to more than 5 % of the GDP. According to the study Company Car Taxation, commissioned by DG TAXUD, company car tax subsidies are one of the highest in the EU.

NGOs (among others the Clean Air Action Group) already prepared a number of concrete proposals to reduce tax fraud, however these were not implemented by the government.

*Levego Munkacsoport (2014). VAT fraud and corruption scandal in Hungary. [http://www.levego.hu/en/campaigns/vat\\_fraud\\_and\\_corruption\\_scandal](http://www.levego.hu/en/campaigns/vat_fraud_and_corruption_scandal)*

*Levego Munkacsoport (2011). Letter to Hungarian minister Ur (in Hungarian). [http://www.levego.hu/sites/default/files/adojavaslatok\\_110906.pdf](http://www.levego.hu/sites/default/files/adojavaslatok_110906.pdf)*

*Lukács et al (2011). The social balance of road and rail transport in Hungary. [http://www.levego.hu/sites/default/files/social\\_balance\\_transport\\_hungary\\_20110131.pdf](http://www.levego.hu/sites/default/files/social_balance_transport_hungary_20110131.pdf)*

*Copenhagen Economics (2010). Company Car Taxation. [http://www.foes.de/pdf/Studie%20Copenhagen%20Economics\\_paper\\_22\\_en.pdf](http://www.foes.de/pdf/Studie%20Copenhagen%20Economics_paper_22_en.pdf)*

## Governance

Stabilise the regulatory framework and foster market competition, *inter alia* by removing barriers in the services sector. Take more ambitious steps to increase competition and transparency in public procurement, including better use of e-procurement and the overall administrative burden.

The 2014 CSR stated the following: 'Stabilise the regulatory framework and foster market competition, *inter alia* by removing barriers in the services sector. Take more ambitious steps to increase competition and transparency in public procurement, including better use of e-procurement and further reduce corruption and the overall administrative burden.' In recent years corruption became one of the gravest (if not the gravest) problems of Hungarian society, substantially increasing social tensions and reducing the efficiency of the economy. It relates not only to public corruption, therefore it should be dealt with in a separate point.

Work out, in consultation with the social partners and civil society, and implement without delay an action plan to substantially reduce corruption. Revoke all legislation reducing transparency and facilitating corruption that has been introduced during the last 10 years.

According to estimates by experts at the Hungarian Academy of Sciences, "the direct damage arising from corruption in Hungary is about 1000 billion HUF annually [more than 3 % of the GDP]; the indirect damages are much greater." Experts (including experts of several NGOs, e.g. Transparency International Hungary, Hungarian Civil Liberties Union, Clean Air Action Group) already prepared a number of concrete proposals to reduce corruption, however, these were not implemented by the government. On the contrary, many measures were taken by the government and the Parliament, which, in fact, made corruption practices easier. Corruption is often linked to environmental harmful activities (e.g. illegal or economically unjustified real estate and other developments).

Corruption is also enhanced by the fact that consultation with social partners and civil society has been much weaker during the present government than during the previous ones.

Proper consultation with the stakeholders would lead to more stable public administration and better legislation. Foreign investors and also the Hungarian business sector regularly complain about unstable legislation and the malfunctioning of public administration, referring to them as causing unnecessary uncertainty and market distortion.

At present Hungary has no real action plan to combat corruption. Even the rather weak "Government Decision No. 1104/2012. (IV. 6.) on governmental actions against corruption and the adoption of the Corruption Prevention Programme of the Public Administration" has not been implemented.

*Varga Szabolcs. A korrupció és a védekezés lehetőségei. [mta.hu/fileadmin/2009/01/korrupcio.doc](http://mta.hu/fileadmin/2009/01/korrupcio.doc)*

*NGOs (2015). Letter to the Commission on the use of European Structural and Investment Funds. [http://www.transportenvironment.org/sites/te/files/2015%20Hungary\\_action\\_letter\\_Juncker\\_Timmermans\\_Cretu.pdf](http://www.transportenvironment.org/sites/te/files/2015%20Hungary_action_letter_Juncker_Timmermans_Cretu.pdf)*

Substantially modify the use of EU funds as soon as possible: use public funds only for public goods, and not for subsidies distorting the market. Use most of the EU funds for the development of human resources.

In order to fully comply with Article 8 of Regulation No 1303/2013 of the European Parliament and the Council of 17 December 2013, strengthen the institutional framework, set better specific requirements for the project selection criteria, and ensure proper involvement of environmental NGOs in the whole process of using EU funds.

Quite a number of experts are of the opinion that EU funding has had a devastating effect on Hungarian society, its economy and the environment. Inappropriate rules concerning the use of EU money, coupled with weak or non-existent enforcement of the EU *acquis* and national commitments, lead to the result that EU money in Hungary is reducing economic competitiveness of the country, increasing social inequalities and undermining democracy – acting thus against the Europe 2020 targets. In order to change this situation, a radical reform of EU funding is necessary.

*CAAG (2014). Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014-2020 submitted to the European Commission.*

*<http://www.levego.hu/sites/default/files/op-comments-caag-2014aug28v.pdf>*

The present institutional setup and the requirements in the calls for proposals do not guarantee the proper integration of

environmental aspects in the selection and implementation of projects. Furthermore, the involvement of environmental NGO's in the whole process (preparation of calls of proposals, progress reports, monitoring and evaluation of programs) became substantially weaker during the last few years due to the measures described above. Currently, the involvement of NGOs does not conform to the requirements laid down in the European code of conduct on partnership in the framework of the European Structural and Investment Funds.

Prepare an action plan with concrete measures and deadlines to ensure implementation of all recommendations of "Guideline 5: Improving resource efficiency and reducing greenhouse gases" of the Council Recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU).

It would be beneficial both for improving competitiveness and reducing environmental pollution to implement "Guideline 5: Improving resource efficiency and reducing greenhouse gases" of the Council Recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU). A number of studies (including several commissioned by the European Commission) have proven that the proper implementation of the recommendation in Guideline 5 might substantially contribute to achieving fiscal consolidation as well as the other goals set forth by the EU 2020 Strategy.

Review the impact of energy price regulation on incentives to invest and on competition in the electricity and gas markets. Take further steps to ensure the autonomy of the national regulator in establishing network tariffs and conditions. Take measures to increase energy efficiency in particular in the residential sector.

The forced reduction of the prices of energy and other utility services by the Hungarian government in 2013 and 2014 leads to more wasteful consumption and it increases social inequities (in absolute terms, the rich generally benefit much more from this measure than the poor). It also distorts the market, and makes business for energy production and distribution companies unprofitable. Social problems and possible excessive profits due to the natural monopoly of certain companies must be tackled by other means, not by artificial price reduction.

Make public all documents relating to the planned construction of the new reactors at the Paks Nuclear Power Plant, and organize broad public consultation on the issue, ensuring equal conditions for the expression of differing views on the topic.

The deal with Moscow on the construction of the new nuclear reactors in Paks was done in secret, most of the related documents were classified, and no chance was given for a meaningful public debate

Reform the entire transport system to make it more cost efficient. Remove all direct and indirect subsidies to car and truck transport.

The recommendation of the 2014 CSR, "Ensure the financial sustainability of state owned enterprises in the transport sector by reducing operational costs and increasing revenues." could be easily misinterpreted as a recommendation to reduce subsidies to public transport and to raise its tariff. If such measures would be implemented, it would cause significant deterioration of the state of the environment in Hungary, and serious economic and social problems. Public transport would suffer a big setback. This also contradicts EU policies set forth in various documents.

The direct subsidies to public transport form part of the state budget, so they can be clearly seen by anyone. However there are also huge indirect (hidden) subsidies in transport. The indirect subsidies to car and truck transport are much larger than the direct subsidies for public transport: according to one study they might even reach 10 % of the GDP. The CSR must not be silent concerning a transport subsidy 10 times larger than that of public transport. It should urge the Hungarian government to completely eliminate the latter before considering any reduction of subsidies to public transport.

*Lukács et al (2011). The social balance of road and rail transport in Hungary. [http://www.levego.hu/sites/default/files/social\\_balance\\_transport\\_hungary\\_20110131.pdf](http://www.levego.hu/sites/default/files/social_balance_transport_hungary_20110131.pdf)*

It must be noted, too, that substantially reducing subsidies to public transport would certainly lead to its collapse in most of the country. In Budapest and its surroundings, which produce about 40 % of the Hungarian GDP, this would stifle the economy. It would also lead to a further increase of particulate matter (PM) pollution. (According to a recent study commissioned by the European Environmental Agency, 16 000 premature deaths can be expected yearly in Hungary, if the present PM pollution will persist. The morbidity due to this factor is over one million yearly. Transport accounts for a large part of PM emission.) At present the European Commission is carrying out an infringement process against Hungary because of PM10 pollution surpassing the permitted limits! Moreover, the EEA, the European Commission and the European Parliament are recommending the improvement of public transport and railway services in order to reduce PM pollution.

It is also strange that the Commission did not propose “reducing operational costs and increasing revenues” in public transport for any other country in its CSRs.

We must note also that the EU has been financing the extremely costly construction of the 4th metro line in Budapest. This line will cause at least as many transport problems as it solves. It is draining money away from very much needed transport improvements. It is increasing the operation costs of the Budapest Public Transport Company by more than HUF 7 billion annually, and its amortization costs are around HUF 15 billion annually. So, on the one hand the Commission and Council recommended the reduction of operational costs of public transport, and on the other hand the EU is greatly contributing to raising its operational costs.

Prepare and implement a roadmap for gradually increasing the R&D expenditure in Hungary to 1.8 % of GDP in 2020, with special attention to environmental R&D. Take measures to substantially increase the efficiency of R&D, and monitor the results using the indicators of the Innovation Union Scoreboard.

Increasing expenditures for R&D, and improving the efficiency of R&D is one of the main priorities of the EU. Hungary committed itself to increasing the R&D expenditure in Hungary to 1.8 % of GDP in 2020, but in fact the Government has taken measures which seriously harm R&D. Environmental R&D has been hit especially hard. The official figures do not reflect the real life situation. Firstly, the efficiency of the use of R&D expenditures is often very low. Secondly, this sector is one of the most affected by corruption. This means that a substantial part of the money allocated for R&D appears only in the statistics as R&D expenditure, but in reality it is financing criminal activities. Therefore using R&D expenditure as an indicator is extremely misleading. It would be much more appropriate to use Innovation Union Scoreboard indicators.

Substantially improve health care services, among others by increasing health care state expenditures.

Among others each year as many or more doctors leave the country as finish medical university. The vast majority of family doctors already reached or are very near to pension age. Coupled with the dismantling of the authorities responsible for the protection of health and environment, the dwindling of the health care system might soon lead to a humanitarian disaster in Hungary.

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Strengthen the capacity of all authorities so that their performance attains at least the average EU level.

Hungarian authorities (including environmental authorities and the national public health service) were weakened during recent years to such an extent that they are not able to fulfil the tasks required by EU and Hungarian legislation. This is detrimental also to the competitiveness of the Hungarian economy. This also has a negative influence on the efficiency of public spending as well as tax revenues. There are good indicators for measuring the performance of authorities; therefore it would be possible to measure progress in this field.

*IMPEL (2010). Developing performance indicators for environmental inspection systems. <http://impeleu.cloudblonde.hensel.nl/wp-content/uploads/2010/04/2009-03-Developing-performance-indicators-for-environmental-inspection-systems-FINAL-REPORT-.pdf>*

Substantially improve the consultative role of social partners and civil society, and in all cases prepare well-documented assessments for the bills concerning the budget and taxation.

Corruption and mismanagement on both national and local level is also enhanced by the fact that consultation with social partners and civil society has been much weaker during the present government than during the previous ones. Some facts about the diminishing role of civil society during the present government:

Civil society representatives were excluded from a number of bodies where they had a seat earlier. The present government either directly denied their representation or substituted it with false representatives. (An example of this practice is the National Economic and Social Council where the genuine representatives of the civil society were replaced by persons practically appointed by the government.)

Funding to NGOs was substantially reduced, first of all to national NGOs which were capable of seriously commenting government documents. Furthermore funding for NGOs to produce studies, analyses of issues of national importance practically disappeared. Today NGOs have much less capacity to seriously take part in consultations with the government than a five years ago.

It became much more difficult for NGOs to make their voice heard. Their opinion appears in the press (especially in the television and radio) much less than e.g. five years ago. This is partly due to the reduced capacity of the NGOs, but mainly to the change of the attitude of the press towards NGOs, which in turn is a clear reflection of the present government's domination of the great majority of the media.

Quite often the deadline given for the consultation is too short to make it possible to give well-based comments. It is not uncommon that important changes in legislation are approved within a few days or even a few hours following their submission to the Parliament.

Generally no background studies, impact assessments, calculations accompany the government proposals, and this often makes it impossible to properly evaluate these proposals. The budget bill is compiled in a way that makes it extremely difficult to compare its data with those of the previous years.

Often individual Members of Parliament submit bills, and the present laws in such cases require neither assessments, nor public consultation.

The government's replies to the NGO's comments are generally vague and lacking substantive information. In quite a number of instances no reply is given at all.

Proper consultation with the stakeholders would lead to more stable public administration and better legislation. Foreign investors and also the Hungarian business sector regularly complain about unstable legislation and the malfunctioning of public administration, referring to them as causing unnecessary uncertainty and market distortion.

*Levego Munkacsoport (2011). A Mockage of Democracy in the Hungarian National Civil Fund Council*

<http://www.levego.hu/en/key-themes/legal-affairs>

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**RECOMMENDATION 2015****JUSTIFICATION****Taxation**

Implement a comprehensive environmental fiscal reform as part of the proposed reform of the tax system. Remove special tax provisions that are environmentally harmful and economically inefficient; restructure energy and vehicle taxes so that they better reflect environmental externalities including greenhouse gas emissions; consider reforming existing, or introducing new, environmental taxes on resource use and pollution (e.g. on water abstraction, wastewater discharges, pesticides, fertilisers and packaging materials). At the same time, reduce the huge fiscal pressure on income and labour.

These are the recommendation from OECD in its Environmental Performance Review for Italy in 2013. Up to now no political action followed. In the next month, the Italian government should present a fiscal reform and these principles should be included.

*OECD (2013). OECD Environmental Performance Review: Italy 2013.*  
<http://www.oecd.org/env/country-reviews/italy2013.htm>

**Investment**

Promote congestion charging and low emission zones in urban and metropolitan areas to reduce air pollution and foster modal shift from private motorized vehicles to non-motorized modes and public transport.

Italian cities are among the most polluted in Europe, which has serious consequences for health and congestion. Traffic bears the main responsibility in urban areas. Italy also has one of the highest motorization rates in Europe (about 60%).

Promote energy efficiency of buildings through the adoption of a national scheme for municipal "building codes" environing the compulsory adoption of highest standards and the institution of national rotation funds for energy efficiency with easy access to private and public bodies.

The average age of buildings in Italy is elevated and buildings are responsible for about 50% of GHG emissions. Municipal rules could orientate new buildings performances; for existing buildings the availability of financing is a main obstacle.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Taxation**

Take the necessary steps to broaden the tax base, e.g. by introducing environmental taxes and increase tax levels towards the EU average, while safeguarding progressivity.

This is necessary to fund accessible, quality and essential public services. Ireland faces significant demographic pressures in the coming years across all stages of the life cycle. This will increase pressures and demand on public services. By broadening the tax base the government can ensure that it has sufficient revenue to provide the necessary public services that will be required in the future.

It must involve strengthening the fairness and progressivity of the taxation system, reduce inequality and avoid environmental harm, for example in terms of carbon taxes and water charges.

*Government of Ireland (2013). Population and Labour Force Projections 2016-2046. [http://www.cso.ie/en/media/csoie/releasespublications/documents/population/2013/poplabfor2016\\_2046.pdf](http://www.cso.ie/en/media/csoie/releasespublications/documents/population/2013/poplabfor2016_2046.pdf)*

**Investment**

Immediately develop a comprehensive framework and start taking concrete measures to meet the 2020 target for reducing greenhouse gas emissions from non-ETS activities. To reach this goal, improve energy efficiency, further develop renewable energy production and invest in de-carbonisation of the transport sector.

Progress in relation to improving energy efficiency, in particular the efficiency of the existing building stock, has slowed when it should be accelerated. Improving building energy efficiency would have multiple benefits in addition to reducing greenhouse gas emissions; such as improved housing conditions, securing long term return on investment, improve energy security and reduce energy imports. The development of renewable energy needs to be maintained and increased. Ireland should open opportunities for household-level and other renewable energy micro-generation. Finally, Ireland's GHG targets for 2020 and beyond are not being effectively integrated into transport policy. A new approach to transport policy and planning consistent with long-term decarbonisation is urgently required.

Promote and adopt the 'Resource Efficient Europe' principles contained in Europe 2020, which can be advanced through the phasing out of environmentally harmful subsidies, adopting market-based instruments to affect behavioural change and upgrading and installing smart interconnected transport and energy infrastructure.

Resource efficiency is a cross-cutting principle which promotes the decoupling of our economic growth from resource and energy use, and as such, should be a vibrant factor in tax reform, job creation and business growth and development. Such market-based instruments to encourage investment in resource efficient businesses and technologies include removing tax incentives for peat-fired power plants, increasing the REFIT rate for anaerobic digesters to encourage the development of this renewable energy technology, adopting new economic instruments, including deposit/refund schemes, to enforce the polluter pays principle, encourage waste prevention and to recover valuable resources, pursuing a more aggressive green procurement policy within all government departments, on both a national and local level, and finally creating a fund for waste prevention initiatives and new SME ventures using innovative solutions to reduce the use of raw materials, reusing/ repairing products or recycling products into new commercial commodities.

*Environmental Pillar(2012). Greening the Economy and Creating Sustainable Employment. <http://environmentalpillar.ie/files/2012/12/Greening-the-Economy-and-Creating-Sustainable-Employment.pdf>*

*ZeroWasteScotland (2014). Funding.*  
<http://www.zerowastescotland.org.uk/category/what-we-offer/funding>

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**RECOMMENDATION 2015****JUSTIFICATION****Taxation**

Introduce a tax on agricultural chemical use.

Following the recommendation from the study on Environmental Fiscal Reform Potential in 14 EU Member States (No 07.0201/2014/685390/ENV.D.2), the introduction of the tax on agricultural chemicals (Nitrogen Fertilizers and Pesticides) would reinforce the polluter pays principle in the agricultural sector, motivate farmers to be more efficient in their use of agricultural chemicals and decrease pollution to the environment. Agriculture is one of the main sources of eutrophication in the Baltic sea catchment area.

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**RECOMMENDATION 2015****JUSTIFICATION****Investment**

Continue to enhance energy efficiency measures in residential buildings and facilitate availability of EU funds for EE measures in residential buildings.

In Latvia, the current average annual specific heat consumption in multi-apartment buildings is at around 157 kWh/m<sup>2</sup>, which is close to class F according to the evaluation and classification system for energy efficiency of comparative buildings approved by the Cabinet of Ministers of Latvia in 2013. Class F corresponds to indicators of most infective heat consumption in residential buildings. So there is still a way to go to improve EE in residential buildings.

For all projects that meet the criteria set in the EU Funds for the period 2014-2020 regarding energy efficiency will be secured. Around EUR 150 M of Regional Development and Cohesion Fund will be invested in EE renovation of existing housing stock, demonstration projects and supporting measures in 2014-2020.

Lessons learned in managing EU Funds in the previous period, following specific recommendations for promoting full exploitation of the funds, should be taken into account for the next period:

- ESCOs (Energy Service Companies) have to be encouraged to participate in the implementation of renovation projects to improve EE performance and more efficient returns of investment.
- New amendments in the regulation for public procurement should be adopted that are appropriate for long term service contracts in EE projects.
- A new real estate tax policy should be introduced for increasing the building owners' interest in energy efficiency improvements. At the moment, increasing EE of a

building increases also its value, which in turn leads to higher real estate tax burdens for the owner.

- Support programs for low-income families which cannot access loans for housing EE improvements should be developed. The availability of loans is crucial for initial funding of EE projects in residential buildings.
- Energy poverty has to be faced as one of the crucial aspects in improving EE of residential buildings. Different kind of support schemes should be developed to minimize the risk of energy poverty, e.g. if after improving EE of a residential building, those who live there remain or may be threatened by energy poverty.

In managing the available EU Funds for the period 2014-2020, new provisions might decrease the interest of potential applicants to implement EU co-funded EE projects. During the prior period interest in insulation projects rose sharply, with support of 50%, but the new maximum EU support is 35% only and claims for quality conditions are particularly high. There are concerns that this will cause a drop in interest.

To successfully attract funding for regions and municipalities, a well-coordinated information campaign is needed to promote public awareness and motivate participation in activities related to energy efficiency.

Currently, financial support for the development of technical documentation for the implementation of energy efficiency measures is provided only in a few municipalities, but this support is crucial for EE project implementers to meet all requirements and deadlines. EE measures introduced during the previous EU funding period show that there is still not enough time devoted to the development of technical documentation, which then contributes to delays in project implementation and significant cost increases.

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## RECOMMENDATION 2015

## JUSTIFICATION

### Taxation

Continue to reduce tax disincentives on labour and consider a substantial shift of the tax burden from labour to the environment.

The tax burden on labour should be reduced, in order to help lowering the crisis-induced unemployment of 8.1% (January 2015) in the short term and to create optimal conditions for a more efficient allocation of labour and of natural resources in the Dutch productive sector in the long term.

Reintroduce an air passengers tax (terminated on 1-1-2010)

The former air passenger duty increased budgetary revenues and led to a reduction of air tickets sales. It thus proved effective in terms of fiscal consolidation and positive green impacts.

Reconsider the proposed termination of the coal tax by 2016 (as arranged in the framework of 2013 the Energy Accord)

The coal tax helps to better include negative effects of coal-fuelled power generation in the electricity prices and so helps preparing better market conditions for renewable energy, necessary to boost the proportion of RES from a meager 4.4% now to 14% by 2023

Introduce a NOx-tax for large combustion installations (the NOx-tradeable emission system has been terminated by 1-1-2014)

Despite a more stringent standard of 37g/GJ in 2013 (from 40 g/GJ before), the expectation is that NOx emissions in the industry and energy sector will increase up to 2020 due to higher energy consumption. An NOx tax can help to curb this increase.

Increase the tariff of the re-introduced waste tax (plus expanding the pay-per-bag system, or similar, for household waste) and introduce a positive tax rate differential for waste to landfills;

As of 1 January 2015, the actual tax rate on waste to incineration plants has been increased from nil to € 13 per tonne. The rate on tax to landfills was, however, reduced to the same level. A higher tax rate (with a positive tax rate differential for waste to landfills) could help further diverting waste from landfills and incineration to other destinations, i.e. reuse and recycling, and help to reduce waste generation. However, bringing such incentives directly to the household level requires a further expansion of pay-per-bag systems or similar.

Reintroduce the ground water tax (terminated on 1-1-2012);

This may help to further a more sustainable vision on the handling of groundwater, e.g. as regards draining in the construction sector.

Reconsidering reintroducing a packaging tax (terminated on 1-1-2013), with a much higher rate than in the old system;

Research shows that a sizeable tax on one-way packaging can have a significant effect on a shift to reusable packaging and thus lower the environmental effects of packaging use.

Terminate the tax waiver for (partly) reimbursement to employees of costs of home-work trips made by cars.

More fiscal incentives are needed to reduce company car mileage.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Governance**

Adapt educational and training programmes to increase employment in green sectors, improve transition between schools and labour market and reduce unemployment.

Take steps to stimulate eco-innovation by better reflecting R&D spending in national strategies.

The green jobs sector in Poland, now accounting for a fraction of the labour market, has the potential for rapid growth. Estimates say that only the renewable energy sector could create additional 100.000 new jobs by 2030. Focus on creating resource efficient jobs would help with the sustainable transition of the country, offering alternative employment in regions traditionally supported by high-carbon industries, such as mining. (Greenpeace 2013; WISE, ISD 2013)

Create a stable and supportive legal and investment environment for energy from renewable sources, in order to increase generation capacity and security.

Exclude co-firing of coal and biomass from receiving any subsidies intended to support RES.

Step up construction and modernisation of electricity grids and the development of smart energy metering.

A dedicated RES law, which would offer stable and long-term operational and investment support to renewable technologies is still missing, creating a situation of uncertainty which blocks new investments into RES. Poland needs to speed up works on the draft law (transposing RES directive) which has been lagging for four years, prompting an infringement decision by the EC in late 2014.

Poland also needs to ensure that the law adequately addresses the issue of subsidies and support to RES technologies; particularly no further support should be granted to co-firing. According to a complaint lodged by Polish Climate Coalition with the EC on Poland, in the years 2005-2012, the Polish energy sector received almost EUR 1.82 billion to support co-firing coal with biomass, under the pretense of subsidising green renewable energy.

Improving the efficiency of energy transmissions by modernising grids, adopting and implementing smart metering regulations are necessary to reduce energy losses and improve energy security, particularly in remote and rural areas.

Increase investment in railway infrastructure, including by utilising the EU Cohesion Policy funds.

Ensure compliance of road investments with the environmental acquis, particularly with biodiversity conservation requirements.

Focused investments are needed to improve connection density and quality of rail service, in order for railway to become a viable alternative to more carbon-intensive modes of transportation (89% of Poland's passenger transport is currently car transport [Eurostat]). To increase the use of low-carbon railway transport, Poland should ensure that this priority is reflected in the transport-related investments from EU funds.

Given the number of planned road investments, and the instances of EU environmental regulations' infringement related to road construction, Polish authorities should ensure that the investments don't have a negative impact on protected habitats and species.

Take steps to improve air quality.

Air pollution is a serious and growing problem in Poland, particularly in towns and cities during the heating season. Estimates say that very bad air quality is responsible for 45 000 premature deaths every year, resulting in very high healthcare and environmental costs. Poland needs to adopt national level regulations which would incentivise and give tools to local

governments to fight low emissions, particularly those originating from individual heating systems at homes.

*HEAL (2013). The unpaid health bill. How coal power plants make us sick.* [http://www.env-health.org/IMG/pdf/heal\\_report\\_the\\_unpaid\\_health\\_bill\\_-\\_how\\_coal\\_power\\_plants\\_make\\_us\\_sick\\_finalpdf.pdf](http://www.env-health.org/IMG/pdf/heal_report_the_unpaid_health_bill_-_how_coal_power_plants_make_us_sick_finalpdf.pdf)

Improve the European funds governance structure to ensure good implementation and monitoring.

Poland is the biggest beneficiary of European Structural and Investment funds in 2014-2020. Improving the setup of EU funds implementation and monitoring, in particular the quality of multi-sectorial partnership, is a necessary condition to ensure transparency and environmental sustainability of investments. As problems have been identified with the application of the partnership principle, measures should be taken to better engage civil society partners in decision-making and oversight.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Subsidies**

Cut down “guarantee subsidies” and “investment subsidies” for the electric utilities. The subsidy for large dams should be revoked entirely.

Current electrical power capacity in Portugal is well beyond necessary; the coverage index stands now at over 1,3 and will increase to at least 1,5 if on-going and pending projects, namely the dam program, go ahead. The current energy mix only requires a coverage index about 1,1, and will require even less if linkage at the Pyrenees is improved.

The more general “guaranty subsidies” should be reassessed based on actual system security needs; additional studies will be required to define the appropriate value, but based on past coverage indexes, it can be estimated that this expenditure should be downsized by about two thirds.

Subsidies to large dams are harmful for the environment and local development, and are not a contractual obligation, so they should be dispensed.

Redefine the tariff system, decreasing the so called “general interest costs” (most of which are actually harmful subsidies) and the grid costs; if necessary increasing the power and energy terms of the equation.

Existing “general interest costs” are mostly harmful subsidies e.g. to subsidize fossil fuel co-generation, conventional and biomass thermoelectric, and large dams.

Grid costs should be based on service provided rather than investments. Grid costs are inflated because most of the grid has excess capacity, due to the twin trends of efficiency-related demand reduction, and the increase of decentralized production, which will happen even more with falling photovoltaic cost.

The electric car subsidy program should be abandoned.

Although they are certainly a coming technology, electric cars are a luxury item at present price and performance. They are not expected to have a significant share of the market for at least the next 10-15 years. Regarding urban transportation, they are incomparably less cost-effective than public transportation of any kind. Therefore, these subsidies are a useless burden for the taxpayers.

**Taxation**

Eliminate fuel tax rebates for industry and transportation. The elimination of such rebates should be enough to finance appropriate energy efficiency measures.

Existing tax rebates are a powerful incentive to energy inefficiency in industry and transportation. In the long run, the elimination of those rebates combined with efficiency incentives should improve economic efficiency dramatically.

There is however a difficulty regarding competitiveness.

This problem should be faced by (i) incentives to industry incentives by other means, e.g. energy efficiency, and (ii) challenging illegal subsidies in other countries before the European Commission and the European Court of Justice.

**Investment**

Create strong incentives for investments in energy efficiency, targeting industry, services and other business, and housing. Specific technologies deserving support are well known, e.g. housing insulation or electronic speed variators for industrial equipment. Incentives should be in the form of tax benefits (for families and institutions) or lower interest rates, rather than lost-fund subsidies.

Economically feasible energy efficiency potential in Portugal is estimated at 20-30% of total consumption, by field environmental audits and official targets. Major reasons for the lack of investment are high return periods and unavailable financing. A tax rebate of 25-30%, or an equivalent subsidy to banking interest rates, should increase investment and overall system efficiency, cutting return periods of investment from 5-6 years to 3-4 years.

Financial stability of public transportation requires an altogether different approach:

- a) Create unified mandatory tariffs for the metropolitan areas;
- b) Define mandatory service quality standards;
- c) Financial balance should be met chiefly by getting more revenue through better service and more customers.
- d) Operating costs should be balanced with operation revenues, reducing energy costs through better efficiency, higher occupation rates and gradual transition to electric traction;
- e) Investment costs should be mostly covered by dedicated state budget revenues, linked to the transportation system, e.g. carbon tax from auto fuels;
- f) Old debt incurred under orders from political leadership should be taken away from public transport companies and assumed by the State;

Only when those conditions are met should the private concession of public transport service be contemplated.

Mandate full cost-effectiveness to be conducted and published, included or in parallel with strategic environmental assessment or environmental impact assessment as appropriate, for all major infrastructure projects. One key indicator should be the total cost for consumers-taxpayers.

Create a national transport plan whose backbone should be the ERTMS standard electric railway network, to be implemented in tiers. This network should link major cities, major ports (not all ports), international airports and major logistic platforms. It should be implemented in tiers with the goal of creating a robust network.

Notwithstanding the operational convenience to have lines dedicated preferably to passenger or freight traffic, the new network should be planned as fully inter-operable under the ERTMS standard.

The last few remaining metric-gauge mountain rail tracks should be saved, both for touristic value and because they can be an important part of the rail system. The mountain track with more potential is the Tua line, currently threatened by the construction of the Foz Tua dam.

In the past twenty years the share of public transport in pendular movements in the metropolitan area of Lisbon fell from 50% to 25%. Due to deregulation, at one point the number of types of tickets increased to an unbelievable 3008 (three thousand eight)!

The Government tried to cut costs by decreasing service standards while increasing tariffs. This tactic failed miserably, resulting in significant loss of customers and revenue, in a downward vicious cycle. Despite the economic crisis, the share of public transportation has not improved, due to a combination of low inter-modality, low reliability and increasing costs.

The cut on small ticket benefits for poorer people, like students and seniors, may also have contributed to school drop-off and increasing mortality rate amongst elder citizens (they go out less, socialize less, and have less money available for food and medicine).

Past investments and decisions in infrastructure such as highways, large dams, railway and others, have been systematically based on poor technical studies and inflated “predictions” of future demand. At least 40% of the current highway network and the whole large dam program are over-dimensioned or plain useless.

For decades to come, Portugal will have to operate two major rail networks: Iberian gauge and European (standard) gauge.

The ERTMS standard sets a lot more than the gauge: it defines traction, signals, communication, track and vehicle characteristics.

Clear priorities must be defined for the creation of new lines or refitting of old ones, because it will be impossible to do all at once. Those priorities must be based upon careful cost-benefit analysis, something hardly ever done in the past – certainly not under the so called “strategic transport plan”.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Investment**

Extend the use of cost-effective green infrastructures, in particular regarding flood management, in order to reduce the expenses related to flood protection.

Traditional measures to reduce the negative impacts of floods include constructing new or reinforcing existing flood defense infrastructure, such as dykes and dams. There are, however, alternative and potentially very cost-effective ways of achieving flood protection, which profit from nature's own capacity to absorb large quantities of excess waters: large scale floodplain restoration is such an alternative, and first lessons learned from field experience show that it is very cost effective. Such green infrastructure measures can play a major role in sustainable flood risk management: win-win solutions should be the focus of flood risk management.

*European Commission(2015). Towards better environmental options in flood risk management.*

[http://ec.europa.eu/environment/water/flood\\_risk/better\\_options.htm](http://ec.europa.eu/environment/water/flood_risk/better_options.htm)

*European Commission(2011). Environmental Flood Risk Management.*

[http://ec.europa.eu/environment/water/flood\\_risk/pdf/Note%20-%20Better%20environmental%20options.pdf](http://ec.europa.eu/environment/water/flood_risk/pdf/Note%20-%20Better%20environmental%20options.pdf)

Improve energy efficiency as a first priority to enhance energy security. Energy efficiency of industrial operators and the housing sector require substantial investments.

Increasing energy efficiency in businesses is key to improving Romania's competitiveness and contributing to job creation, with particular potential in agriculture and food processing and through the promotion of eco-innovation in SMEs. Enhancing carbon sequestration, emission reduction and improvement of air quality through agro-forestry systems, forest planting and maintenance should also be promoted.

An efficient use of energy in public and private housing is also essential to improve air quality and public health in urban areas. The energy intensity of GDP in Romania is much higher than the EU average and the second highest per capita in the EU, with a negative impact contributing to high greenhouse gas emission levels.

Romania has reached its average 2011–2012 indicative trajectory for both the Renewable Energy Directive and the National Renewable Energy Action Plan, but limited progress is made so far in improving energy efficiency and further efforts are needed to develop policies across the relevant sectors (housing, public buildings and infrastructure, SMEs and the agricultural sector) and to implement them.

*European Commission. Position of the Commission Services on the development of Partnership Agreement and programmes in ROMANIA for the period 2014-2020.*

[http://ec.europa.eu/regional\\_policy/what/future/pdf/partnership/ro\\_position\\_paper.pdf](http://ec.europa.eu/regional_policy/what/future/pdf/partnership/ro_position_paper.pdf)

*European Environmental Agency, trends and projections (2013)*

<http://www.eea.europa.eu/publications/trends-and-projections-2013>

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## Governance

Ensure adoption and implementation of Natura 2000 management plans, considering public financial support from EU funds (Cohesion Policy and Rural Development) and the re-organization of the decision-making process and the governance system.

Ensure proper implementation of the ICPDR's recommendations in relation to the designation of exclusion areas and pre-planning mechanisms for hydropower development, in a transparent process involving the participation of all relevant stakeholders.

*European Commission. Position of the Commission Services on the development of Partnership Agreement and programmes in ROMANIA for the period 2014-2020.*

[http://ec.europa.eu/regional\\_policy/what/future/pdf/partnership/ro\\_position\\_paper.pdf](http://ec.europa.eu/regional_policy/what/future/pdf/partnership/ro_position_paper.pdf)

Romania has major problems in regards to authorization, construction and operation of hydropower, an increasing number of such infrastructure continuing to negatively impact protected areas of all types, including N2000 sites designated for the protection of certain endangered species and habitats of community interest such as otter, cray-fish, fish, etc.

Following a request by the Danube Ministerial Conference 2010, the ICPDR has become active in initiating a dialogue with representatives from the hydropower sector. As an essential step in this process, "Guiding Principles on Sustainable Hydropower Development in the Danube Basin" have been developed by an interdisciplinary team and were finalised and adopted in June 2013 and endorsed also by the European Commission.

Proper implementation of the ICPDR's Guidelines would reduce the pressure on rivers ecosystems on sections that still have good and high ecological status as well as on those from protected areas. Unfortunately, after almost two years since its adoption, Romania continues to lack the political will to implement the ICPDR recommendations.

*ICPDR. Guiding principles: sustainable hydropower development in DRB.* <http://www.icpdr.org/main/activities-projects/hydropower>

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## RECOMMENDATION 2015

## JUSTIFICATION

**Governance**

Ensure independent control and effective participation of external subjects during policy and legislative processes by creating mechanisms for expert involvement during all phases.

This proposition is widening the CSR 6 from 2014. Not all analytical capacities need to be internal within ministries. Externalization would have several positive impacts, including increased independence, transparency and inclusion of more ambitious policy making targets and innovative methods.

**Subsidies**

Submit all subsidies for renewable energy sources to strict and binding sustainability criteria to prevent negative impacts on the environment, society and economy.

Especially in the case of bioenergy, it is important to set up and implement strict rules and sustainability conditions for state aid or any other public subsidies, whether from the State budget or the EU budget.

Rule out subsidies and state aid to energy sources and energy producers that do not present an added value to the transformation of the Slovakian energy sector towards low carbon production methods.

Only innovative projects with a clearly identifiable added value to the transformation of the energy sector should be subsidised or supported. This condition would prohibit subsidising of fossil fuels and large scale centralised energy production.

**Governance**

Increase capacities of local and regional administrations in respect to resource and asset management to stabilise public finances and minimise capital outflow from the regions.

Increasing the capacities of local and regional decision-makers and public institutions in areas of managing their own resources (natural, human, financial) is crucial to stop the present huge capital outflow, stabilise local public budgets and create space for income generation through utilisation of own resources. This applies to energy and other material resources, natural assets, cultural heritage. Focus should be placed on self-sufficiency and internalization of economic and production processes out of which energy production/consumption cycle is one of the most important.

Decrease long term unemployment and social exclusion through economic activation of citizens and support of community driven initiatives.

Cooperatives and other forms of community driven initiatives can, together with strengthened relations to municipalities, lead to high levels of economic activation of citizens. This is crucial for regions that are not able to benefit from the large scale economic processes because of geographical, demographic or other barriers. Support schemes for the creation of cooperative and other forms of community initiatives, including incubators and financial instruments (including those connected to the new Cohesion Policy), play a decisive role.

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## RECOMMENDATION 2015

## JUSTIFICATION

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### Taxation

Shift the burden of taxes and contributions from labour to environmentally harmful activity (e.g. CO2 emissions) and resource consumption in a budgetary neutral way.

In the current crisis, it has to become more attractive again to employ. One large obstacle is the high level of social contributions, which makes it expensive to employ. The government coalition committed to a comprehensive Green Fiscal Reform, however rather than drafting and following a long-term strategy, it still resorts to ad-hoc attempts that have a counter-productive effect. There is still great potential for shifting the tax burden towards resource consumption and environmentally harmful activity, e.g. by:

abolishing the reduced VAT rate (of currently 9.5%) on phyto pharmaceuticals and the full tax exemption on air tickets

raising the diesel excise duty to the same level as the petrol excise duty (and regularly adjusting the rates in line with inflation to ensure their incentive effect)

removing refunds of diesel excise duties for transport companies (since this might result in lower tax revenues from diesel for Slovenia, a European solution should be pursued, e.g. in the context of the revision of the Energy Tax Directive)

step up efforts to phasing out exemptions and reduced excise duties for industry on energy consumption (remaining reductions have to be linked to binding targets for improving energy efficiency)

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### Investment

Take dedicated steps to harvest the potential of green jobs in Slovenia, especially in the context of rising rates of youth unemployment.

Ad hoc employment measures are not sufficient to tackle the structural unemployment challenge. Dedicated support is needed in sectors that have large employment potential and offer the opportunity for long-term sustainable economic development:

Slovenian forestry is (by law) sustainable, but little value is added to timber within Slovenia, the bulk of raw timber is simply exported. The development of the wood value chain has large employment potential.

The demand for produce from organic agriculture is exceeding domestic production by far. Organic agriculture is more labour intensive than conventional agriculture. Therefore, a shift towards organic agriculture has great employment potential.

Domestic waste treatment is still too much focused on landfilling. Recycling is more labour intensive than landfilling per ton of waste. Increased separated collection rates and domestic recycling have the potential to create new jobs in Slovenia.

Tourism in Slovenia is booming. One major attraction is the country's natural environment. Therefore, extensive, green and active tourism has large (employment) potential in Slovenia.

The energetic refurbishment of the Slovenian housing stock is progressing (too) slowly. There is large employment potential in accelerating the renovation rate – both in public and private buildings.

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## **Governance**

The Slovenian authorities are invited to prepare and implement a well-articulated strategy for reducing the number of municipalities and improving their capacity to absorb EU cohesion funds.

The absorption of EU cohesion funds by local authorities is insufficient and leads to delays in meeting relevant directive requirements (waste & waste water etc.). Many of the Slovenian municipalities are extremely small and do not have the capacity to develop adequate projects. Reforming the inefficient structure of the municipal sector, which certainly has to include a reduction of the number of municipalities, will also ensure better use of public finance and secure a stronger local development in the future. Arising corruption issues at the local level will also be better tackled with such a reform.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Taxation**

Shift a relevant percentage of tax burden from labour to environmentally harmful conducts (e.g. causing CO2 emissions), possibly in a budgetary neutral way.

In the case of Spain, the huge unemployment rate (23.9% compared to EU28-average 10.0%, in Nov 2014 [Eurostat]) and the excessive energy dependence (73.3% Spain vs. 53.4% EU-28 average, in 2012 [Eurostat]), make this measure most reasonable. In reality, energy dependence is even higher, since these figures consider nuclear generation as a domestic source.

Harmonise energy taxation based on energy content and external costs of different sources.

This would set technology-neutral framework conditions for the competition for highest energy efficiency at lowest environmental and health costs. This could raise to more than EUR 10 billion by 2020 and a reduction of CO2 emissions of 1.5-2.5 % relative to the baseline. This proposal is somewhat similar to that included in the report of the fiscal experts committee appointed by the Government (in Spanish, proposal 86.a, p. 323).

*Vivid Economics (2012). Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficit.*

<http://www.vivideconomics.com/index.php/publications/fiscal-consolidation-and-carbon-fiscal-measures>

*Comisión de expertos para la reforma del sistema tributario español (2014). Informe. <http://www.abc.es/gestordocumental/uploads/economia/fe007a24af859ec8ce790387ba6b7755.pdf>*

Advance towards the convergence of the tax rates for gasoline and gasoil, and use the additional revenue to reduce social security contributions.

This proposal is included in the report of the fiscal experts committee appointed by the Government (in Spanish, proposal 86.b, p. 323).

This is one of the proposals with the highest impact in terms of revenue, since the very low tax rates for gasoil compared to gasoline are the main reason why Spain ranks last in the EU-28 as regards the percentage of environmental taxes (1,57% compared to EU28-average 2.40%, in 2012 [Eurostat]).

The additional revenue could be used to lower social security contributions, as proposed in the report of the fiscal experts committee appointed by the Government (proposal 86.c, p. 323).

*Comisión de expertos para la reforma del sistema tributario español (2014). Informe. <http://www.abc.es/gestordocumental/uploads/economia/fe007a24af859ec8ce790387ba6b7755.pdf>*

Advance towards a greater harmonization of energy and environmental taxes in the Autonomous Communities.

Environmental externalities generated by the activities subject to energy and environmental taxes are quite similar within the whole Spanish territory.

Some regional taxes that could potentially be harmonised are for example those on air pollution, consumption of plastic bags or waste disposal.

This progress towards harmonisation is supported by the report of the fiscal experts committee appointed by the Government (p. 344).

*Comisión de expertos para la reforma del sistema tributario español (2014). Informe. <http://www.abc.es/gestordocumental/uploads/economia/fe007a24af859ec8ce790387ba6b7755.pdf>*

Suppress exemption of aviation fuel used in domestic flights (Ley 38/1992) and advance bilateral negotiations towards suppression exemption of aviation fuel used in transnational flights.

Apply full VAT rate for inland flights.

Although aviation is the most environmentally harmful mode of transportation, it profits from immense tax breaks: international flights are exempted from the value-added tax (VAT) and flight fuel is exempted from energy taxation. No international agreement obliges to impose an exemption of fuel taxes on kerosene for its use on domestic flights, and this tax should be therefore adopted. As a second-best option, national ticket taxes could be considered to lower these environmental harmful subsidies.

### **Subsidies**

Suppress exemption of navigation fuels (Ley 38/1992), including fuel used for fishing.

Suppressing of environmental harmful subsidies and favouring most efficient transportation and fishing boats. If necessary to facilitate transition, support ecological transformation of these activities.

Reduce the existing refund rate in the fuel tax to diesel used in agriculture (Ley 38/1992).

Suppressing of environmental harmful subsidies and favouring most efficient agricultural practices. If necessary to facilitate transition, support ecological transformation of these activities.

Reduce public subsidies to the use of national coal and increase tax rates for the use of coal, regulated in Ley 38/1992.

Although there has been some progress, subsidies to the use of national coal are still important in Spain (EUR 636 MM in 2011). The proposal to suppress exemptions to the use of coal is also included in the report of the fiscal experts committee appointed by the Government (proposal 87, p. 323).

*OECD (2013). España: Inventario sobre el apoyo presupuestario estimado y el gasto fiscal relativo a los combustibles fósiles.*

<http://ow.ly/hiyo5>

*Comisión de expertos para la reforma del sistema tributario español (2014). Informe. <http://www.abc.es/gestordocumental/uploads/economia/fe007a24af859ec8ce790387ba6b7755.pdf>*

### **Governance**

Conceive an integral reform of the legal electricity framework, particularly suppressing the huge existing windfall profits for the nuclear and hydroelectric industry, which derive in an unreal deficit between recognized costs and actual costs.

Several initiatives been allegedly adopted to solve the deficit in the electricity system (déficit tarifario) (e.g. some measures in Ley 15/2012). However the main causes in the origin of this deficit remain untouched, that is the difference between recognized and actual costs due to a wrongly conceived mechanism of formation and recognition of the electricity prices.

### **Taxation**

Change the tax base of the electricity tax from price to consumption, and advance towards the suppression of several of the existing exemptions.

This proposal is supported by the report of the fiscal experts committee appointed by the Government (proposal 88, p. 324).

Currently, the tax base of the electricity tax is directly proportional to the price of the electricity. This creates no direct incentive to efficiency, since: a) the price varies very dramatically between users, and so does the tax paid in relation to the consumed electricity; b) an important and increasing part of the price is independent from actual consumption.

Adopting consumption as the tax base would not only increase incentives towards efficiency, but will also make the effective tax rates much more transparent (and comparable among users, in case different tax rates apply to large consumers, which could be acceptable during a transitional phase).

Besides, the tax on electricity has at present several exemptions that are not justifiable from an environmental point of view.

*Comisión de expertos para la reforma del sistema tributario español (2014). Informe. <http://www.abc.es/gestordocumental/uploads/economia/fe007a24af859ec8ce790387ba6b7755.pdf>*

Reform the vehicle registration tax (Ley 38/1992). In particular:

- reduce the limit that vehicles need to comply to in order to benefit from an exemption in this tax.
- make the tax rate dependent on the emissions of other pollutants besides CO2.
- suppress or reduce tax exemptions for company cars.

The reform of the vehicle registration tax that entered into force in 2008 has created a positive incentive towards the registration of more environmentally friendly vehicles. However, whereas the technology has continued to improve the tax has remained untouched, which means that a high percentage of vehicles benefits now from the exemption of this tax (for vehicles below 120 gCO2/km), as compared to those taking advantage of this exemption in 2008. This has also had a significant impact on revenue.

Besides, the impact of vehicles to local air conditions is caused by other gases rather than CO2, which at present are not considered in the definition of the tax rate.

Finally, company cars can benefit from exemptions in the tax, which can be qualified as environmental harmful subsidies.

*Freire-González, J. & Puig Ventosa, I. (2013). Efectos económicos y ambientales del impuesto especial sobre determinados medios de transporte.*

Reform the vehicle circulation tax (Real Decreto Legislativo 2/2004), so it also becomes dependent on the environmental performance of the vehicle, similar to the reform followed by the vehicle registration tax.

The vehicle circulation tax – which is levied at municipal level – depends on the category of vehicle and on some characteristics (e.g. power or number of seats) which are not directly related to its environmental performance.

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## RECOMMENDATION 2015

## JUSTIFICATION

**EU-ETS**

Permanently retire excess emission space under the Effort Sharing Decision (ESD).

In 2013, Swedish GHG emissions covered by the Effort-Sharing Decision were 5-6 million tons below the Annual Emission Allocation (AEA) according to the decision. In 2014, the over-achievement is likely to be even bigger. Sweden can annually transfer (=sell) approx. 1,9 mill. of the AEA-space to “under-performers” among the EU member states. If Sweden does so, the Swedish emission reductions will partly be neutralized.

*Nilsson, M. (2014). Uppdatera klimatpolitiken. Klimatpolitisk handbok för en ny regering.*

**Taxation**

Raise energy taxes, at least temporarily, to balance the impact of cheaper oil and electricity.

Sweden is again facing budget deficits. Meanwhile, market prices on energy, in particular oil and electricity, have fallen sharply. A number of reasons speak for raising the energy taxes, at least temporarily:

1. The revenues are needed to limit the budget deficit.
2. The phasing out of fossil fuels will in the longer term lead to considerably higher energy prices. In order to prevent investment decisions by business and consumers during the next years from being taken on the basis of the present low energy prices, the State need to intervene and adjust the final prices through higher energy taxes.
3. Higher energy prices are needed to incentivize further energy efficiency.

Replace reduced fuel taxes for agriculture, fishing and forestry with other, environmentally neutral, types of subsidies.

To preserve the competitiveness of those sectors, their fuel taxes are currently reduced. Competitiveness issues should instead be addressed by other, environmentally neutral, measures.

**Governance**

Define a date when the sales of fossil petrol and diesel will not be permitted anymore.

Taxes are well suited to limit the use of fossil fuels, but in order to fully prevent CO<sub>2</sub> emissions in the long term a ban on fossil fuels is needed. It should probably be introduced through some form of mandate. In order to give sufficient time for industry and consumers to adapt a final date for the phase out of fossil petrol and diesel should be set as soon as possible.

Solve the financing of the need to protect forest for conservation purposes.

With improved management methods the need to set aside forested areas as nature reserves, as part of a strategy to achieve the environmental goals, may be limited to (depending on part of the territory) 9-16 % of the Swedish forested area with a potential yearly growth of 1 m<sup>3</sup>/ha/year. Financing this with tax money is unrealistic and also inefficient from a social-economic point of view, since it gives no incentive to forestry to adapt its management methods in order to limit the need for nature reserves.

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## RECOMMENDATION 2015

## JUSTIFICATION

**Taxation**

Shift the tax burden towards environmental taxes.

Moves to reduce green taxation on domestic energy run contrary to the recommendations of previous and current Annual Growth Surveys and should be reversed.

Adjustments to the Energy Company Obligation Scheme – including reducing the Carbon Emissions Reduction Obligation by one third to 2015 – and the decision to fund the warm home discount from general taxation in future, reduced average household energy bills by about 50 GBP annually. The move has been widely criticised by social and environmental organisations, as a slow-down in the current programme to improve on the UK's poorly insulated housing stock will result in poorer energy efficiency, higher energy bills and more GHG emissions. Delaying the transition to renewable energy and the introduction of energy-efficient technologies is clearly a retrograde step.

Fuel duties should be increased as soon as possible, in the window of opportunity afforded by falling oil prices.

Freezing fuel duties reduces the comparative cost of transport fuels over time and undermines incentives towards greater fuel efficiency in the transport sector. Fuel duties are also an important source of revenue: If frozen through to 2018–19, the policy will cost £4.2 billion (IFS 2014). The falling oil price gives policy-makers a window of opportunity to increase fuel excise with minimum consumer resistance, increasing revenues to the exchequer and upholding price incentives to reduce fuel consumption.

Change the definition of environmental taxes back to the internationally accepted definition.

The change of definition of environmental taxes by HM Treasury in 2012 (HM Treasury 2012), seemingly to meet a government commitment to increase the share of green taxes in total tax revenue, has led to the absurd situation of HM Treasury using a different definition to the UK's Office for National Statistics, which continues to use the internationally accepted definition. The definition should be changed back, and environmental taxes raised as above so that the commitment can be met using the accepted definition.

Differences between carbon prices in different sectors and for different energy sources should be examined and prices better aligned.

Currently, there is inconsistent carbon pricing in the UK – carbon prices are very different for different sectors, e.g. domestic and industrial energy consumption – and also for different energy sources, i.e. coal, oil, gas. Inconsistent carbon pricing is inefficient and will result in emission reduction coming at a higher than necessary cost.

*Vivid Economics (2012). Carbon taxation and fiscal consolidation: the potential of carbon pricing to reduce Europe's fiscal deficit.*

<http://www.vivideconomics.com/index.php/publications/fiscal-consolidation-and-carbon-fiscal-measures>

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## Subsidies

The UK government should reduce subsidies for the oil industry and for unconventional gas extraction, currently worth well over 1 billion GBP annually (1.3 billion EUR), and foster the transition to a low-carbon economy through permitted support for and higher rates of investment in renewable energy.

Government spending on fossil fuels is not in line with the goals of the Europe 2020 strategy and undermines low-carbon investment.

For facts and figures on fossil fuel subsidies in the UK see:

*Scottish Greens (2014). Oil & Gas.*

<http://www.scottishgreens.org.uk/campaigns/oil-gas/>

*OCI (2014). The Fossil Fuel Bailout: G20 Subsidies for Oil, Gas and Coal Exploration.* <http://priceofoil.org/2014/11/11/fossil-fuel-bailout-g20-subsidies-oil-gas-coal-exploration/>

'Make more use of the standard rate of VAT to raise revenue' was included in CSR 1 for the UK in 2014. In the light of this, the lower VAT rate on domestic energy should be re-examined and critically analysed with a view to reform. Revenues raised should be used for energy-efficiency measures and to protect vulnerable households from the impact of higher energy prices.

Reduced rates of VAT on domestic energy use have been estimated to cost the UK treasury the equivalent of 0.25% of GDP annually (OECD 2010). The UK has a 5% reduced rate of VAT for domestic energy (full-rated products are taxed at 17.5%). This tax relief creates false incentives for domestic consumers and undermines the value of energy efficiency investments for households. The reduced rate should be gradually phased out with due regard for potentially regressive impacts and protection measures for those most vulnerable to the impact of energy price rises.

**A comment on fuel poverty:** Although energy prices are politicised in the UK, energy prices in the UK are comparatively low in comparison to the EU-15 (DECC 2014) – and while fuel poverty is a concern, the volume of revenues foregone is substantial. If a proportion of these revenues were targeted to protect those most vulnerable to energy price increases, a gradual increase in the VAT rate could generate revenues for targeted energy efficiency investments in inefficient housing stock while also generating substantial revenues for the exchequer.

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# About GREEN BUDGET EUROPE, EUROPEAN ENVIRONMENTAL BUREAU, CEE BANKWATCH and WWF

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## Green Budget Europe (GBE)

Green Budget Europe (GBE) is a Europe-wide expert platform bringing together representatives of business, international organisations, ministries, NGOs, political decisionmakers, the research community and civil society. GBE aims to catalyse the use of Market-Based Instruments to deliver Green House Gas emissions reductions and environmental improvements.

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## European Environmental Bureau (EEB)

Created in 1974, the EEB is now Europe's largest federation of environmental organisations with 140+ member organisations who gain their membership from the general public. Because of this, we are guided by the voices of 15 million European citizens, and act as the ears and voice of its members towards the EU decision makers and beyond.

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## CEE Bankwatch

CEE Bankwatch Network is an international NGO with member organisations currently from 11 countries across the CEE and CIS region. Its mission is to prevent the environmentally and socially harmful impacts of international financial institutions and EU funding, and to promote alternative solutions and public participation.

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## World Wide Fund For Nature (WWF)

WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by conserving the world's biological diversity, ensuring that the use of renewable natural resources is sustainable and promoting the reduction of pollution and wasteful consumption. The WWF European Policy Office contributes to the achievement of WWF's global mission by leading the WWF network to shape EU policies impacting on the European and global environment.

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