Green Paper on market-based instruments for environment and related policy purposes

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The European Parliament adopted, by 479 votes to 53 with 5 abstentions, a resolution on the Green Paper on market-based instruments (MBIs) for environment and related policy purposes. The own-initiative report was tabled for consideration in plenary by Anne **FERREIRA** (PES, FR), on behalf of the Committee on the Environment, Public Health and Food Safety.

Parliament welcomes the reference to the polluter pays principle but criticises the fact that the link is weak or non-existent when it comes to designing and calibrating existing environment policy instruments. It stresses that the polluter pays principle enables a real price to be set by including in the product price the cost of cleaning up pollution and repairing damage caused by production. Pointing out that households bear the bulk of the burden of environmental taxes even though other sectors of the economy are the main energy and water consumers and transport users, Parliament also stresses that the polluter pays principle cannot be seen only in terms of making final users, particularly households, pay. Members regret the absence of an in-depth analysis on the merits of differentiation between market-based instruments targeted at the consumer as opposed to the producer level. They also criticise the fact that the Green Paper concentrates mainly on atmospheric pollution and global warming, and by and large disregards the other negative impacts of production and distribution processes and consumption patterns on the environment.

Measures: the Commission is urged to develop a clear strategy on the use of MBIs to price environmental damage and correct related market failures. This strategy should cover taxation, the EU Emission Trading Scheme (ETS) review, trade, and technology policy. Parliament recognises that a failure to internalise environmental costs is tantamount to subsidising environmentally harmful activities. It points out that the existence of a large number of Environmentally Harmful Subsidies (EHS) in EU Member States aggravates pollution and seriously undermines the polluter pays principle. The reform of EHS must not be limited to the CAP. In this area the transport sector, particularly road transport, requires specific, determined action. The Commission is asked rapidly to propose a roadmap for the abolition of EHS in accordance with the European Council's decision on the review of the sustainable development strategy.

Principles: Parliament points out that the polluter pays principle is one of the pillars of EU environment policy, but that its implementation leaves a lot to be desired in most Member States. Members take the view that the move towards sustainable development and a carbon-free economy requires a combination of deterrent instruments (e.g. taxes, fees) and incentive instruments (e.g. trading schemes). They stress that the development of instrument mixes will help to optimise the use of MBIs, which can contribute greatly to achieving the goals of the Lisbon agenda. Social consequences resulting from the implementation of MBIs should be compensated for by specific policy measures such as floor prices, rate reductions, subsidies etc. for low-income households. Parliament considers it also necessary to adopt measures aimed at penalising excessive consumption. It states that Community market-based measures cannot be limited to emission permit or emission quota trading schemes and that other possible schemes need to be envisaged, such as the introduction of a carbon tax, as well as a reduction in subsidies for fossil fuels.

Instruments: the Commission is called to strengthen the EU ETS by establishing a progressively tightening cap and extend it to all first-tier emitters as the main means of achieving the 2020 GHG reduction targets. Parliament stresses the urgent need for a revision of the EU ETS in order to address effectively the shortcomings experienced during the trial period, including the windfall profits of companies due to the assets acquired from the allocation of CO2 quotas free of charge (for instance the large electricity producers). It emphasises that the strong endorsement of the polluter pays principle in the

EU Sustainable Development Strategy implies that the EU ETS should be primarily based on auctioning of the emission permits and on a total emissions cap that is consistent with the EU 2020 reduction target of 30%, including quantitative limits and qualitative requirements for the use of Clean Development Mechanism / Joint Implementation (CDM/JI) project credits.

Encouraging the development of the global carbon market is also important in order to achieve the extensive emission cuts needed in a cost-effective manner. An increased use of MBIs in the transport sector is particularly important. The low degree of internalisation from road traffic has adverse effects on the competitiveness of other modes of transport, such as rail, and in terms of promoting clean technologies. The Commission is called upon to present, by 2009, a legislative proposal for GHG reduction in the area of maritime transport. Parliament welcomes the Commission's proposal to include aviation activities in the EU ETS, but considers that parallel measures, such as a kerosene tax and NOx emission charges, are necessary. It goes on to make recommendations concerning the Eurovignette Directive the Energy Taxation Directive, and the construction sector.

Lastly, Parliament calls on the EU to distinguish gross economic wealth per inhabitant from net economic, social and environmental wealth as the true progress indicator (TPI). The European Commission and the Member States are called upon to study in more depth the possibility of measuring European growth using ‘green’ indicators, which factor in the wealth lost as a result of environmental damage.