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

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This Commission Staff Working Document analyses the replies to the Green Paper on market-based instruments for environment and related policy purposes.

Market-based instruments (MBI) such as taxation, tradable permits, charges and targeted subsidies are increasingly used in environment and related policies alongside regulation as **cost-effective tools** to achieve policy objectives. The EU's 6th Environment Action Programme also advocates applying MBI in EU policy. On 28 March 2007, the Commission adopted a Green Paper on market-based instruments to explore options for further developing MBI and to help Commission staff develop their thinking on the subject.

The Green Paper launched a **consultation** between March and July 2008 which yielded 172 replies. Industry associations and individual companies taken together account for more than half of these, but respondents also include 17 Member States and a number of NGOs, regions, municipal governments, public organisations, researchers and individuals. The answers hence provided quite a **broad perspective** of the points of view of different stakeholders, industrial sectors and Member States.

The responses showed a broad spectrum of opinions on the issues raised. Overall, they favoured **greater use of market-based instruments**. It was argued that they have the advantage of using market signals to address market failures, where markets for environmental assets either do not exist or do not sufficiently take into account the "true" or social cost of economic activity.

The consultation discussed general issues related to further developing the use of MBI, and their potential impact on competitiveness, income equality and public revenue. The Green Paper also requested opinions on issues related to the implementation of environmental tax reforms, the reform of environmentally harmful subsidies and how MBI might influence energy use. On the latter point in particular, it explored possible ways forward with the Energy Taxation Directive (ETD) to make it more supportive of EU energy and environment policies. The consultation also included questions about using MBI to help tackle the impact of transport, water and waste management, protect biodiversity, and address air pollution, Finally, a new forum to promote and facilitate exchanges of experience and best practice between Member States on the use of MBI and co-ordination of national approaches was suggested.

The public consultation confirmed that there is **considerable interest in further use of market-based instruments** in many areas of environmental policy and that **more transparency**, information and even coordination would be needed within the EU, not only to make life easier for businesses that have to cope with often very different schemes across the internal market, but also to allow expertise and practice to spread across the borders.

In the light of the replies to the consultation, the Commission is undertaking a number of further activities in the MBI areas covered by the Green Paper:

- it is currently reviewing the Energy Taxation Directive to better reflect EU environmental policy objectives;
- it is analysing the possibility of allowing reduced VAT rates for energy-efficient equipment and services;

- it has launched studies to analyse the scope for tradable permit systems for air pollutants. It has also launched studies to evaluate different market-based instruments to enhance the conservation and sustainable use of biodiversity in general and to analyse the scope for the use of habitat banking for this purpose in particular;
- it is reviewing options for the design of the MBI Forum.