Basic information

2007/2203(INI) INI - Own-initiative procedure	Procedure completed
Green Paper on market-based instruments for environment and related policy purposes **Subject** 2.50 Free movement of capital 2.70 Taxation 3.60 Energy policy 3.70 Environmental policy 3.70.03 Climate policy, climate change, ozone layer 3.70.15 Environmental taxation	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ENVI Environment, Public Health and Food Safety	FERREIRA Anne (PSE)	14/05/2007

Committee for opinion	Rapporteur for opinion	Appointed
ECON Economic and Monetary Affairs (Associated committee)	PURVIS John (PPE-DE)	10/07/2007
ITRE Industry, Research and Energy	GILL Neena (PSE)	20/08/2007
IMCO Internal Market and Consumer Protection	The committee decided not to give an opinion.	
TRAN Transport and Tourism	The committee decided not to give an opinion.	

European Commission

Commission DG	Commissioner
Taxation and Customs Union	KOVÁCS László

Key events

Date	Event	Reference	Summary
28/03/2007	Non-legislative basic document published	COM(2007)0140	Summary

27/09/2007	Committee referral announced in Parliament		
27/09/2007	Referral to associated committees announced in Parliament		
29/01/2008	Vote in committee		Summary
19/02/2008	Committee report tabled for plenary	A6-0040/2008	
24/04/2008	Decision by Parliament	T6-0182/2008	Summary
24/04/2008	Results of vote in Parliament		
24/04/2008	Debate in Parliament		
24/04/2008	End of procedure in Parliament		

Technical information

Procedure reference	2007/2203(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	ENVI/6/49275

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE396.669	31/10/2007	
Committee opinion	ECON	PE396.719	20/12/2007	
Amendments tabled in committee		PE398.431	14/01/2008	
Committee opinion	ITRE	PE396.745	25/01/2008	
Committee report tabled for plenary, single reading		A6-0040/2008	19/02/2008	
Text adopted by Parliament, single reading		T6-0182/2008	24/04/2008	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2007)0140	28/03/2007	Summary
Document attached to the procedure	SEC(2007)0388	28/03/2007	
Follow-up document	SEC(2009)0053	16/01/2009	Summary

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

2007/2203(INI) - 28/03/2007 - Non-legislative basic document

PURPOSE: to present a Green Paper on advancing the use of market-based instruments in the Community for environment and related policy purposes.

BACKGROUND: the EU has taken a global lead on climate change as well as on the use of environmentally sustainable policies. To date the EU has favoured economic or market-based instruments (MBIs) – such as indirect taxation, target subsidies or tradable emission rights, given that they provide a flexible and cost-effective means for reaching given policy objectives.

CONTENT: the purpose of this Commission paper is to launch a discussion on advancing the use of market-based instruments or MBI's in the Community. Under scrutiny are energy use, the environmental impact of transport on the environment, the sustainable management of water, waste management, protecting Europe's biodiversity and reducing air pollution. Particular attention is given to the Energy Taxation Directive.

Using market-based instruments for Community policy purposes: MBI's carry certain advantages over and above other regulatory instruments. For example:

- They improve price signals, by given a value to the external costs and benefits of economic activities, so that economic actors take them into account and change their behaviour to reduce negative environmental impacts.
- They allow industry greater flexibility in meeting objectives and thus lower overall compliance costs.
- They give firms an incentive (in the longer term) to pursue technological innovation and to further reduce adverse impacts on the environment ("dynamic efficiency").
- They support employment when used in the context of environmental tax or fiscal reform.

In addition, they have proven useful in terms of preventing any distortion of the EU's internal market. MBI's have lead to a number of EU initiatives including the EU Emission Trading Scheme, the Energy Taxation Directive and, in the field of transport, the Eurovignette Directive.

The EU is strongly committed towards ensuring environmentally sustainable developments as well as promoting the Growth and Jobs agenda. An environmental tax reform (ETR) could shift the tax burden from welfare negative taxes (e.g. on labour) to welfare positive taxes (e.g. on environmentally damaging activities such as resources use or pollution). As well as discouraging environmentally damaging behaviour through taxation, Member States may also use fiscal incentives such as subsidies to encourage green behaviour, facilitate innovation, research and development.

The paper recognises the right of the Member States to find the correct balance between incentives and incentives in their tax systems. It points out, however, that a Community fiscal policy will be able to facilitate the right balance between fiscal constraints and fiscal neutrality. In terms of environmentally harmful subsidies the paper questions what the best way may be to advance the process of reforming environmentally harmful subsidies.

Options for applying MBI's to influence energy use: Energy is currently top of the EU priorities given that it represents a major challenge in terms of sustainability, security of supply and competitiveness. The paper recognises that current EU legislation has been designed to serve primarily the internal market. However, the Community Energy Taxation Directive could also serve to play a more useful role in terms of environmental sustainability. Energy taxation potentially offers the EU the chance to combine the incentive role of taxation in favour of more energy-efficiency and environment-friendly energy consumption, with the ability to generate revenue. As it currently stands, the Energy Taxation Directive is unable to fulfil such ambitions. The paper suggest that one future option might be to divide the Community minimum levels of taxation into energy and environmental elements (or counterparts), which would be mirrored at national level in the form of an energy tax and an environmental emissions tax. This would build on the existing approach in energy taxation but would make it more coherent, while refining its environmental aspects.

Of the different Community market-based instruments existing in the field of energy, transport and environment, energy taxation is considered the most cross-cutting, with impacts in all three areas and directly interacting with all other instruments. Yet, the current European Emissions Trading Scheme (ETS) applies to certain combustion and industrial installations only – while energy taxation applies to fuel uses of energy only. This means that a number of the most energy intensive sectors are outside the scope of the Energy Taxation Directive. The Commission, therefore, questions whether certain sectors already covered by the EU ETS could be excluded from the scope of the Energy Taxation Directive to the extent that their greenhouse gas impact is adequately addressed by the EU ETS.

Options for the further use of MBI's in environment policy: Transport is a major contributor to air pollution and CO2 emissions. This trend is increasing. For example, in 2004, transport alone was responsible fore 22% of total CO2 emissions, aviation and shipping accounting for a further 3-4% of total GHG emission. Proportionally speaking, aviation emissions have grown rapidly since 1990. Several initiatives have been adopted in order to tackle transport emissions. For example, the proposed introduction of a CO2-dependent element in the tax base of both annual circulation and registration taxes in the Commission's proposal for passenger car related tax. Other initiatives have included the Eurovignette Directive, which provides a charging framework on trans-European road networks.

Conclusion: The Commission concludes by stating that alongside regulation and other instruments MBI's should be used as a cost-effective tool to achieve environmental and other policy objectives.

By means of this paper, the Commission hopes to generate a discussion on the Community's contribution to market-based instruments and the role of indirect taxation in particular. The paper also identifies further areas for the application of MBI's – ones that could advance best practice. The Commission is now seeking reactions to the ideas and specific questions that have been raised in the paper as well as comments on the type of MBI to be chosen. Replies should be sent to the Commission by 31 July 2007.

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

2007/2203(INI) - 16/01/2009 - Follow-up document

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.

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

2007/2203(INI) - 24/04/2008 - Text adopted by Parliament, single reading

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.