

Policy brief of the Tax Justice Network Germany

Environmental tax reform in countries of the South

So far, combating tax evasion and tax avoidance has been at the centre of the international tax justice agenda, together with the creation of fair and efficient tax systems. As yet, ecological aspects have been discussed separately from these issues, as has been the case in Germany with the debate around an ecological financial reform.

However, tax and fiscal policy is a key tool for governments to implement environmental policy goals in the narrower sense and achieve the goals of sustainable development in the wider sense. But so far, this has been insufficiently applied. Many governments have been reluctant to introduce effective taxes on the environmentally harmful consumption of natural resources or to eliminate the respective subsidies.

In the meantime, environmental taxes have been introduced concerning various items in several countries, although systematic environmental tax reform has remained an exception. This applies even more to comprehensive models of environmental-social fiscal reform, which link up environmental goals with the protection of human rights and with promoting social justice. In this manner, they can have a twofold impact: They can contribute both to reducing social disparities and to protecting the environment and the climate. Furthermore, such reforms can mobilise additional public finance urgently required to achieve the sustainable development goals.

From environmental taxes to environmental fiscal reform

Efforts to achieve environmental policy goals with the aid of fiscal policy are not new. Taxes, charges and fees aimed at reducing environmental pollution (e.g. the emission of harmful substances) or the consumption of natural resources (e.g. of mineral oil) were already introduced in various

(above all European) countries in the 1970s and 1980s.¹ In the early phase, the emphasis was usually on introducing individual **Environmental Taxes** (ETs) or fees on consumption. Environmental taxes and fees can be levied in a wide variety of areas. They range from wastewater charges and a tax on plastic bags to mineral oil tax and CO₂ excise duties. In order to roughly categorise environmental taxes, Eurostat distinguishes between environmental taxes on energy, transport, pollution and natural resources (cf. Box).

In the meantime, a wide variety of environmental taxes have been introduced in all regions of the world. One example is Tanzania, where the sum of a range of environmental taxes accounted for a share of 18.5 percent of overall tax revenue in 2009 – more than in any OECD country.²

Since the 1990s, more comprehensive concepts of **Environmental Tax Reform** (ETR) have increasingly been discussed at international level. In the high-income countries with a relatively high tax ratio, such reforms are frequently conceived on a revenue-neutral basis, i.e. the introduction of taxes or excises is supposed to go hand in hand with tax reliefs in other areas, in particular regarding the taxation of labour. The European Environment Agency puts this as follows:

“Environmental tax reform (ETR) is a reform of the national tax system where there is a shift of the burden of taxation from conventional taxes, for example on labour, to environmentally damaging activities, such as resource use or pollution. The burden of taxes should fall more on ‘bads’ than ‘goods’ so that appropriate signals are given to consumers and producers and the tax burdens across the economy are better distributed from a sustainable development perspective.”³

By definition, such tax reforms are restricted to the field of state revenue. However, governments can also achieve ecological effects via their

The most important categories of environmental taxes

Energy taxes

This group includes taxes on energy products used for both transport and stationary purposes. The most important energy products for transport purposes are petrol and diesel. Energy products for stationary use include fuel oils, natural gas, coal and electricity. The CO₂-taxes are included under energy taxes rather than under pollution taxes.

Transport taxes

This group mainly includes taxes related to the ownership and use of motor vehicles. Taxes on other transport equipment (e.g. planes), and related transport services (e.g. duty on charter or scheduled flights) are also included here, when they conform to the general definition of environmental taxes.

Pollution taxes

This group includes taxes on measured or estimated emission to air and water, management of solid waste and noise.

Resource taxes

Taxes on resources pose some particular problems. There are differences in opinion on whether resource extraction is environmentally harmful in itself, although there is broad agreement that it can lead to environmental problems, such as pollution and soil erosion.

In general, taxes on extraction of minerals and petroleum are often designed to capture the resource rent, and do not influence production and prices in the way that other environmental taxes, e.g. product taxes, do.

Source: Eurostat (2001): Environmental Taxes - A statistical guide. Luxembourg. p. 12.

spending policies. For example, they can abolish environmentally harmful subsidies, such as support provided for coal mining, and instead financially back environment-friendly activities such as the use of renewables. The more comprehensive concept of **Environmental Fiscal Reform** (EFR) has been developed to consider the entire range of fiscal policy tools.

“Environmental (or ecological) fiscal reform (EFR) is a broader approach, which focuses not just on shifting taxes and tax burdens, but also on reforming economically motivated subsidies, some of which are harmful to the environment and may have outlived their rationale (...). EFR is a more recent development than ETR and offers more opportunities for progress, and is more in line with the ‘polluter pays’ principle and the concept of sustainable development.”⁴

Examples of environmental tax reform in countries of the South

Since the 1992 UN Conference on the Environment and Development in Rio, environmental tax reforms have been on the political agenda in a growing number of countries in the South. In particular in times of crisis, the focus is not so much on environmental steering effects but, rather, on raising additional state revenue. Taking all charge and duty systems into account that have environmental impacts, almost every country in the world has gathered experience with one or the other type of environmentally related tax.

Water, wastewater and waste management is usually implemented at a decentralised level. It is at this level that corresponding systems of charges and duties tend to be introduced rather than

at national level. For example, **Mozambique's** capital of Maputo introduced a waste fee for domestic waste in 2002 which today represents the most important financing tool for urban waste management.⁵ There are many similar examples in the area of water and wastewater, too.⁶

Nowadays, there are also examples of environmental tax reforms at national level in many countries, whether it be the elimination of environmentally harmful subsidies or the introduction of environmental reforms. For example, **Morocco** introduced a tax on the import of plastics coming into effect as of 2013. **South Africa** has levied a tax on plastic bags since the mid 2000s and, since 2011, a CO₂ tax for vehicles, too.⁷ In both countries, however, these measures represent individual cases rather than part of a comprehensive fiscal reform.

So far, **Vietnam** has been the only country of the South to introduce comprehensive fiscal reforms. There, a new environmental tax law was passed in 2010 that came into force in 2012. The law stipulates that taxes be levied not only on energy in terms of petrol and coal, but also on environmentally harmful substances such as HCFCs, selected pesticides and plastic bags. However, taxes on energy account for more than 99.5 percent of the estimated tax revenue. Up to 1.5 billion euros in additional tax revenues for Vietnam's cash-strapped government coffers was expected for 2012. This revenue was divided between the central government budget and those of the regions. Simulation results indicate that poorer households are not excessively affected by the environmental taxes.⁸

Environmental fiscal reforms are by no means always implemented free of conflict. In **Bolivia**, for example, attempts to eliminate fossil fuel subsidies in December 2010 failed owing to strong protests among the population. Price hikes of up to 80 percent resulting from the elimination of subsidies were far too high, and they would have excessively burdened the poor. Compensatory measures in the form of increases in salary for civil servants and a raised minimum wage were only announced as an afterthought. They were poorly communicated and came too late. After only a few days, the Bolivian government withdrew the elimination of subsidies.

The threat of resistance on the part of companies immediately affected as well as broad sections of the population explains why environmentally harmful subsidies or tax reliefs have not been eliminated in many countries. On the contrary, fuel subsidies alone reached an all-time high of 523 billion US dollars in 2011, which is almost six times as much as subsidies for renewables.⁹

On the way to environmental and social fiscal reform

Reform proposals for government fiscal policy differ according to whether they are being pursued from an environmental, social or human rights perspective. Environmentally motivated reform proposals result in environmental taxes relating to single aspects or in more comprehensive environmental tax reform concepts. In addition, environmentally relevant subsidies are considered in connection with environmental fiscal reforms.¹⁰

Reform proposals motivated by social and distribution policy aspects are significantly more heterogeneous. With a view to the income side, they deal e.g. with issues relating to the taxation of capital or assets or with the regressive effects of value-added and excise duties. On the expenditure side of the budget, they focus e.g. on public finance and the development of social security systems.

So far, reforms from a human rights perspective have concentrated mainly on the expenditure side of fiscal policy. Under the headword of "human rights budgeting", the emphasis is above all on examining whether spending policy is in harmony with the economic, social and cultural rights (ESC rights). In addition, the budgets are also examined with a view to the rights of women, children and youths. As yet, the income side of the budget, and therefore also tax policy, has mainly been looked at with regard to the establishment of the maximum available resources – however, more detailed analyses are still insufficiently detailed.¹¹

Concentrating on sector or actor related analyses of tax and fiscal policy is understandable from a pragmatic angle, for these are easier to conduct than e.g. a complex appraisal of the entire budget with respect to human rights. But they do have clear limits. For separate analyses can lead to incoherent results and contradictory policy recommendations. For example, subsidies or tax reliefs for extractive industries may promote employment while possibly also having negative environmental side-effects.

The ideal solution would therefore be to consistently integrate environmental, social and human rights perspectives into the concept of tax and fiscal policy. Taxes or tax reliefs that appear harmful from an integrated perspective of this kind could thus be systematically identified (with a view to eliminating them). Equally, proposals for alternative tax systems ought to be conceived taking environmental, social and human rights criteria into account with the goal of avoiding costs for the poor. In addition,

the revenues from an environmental fiscal reform could be used for social compensation mechanisms or to reduce social security contributions. Both measures would benefit the poor.

The basic goal ought to be to orient fiscal policy as a whole on achieving human rights and on the sustainable development goals. So far, approaches such as environmental tax reform or Human Rights Budgeting, ought to be developed correspondingly. Ashish Kothari of the Indian organisation Kalpavriksh, for example, similarly supports “*Budgeting for Sustainability*”. Regarding India’s government budget, he demands that:

*“Government schemes should be re-oriented from an ecological and social justice perspective in the long run.”*¹²

Also in response to criticism of one-dimensional environmental taxes and their potentially negative social and economic side-effects, EFR concepts have, in the meantime, been developed into concepts for **Eco-social Fiscal Reforms** (ESFRs).

Proposals for Germany aim at reforms

*“ (...) eliminating environmentally harmful subsidies in harmony with social and economic aspects, raising taxes steering towards ecological goals step by step and also addressing socially motivated taxes with the aid of asset and financial transaction taxes. Thus energy efficiency incentives can be improved, more social justice can be achieved and, at the same time, a considerable potential to reduce national debt can be tapped.”*¹³

Proposals on the expenditure side of the budget in accordance with environmental and social criteria have been formulated by civil society organisations in the **Philippines**. With the Alternative Budget Initiative (ABI),¹⁴ they have been presenting their alternative proposals for the official government budget once a year since 2007. Their chief aim is a stronger orientation of the entire budget on the MDGs. In addition to the areas of education, agriculture, health, social protection and support for handicapped people, ecological aspects are also considered. The 2012 report contains a separate chapter on the environment.

In further elaborating initiatives such as the Philippine ABI, the next consistent step could therefore be to systematically design fiscal policy as a whole, i.e. both tax policy and budget policy, in accordance with sustainability criteria.

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Endnotes

- 1 Cf. on the earlier discussion in Germany e.g. Nutzinger, Hans G. /Zahrnt, Angelika (Eds.)(1989): Öko-Steuern: Umweltsteuern und –abgaben in der Diskussion. Karlsruhe.
- 2 Cf. Klarer, Jürg (2011): Use of Economic Instruments to Promote Environmental Conservation in the United Republic of Tanzania. UNDP and Ministry of Finance and Economic Affairs of the United Republic of Tanzania under Joint Program on Environment JP11. Amriswil: Æquilibrium Consulting, p. 110.
- 3 European Environment Agency (2005): Market-based instruments for environmental policy in Europe. EEA Technical Report No. 8/2005. Luxembourg: Office for Official Publications of the European Communities, p. 84.
- 4 Ibid.
- 5 Cf. www.giz.de/Themen/en/dokumente/giz2012-en-economic-instruments-mozambique.pdf.
- 6 Cf. Schlegelmilch, Kai et al. (2010): Fiscal Reforms in EC Development Cooperation. Final Report, July 2010. Soges Consortium. pp. 31ff.
www.foes.de/pdf/20100929_Final%20Report%20-%20Environmental%20Fiscal%20Report%20-%20FINAL.pdf
- 7 Cf. www.unep.org/greeneconomy/WorkshopsConferences/FiscalPolicies/tabid/105008/language/en-US/Default.aspx.
- 8 Cf. Willenbockel, Dirk (2011): Environmental Tax Reform in Vietnam: An Ex Ante General Equilibrium Assessment. Brighton: IDS; Johannes, Sina/Olearius, Axel (2011): Environmental Taxation in Viet Nam. Eschborn: GIZ; and <http://star-www.giz.de/dokumente/bib-2011/giz2011-0447en-environmental-taxation-vietnam.pdf>.
- 9 Cf. IEA (2012): World Energy Outlook 2012. Paris (Executive Summary), p. 1.
www.iea.org/publications/freepublications/publication/English.pdf
- 10 Cf. IISD (1994): Making Budgets Green. Leading Practices in Taxation and Subsidy Reform. Winnipeg.
www.iisd.org/pdf/greensumm.pdf
- 11 Cf. Info Steuergerechtigkeit #08e [<http://steuergerechtigkeit.blogspot.com>] and Center for Economic and Social Rights (CESR) (2012a): The OPERA Framework – Assessing compliance with the obligation to fulfill economic, social and cultural rights. New York; and Fukuda-Parr, Sakiko/Terra Lawson-Remer/Susan Randolph (2008): Measuring the Progressive Realization of Human Rights Obligations: An Index of Economic and Social Rights Fulfillment (Economic Rights Working Paper Series, No. 8). Storrs, CT: The Human Rights Institute, University of Connecticut.
- 12 Cf. Kothari, Ashish (2012): Budgeting for Sustainability. OneWorld South Asia.
<http://southasia.oneworld.net/news/budgeting-for-sustainability#.US3uaVffIT4>
- 13 Ludewig et al. (2010), p. 4.
- 14 Cf. www.socialwatchphilippines.org/abi2.htm.

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The Tax Justice Network Germany promotes transparency in international finance and opposes secrecy. We support a level playing field on tax and we oppose loopholes and distortions in tax and regulation, and the abuses that flow from them. We promote tax compliance and we oppose tax evasion, tax avoidance, and all the mechanisms that enable owners and controllers of wealth to escape their responsibilities to the societies on which they and their wealth depend. Tax havens, or secrecy jurisdictions as we prefer to call them, lie at the centre of our concerns, and we oppose them.