

A green Tax Shift for sustainable growth.

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Dear Colleagues,
Ladies & Gentlemen,

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In our market based economies we unfortunately have great difficulty putting a value on externalities. And with progress of our human societies - progress at least in numbers of humans alive on our planet today - long term externalities have appeared. These were either inexistent or undetected in our recent past.

Our numerical and technological success has caught up with us. Our scientists have a pretty good idea of what our climate and environment will be like in half a century's time. And we generally agree with them. But how can we relate filling up the car or turning up the heating with climate changes half a century from now? The fact that we most probably will no longer be around to witness them only makes the choice more difficult to make.

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We know that there are solutions. Professor Pigou theorized the concept of taking care of externalities through taxation. This is a well known concept and particularly well adapted to the case in hand. We know that the most efficient way to diminish greenhouse gas emissions

is to make it more expensive to emit them. Making it more expensive also allows cheaper alternatives to emerge and flourish.

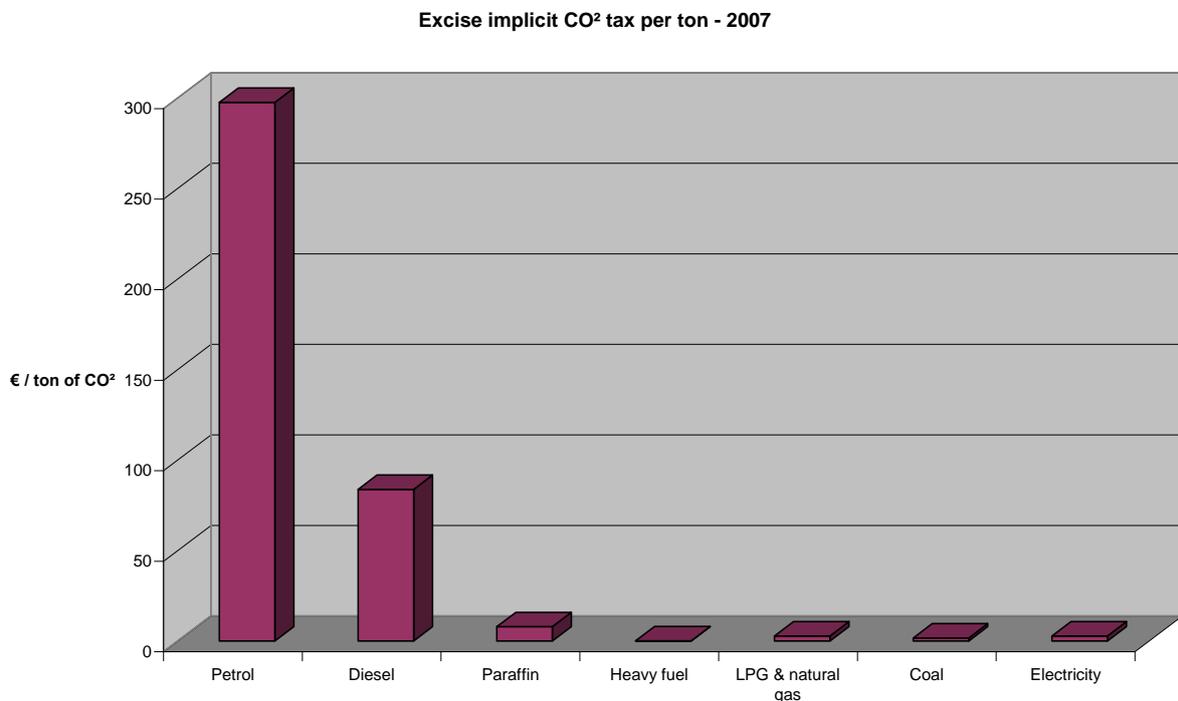
Many Northern European member states have been implementing a green tax shift for many years with higher energy taxes compensated by lower payroll ones. They seem to be successful in changing economic patterns. Pricing fossil fuels correctly is the most cost effective and fastest way of changing human behaviour in our market based economies.

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But then haven't most of us been implementing a carbon tax of sorts for years without knowing it? Excise duties on fuels are older than the EU.

I have a chart of the implicit carbon taxes paid in my country today.

Slide 1

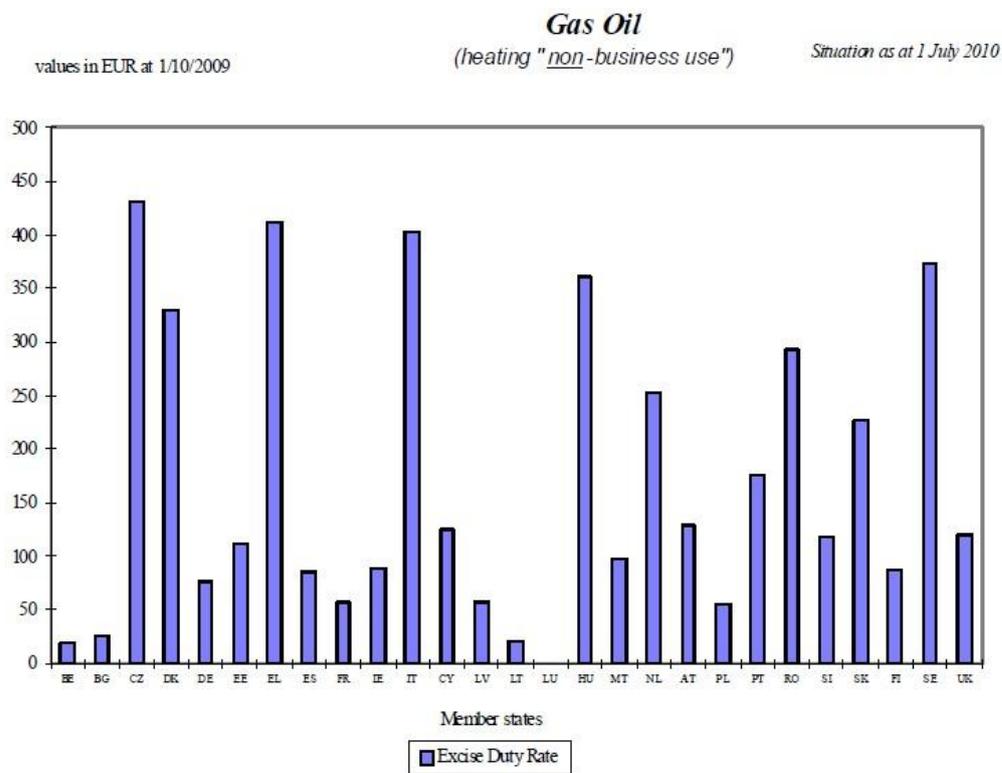


It seems clear that we do not need a new tax. We only have to adapt existing excise duties to reflect fossil fuel externalities.

But the real differences are of course not to be found in automobile fuels but in fossil fuels used for heating. Here is where the difference lies.

Slide 2

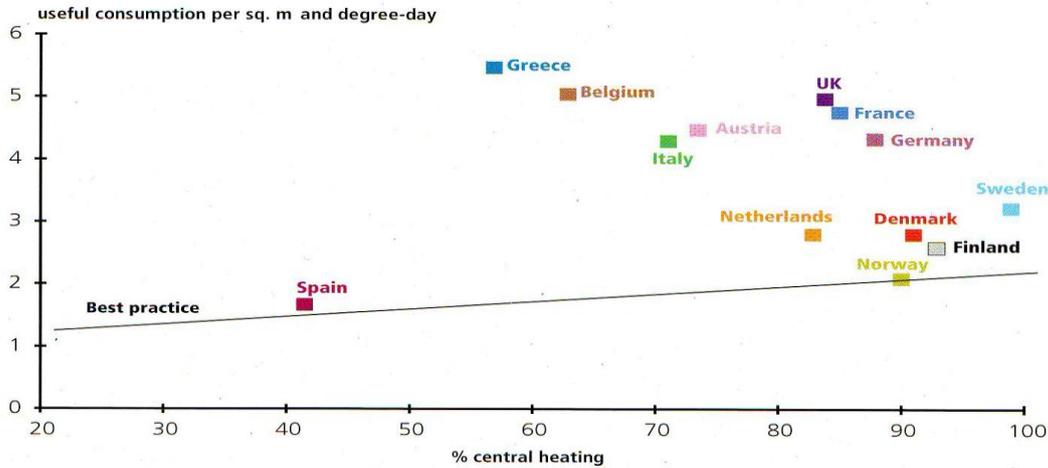
Heating non-business use Gas Oil



Minimum excise duty: 21 EUR per 1000 litres

Higher heating fuel prices breeds efficient heating. The effects of higher heating energy prices in Northern Europe are illustrated in this chart of heating energy used by square meter.

Figure 4.6: Heating requirement per sq. m in the EU-15⁽²⁾



1. From 1990 to 2002.
2. Consumption expressed in useful energy per degree-days to correct for differences in heating-equipment efficiency (which varies according to the fuel used) and climate; the rate of penetration of central heating is shown on the horizontal axis to show the influence of central-heating diffusion.

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Assuming that we want a revenue neutral carbon tax, the debate will most certainly be focused on how to redistribute the proceeds of the proposed tax. In coalition Governments like in my country the temptation is great for each party to try to get its core electorate favoured in the process.

I have always felt that the redistribution that really matter is between generations. The first and most important question should be: do we really want to burden our children with fixing the mess we will leave behind us?

I - personally - am in favour of a net zero green tax shift from income taxes to energy taxes. A median citizen should get his higher energy taxes back in lower Income Tax.

But I can only be sure of one thing: someone will disagree with me and I should be prepared to argue the case using unbiased numbers. The desired ultimate outcome is to modify spending habits by rewarding the virtuous and making life more expensive for the energy wasters. The rest is politics, and in this case, politics must be reasonable and adhere to a long term goal.

But there are other objections.

Higher heating fuel prices impact poorer citizens more than rich ones. We must therefore take care to compensate this by more income tax reduction or higher benefits for the less well off.

Another objection concerns tax competition effects between countries. In this aspect, Belgium is a good example of the difficulty of imposing higher taxes on fossil energies that create a differential between the reforming country and its immediate neighbours. It comes down to the size of the country and its geographic location.

If a country is geographically isolated, meaning that it has no other direct neighbour than the sea, its citizens cannot easily go shopping for cheaper fuel beyond its borders. And in a landlocked bit sizeable country, this “border effect” concerns a smaller percentage of the population than in smaller ones. In smaller countries, where the population lives close to a EU internal border, this can be a serious deterrent to implementing a carbon tax alone.

Of course, avoiding this sort of competition between member states is what the EU is all about, and, luckily, we have an energy tax directive which puts a floor on outright tax competition between member states.

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Coming back to my country, I recently requested a study from the Federal Planning Office on the effects of a green tax shift on our economy. The question we asked was: what effect would different fuel tax increases have on the economy? We specified several tax levels and redistribution scenarios so as to compare the outcome.

As you can see the effects are not eye-catching, except for the impact on CO² emissions, which is surprising.

Slide 4

	Scenario 1		Scenario 2	
	Carbon tax @ 17€/tCO ₂		Same energy taxes as neighbouring countries (except Lux.)	
Price increase (%)	2010	2012	2010	2012
Petrol	3,5	3,7		
Diesel	5,1	5,2	10,5	10,5
Coal	14,7	14,4		
Heating oil	9,6	9,8	8,5	8,5
Gas (services)	8,1	8,2	4,8	4,8
Gas (households)	7,1	7,3	5,6	5,6
Electricity (low tension)	3,3	3,3	10,7	10,7
Average energy price	4,6	4,6	5,7	5,8
of which households	5,1	5,1	7,2	7,2
Tax receipts (billion €)	1,14	1,22	1,45	1,55
% of GNP	0,33	0,32	0,42	0,41
% of total tax receipts	1,13	1,12	1,43	1,42
	Scenario 1		Scenario 2	
	Carbon tax @ 17€/tCO ₂		Same energy taxes as neighbouring countries (except Lux.)	
Redistribution	2020 Impact			
Lower employer taxes on lower incomes (1,5 billion € receipts in 2012)				
Employment	15590 more jobs		17860 more jobs	
CO² emissions	-2,64%		-2,94%	
Real available income	-0,17%		-0,23%	
GDP	0,04%		0,01%	
Lower income taxes (-0.87 billion € in 2012) and Company taxes (-0,63 billion € in 2012)				
Employment	NA		4260 less jobs	
CO ² emissions	NA		-2,81%	
Real available income	NA		0,04%	
GDP	NA		0,05%	

These results confirm that a gentle carbon-tax lift-off is possible because impacts are low. Once a carbon tax exists, ramping up the price of carbon implicit in the tax becomes possible. The first - habit changing – step is difficult. But once a carbon tax is established it

becomes easy to modulate in the future. Consumers get a clear price signal and can then plan and invest accordingly.

I called a conference this November to present this study and to explain my own vision of a green tax shift. I also proposed it for the 2010-2011 budget.

I am sorry to report that my proposed policies then became another victim of the financial crisis and its effect on State revenue.

The Government took the proposed diesel fuel tax increase and forgot about redistributing it.

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But this is an EU conference.

Climate change is a European matter and we have ambitious 20/20/20 objectives. If carbon taxes are designed to combat climate change, shouldn't they also be coordinated at the European level?

A well designed European carbon tax contained in a new Energy Tax Directive can be the cornerstone of an efficient policy to reduce the EU's carbon emissions. We have the Emission Trading Scheme for industry. We now need a European initiative to deal with the other half of emissions that are not covered by the ETS.

Sending a clear signal to consumers on the trend of future energy taxes is also paramount for changing consumption habits. We have real objectives for emissions in Europe for 2020 and beyond. So I suggest we should also have a rising scale of minimum carbon taxes to cover the same period.

All this will not be easy.

In my country and in many others this will entail significant increases in heating bills and in automobile diesel fuel prices. But we can compensate this euro for euro by reducing payroll taxes. We will also get the added benefit of boosting our economies.

We now have a great opportunity for making the right decisions that will ensure that our countries are ready for a low carbon future. The cost to do it today is minimal.

We should not miss this chance.

THANK YOU