

# EUROCHAMBRES Position Paper 2007



## **Market-based Instruments**

for environment and related policy  
purposes

*Comments on the Green Paper*

*COM(2007)140*

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## 1. INTRODUCTORY REMARKS

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Market-based instruments (MBI) differ from pure “command and control” instruments, such as restrictions or emission standards, by the flexibility they leave to the economic actors to decide how to reach a certain goal. This makes them interesting and valuable tools in the policy makers’ kit, but they may not be appropriate for each type of environmental problem.

EUROCHAMBRES welcomes the European Commission’s initiative to start a broad discussion about the possibilities of application of such instruments. The decision of the best policy instrument to be applied in each situation and the right balance between administrative and market-based instruments is complex and dependent on many factors.

Therefore, this contribution does not attempt to give a conclusive answer to all of the questions posed in the Green Paper on market-based instruments for environment and related policy purposes (COM(2007)140), but highlights a number of conditions to be fulfilled and factors taken into account when the decision about the use of MBI is taken.

## 2. COMMENTS ON THE QUESTIONS RAISED IN THE GREEN PAPER

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Questions on: market-based instruments in the EU context

*What are the areas and options for the further use of market-based instruments at EU or national level?*

*Could market-based instruments be used in a way that promotes competitiveness, and does not impose an undue burden on consumers, in particular citizens with a low-income, but at the same time ensures revenue for public budgets?*

*Should the EU more actively pursue taxation to further Community policy purposes (in addition to fiscal objectives)? Is this the right response to current global challenges and the fiscal needs of national budgets?*

One very important factor that needs to be taken into consideration when making the choice of policy tools is that a cumulation of instruments applied to each case should be avoided. Thus, an important precondition for an increased use of eco taxes or tradable permit schemes is that they are not applied simultaneously. For example, a company already participating in the EU greenhouse gas emissions trading scheme (ETS) should be exempted from levies or taxes on CO<sub>2</sub>. Secondly, for the desired effect of emissions trading – that is emissions reductions being achieved at the lowest cost – to become possible, it is necessary that the choice of technology or process to be used is not overly restricted by prescriptions about the technology to be used or emission limits.

Increasing environmental taxation should not be seen as a panacea for solving the fiscal needs of national budgets. Low rates of taxes – while being more acceptable for the subjects taxed and less harmful for competitiveness – will not bring substantial revenues to the budget. High rates, on the other hand, will lead to reactions by actors to reduce the financial burden (either by taking measures to reduce pollution or by moving production to a location with lower cost – the latter being a side effect that would run counter to the Lisbon goals). This erosion of the tax base will reduce tax revenue over time, so that governments cannot rely on stable revenues from this sort of tax.

In addition to this more general caveat about the increase of eco taxation for budget purposes, the business viewpoint is that in view of the high level of taxes and charges already imposed on businesses in most EU countries, an imposition of additional eco taxes cannot be advocated, as this reduces European competitiveness. If levies for environmental purposes are charged, revenue neutrality is an absolute must: Revenue from taxes or levies for environmental purposes or from auctioning emissions permits must be spent in a way that not only contributes to improvement of the environmental situation, but that simultaneously allows compensatory monetary flows back to



businesses, allowing them, for example, to benefit from support for purchasing up to date, environmentally friendly technology. This will in turn create employment.

A positive way of setting incentives in the field of environmental taxes and levies is reducing existing taxes and levies for environmentally friendly solutions. For example, car registration taxes could be lowered for vehicles fulfilling certain emission standards.

Companies that implement Environmental Management Systems (such as those certified according to EMAS or ISO 14001) could receive preferential treatment for certain fees or monitoring requirements under MBI.

**Questions on: Growth, jobs and a clean environment – the case for environmental tax reforms**

*Should the EU more actively promote environmental tax reforms at national level?*

*Would the establishment of the abovementioned MBI Forum be useful to stimulate exchanges of experience/best practice on Environmental Tax Reform between Member States? How could it be organised in an optimal way? How should it be composed to avoid potential overlap with existing structures?*

*How does the need to reduce the tax burden on labour in many Member States fit with the objective to promote innovation and to support research and development in order to shift towards a "greener" economy? How can this be achieved while at the same time respecting the budgetary neutrality? Would a more significant tax shift towards environmentally damaging activities be the right answer?*

European Chambers believe that decisions about taxation systems should remain in the sphere of each Member State. The Commission can facilitate the exchange of knowledge about, and experiences with, MBI in general. EUROCHAMBRES supports the idea of creating an MBI forum, so that the effects of the different schemes already being used in several EU Member States can be compared and evaluated. It is important that representatives of the business sector are included in such a forum. The experiences of small and medium sized companies especially as regards administrative costs of MBI, and conditions for making them workable should be explicitly considered.

Inventories and analyses of MBI already drawn up by the OECD or the International Energy Agency should also be taken into consideration, and a co-operation with these organisations could be envisaged.

Steps towards a more sustainable economy, leading at the same time to an improvement in the environmental situation as well as more growth and jobs can be taken in the form of positive fiscal incentives towards more environmentally friendly behaviour.

Providing subsidies (for a limited time period to control the draw on budgetary resources) for R&D projects, sustainable mobility solutions or investments in sustainable energy solutions will help promote innovation and trigger, for example, more activities in the renovation of buildings. This will lead to increased employment and VAT revenues.

The increased use of domestic carbon offset projects, already pursued by several EU and non-EU countries, is also an approach that merits more attention.

**Question on: The reform of environmentally harmful subsidies**

*What is, in the light of national experiences, the best way to advance the process of reforming environmentally harmful subsidies?*

All subsidy schemes should be reviewed regularly, and one of the criteria of these reviews should be the effect of the subsidy on the environment.



**Questions on: Interaction of energy taxation with other market-based instruments, in particular the EU-ETS**  
*Would the suggested changes to the Energy Taxation Directive and the proposed approach to its scope be the best solution for ensuring coherence between the Directive and EU ETS? Are there other options to achieve this objective? What are the potential options that should be explored in order to provide the necessary incentives to encourage the EU's trading partners to undertake effective measures to abate greenhouse gas emissions?*

As previously mentioned, imposing two MBI simultaneously puts too high a burden on the economic actors. EUROCHAMBRES therefore supports the idea of exempting installations covered by the ETS from energy and carbon taxes, an approach which – to a certain extent – is already covered in the Green Paper.

Domestic offset projects should also be promoted more effectively, as they will strengthen the market for climate-friendly products and services by providing additional funds for verifiable reductions of CO<sub>2</sub> emissions.

As climate change is a global problem, it is important to involve as many other countries as possible in the emissions reduction efforts. EUROCHAMBRES welcomes efforts to extend the ETS to other countries, as additional participants make the market more efficient and more economic, because newly participating states may have more potential for cost-efficient emissions reductions left.

In addition, large emitters in Asia and the Americas (also regions, in cases where the whole country has not yet ratified the Kyoto protocol) should be encouraged to join the ETS, as this would remove the competitive disadvantages imposed on installations located in Europe.

It should be possible for installations covered by the ETS to fully use Emission Reduction Units/Certified Emission Reductions obtained from JI/CDM to meet their obligations. In addition to the higher economic efficiency of this approach, the projects carried out within these mechanisms provide also for a technology transfer towards third countries, which may trigger additional investments into climate friendly projects in these countries.

For developing countries, an entry point into international climate protection agreements could also be via commitments to increase energy efficiency or to amounts relative to GDP as opposed to absolute amounts of emission reduction.

**Question on: Tackling the environmental impact of transport**

*What would be the best MBI to tackle emissions from shipping, taking into account the specific nature of maritime transport? How could it be best designed?*

The specific nature of maritime transport – involving actors and competitors from all over the world – necessitates that any instrument chosen to limit emissions from shipping must be designed in a way that treats all shippers equally.

Going it alone at the European level will diminish the competitiveness of the European maritime sector and thus deprive it of the basis for making a relevant contribution towards achieving the Lisbon objectives.

Encouraging others, however, should not prevent Europe from taking a leadership role globally in the development of strategies for marine protection. Member States could – for example – intensify their efforts towards international solutions in the framework of the IMO.

These could take different forms, e.g. limiting the sulphur content of marine diesel or an international market-based instrument – if this is considered the most efficient way to solve pollution problems.



**Questions on: The use of MBI to address pollution and protect resources**

*How can the Commission most effectively ensure implementation of the water pricing policies set out in the Water Framework Directive? What options could be explored to reinforce the links between investments in national water projects and the introduction of corresponding water pricing to provide incentives for users and avoid distorting competition?*

*If there is insufficient progress to divert waste away from landfill, should the Commission consider proposing a harmonised landfill tax with EU-wide minimum rates?*

*Does the Community legal framework provide sufficient scope for Member States to use MBI to address waste management issues? Should the Commission facilitate the application of MBI in this area, e.g. through supporting exchanges of information?*

If the Commission aims at an increased use of MBI for the water and waste sectors, a question to be clarified in advance is whether the price increases in these sectors, which could occur as a result, are compatible with EU activities and plans in the field of services of general interest. Such basic services have to be affordable for everyone.

As regards the implementation of the water framework directive support by the Commission through workshops and guidelines for the Member States would be useful. National stakeholders should be included in those activities, so that existing national specificities in the regulatory environment or market can be reflected accordingly.

European Chambers consider the approach pursued in the EC directive on waste disposal, i.e. to progressively reduce the amount of untreated waste for which landfilling is permitted, preferable to tackling the problem via an EU-wide landfill tax. Landfill taxes or similar charges already exist in several European countries. If a common minimum tax were to be introduced, it would have to be ensured that companies are not burdened twice, in financial as well as administrative terms.

The existing European regulatory framework on waste already provides sufficient scope for Member States to use MBI. EUROCHAMBRES welcomes the idea of the Commission supporting exchanges of information with regard to waste management, as some of the Member States' policy instruments are considered very bureaucratic or cause problems for importers, such as deposit-refund schemes for packaging of drinks. These problems should be discussed more intensively and eliminated, if possible.

**Questions on: The use of MBI to protect biodiversity**

*Should the Member States make a more intensive use of these types of instruments? Should, in particular, "payments for environmental services" be used more intensively to achieve environmental objectives? And should the scope for introducing systems of biodiversity offsets at Community level, e.g. wetland banking, be further examined?*

EUROCHAMBRES believes that instruments such as habitat banking and biodiversity offsets offer interesting prospects for the development of nature protection policy at the Community level. There aren't yet many experiences with this type of instruments, but they should definitely be examined more closely.

**Questions on: The use of MBI to address air pollution**

*Do you see scope for using cross border emissions trading schemes between groups of Member States to combat conventional air pollution through SO<sub>2</sub> and NO<sub>x</sub>? How should such a system be designed to fit with national taxes and charges that are applied in several Member States?*

While the concept of emissions trading in general has some advantages such as the reduction of emissions at the sites where this causes the least cost, there are some factors which limit the applicability of emissions trading schemes:



ETS are not suitable for pollutants where high concentrations in specific locations ("hot spots"), such as certain cities, are a problem. Permissible emission levels for these hot spots would again be regulated by separate decrees, thereby obstructing the flexibility that the ETS is supposed to provide.

As can be seen from the ongoing discussion about the revision of the EU ETS for greenhouse gases, the systems of allocation of quotas, monitoring and reporting set up to ensure a proper functioning of a cross-border ETS are rather complex. This additional cost to companies as well as authorities has to be included in the cost-benefit calculations preceding the decision about introducing such a system.

For SMEs, coping with the administrative requirements of a participation in ETS is particularly difficult. Thus, any ETS should provide for an exemption of small emitters.

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EUROCHAMBRES is the sole European body that serves the interests of every sector and every size of European business and the one closest to business. EUROCHAMBRES has member organisations in 45 countries representing a network of 1850 regional and local Chambers of Commerce with over 19.8 million member companies. Chamber members employ over 120 million employees.

For further information about the position paper:

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