

‘Mapping objectives in the field of environmental taxation and budgetary reform: Environmentally harmful subsidies’

1st Workshop – 10 June 2021

Welcome and housekeeping

Meg Postle, RPA Europe

House rules

- **We are recording this webinar.** You will be able to download the proceedings and slides from our website
- **Comments and questions are welcome**
 - **Questions and chat:** Please use the chat-box to ask written questions to the presenters
 - **Raise your hand and we will give you the floor:** All will be placed under “mute” except the designated speaker. Request permission to speak directly to the plenary via your voice connection

Agenda

- 1** Introduction and overview
- 2** The challenges of EHS reform
- 3** Phasing out EHS – approach to analysis
- 4** Guidance to stakeholders



Introduction and overview

Welcome and outline of 1st EHS Workshop

Mirka Janda, DG ENV

Overview on the purpose, scope and tasks of the study

Lucas Porsch, VVA

Introduction to the study context

▪ The project aims to:

- To develop the definition of EHS fit for purpose of this study as well as to collect, analyse data and provide a comprehensive overview of EHS across the EU-27
- To identify low hanging fruit and provide evidence-based case for the reform or abolition of those EHS
- To disseminate and validate the findings via 2 Workshops as well as to provide a toolbox to stakeholders planning to reform EHS in the EU or in MS, reform approaches and other information most useful to their specific reform project

▪Scope:

- Broad definition of EHS
- Study wants to broaden analysis beyond fossil fuel subsidies to other EHS

▪**Timeline:** started in December 2020, 15 months research



Consortium Partners



Study on 'Mapping objectives in the field of environmental taxation and budgetary reform: Environmentally harmful subsidies'

Under framework contract ENV.F.1/FRA/2019/0001

Partners

VVA

Project lead, data collection & analysis, impact assessment, stakeholder interviews, environmental policy expertise



RPA Europe

Data collection & analysis, impact assessment, stakeholder engagement & interviews, policy evaluation



Bio Innovation Service (B'Innov)

Impact assessment, management consulting, environmental policy and governance



Metroeconomica

Economic and policy assessment of environmental issues; advisory services for international donor organisations, national/regional/local governments, private sector & NGOs



Institute for Environmental Studies, Vrije Universiteit Amsterdam (IVM)

Interdisciplinary academic research on environmental problems and sustainability issues, e.g. economic instruments in environmental policy



3 Main project activities

▪ Establishment of an EHS Inventory in the EU and the Member States to inform stakeholders on the existing landscape and the variety of subsidies (Task 1)

- Agreement on the EHS definition
- Review of existing inventories of EHS and national data collection in the EU-27 of existing EHS
- Scope covers subsidies affecting for example energy, transport, waste, water, biodiversity and land
- Establishment of EHS Inventory



▪ Analysis of the current landscape of EHS and identification of low hanging fruits for phasing out exercise (Task 2)

- Development of analytical framework
- Identification of EHS to be prioritised for reform or phase-out
- Identification of successful reform process to be presented as models for further EHS reforms
- Cross-country and cross-subsidy comparison exercise



▪ Development of the guidance materials (toolbox) for phasing out EHS addressing the stakeholders' needs (Task 3)

- Dissemination and validation activities throughout two workshop activities
- Development of survey to identify stakeholders needs and opinions
- Development of easily accessible guidance materials to empower stakeholders in their reform process



Introduction – progress to date

Progress to date

- Developed definition of the EHS
- Review of International and EU inventories
- Desk research and interviews in the EU-27
- Development of analytical framework for identification of low-hanging-fruit
- Approach to identification of current stakeholder needs



Workshop objective

- **Workshop objective is to support the ongoing study by:**
 - EHS' definition discussion and link to existing inventories
 - Preliminary findings of the mapping of EHS and discussion
 - Discussion on how to best identify low-hanging fruit EHS for phase out
 - Discussion of the needs and possible examples for the development of the guidance materials



Agenda

TIMES	ITEM	PRESENTER
09:00-09:30	Log-in to workshop/ connection check (log on at least 20 mins in advance)	
INTRODUCTION AND OVERVIEW		
09:30-09:35	Welcome and housekeeping	Meg Postle , RPA Europe
09:35-09:40	Welcome and outline of 1 st EHS Workshop	Mirka Janda , Unit of Sustainable Development Goals, Green Finance & Economic Analysis, European Commission Directorate-General for Environment
09:50-10:00	Overview on the purpose, scope and tasks of the study	Lucas Porsch , VVA
THE CHALLENGES OF EHS REFORM		
10:00-10:15	Environmentally Harmful Subsidies – Definitions and inventories	Frans Oosterhuis , Vrije Universiteit Amsterdam
10:15-10:35	Keynote: Successes and challenges in the reform of environmental harmful subsidies	Kai Schlegelmilch , Green Budget Europe (GBE)
10:35-10:45	Q&A – taken from Chat	
10:45-11:00	Break	
PHASING OUT EHS – ANALYSIS		
11:00-11:10	Mapping EHS in Europe – An overview	Lucas Porsch , VVA
11:10-11:20	Low hanging fruits – Finding the EHS ripe for reform	Patxi Greno , Metroeconomica
11:20-11:30	Q&A – taken from Chat	
GUIDANCE TO STAKEHOLDERS		
11:30-11:50	A review of guidance materials: advantages and disadvantages	Marco Camboni , RPA Europe
11:50-12:00	Q&A – taken from Chat	
12:00-12:10	Wrap-up and next steps	Stephen White , Deputy Head of Unit of Sustainable Development Goals, Green Finance & Economic Analysis, European Commission Directorate-General for Environment



The challenges of EHS reform



Environmentally Harmful Subsidies – Definitions and inventories

Frans Oosterhuis, Vrije Universiteit Amsterdam

The challenge of defining EHS

- **Distinction between:**

- the theoretical definition
- the scope or practical application for our study
- and the focus of our study

- **Many different definitions of subsidies have some common features:**

- refer to **an advantage**
- caused by **an act of public policy**
- for a specific **group, sector, process, region, product or activity**
- which can usually **be expressed in monetary terms**

- **Lack of rigour in developing definitions on specific policy areas:**

- well established definition of fossil fuel subsidies that are EHS
- equivalent efforts in defining other types of EHS are scarce or non-existent



What is a subsidy?

When is a subsidy environmentally harmful?

The challenge of defining EHS

We follow OECD definition
but try to make it more
operational.

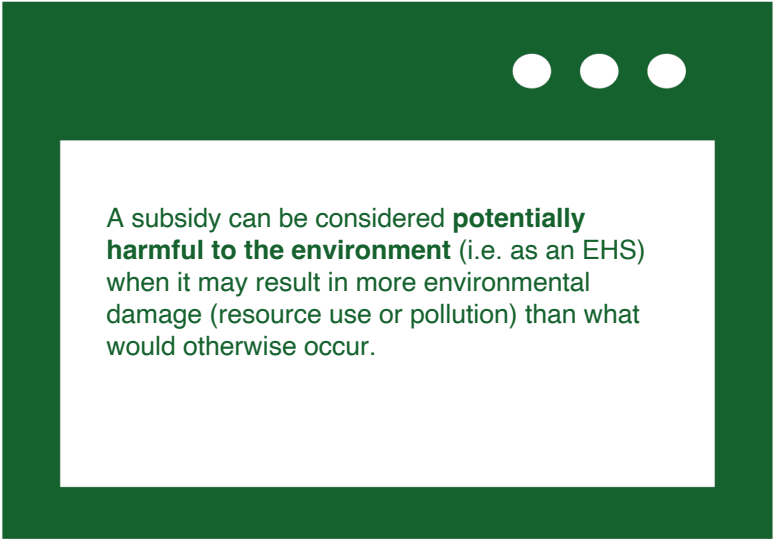
OECD definition of EHS:

“...financial supports and regulations that are put in place to enhance the competitiveness of certain products, processes or regions, and that, together with the prevailing taxation jurisdiction, (unintentionally) discriminate against sound environmental practices.”

Study definition

- Many different definitions of subsidies have some common features:

- all measures that keep consumer prices at a level below those which reflect the true opportunity costs that would prevail in competitive markets if all external costs and benefits were internalised;
- all measures that keep producer prices above true opportunity costs in competitive markets if all external costs and benefits were internalised;
- all measures that reduce costs for consumers and producers by giving direct or indirect support.”



A subsidy can be considered **potentially harmful to the environment** (i.e. as an EHS) when it may result in more environmental damage (resource use or pollution) than what would otherwise occur.

Scope of our study

- Largely determined by the extent to which the 'otherwise' (the counterfactual) can be determined in a relatively uncontroversial and straightforward way

<u>Within scope</u>	<u>Not within scope</u>
Direct transfer of funds	Potential transfer of funds (e.g. limited liability)
Price and income support (only if there is a direct connection with a higher level of supply of or demand for environmentally harmful goods)	Provision of goods, services and infrastructure (unless a counterfactual can be established with confidence)
Tax expenditures	Regulatory provisions with an EHS-like impact (e.g. exemptions from general standards)

- **Focus of the present study:**
 - On subsidy schemes with a 'structural' character
 - On other subsidies than those to fossil fuels
 - On 'low-hanging-fruit'



Questions

- Do you agree with the choices we made on the issues of definition, scope and focus?
- Do you have any examples from your own country of discussions/controversies on the question whether a certain scheme or provision is an EHS? Can you summarize the main arguments used?

Keynote: Successes and challenges in the reform of environmental harmful subsidies

Kai Schlegelmilch – Green Budget Europe (GBE)

Successes and Challenges in the Reform of Environmentally Harmful Subsidies

Kai Schlegelmilch

Chair and Co-Founder, Green Budget Germany (GBG/FÖS)

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Brussels/digital, 10th June 2021

Workshop:

Mapping objectives in the field of environmental taxation and
budgetary reform: Environmentally Harmful Subsidies

Green Budget Germany (GBG)

Forum Ökologisch-Soziale Marktwirtschaft e.V. (FÖS)

A non-profit organization working on environmental economics and policy since 1994

An independent, political think tank working on market-based environmental policy, combining fiscal with environmental policies

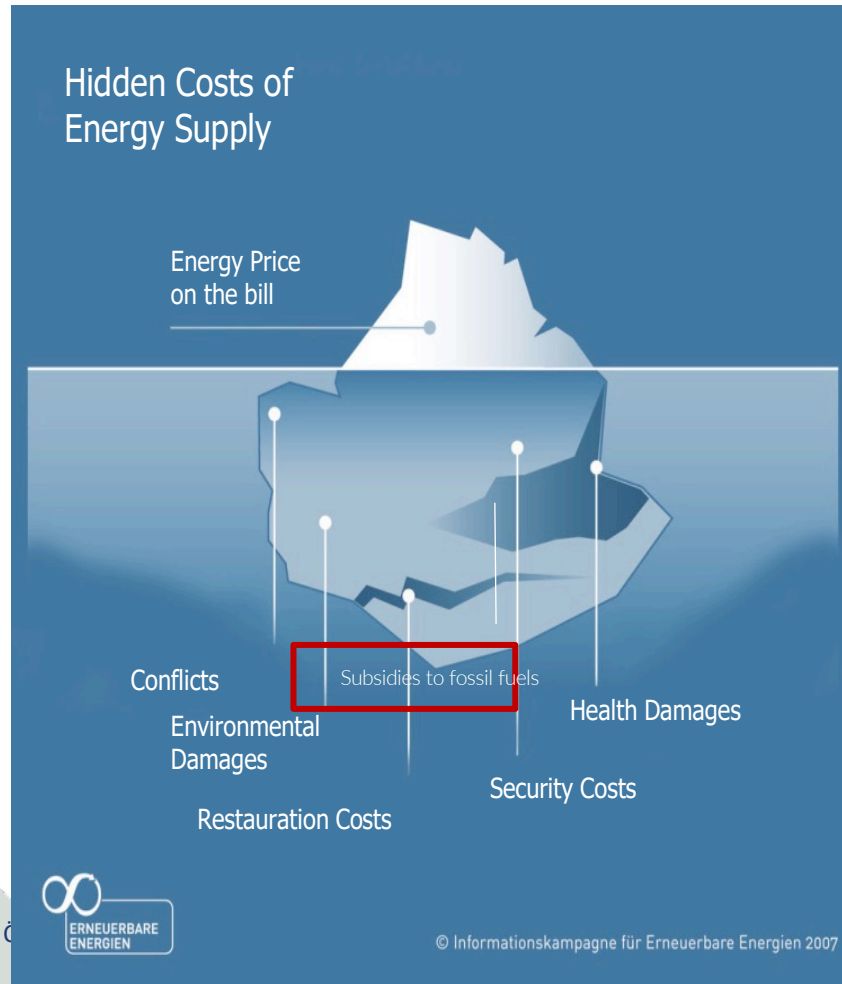
Climate change, air pollution, plastic pollution etc. are results of market failures

We focus on the use of economic instruments in climate and environmental policy as often the most effective instruments

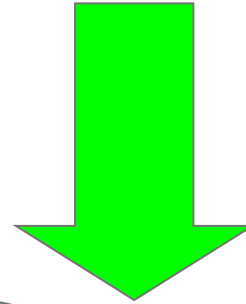
We launched **GBE (Green Budget Europe)** to deal with these topics on European level. Yet, GBE is now the EEB Green Budget Working Group.

- True cost pricing including all social and environmental damage costs in the prices
- Internalising these costs and implementing the polluter pays and the resource users principles = EU-Treaty
- Hence, non-internalisation is an environmentally harmful subsidy!

Energy prices poorly reflect true costs...

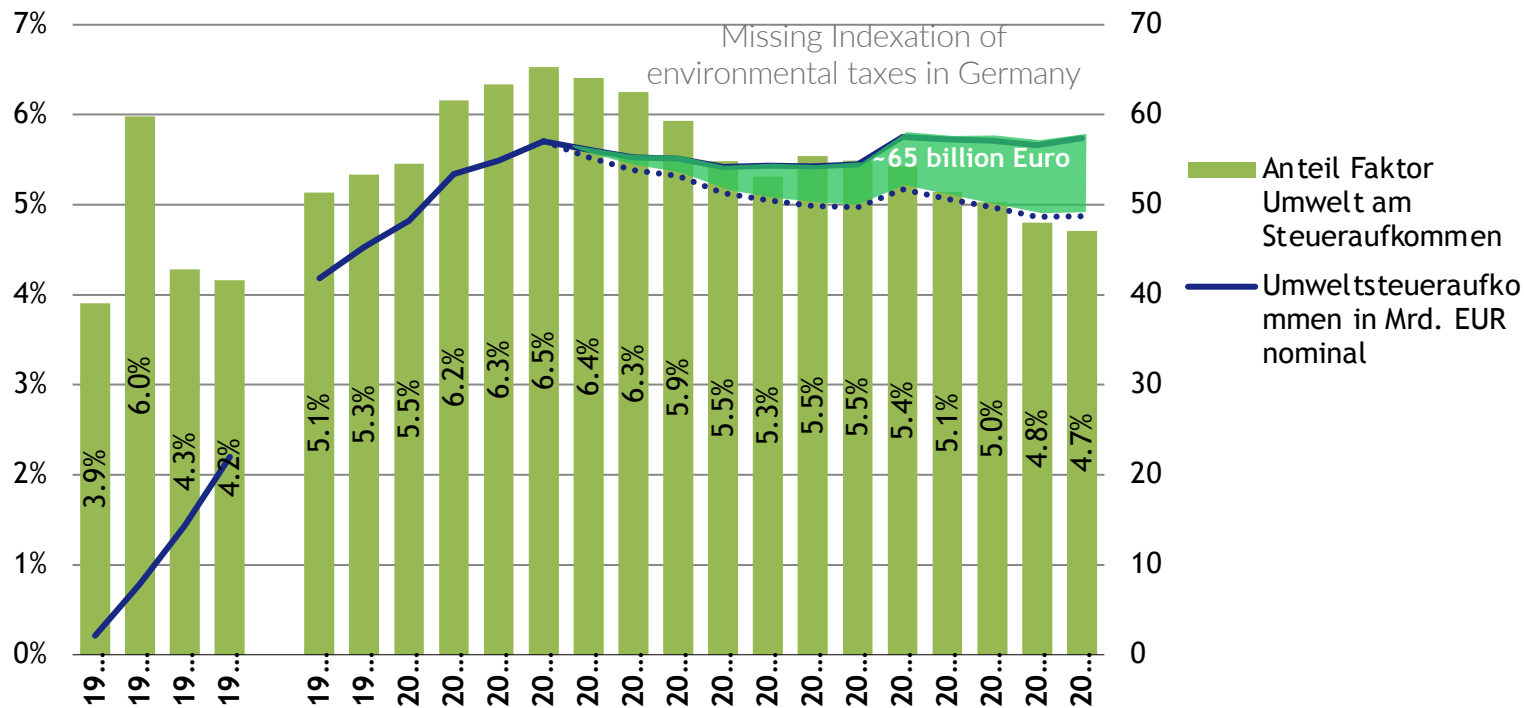


- ... because external costs are not paid for
- ... and environmentally damaging fossil fuels even receive subsidies on top (FFS)

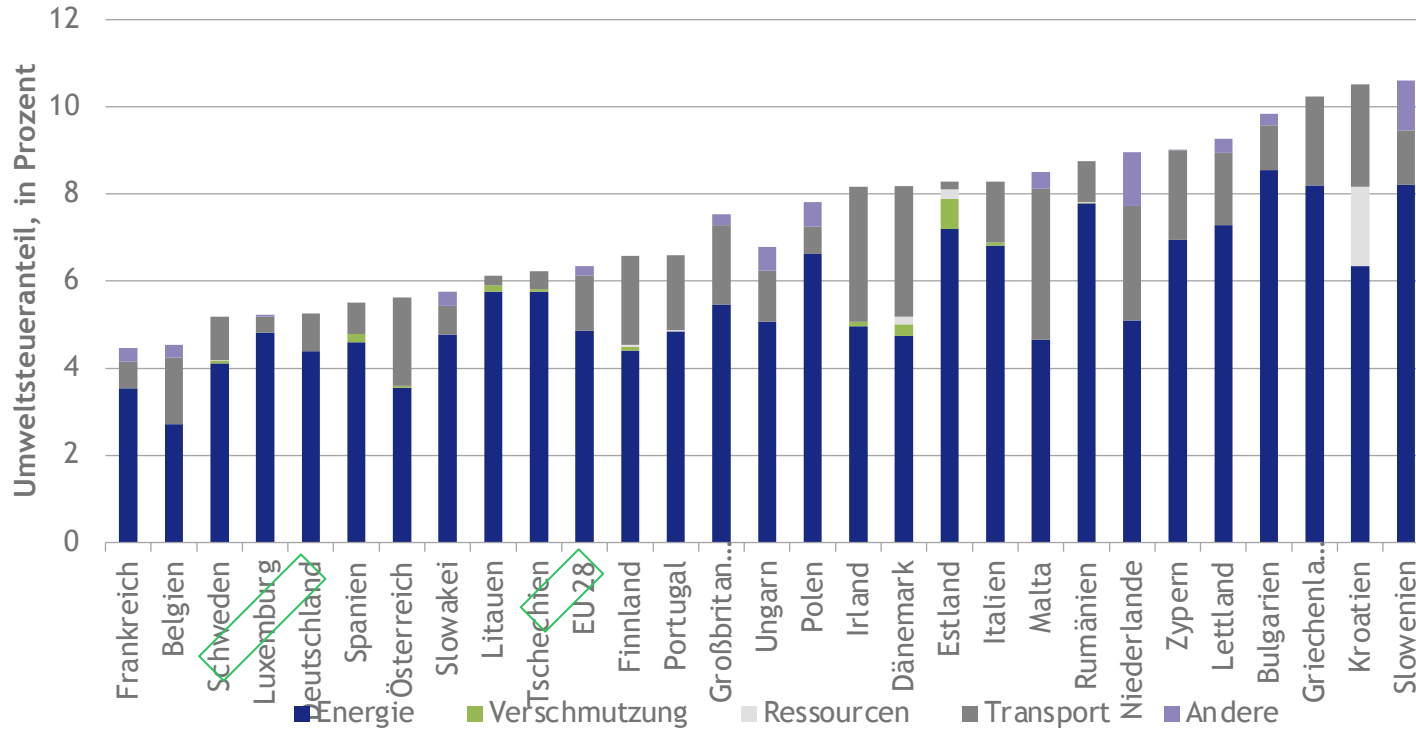


**Tax what you burn....
not what you earn**

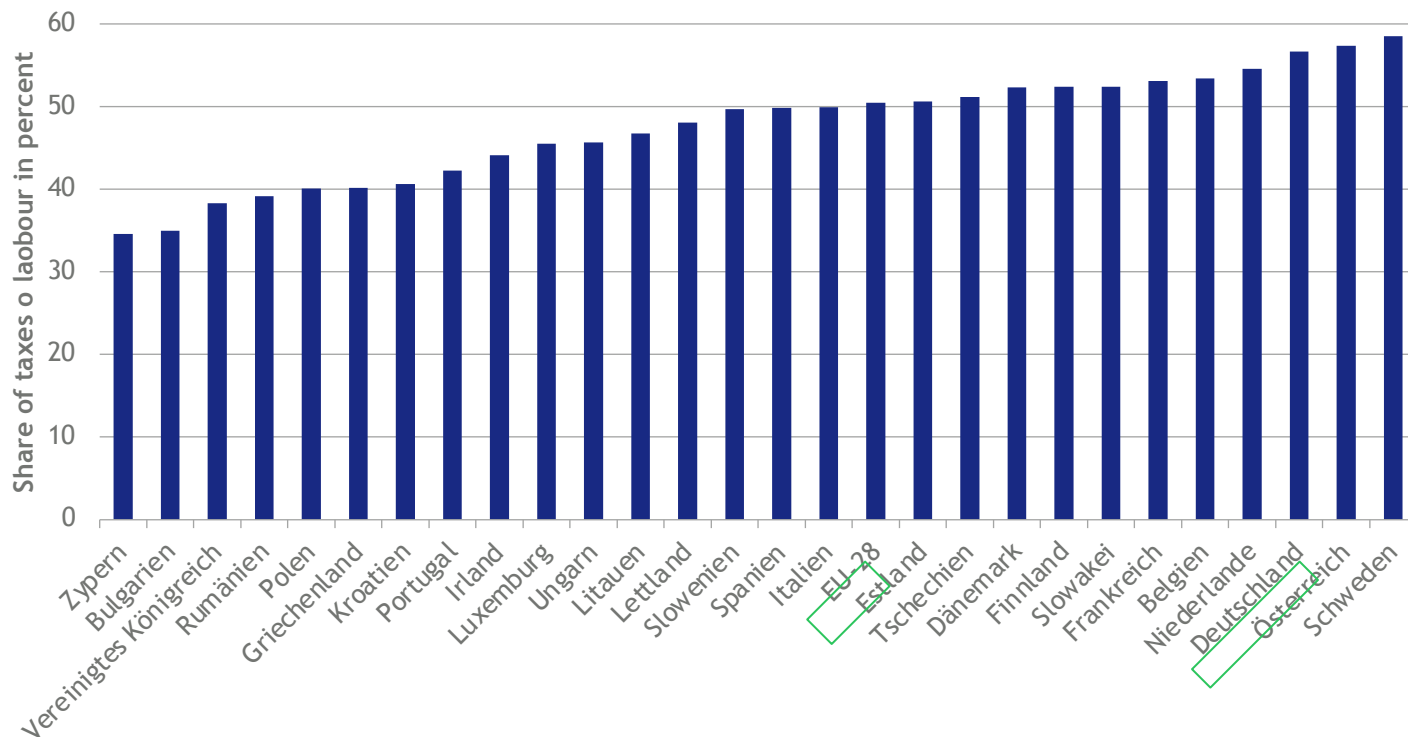
Environmental tax impacts are reduced automatically due to inflation – billions of foregone revenues



The share of environmental taxes is very low: 6%



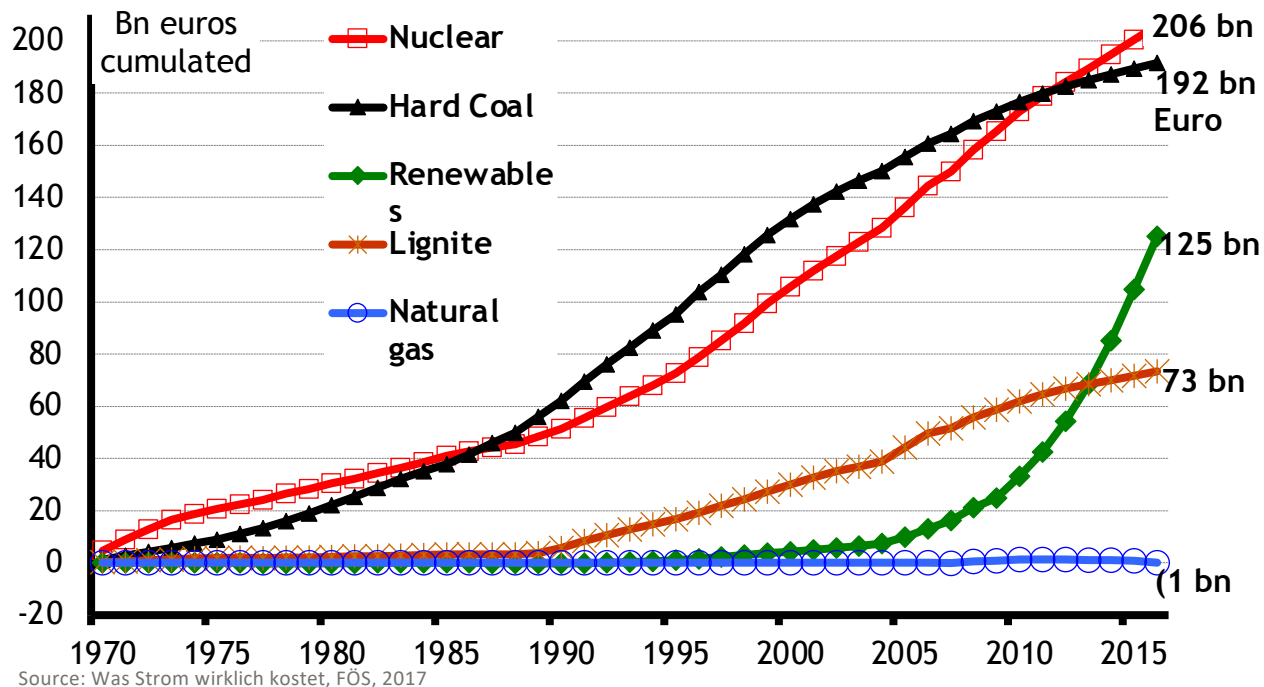
... while the share of taxes on labour is high: 35 - 58%



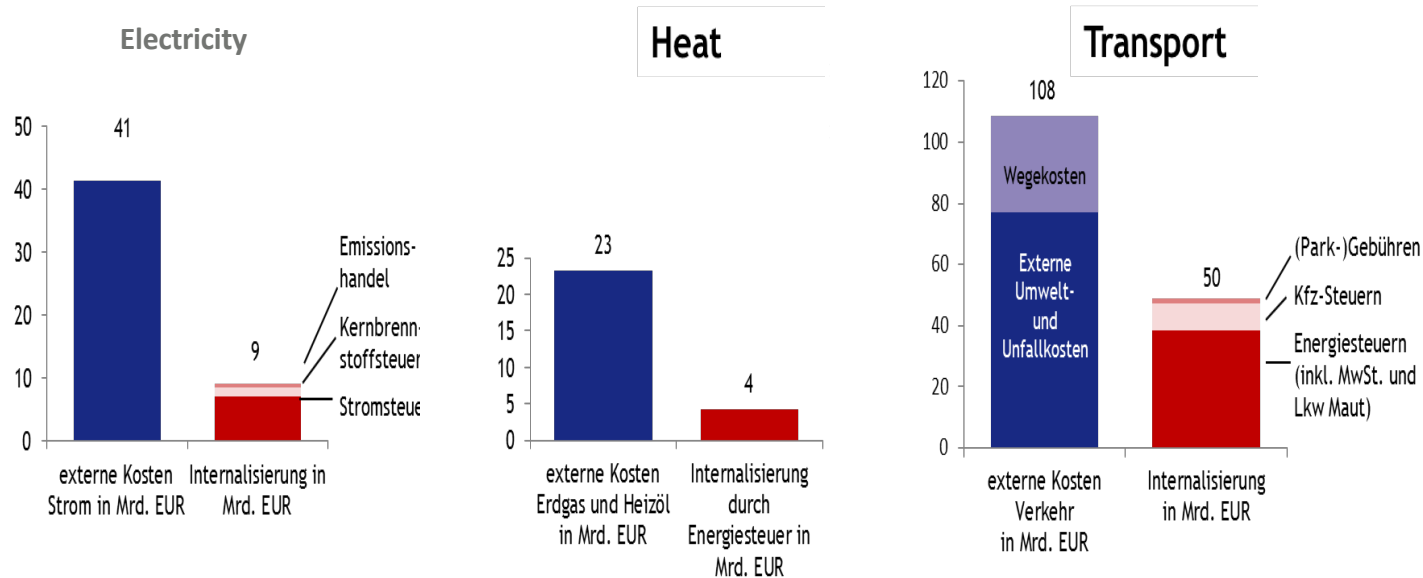
Source: Eurostat

Conventional electricity has been subsidised heavily

Cumulated subsidies for nuclear, hard coal, lignite and renewables 1970-2016 (in EUR, 2016 prices)



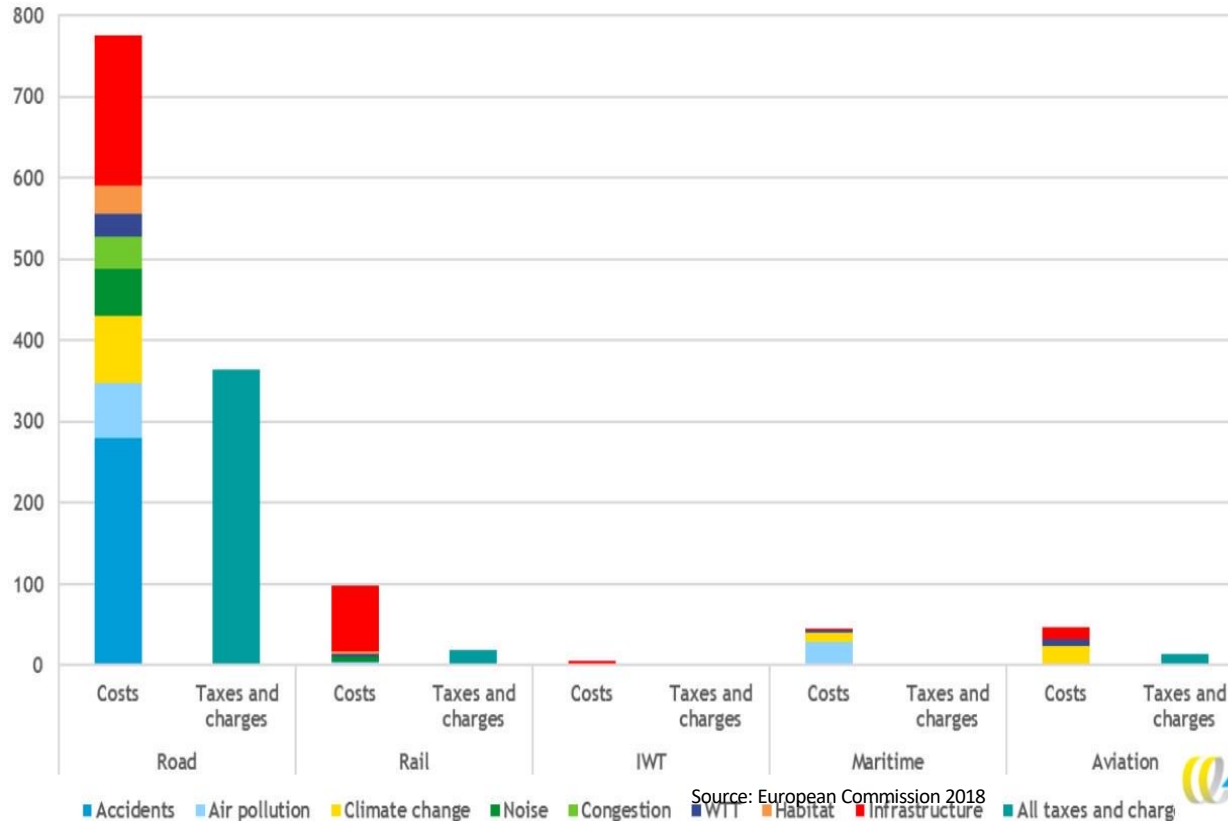
Insufficient internalisation of external costs in Germany



Source: UBA 2013, own calculations

Internalization of external costs is too low in the EU (here: transport)

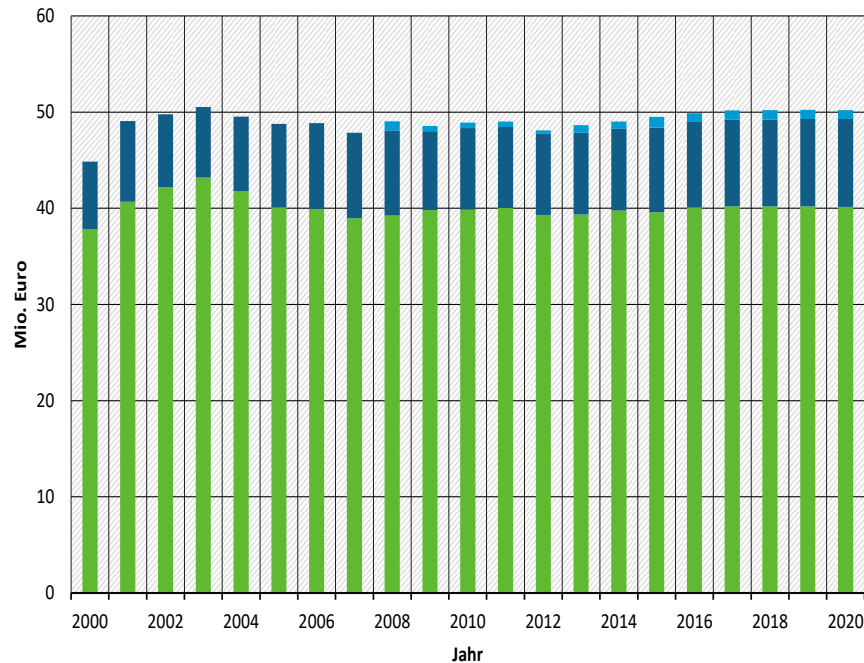
Total (external and infrastructure) costs and who bears them (bn €)
Road, rail & IWT for EU28; Maritime & aviation for selected 33 airports / 34 ports



Source: European Commission 2018

Electrification will significantly reduce tax revenues

Energy taxes, vehicle taxes and road charges (in bn Euro)



Fuel taxes are main source for infrastructure financing, but **will fall significantly with electrification**

(in real terms, revenues are actually decreasing for many years since 2003 -> indexation)

Electricity tax is no alternative

New system with registration tax, vehicle tax and road charges are a possible solution

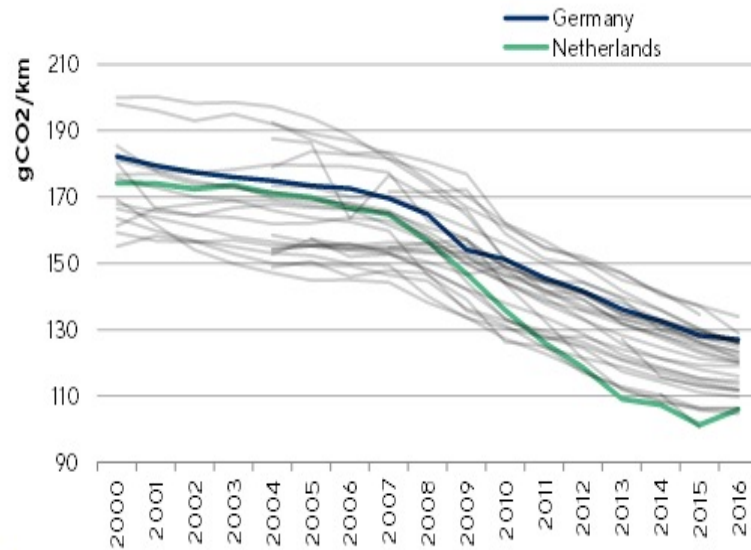
■ Energiesteuer

■ Kfz-Steuer

■ Lkw-Maut

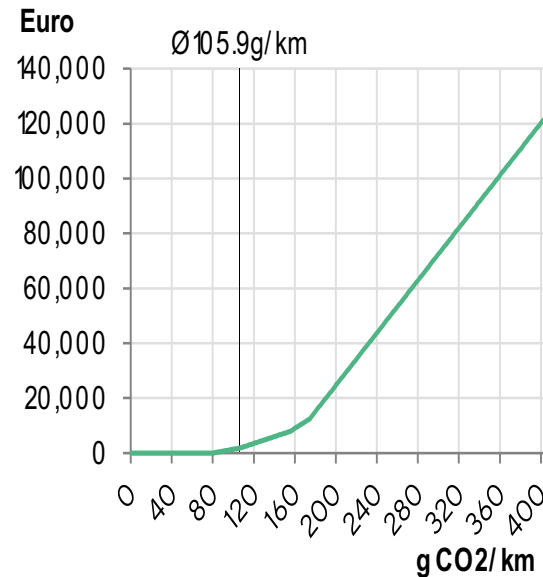
Best practice: Dutch registration tax

Ø CO₂-emissions of new passenger



Source: FÖS 2018, based on Eurostat 2017; FleetNews 2016; Statista 2017

CO₂-related tax amount payable



Source: FÖS 2018, graph and calculation based on ACEA (2017a), Belastingdienst (2017), FÖS (2018)

Some further international best practice examples

- **Fuel taxes** including fuel excises as escalators (**UK and Germany**)
- **Carbon tax** (**British Columbia/Canada and Germany**)
- **Differentiated taxes on cleaner fuels** (**most European countries**)
- **Vehicle registration charges** in **France, Norway and Thailand**, including motorcycles
- **Congestion charging** (**Stockholm and London**)
- **Subsidies for cleaner transport** (**Seoul**) and **electric buses** (**India and London**)
- **Grants for cleaner motorcycles/three-wheelers** (**Philippines**)
- **Subsidies to promote alternative fuels** (**Thailand**)
- **Scrappage subsidy schemes** (**Beijing, China and Mexico**)
- **Road tolls to incentivise modal shift in freight sector** (**Germany**)

Lessons from international best practice

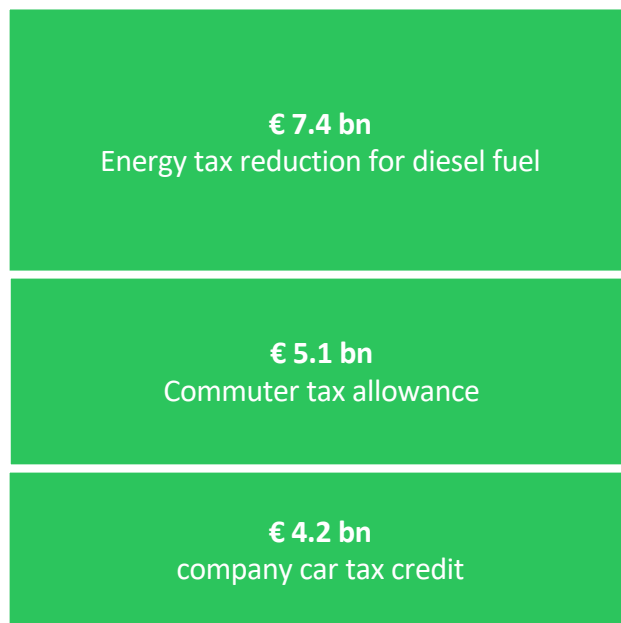
Implications for the design of a policy package

- Fiscal policies should be implemented within a **complementary package of measures** to encourage modal shift away from private vehicles and towards public transport.
 - Measures should be carefully costed and impacts predicted so that **revenues are available to cover the cost of the scheme.**
 - **Taxes on fuels** can be effective in incentivising fuel switching, even if they result in only a **small price differentiation between fuel types.**
 - **Vehicle registration charges** can have a **positive impact** on the make-up of the vehicle fleet.
 - **Congestion charging and low-emissions zones** can reduce emissions harmful to human health attributable to congestion and idling.
 - **All subsidies in the transport sector should be carefully assessed** in line with their **equity impacts.**
 - **Scrappage schemes for private vehicles tend to encourage vehicle ownership** rather than a modal shift to public transport
 - **Scrappage for freight is therefore preferable.**
-

Slide 35

Environmentally harmful subsidies in the transport sector amount to €29 billion in Germany

Road Transport



Air Travel



Source: UBA 2014, own calculation FÖS

Germany is Leading on Committing to Fossil Fuel Subsidy Phase-Out...

- **Differently high transparency:**

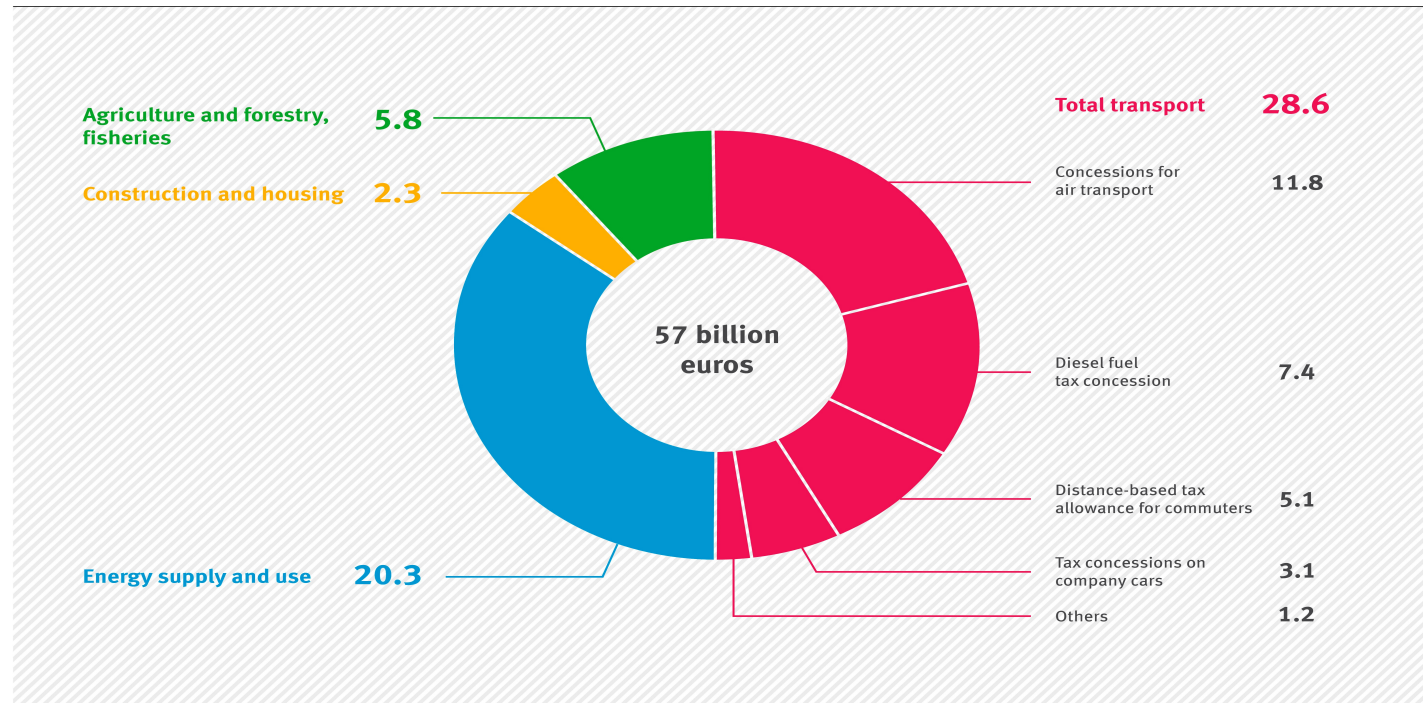
One of very few countries reporting **biannually** on subsidies (Finance Ministry), even with **sustainability impact assessments**, yet comprising only a minor part of environmentally harmful subsidies. These are reported by the Federal Environmental Agency.

- **Commitments and pledges:**

Germany's Climate Action Plan 2050 reiterates plans to reduce environmentally harmful subsidies. Pledges within G7, G20, SDGs, Paris Agreement.

But still, the Level of Environmentally Harmful Subsidies is **very high**

Breakdown of subsidy volume by sectors in billions



Source: German Environment Agency 2017

Yet, some Successes and their Reasons

1. Hard coal subsidies:

Phase out of more than 50 years long lasting hard coal subsidies by end 2018.

- Costs were substantial (it favoured German hard coal from 1000 m underground), also for the budget
- Alternative energies became increasingly competitive
- Socially acceptable job reduction by creating alternative jobs
- Bipartisan consensus

2. Subsidies for buying homes

Phase out of subsidies for buying homes over a period of eight years by steady reductions (paid 1995-2005, budget > 11.4 bn € p.a.)

- Increased building costs led to subsidies to building industry
- Large windfall gains for several stakeholders
- Flat vacancies, shrinking population, increasing use of land made subsidies increasingly superfluous and caused criticism
- Bipartisan consensus

Germany is Though Lagging Behind on Subsidy Phase-Out

- Germany's subsidies to the consumption of fossil fuels, through tax exemptions, remain very high.
Environmentally harmful subsidies amounted to over 57 bn Euro in 2012 (UBA 2016).
- In 2015, Germany adopted a **new coal subsidy** measure in the form of capacity payments for lignite plants.
Germany has **increased subsidies to the use of fossil fuels in industrial processes** through tax breaks for energy-intensive industries, which amounted to almost €10 billion per year.
- Germany provides over €2.4 billion financing per year towards oil and gas projects, and fossil fuel-powered electricity, outside of the EU

Unexpected window of opportunity: Climate Pact 2021 in Germany

- In May 2021, NGOs won against the German government at the Constitutional Court of Justice: The Government had to take immediate action and **advanced the objective of climate neutrality from 2050 to 2045.**
- It also announced additional measures in an ad hoc programme which will partly be financed by a **further reduction of climate harmful subsidies to be decided at short notice**
- Keep our fingers crossed that the government takes a courageous decision

Indonesia: Success story after several failures

Better than the EU? Learning from South East Asia?

- 1997/2001 = **Failures**
 - East Asia crisis (1997) price on fuels were raised => protests => resignation of the government.
 - 2001 raising fuel prices were accompanied by compensation packages (health care, rice program, village infrastructure program), but in 2003 the old prices were reinstated due to public protest.
- 2015 = **Success**
 - in 2014, cost of subsidies higher than planned and fiscally unsustainable
 - **Fiscal burden was main driver**: Fossil fuel subsidies accounted for 20% of GDP
 - Subsidies led to congestions, pollution, waste of energy, health impacts and lower productivity
 - The government issued the **biggest year-on-year increase in infrastructure investment** in 2014 with the goal of removing a main barrier to development-poor infrastructure -and to reach a 7% GDP growth rate
 - Government **increased support for vulnerables**
 - Energy Security Fund was set up in 2016 to stabilise fuel prices.
- **Future challenge**
 - Resisting political pressure when world oil prices increase again, without falling back on fuel-price intervention.

Why is progress slower than committed for?

How can this be changed?

Type of information required?

How do stakeholders perceive attempts to phase out subsidies?

- Often immediate resistance, via media, but also behind closed doors by intensive lobbying, often successfully
- Hence, one element of success recipe is to provide more **transparency**
- In the official German subsidy report **sustainability impact assessments** of all reported subsidies provide information on the environmental, economic and social impacts, offering a good basis for discussion and action.
- Yet, politicians still often do not dare to push for environmentally harmful subsidies

Success factors

- High/Increasing budget deficits and debts
- Use every budget debate
- Use the required counterfinancing of the spendings for fighting the pandemia
- Transformation funding offering alternatives
- Use transformation and Repurposing as more acceptable terms than just abolition of subsidies
- Unveil lobbyisms
- Rallye the winners of reducing environmentally harmful subsidies to make the economic case for transformation, build alliances and speak out loudly
- Bipartisan consensus, including also most stakeholders (even those benefitting!)
- Use the opportunity of decreasing subsidies whenever world oil prices decrease
- Scandalise that these subsidies are not only environmentally harmful, but often even also socially unjust/regressive
- Ask a PR agency to develop and implement a communication/marketing strategy using all these above success factors

Challenges

- **Applying these success factors reasonably**
- **Having/finding politicians with political courage**
- **No reintroducing subsidies when oil prices increase (again)**
- **Overcoming barriers**
- **Dare starting initiatives again, even after failures**
- **Identifying the right strategy, compensation tools and timing for the transformation of subsidies**

Thank you very much for your attention!

Kai Schlegelmilch

**Chair and Co-Founder, Green Budget Germany
(GBG/FÖS)**

Kai.Schlegelmilch@foes.de
www.foes.de

Brussels/digital, 10th June 2021

Governmental Sources

- 1. Federal Agency for Nature Conservation (BfN): Reduction of biodiversity harmful subsidies and compensation payments for physical impacts – Economic Instruments for the protection of biodiversity, (BfN, 2019, in German: https://www.bfn.de/fileadmin/BfN/oekonomie/Dokumente/Abbau_naturschaedigender_Subventionen.pdf)
- English: <https://www.bfn.de/themen/oekonomie/oekonomische-instrumente/subventionen.html>)
- 2. Federal Ministry of Finance (MoF, 2019, in German): Bi-annual subsidy report with sustainable impact assessments: https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/2020-03-01-Subventionsbericht.html
- English: https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Press_Room/Publications/Brochures/2020-03-03-27subsidy-report.html
- 3. Report from the Federal Environment Agency (UBA, 2016): Environmentally-harmful subsidies: in German: <https://www.umweltbundesamt.de/themen/wirtschaft-konsum/wirtschaft-umwelt/umweltschaedliche-subventionen#umweltschadliche-subventionen-in-deutschland>
- English: <https://www.umweltbundesamt.de/en/environmentally-harmful-subsidies#direct-and-indirect-subsidies>

Non-Governmental Sources

- Environmental tax reform in developing, emerging and transition economies: <https://www.die-gdi.de/en/studies/article/environmental-tax-reform-in-developing-emerging-and-transition-economies/>
- A Climate of Fairness: Environmental Taxation and Tax Justice in Developing Countries: https://www.vidc.org/fileadmin/martina/studien/a_climate_of_fairness_cottrell_falcao_study_2019.pdf
- Environmental Tax Reform in Asia and the Pacific (on behalf of UNESCAP) <https://foes.de/publikationen/2017/2017-05-FOES-Studie-ETR-in-Asia-and-the-Pacific.pdf>
- EFR in Indonesia: <http://www.foes.de/pdf/2011-12-15-Rapid-Assessment-on-the-readiness-of-Indonesia.pdf>
- Fiscal policies to address air pollution from road transport in cities and improve health: Jakarta/Indonesia: https://foes.de/publikationen/2020/2020-09-UNEP_Fiscal_policies_air_pollution.pdf
- „The diesel tax gap“, www.foes.de/pdf/201812-dieseltaxgap.pdf
- “A Comparison of CO2-based Car Taxation in EU-28, Norway and Switzerland”, www.foes.de/pdf/2018-03_FOES_vehicle%20taxation.pdf
- „Loss of revenues in passenger car taxation due to incorrect CO2 values in 11 EU states”, www.foes.de/pdf/2018-03-10_FOES_Taxation_loss_due_incorrect_CO2_values.pdf
- “Phase-out 2020 Monitoring Europe's fossil fuel subsidies”, www.foes.de/pdf/2017-ODI-CAN-FOES-Phase-out-2020-main-report.pdf
- “Environmental Tax Reforms in Asia and the Pacific”, www.foes.de/pdf/2017-05-FOES-Studie-ETR-in-Asia-and-the-Pacific.pdf
- “Environmental Tax Reform in Developing, Emerging and Transition Economies”, www.die-gdi.de/uploads/media/Study_93.pdf
- “The full costs of power generation”, www.foes.de/pdf/2013-03-full-costs-of-power-generation.pdf
- Training on EFR: http://www.foes.de/pdf/GTZ_EFR_Training_Description2.pdf



Phasing out EHS - Analysis



Mapping EHS in Europe

An overview

Lucas Porsch, VVA

Data collection

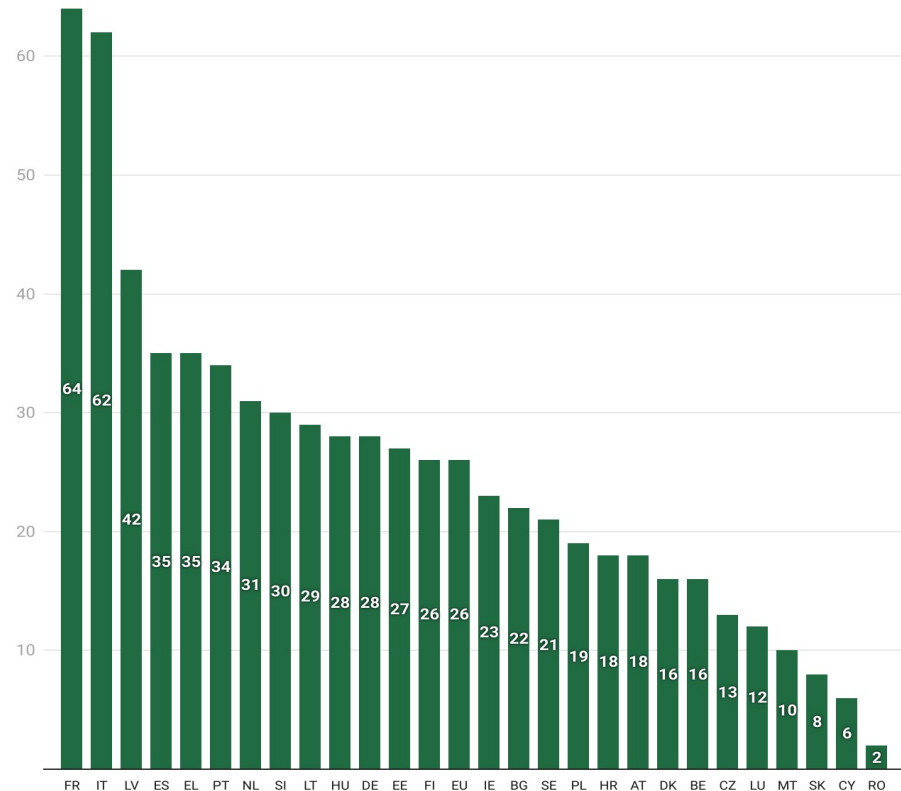
- Excel-based **inventory of existing and abolished environmentally harmful subsidies** at the EU level
- Step 1: International data collection
 - Desk research
- Step 2: National data collection
 - Desk research
 - Stakeholder interviews



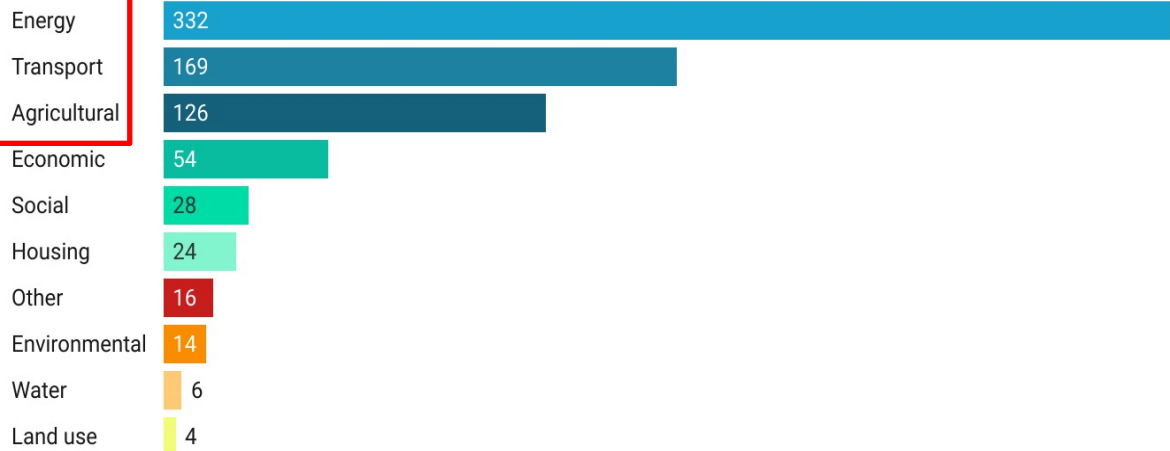
Key findings

<u>Key information</u>	<u>Description</u>
701 subsidies	Total number of currently identified across all EU Member States and at EU level
France, Italy, Latvia	Countries with the most existing identified EHS (see graph)
Scale of the problem	The number of subsidies per country does not necessarily indicate the scale of the problem (e.g. budget spent, degree of environmental impact)

Number of existing subsidies per country and at EU level



Key policy areas



Information bias

Fossil fuel subsidies are far **more explored** in the data sources than others.

Methodology

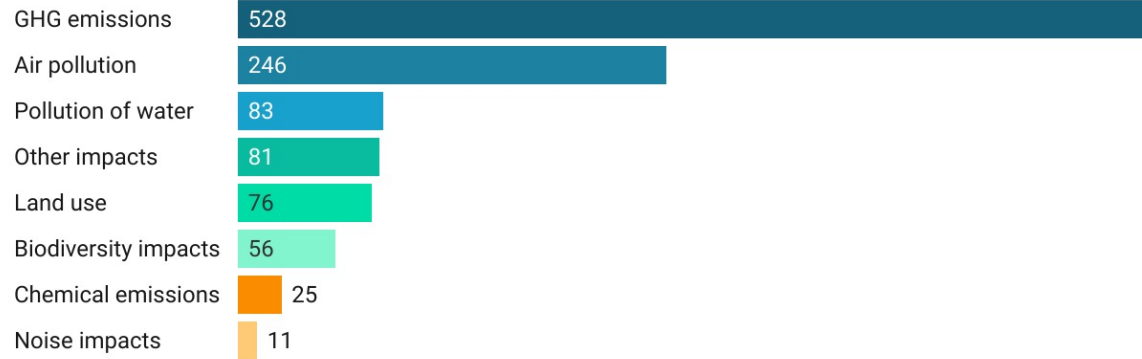
Many identified subsidies were allocated multiple policy areas (e.g. fuels for shipping fall under energy and transport policy). Hence, the **count in policy areas** (773) is **higher than** the total **number of subsidies** (701).

Frequent subsidies

- **Tax exemptions or reductions for fossil fuels and users thereof**
 - Fuel tax exemption for coastal and inland navigation, fishing or commercial aviation (15 countries)
 - Energy and fuel tax reductions for energy-intensive industries (8)
- **Subsidies for agricultural production**
 - Tax exemptions or refunds for fuel or energy used in agriculture (15)
 - Pesticides and fertilizer subsidies (4)
 - Slaughter and meat premiums (6) or lower VAT rates for meat or agricultural products (4)
- **Company car tax benefits (6)**
- **Support to the closing of coal mines**
 - Coal mining reforms, preferential treatments, support to former miners, inherited liabilities due to coal mining (7)

Key environmental impacts

Environmental impacts of existing EHS in the EU



any identified subsidies were allocated multiple environmental impacts (e.g. GHG emissions, air pollution, etc.). Hence, the **count in environmental impacts** (1,106) is **higher than** the total **number of subsidies** (701).

Other impacts refer to increased resource use and the environmental implications thereof in most cases.

GHG emissions



Air pollution



Water pollution



Available information

<u>Type of information</u>	<u>Share</u>
Qualitative description on the environmental impacts and overall objective of subsidies	Available for 100% of all subsidies
Governance level and responsible authority for subsidies	Available for 94% of all subsidies
Interest groups and benefiting parties (both from subsidies' maintenance and potential abolition)	Available for 100% of all subsidies

Missing information

<u>Type of information</u>	<u>Share</u>
Quantitative data on the environmental impacts of subsidies (possibly due to a lack of attention given to these impacts by public administrations and resulting lack of information)	Missing in 91% of all subsidies
Reform experiences (possibly resulting from the fact that reforms did not occur or were not planned, or data on reforms is not publicly available)	Missing in 88% of all subsidies

Challenges in building and maintaining EHS inventories

- **Where to find information on EHS?**
 - Are there existing inventories?
 - Are existing inventories **up to date**?
 - How can existing inventories be supplemented and kept up to date?
- **Limitations of this study in supplementing existing information on EHS**
 - Reliance on national reporting and transparency
 - Over-emphasis on certain policy areas and under-reporting on others
 - Differing definitions of 'subsidies' and 'environmentally harmful' across national administrations lead to misrepresentation of EHS (as defined in this study)
 - narrow definition of subsidies means in certain countries (e.g. Germany) tax benefits such as company car benefits are not captured under the label of subsidies
 - the concept of what is 'environmentally harmful' is not evaluated thoroughly enough

Low hanging fruit – Finding the EHS ripe for reform

Patxi Greno, Metroeconomica

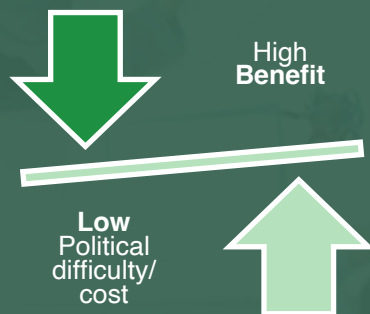
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- **Dimensions of reform – criteria for choosing the low hanging fruit**
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What is the low hanging fruit?

In the **policy** space, one normally thinks of **Low Hanging Fruit** as an ongoing activity that can be reformed or modified at relatively low cost.

In the area of **environmentally harmful subsidies** (EHS), Low Hanging Fruits can be thought of as those subsidies that can be reduced or eliminated with **little political difficulty** and that generate significant **environmental and net fiscal benefits**



Policy space: relatively low cost



EHS area: net benefits plus little political difficulty

Criteria for choosing the LHF

The features that make some interventions aimed at removing EHS more attractive already covered by the title will be:

- **Fiscal cost savings:** will the reform or phasing-out of a subsidy contribute to increase revenues or reduce the public expenditure?
- **Environmental benefits:** will the reform or phasing-out of a subsidy reduce the environmental harm?
- **Public support** - losers and gainers: which groups and in which way are affected by a reform or phasing-out of a subsidy? Can groups negatively affected by the removal of a subsidies be persuaded not to oppose its removal? Is there a well-organized interest group to lobby in the name of any affected vulnerable group/s?
- **Political feasibility:** can a coalition of parties that benefit from the removal be formed that is strong enough to push the reform?
- **Success stories:** is there any evidence of successful reform of similar subsidies elsewhere?



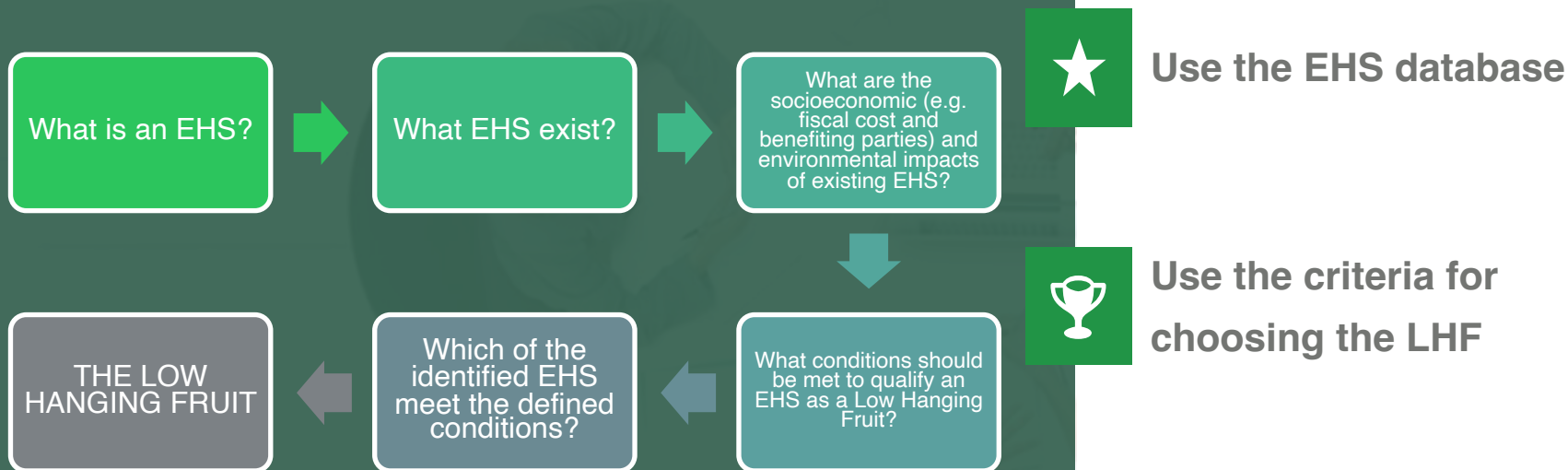
Environmental and net fiscal benefit



Little political difficulty and public support

How to identify the LHF in the mapped subsidies

Logic for choosing the low hanging fruit



Conditions to be met

A subsidy will be identified as 'low hanging fruit' if ALL the following four conditions are met

- The subsidy reform does not have a **significant** negative effect with respect to budget and environmental harm, and on beneficiaries of the subsidy, but it has a **significant** positive effect on at least one of the following aspects: significant reduction of the fiscal costs and/or of the harmful impact on the environment and/or increased income of beneficiaries of the reform.
- The subsidy reform either does not negatively affect **vulnerable** groups (i.e., there are no vulnerable losers) or, if it does, some **compensatory measure** can be adopted to deal with their losses. A **powerful pressure group** to lobby in their name to reach an agreement on compensation **exists**.
- There is evidence from previous attempts at reform with this subsidy or with other similar subsidies that any political resistance can be overcome.
- Credible options for reform or phase out can be identified.



Use the 5 criteria for choosing the LHF



Four conditions to be met

Possible examples

Reduced VAT rates of food



Reduced VAT rates of food: Expected impacts of reform

- **Environmental benefit**
 - Large/ significant: approx. 33 Mt CO₂-eq. reduction per year in the EU
- **Financial benefit**
 - Substantial increase in VAT revenues
- **Public opposition**
 - Yes, as it will affect to low-income vulnerable groups. The measure would be unpopular with farmers. However, opposition might be overcome by targeted compensation.
- **Evidence and credible options for reform**
 - Potential evidence (and options) from previous attempts at reform with this or with similar subsidies: standard VAT rates are applied on all food products in Bulgaria, Denmark, Estonia and Lithuania.

Possible examples

Reduced VAT rates on fertilizers and pesticides



Reduced VAT rates of agricultural inputs: Expected impacts of reform

- **Environmental benefit**
 - Potentially Large: phasing out VAT exemptions on **chemical** fertilizers will result in improvements in groundwater quality
- **Financial benefit**
 - Potentially, substantial increase in VAT revenues
- **Public opposition**
 - Yes. The measure would be unpopular with farmers. However, opposition might be overcome by targeted compensation (e.g. reduce VAT on organic fertilizers).
- **Evidence and credible options for reform**
 - Potential evidence (and options) from previous attempts at reform: organic fertilizers in Italy, Germany, and Austria are subject to lower VAT rates than chemical fertilizers. France abandoned reduced VAT rates for pesticides and fertilizers in 2012

Possible examples

Tax treatment of company cars



Tax treatment of company cars: Expected impacts of reform

- **Environmental benefit**
 - Very large/ significant: benefit of phase-out under-taxing company cars is estimated at EUR 116 billion per year
- **Financial benefit**
 - Potentially significant: tax revenue is estimated at EUR 27 billion per year
- **Public opposition**
 - Tough opposition likely, but might be overcome with a more comprehensive tax reform
- **Evidence and credible options for reform**
 - Potential evidence (and options) from previous attempts at reform with this or with similar subsidies: Under its company car taxation scheme, Belgium included electric/ hybrid electric cars, giving them better tax benefits than less environmentally friendly cars.

Possible examples

Reduced energy tax rates for large industrial users



Reduced energy tax rates for large industrial users: Expected impacts of reform

- **Environmental benefit**
 - Uncertain: interaction with GHG emissions trading scheme
- **Financial benefit**
 - Potentially large/significant: increase in government revenue due to reduce expenditure.
- **Political and public opposition**
 - Strong opposition by industry lobby likely, but acceptance could increase if «border tax adjustment» protected against foreign competition
- **Evidence and credible options for reform**
 - Potential evidence (and options) from previous attempts at reform with this or with similar subsidies: support to the closing of coal mines, e.g. in Poland

Questions

- Do you agree with the conditions that need to be met by a subsidy to be considered as 'low hanging fruit'?
- Do you have any examples from your own country of previous attempts to reform or phase out environmental harmful subsidies? Can you summarize the main social and political barriers and how these were overcome?

Phasing out EHS - Analysis Q&A

Patxi Greno and Lucas Porsch

A photograph of the European Parliament building in Brussels, featuring a curved glass facade and several European Union flags on tall poles in the foreground. A large green diagonal overlay covers the right side of the image.

Guidance to stakeholders

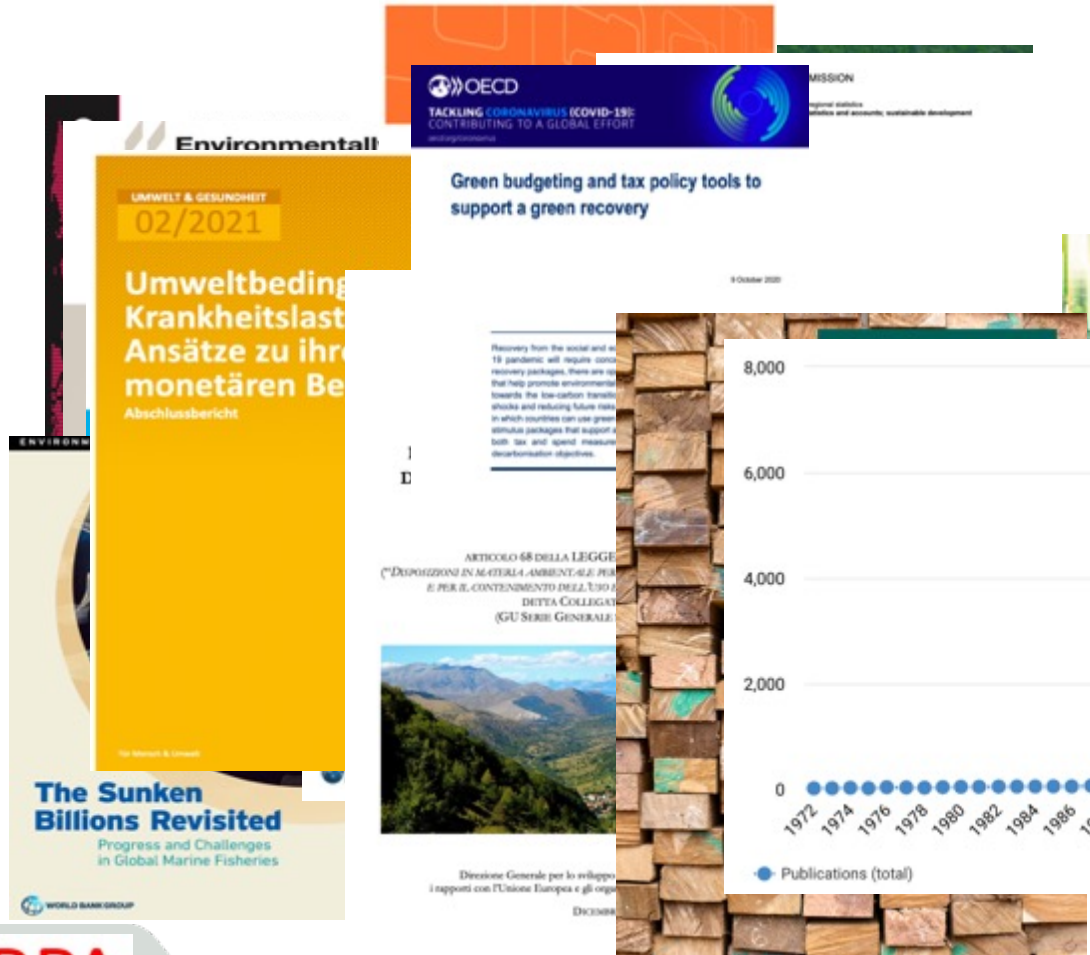
A review of guidance materials: advantages and disadvantages

Marco Camboni, RPA Europe

Providing guidance to stakeholders



There is an abundance of guidance materials!



Providing guidance to stakeholders



Providing guidance to stakeholders



- OECD Quick scan (1998)
- OECD Checklist (2003)
- OECD integrated assessment framework (2007)
- The European Commission EHS reform tool (2009)
- DPSIR framework as proposed by the Sainteny report (2012)
- OPERAs project (2017)
- Green budgeting in France (2020)

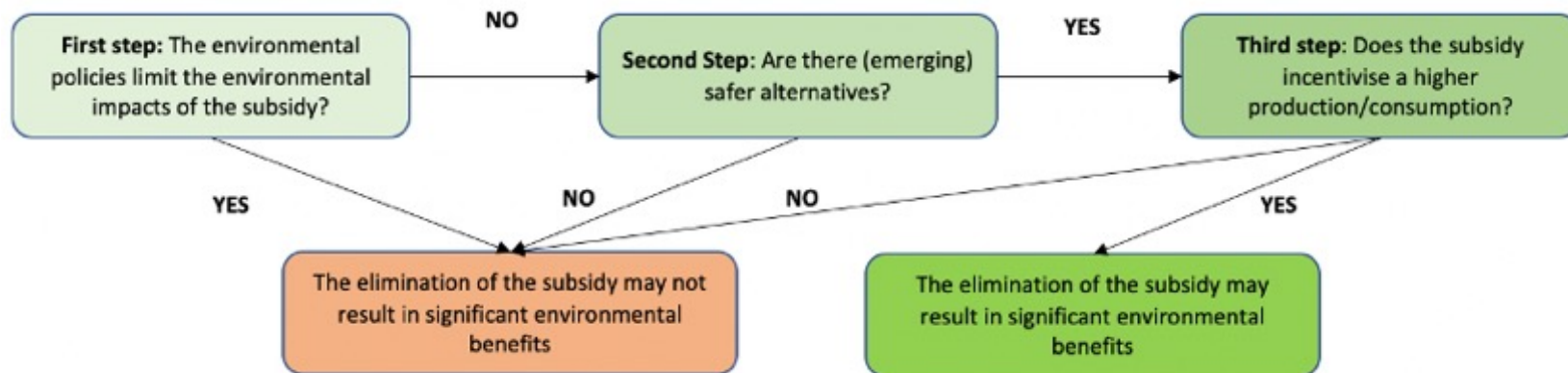


PARIS COLLABORATIVE ON GREEN BUDGETING

Green budgeting: from concept to action

Providing guidance to stakeholders

- OECD QUICK SCAN
 - Does the subsidy transfer income to the beneficiary successfully?
 - Does the subsidy have a negative impact on the environment?
- OECD CHECK LIST



Providing guidance to stakeholders

OECD INTEGRATED ASSESSMENT FRAMEWORK

1. Analysis of the features of the subsidy

2. Analysis of the unexpected impacts



3. Analysis of the long-term perspective



4. Subsidy rigidity and political pressure

THE EUROPEAN COMMISSION EHS REFORM TOOL

1. Screening
Low hanging fruits?

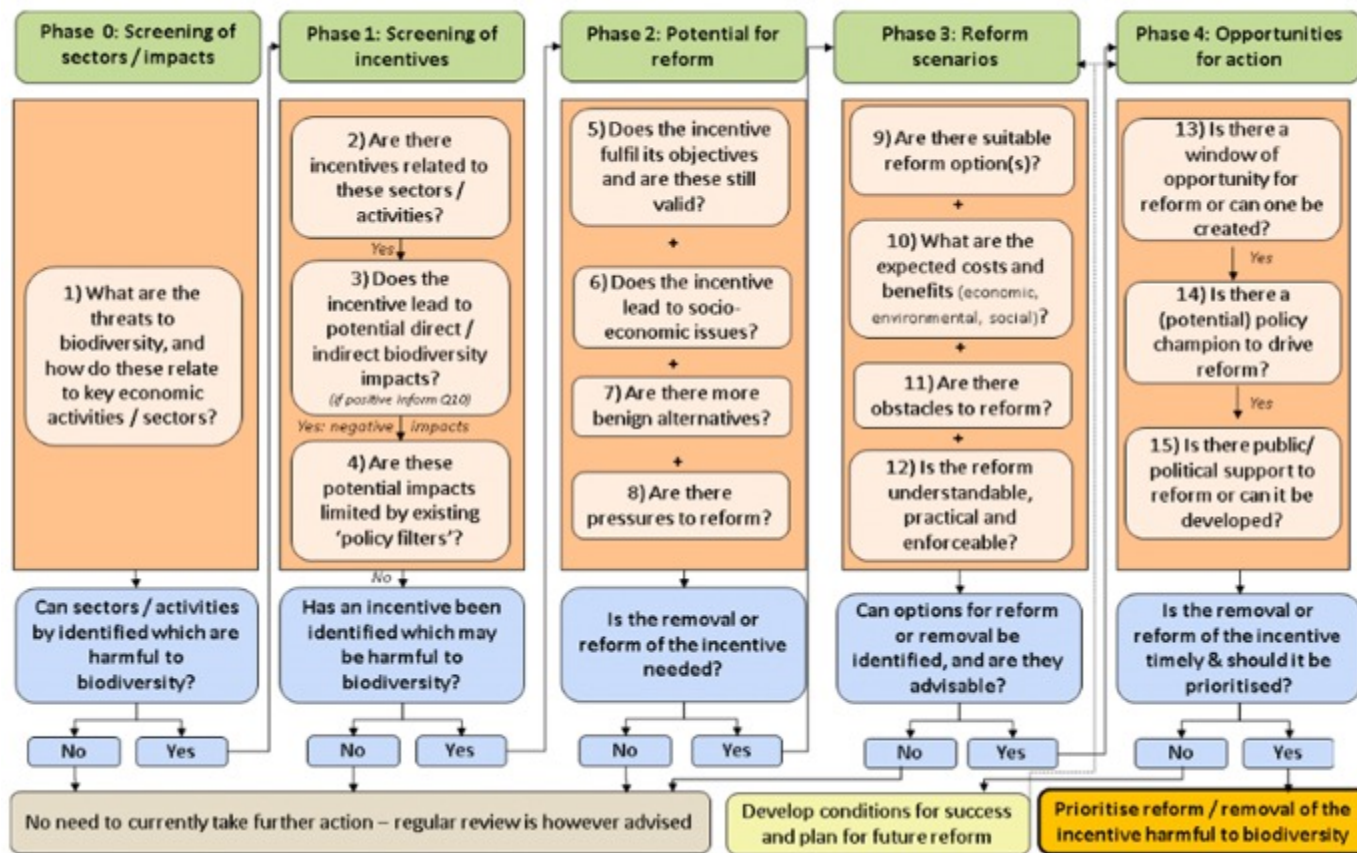
2. Checklist
Analysis of trade-offs
Highlight environmental benefits

3. Analysis expected and unexpected impacts

4. Analysis of reform options

Providing guidance to stakeholders

OPERAs PROJECT



Providing guidance to stakeholders

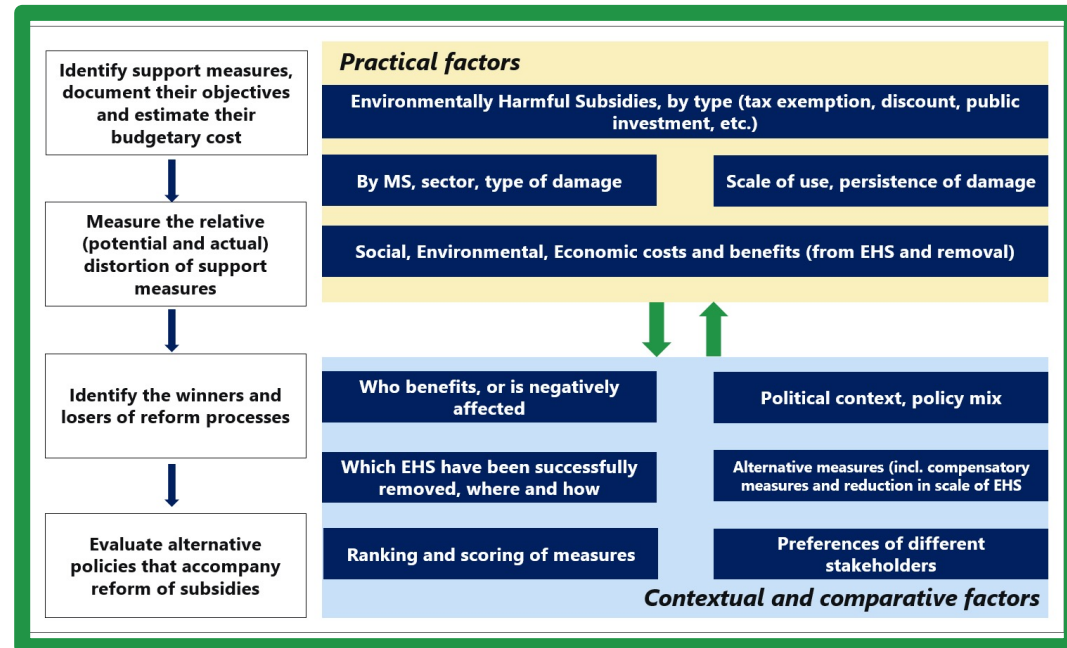


PURPOSE:

NOT ANOTHER GUIDANCE DOCUMENT BUT A TOOLBOX TO SUPPORT ALL STAKEHOLDERS IN ENGAGING WITH EHS



REFORM

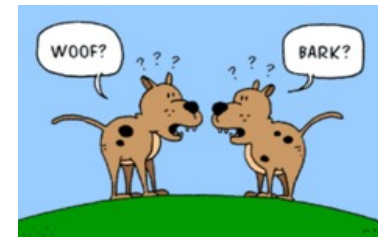


A review of guidance materials: advantages and disadvantages Q&A

Marco Camboni, RPA Europe

Providing guidance to stakeholders

- What are the most problematic phases of EHS reform?
- Are there aspects of EHS reform that have been neglected by the available guidance materials?
- How can we consider political constraints, interest groups and collusion effects explicitly? Would social multicriteria evaluation help in increasing the transparency of the decision-making process?
- Best practices and lessons learned are important. Can you point us to successful EHS reforms as well as failed attempts to reform EHS and to the key determinants of the successes/failures?
- How do we favour the dialogue between economists and environmentalists? And is EHS reform the topic where they can finally agree?



A photograph of the European Parliament building in Brussels, featuring a curved glass facade and several European Union flags on tall poles in the foreground. A large green triangular graphic is overlaid on the right side of the image.

Wrap-up and next steps

How can you contribute to our research?

- **Participate in our upcoming survey**
- **Provide us with your feedback via email**
 - Lucas Porsch l.porsch@vva.it
 - Magdalena Klebba m.klebba@vva.it
 - Marco Camboni marco.camboni@rpa-europe.eu
- **Ask to be interviewed!**

THANK YOU VERY MUCH FOR YOUR ATTENTION!



Thank you !
