Belgian National Debate on carbon pricing

Overview of recent and forthcoming European strategies and key messages

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Overview

1. Recent strategies: the Energy Tax Directive

2. Recent reflections: The Monti Report

3. Recommendations

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Harmonisation of excise duties (92/82/EEC)

WHY:

- **To ensure the ESTABLISHMENT and the FUNCTIONING of the internal market (Article 113 of the TFEU)**

HOW:

- ***Harmonisation* of structures and *harmonisation* of rates;**
- **What was achieved: *harmonisation* of structures, but <u>only</u> *approximation* of rates**

Energy Tax Directive (2003/96/EC)

- Energy products are only taxed when they are used as motor or heating fuel
- Energy tax applies to electricity, although MS can introduce exemptions
- Some sectors excluded:
  - **Energy products used as raw materials, for the purposes of chemical reduction, in electrolytic and metallurgical and in mineralogical processes**
- The "levels of taxation" applied by the MS may not be lower than the minimum rates set in the Directive
  - **higher minima for transport than for heating fuels**
- Possibility of tax exemption for biofuels
- Taxable base
  - **Mineral oil products: volume**
  - **Coal, gas, electricity: energy content**

Commission proposal on smarter energy taxation for the EU (COM(2011) 168 final) (1/3)

- Shortcomings of the 2003 ETD
  - **NO signal to reflect CO2 emissions of energy products**
  - **NO signal to reflect the energy content of the product used**
  - **NO incentive to develop markets for alternative energies**
  - **NO European framework for CO2 taxation**
  - **NO sufficient coverage of 50% of emissions outside ETS**
  - **NO clear distinction with ETS, resulting in double burden or loopholes to evade responsibility for emissions**

European Commission

Commission proposal on smarter energy taxation for the EU (COM(2011) 168 final) (2/3)

Tax reconstructed according to CO_2 emissions & energy content:

- **A part based on CO_2 emission of the energy product. CO_2 taxation would be zero for all sources of energy that currently are, or will in the future, be recognised as CO_2-free.**
- **A part based on energy content per GJ, regardless of the energy product, thus providing an incentive to save energy.**

Because:

- **logical and technology neutral approach**
- **automatic incentive for less polluting energy products and generalised CO_2 price signal vital for the shift towards low carbon economy**
- **remove unjustified subsidies for certain fossil fuels (diesel, coal)**
- **consistent treatment of all energy sources**

Existing Directive (2003/96/EC) (3/3)

On-going study relating to technical and legal issues (does not deal with CO_2 taxation).

Questionnaire for the study:

- https://dexsurvey.deloitte.com/?XID=81065
- https://ec.europa.eu/taxation_customs/node/932_en

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Report of the High Level Group on Own Resources

The report contains two elements:

- **Spending side**: areas where EU action is the most valuable and relevant: internal and external security, investments to support growth and jobs, and (last but not least) **the fight against climate change and the move towards a low carbon economy**.

- **Financing side**: possible new resources to finance these expenditures, including related to the **Energy Union, Environmental Policies and the Fight against Climate Change, including a CO_2 levy variant** (others are ETS proceeds, Motor fuel levy, electricity tax)

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Belgium situation

Multiple challenges

- Declining economic growth rates
- Fiscal consolidation
- Low activity rates
- Challenging greenhouse gas targets
- Important investment needs e.g. in the energy & transport sector
- Significant congestion problems

Tax system can work against these challenges, ex.:

- High labour & specific capital taxes (with many exemptions making it complex)
- Low consumption and environmental taxes

Scope for double dividend?

Economic impacts: GDP

- GEM E3, E3MG achieve 40% GHG reduction through introduction carbon value: depending on whether revenues are raised and recycled towards lower labour costs, not, different impacts.
- GEM E3:

Auctioning in ETS	Power sector	Power sector	Power sector	All sectors
Tax in Non ETS	No	No	Yes	Yes
Recycling revenues carbon pricing	Subsidy for consumers	Labour cost reduction	Labour cost reduction	Labour cost reduction
GDP % change compared to Reference				
	-0,45%	-0,40%	-0,21%	-0,10%

- E3MG:

Auctioning in ETS	Only Power sector	All sectors ETS
Tax in Non ETS	No	Yes
Recycling revenues carbon pricing	Labour cost reduction all sectors	
GDP % change compared to Reference		
	0,0%	0,2%

Source: EC (2014), Impact Assessment 2030 Climate and Energy Framework, SWD(2014) 15 final

Marginal cost of public funds in the EU: labour and energy taxes

	Labour tax	Energy tax
EU average	1.9	1.08
Standard deviation (average)	17.38%	22.21%

Source: Saveyn et al. (2012)

Belgium's double dividend potential

Examples of measures taken in 2015 and 2016

- Lower labour taxes (partly) compensated by higher VAT on residential electricity, raising other consumption taxes, higher taxes on dividends, road pricing for heavy duty vehicles, higher charges on tank cards…

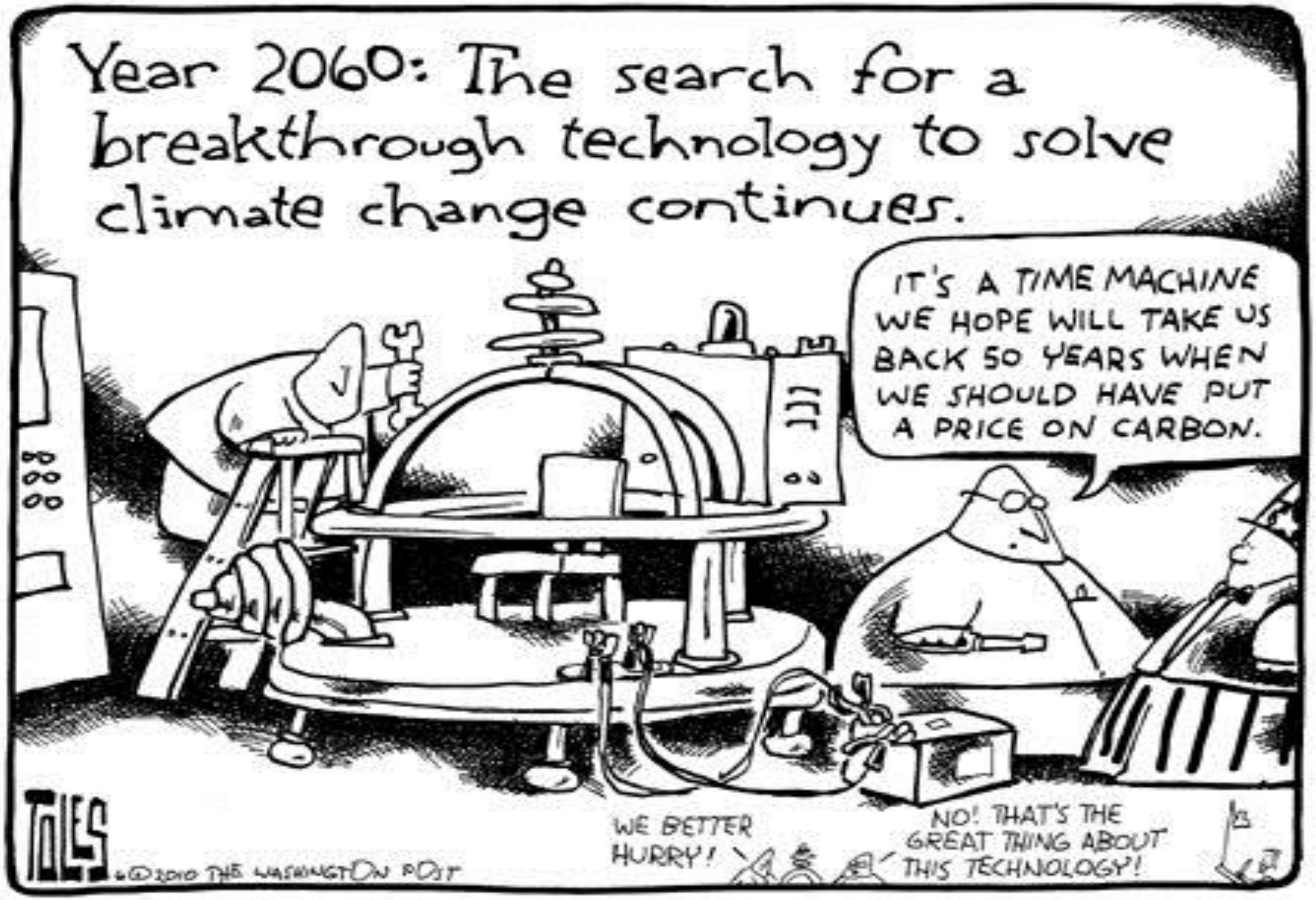
But large unused potential remains

- Lowering tax expenditures on company cars (mobility budget is an improvement but remains a large expenditure)
- Energy taxes remain low in comparison to other MS
- Extending road pricing to passenger cars

March 2015 Commission workshop on green fiscal reforms

- Identified transport, energy and GHG as having large potential with broad and predictable tax base allowing for a meaningful reduction of labour costs

Important to get modalities right, including inflationary impacts


Year 2060: The search for a breakthrough technology to solve climate change continues.
IT'S A TIME MACHINE WE HOPE WILL TAKE US BACK 50 YEARS WHEN WE SHOULD HAVE PUT A PRICE ON CARBON.
WE BETTER HURRY!
NO! THAT'S THE GREAT THING ABOUT THIS TECHNOLOGY!
TOLES
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