

Green Paper on market-based instruments for environment and related policy purposes

European Parliament resolution of 24 April 2008 on the Green Paper on market-based instruments for environment and related policy purposes (2007/2203(INI))

The European Parliament,

- having regard to the Green Paper on market-based instruments for environment and related policy purposes (COM(2007)0140),
- having regard to the Presidency Conclusions of the Brussels European Council (8-9 March 2007), including the Energy Policy for Europe in Annex I,
- having regard to the European Environment Agency Report ‘Using the market for cost-effective environmental policy’ (No 1/2006),
- having regard to Articles 2 and 6 of the EC Treaty, under the terms of which environmental protection requirements must be incorporated in the various areas of Community policy with a view to ensuring that economic activities develop in an environmentally sustainable way,
- having regard to Article 175 of the EC Treaty,
- having regard to Decision No 2179/98/EC of the European Parliament and of the Council of 24 September 1998 on the review of the European Community programme of policy and action in relation to the environment and sustainable development "Towards sustainability"¹,
- having regard to the review of the EU strategy to promote sustainable development,
- having regard to the 6th Environment Action Programme,
- having regard to its resolutions on thematic strategies for the urban environment², the recycling of waste³, the sustainable use of natural resources⁴ and the sustainable use of pesticides⁵,
- having regard to its resolution of 15 November 2007 on limiting global climate change to 2

¹ OJ L 275, 10.10.1998, p. 1.

² European Parliament resolution of 26 September 2006 on the thematic strategy on the urban environment (OJ C 306 E, 15.12.2006, p. 182)

³ European Parliament resolution of 13 February 2007 on a Thematic Strategy on the recycling of waste (OJ C 287 E, 29.11.2007, p. 168).

⁴ European Parliament resolution of 25 April 2007 on a Thematic Strategy on the sustainable use of natural resources (OJ C 74 E, 20.3.2008, p. 660).

⁵ European Parliament resolution of 24 October 2007 on a Thematic Strategy on the Sustainable Use of Pesticides (Texts Adopted, P6_TA(2007)0467)

Degrees Celsius - the way ahead for the Bali Conference on Climate Change and beyond¹,

- having regard to Rule 45 of its Rules of Procedure,
- having regard to the report of the Committee on the Environment, Public Health and Food Safety and the opinions of the Committee on Economic and Monetary Affairs and the Committee on Industry, Research and Energy (A6-0040/2008),

Environmental objectives of the European Union and background

- A. whereas the data on climate change indicate that rigorous action will need to be taken to limit its effects; whereas the European Council has set minimum CO₂ emission reduction targets of 20% by 2020 and 60% by 2050; whereas the European Council has also set targets of a 20% share of renewables in energy consumption and a 20% improvement in energy efficiency by 2020,
- B. whereas the Parliament in its abovementioned resolution of 15 November 2007 stresses that industrialised countries must commit themselves to reduce their emissions by at least 30% by 2020 and 60-80% by 2050 compared to 1990,
- C. whereas there are various types of pollution and there is a risk of natural resources running out,
- D. whereas there is a high risk of numerous animal and plant species dying out, and whereas the EU has set a goal of stopping the loss of biodiversity by 2010,
- E. whereas there is a steady increase within the EU of traffic connected with transport, in particular the transport of goods, and a resulting increase in energy consumption,
- F. whereas market-based instruments (MBIs) constitute important tools for implementing the polluter pays principle and, more broadly, for taking into account the hidden costs of production and consumption in terms of people's health and the environment in a cost-effective way,
- G. whereas wide disparities exist between Member States as regards both environmental taxation (ranging from 2% to 5% of GDP) and the use of MBIs, and whereas the share of environmental taxes in Member States' GDP has been falling for the past five years,
- H. whereas taxes on energy account on average for 76% of environmental taxation, and taxes on transport for 21%,
- I. whereas households bear the bulk of the burden of environmental taxes even though other sectors of the economy are the main energy and water consumers and transport users,
- J. whereas the reform of environmentally harmful subsidies (EHS) can contribute to addressing climate change, advance sustainable development and maintain the EU's international competitiveness,
- K. whereas the response to the forecast global impact of climate change must be not merely a

¹ Texts Adopted, P6_TA(2007)0537.

decoupling of growth from production and consumption patterns but also a change in our socio-economic development model,

- L. whereas current GDP economic indicators no longer suffice as a means of evaluating social, economic and environmental reality accurately, and whereas they do not take account of the environmental consequences of human activities that must be addressed; whereas consideration should be given to new environmental indicators for calculating wealth created which are designed to take better account of these changes,

Criticisms of the Green Paper

1. Welcomes the reference to the polluter pays principle but criticises the fact that the link is weak, or non-existent when it comes to designing and calibrating existing environment policy instruments; stresses that the polluter pays principle enables a real price to be set by including in the product price the cost of cleaning up pollution and repairing damage caused by production; points out that, in fact, production or products which pollute are ultimately more expensive, if the price includes all external factors, because prevention is cheaper than restoration or rehabilitation;
2. Regrets the absence of an in-depth analysis about the merits of differentiation between MBIs targeted at the consumer as opposed to the producer level;
3. Stresses that the polluter pays principle cannot be seen only in terms of making final users, particularly households, pay;
4. Criticises the fact that the Green Paper concentrates mainly on atmospheric pollution and global warming and by and large disregards the other negative impacts of production and distribution processes and consumption patterns;
5. Shares the view of the Commission concerning the diversity of MBIs and the distinction between taxes and charges, the latter consisting normally in making payment for a clearly defined service or cost; emphasises the need to have both incentive instruments and deterrent instruments available if environmental and health protection objectives, as well as those of a sustainable development strategy, are to be met;
6. Criticises the fact that the international dimension is touched on too briefly and that measures aimed at maximum reduction of distortions of competition among regions and industrial sectors have still not been introduced;

Measures

7. Welcomes the Green Paper; urges the Commission to develop a clear strategy on the use of MBIs to price environmental damage and correct related market failures, covering taxation, the EU Emission Trading Scheme (ETS) review, trade and technology policy;
8. Calls on the Commission, when drawing up its implementation strategy for MBIs, to consider and prepare a comprehensive report on the effectiveness of the environmental regulatory instruments currently applied by the EU with a view to ascertaining in which areas it would be appropriate to replace the existing legislation with MBIs;
9. Calls on the Commission to use a comparative study of existing MBIs in order to evaluate

their effectiveness and promote the exchange of good practice between Member States;

10. Calls on the European Union to distinguish gross economic wealth per inhabitant from net economic, social and environmental wealth as the true progress indicator (TPI); calls on the Commission and the Member States in consequence to study in more depth the possibility of measuring European growth using 'green' indicators¹ which factor in the wealth lost as a result of environmental damage;
11. Recognises that the full internalisation of environmental costs is an important prerequisite for creating fair competition between different businesses and for increasing the economic incentives for cleaner production and consumption and stimulating innovation of cleaner technologies;
12. Recognises that a failure to internalise environmental costs is tantamount to subsidising environmentally harmful activities;
13. Points out that the existence of a large number of EHS in EU Member States aggravates pollution and seriously undermines the polluter pays principle;

Principles

14. Points out that the polluter pays principle is one of the pillars of EU environment policy, implying that externalities are internalised into market prices so as to make sure they reflect the true costs of production or of environmental and health damage caused; notes that the implementation of the polluter pays principle leaves a lot to be desired in most Member States;
15. Notes that MBIs comprise a wide range of tools which are designed to respond to specific purposes, such as tradable permits that have been designed to achieve reductions in pollution (CO₂ emissions for example); environmental taxes, which are meant to change prices and thus the behaviour of producers and consumers; environmental charges, designed to cover costs of environmental services; environmental subsidies, designed to support the development of cleaner technologies, etc.;
16. Recognises that MBIs for environment purposes are one of the most effective ways of achieving environmental objectives at reasonable cost; stresses however that such instruments have to be complemented by other measures such as efficiency standards, emission targets, etc.;
17. Notes that MBIs will have a key role to play in meeting the EU's target of a 20% share of renewable energy of overall energy consumption by 2020;
18. Takes the view that the move towards sustainable development and a carbon-free economy requires a combination of deterrent instruments (e.g. taxes, fees) and incentive instruments (e.g. trading schemes);
19. Stresses that the development of instrument mixes will help to optimise the use of MBIs; in this context, considers that MBIs can contribute greatly to achieving the goals of the Lisbon

¹ Environmental indicators or indicators that take account of the environment, such as IBED (Indicateur du bien-être durable) or ISEW (Indicator of Sustainable Economic Welfare), TPI.

agenda;

20. Takes the view that energy and climate measures adopted as part of a comprehensive concept at EU and national levels must be brought into line with the objectives agreed in Lisbon and Göteborg;
21. Takes the view that MBIs represent an appropriate and effective means of internalising external effects which should be used much more frequently and which can complement, but not replace, administrative instruments;
22. Stresses that the implementation of MBIs to address pollution and negative environmental impacts needs to be based on environmental effectiveness; takes the view that social consequences resulting from the implementation of MBIs should be compensated for by specific policy measures such as floor prices, rate reductions, subsidies etc. for low-income households; considers it also necessary to adopt measures aimed at penalising excessive consumption;
23. Recalls that Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity¹ (“the Energy Taxation Directive”) foresees that, under certain conditions, taxation can be fully or partially replaced by alternative MBIs, including, in particular, the EU ETS;
24. Emphasises the important role of environmental taxation in achieving environmental objectives;
25. Considers that Community market-based measures cannot be limited to emission permit or emission quota trading schemes and that other possible schemes need to be envisaged, such as the introduction of a carbon tax, as well as a reduction in subsidies for fossil fuels;
26. Stresses that environmental taxes should not be seen primarily as a means to increase fiscal revenue, but rather as a way of avoiding harmful pollution and environmental degradation - and thus enhancing welfare in society - at reasonable cost; stresses that imposing taxes on negative factors, such as pollution, ought to be offset by lessening taxes on positive factors, such as labour;
27. Points out that, despite the unanimity requirement in the area of taxation, the treaties offer the possibility of enhanced cooperation, and draws attention to the existence of the open coordination method; calls on the Member States, therefore, to make progress on the issue of environmental taxation at European level in order to prevent all forms of fiscal dumping;
28. Notes that greater EU coordination on environmental taxes and the exchange of best practices will facilitate reform; supports in particular proposals to allow Member States to reduce VAT rates or offer tax credits for energy efficient products and energy saving materials; stresses however that Member States should decide themselves on what is appropriate for their own tax systems;

¹ OJ L 283, 31.10.2003, p. 51.

29. Notes the benefits of environmental tax reforms; calls on Member States to implement such reforms to alleviate, inter alia, energy poverty and support low carbon technologies, energy savings, energy efficiency and renewables technologies;
30. Supports the reduction in taxes on labour at national level, but stresses that it is not linked solely to the reform of environmental taxation;
31. Considers that price modulation is one way of influencing production and consumption patterns, and of stimulating users to select appropriate environmentally friendlier modes of transport (for instance by reducing prices in public transport); considers that any increase due to the use of MBIs must be predictable and take into account, if necessary, the particular circumstances of each Member State; stresses, nevertheless, that price measures can have a limited impact because of the weak elasticity in certain sectors and in certain categories of consumer;
32. Stresses the need to obtain precise data on the environmental and social costs for the entire life cycle of products and services; calls on the Commission to put forward a methodology to assess such costs;
33. Welcomes the recent conference “Beyond GDP” organised by the Commission, the European Parliament, the OECD, the WWF and the Club of Rome, and the major conclusions drawn; stresses the importance of complementing GDP by other indicators so as to assess welfare and progress in society in a more balanced way, in particular with regard to the effects of economic growth on the atmosphere and ecosystems;
34. Considers that MBIs can help promote research and eco-innovation since, through the taxation of non-environment-friendly products and services or the use of environmental standards, producers are induced to invest in research into more energy-efficient products and services;

Which instruments for which sector?

35. Recognises that in its current version the EU ETS has too narrow a field of application, given the numerous greenhouse gas (GHG) sources and sectors involved, and that the improvements needed in order to optimise the EU ETS will have to be made by the Commission and the Member States in the third stage of the project, starting in 2013;
36. Urges the Commission to strengthen the EU ETS by establishing a progressively tightening cap and extend it to all first-tier emitters as the main means of achieving the 2020 GHG reduction targets;
37. Stresses, therefore, the urgent need for a revision of the EU ETS in order to address effectively the shortcomings experienced during the trial period, including the windfall profits of companies due to the assets acquired from the allocation of CO₂ quotas free of charge (for instance the large electricity producers); emphasises that the strong endorsement of the polluter pays principle in the EU Sustainable Development Strategy implies that the EU ETS should be primarily based on auctioning of the emission permits and on a total emissions cap that is consistent with the EU 2020 reduction target of 30%, including quantitative limits and qualitative requirements for the use of Clean Development Mechanism / Joint Implementation (CDM/JI) project credits;

38. Emphasises, in this respect, the importance of encouraging the development of the global carbon market in order to achieve the extensive emission cuts needed in a cost-effective manner;
39. Believes that an increased use of MBIs in the transport sector is particularly important in order to fully internalise the environmental and social cost of all transport modes; considers in particular the low degree of internalisation from road traffic as having adverse effects on the competitiveness of other modes of transport, such as rail, and in terms of promoting more efficient and clean technologies;
40. Welcomes the Commission's proposal to include aviation activities in the EU ETS, but considers that parallel and complementary measures, such as a kerosene tax and NOx emission charges, are necessary in order to address the climate change impacts of the sector;
41. Calls urgently on the Commission to present by 2009 a legislative proposal for GHG reduction in the area of maritime transport, which is not currently subject to any Community or international legislation in this area;
42. Is of the opinion that energy taxation should remain a secondary and complementary GHG reduction tool only for emissions that cannot be influenced by the EU ETS directly or indirectly;
43. Points out that the transport and building sectors account for a large share of energy demand and CO₂ emissions not covered by the EU ETS;
44. Considers that the revision of the Energy Taxation Directive should be carried out rapidly and in conjunction with that on heavy goods vehicles¹ (Eurovignette Directive) in order to avoid an overlap in measures designed to achieve the same objective and to change environmental taxation to bring about a rapid reorientation towards environment conscious behaviour in the various sectors of the economy, inter alia through internalisation of external costs;
45. Believes that application of the Eurovignette Directive should be made compulsory in all Member States and adapted in order to allow internalisation of external costs by charging for the use of infrastructure, particularly in road transport; considers that the scope of the Eurovignette Directive should be extended to the entire road network to stop traffic transferring to roads which are currently excluded;
46. Stresses the need to apply better regulation principles to the use of MBIs and to avoid overlapping and complex instruments; supports the amendment of the Energy Taxation Directive in such a way as to ensure that participants in the EU ETS do not pay twice for their emissions, through both trading and taxation;
47. Considers that as part of the revision of the legislation on the taxation of energy products the minimum rate of taxes on transport for industrial or commercial purposes should be raised; supports the differentiation of taxation into an energy component and an

¹ Council Directive 93/89/EEC of 25 October 1993 on the application by Member States of taxes on certain vehicles used for the carriage of goods by road and tolls and charges for the use of certain infrastructures (OJ L 279, 12.11.1993, p. 32).

environmental component based on the level of CO₂ emissions;

48. Calls on the Commission and the Member States to evaluate the derogations and exemptions contained in the Energy Taxation Directive and to consider which fossil fuel energy source should be tax exempt in future while respecting the scope and the spirit of the directive and avoiding duplicative burdens for operators following from the application of other tax or trading schemes;
49. Calls for greater use to be made of MBIs with a view to achieving, in the individual Member States and the EU, environmental policy objectives in general and the internalisation of external costs in particular; in that connection, however, care should be taken to ensure that the Member States' sovereignty in fiscal matters does not give rise to distortions of competition; proposes, for example, the use of more closely market-based instruments to promote energy efficiency and thermal insulation of buildings;
50. Calls on the Member States to strengthen their incentive policies for the building sector to facilitate a reduction in demand for energy and CO₂ emissions; stresses the importance of supporting the development of passive, positive energy housing;
51. Suggests that the funding of energy efficiency improvements in the housing sector and urban transport carbon use should be eligible for compensation under plans modelled on the Kyoto Protocol mechanisms which can provide financial incentives;

Specific instruments and sectors

52. Considers that reform of EHS must not be limited to the CAP; takes the view that in this area the transport sector, particularly road transport, requires specific, determined action; calls on the Commission rapidly to propose a roadmap for the gradual, but rapid, abolition of EHS in accordance with the European Council's decision on the review of the sustainable development strategy;
53. Agrees with the Commission that the removal of EHS constitutes an essential complementary measure for achieving sustainable development and, especially, the objectives endorsed by the EU Heads of State and Government as regards the integrated climate change and energy agenda;
54. Looks to the Commission, when it revises the Community guidelines on state aid for environmental protection, to take proper account of the need to influence production, traffic, transport and consumption patterns and to reduce waste;
55. Recalls the Community's waste legislation, but considers it regrettable that it fails to address the question of the volume of waste in the European Union; calls on the Commission and the Member States to think about a legislative framework for waste taxation designed to forestall the production of waste and reduce the level of waste generated in the EU in the medium term;
56. Welcomes the focus on MBIs for implementation of the Water Framework Directive

(WFD)¹ and considers it highly important to internalise the costs of groundwater extraction, water quality degradation and water utilities in the pricing of water; stresses that the WFD can serve as a reference for the definition of MBIs for the environment; urges the Commission to examine the implementation in the Member States and to use the WFD Common Implementation Strategy and Pilot River Basins to explore and promote best practices; urges the Member States to step up their efforts to implement the WFD correctly and, in particular, to guarantee that any consumption of water is subject to an economic assessment that includes the cost of using the resource and the environmental cost, with these criteria in particular being used as a basis for calculating water charges;

57. Calls on the Commission and the Member States to put in place a system of taxes or charges designed to reduce the quantity of pesticides used and encourage the use of pesticides that are less toxic and less damaging to the environment and health;
58. Considers that the introduction of a reduced rate of VAT on environmentally friendly products must be subject to strict rules to ensure it is of genuine benefit to consumers, and must be accompanied by additional schemes such as eco-labelling to allow the creation of a system which enables products to be compared easily;
59. Recognises the difficulties in establishing MBIs for the purpose of increasing or maintaining biodiversity and ecosystem services and for addressing environmental problems of a local nature; calls on the Commission to continue to reflect on the issue of evaluating the costs of biodiversity loss and on the possible use of MBIs, being certain to bear in mind that safeguarding or improving biodiversity in one area must not lead to loss of biodiversity in another, because of the local impact this would have;
60. Notes with interest, in this connection, the emission trading schemes for NO_x and SO₂ put in place by some Member States, given that such schemes enable the problems posed by this type of atmospheric pollutant to be resolved in the most cost-effective way possible; stresses that any introduction of emission trading schemes for NO_x and SO₂ must take account of the local conditions in which such emissions take place and be restricted to precisely defined geographical areas;
61. Calls on the Commission to include among its initiatives the retention of the current mechanisms employed by the Member States to support the development of renewables; stresses that further assessments are necessary before providing financial incentives for biofuels in order to determine whether they are produced in an environmentally sustainable way;
62. Emphasises that MBIs should be so designed that they do not negatively affect the competitiveness of industries exposed to international competition, such as energy intensive industries, in order to avoid the loss of sales due to imports ("leakage") and the eventual relocation of production and consequently also of environmental impacts out of the European Union;
63. Calls on the Commission to carry out a feasibility study into the introduction of a 'CO₂

¹ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (OJ L 327, 22.12.2000, p. 1).

card' for individuals and SMEs, on which their energy consumption and the level of greenhouse gases emitted would be recorded;

64. Welcomes the emergence of financial instruments in addition to taxation and emission trading schemes, notably the increasing availability of green/ethical investments, such as green bonds, offering greater awareness and creating a market choice for investors;
65. Recognises the supportive role of venture capital and private equity firms in investing in the low carbon technology field;

The international dimension

66. Observes that European economies account for over 35% of the world market for traded environmental goods and that European companies are therefore well placed to take advantage of a global green economy, and that this offsets at least part of the impact on GDP;
67. Supports the consideration of a border adjustment instrument for the purpose of, inter alia, avoiding possible 'carbon leaks', which could undermine the obligation to reduce CO₂ emissions, and maintaining the Union's economic competitiveness; calls on the Commission to make use of studies carried out in a number of Member States to draw up a report for the European Parliament on the possible adoption of such an instrument; stresses however that border adjustment measures should only be implemented if and when efforts to reach agreement on mandatory CO₂ reductions at international level fail;
68. Considers that in order to be internationally acceptable, such an instrument would need to take account of best available techniques and be favourable to third countries, particularly developing countries;
69. Recognises that binding international benchmarks and commitments covering all sectors that are vulnerable to competition would be preferable to the possible adoption of border tax adjustments to offset distortions among trading partners;

o

o o

70. Instructs its President to forward this resolution to the Council and Commission, and the governments and parliaments of the Member States.