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The Fiscal Dimension of the Environment Policy

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Abstract: Present for the first time on the European order of business at the beginning of the '70s, the concern for the environment gains a distinctive nature as the Rome Club signalled the diminishing of the natural resources and the rapid deterioration of the quality of water, air and soil, of climate in general. Starting with 1972 the community environment policy was created and developed as one of the most important common policies.

Although it does not match the funding for the regional or the agricultural policies, **the environment policy** has become important due to the fact that it has to be approached when conceiving and applying the rest of community policies. **The sustainable development strategy**, the way it was adopted and (re)confirmed at the international summits in the last two decades (Rio – 1992, Johannesburg – 2002 and the Kyoto protocol), has become the main element of action of the environment policy measures. The preoccupation for nature precedes and accompanies all actions and orientations of social and economic policies because it is motivated by the care for the primordial heritage of the future generations: the planet's health.

The environment policy reflects the interest of the entire society in nature and the numerous **green** movements, environment organizations and political parties, that display a successful raise on the political arena, express the evolution of mentalities and attitudes as well as the degree of accountability of the governors and the governed towards this vital aspect for the present and the future.

Keywords: environment taxes, modern strategy of environment protection, environment investments, environment fund, ecological taxes, spilling/emissions dues, noise dues, product dues

JEL classification: H 23; Q 52; Q 56; Q 57

1. Ecological fiscalty or reconciling fiscal theory with practice

The traditional analysis includes **the environment taxes** in the category of instruments that belong to the environmental policy but, due to the fact that the introduction and the diminishing of other taxes indicates the migration of a certain part of the classical receipts towards these taxes, it assimilates them to the comprising category of instruments that belong to fiscal policy.

Therefore, the environment taxes may be approached from the perspective of the evaluation of the entire fiscal system **as well**, with the mention that they may be treated as a *good receipt*. Consequently, this criterion will allow us to make an economic analysis, i.e. from the perspective of efficiency and equity, taking into account the administrative costs of stability and flexibility, of coherence, of transparency and acceptability. The taxation efficiency raises the problem of interpretation according to the criterion of neutrality and the criterion of economic efficiency.

a. Judging by the **neutrality criterion**, a tax must minimize the negative repercussions over resource allocation, because a neutral tax does not induce distortions in the individual's options and will not lead to supplementary fiscal expenses.

At a first interpretation of neutrality, considering the obtaining of financial resources as unique objective, the environment taxes may be considered neutral, though less economically effective, but only until approaching the externalities since these ones cannot be corrected by a neutral tax.

The same externalities influence the approach of optimum resources allocation: the fiscal receipts obtained through environment taxes are meant to correct externalities; therefore they are not neutral, even if they correct distortions and induce changes in the individual's options.

If we apply a different interpretation, evidently radical in sustaining the ecological fiscality, eliminating the environment taxes corresponds, in fact, to a subvention of pollution.

b. Regarding the **economic efficiency criterion**, the issue of directing and allocating the sums collected as environment taxes is correlated with the feeding of the state general budget and/or with the funding of the vast operation of environment protection.

The fiscal orthodoxy itself mentions the centralized collection of all categories of taxes, including the environment ones. In reality, though, the environment taxes are affected *de plano* because as a rule they are meant for those operations and programmes ecological in nature and only by exception they can get to the public budget. One can conclude from here that ecological fiscality relativizes and contradicts another consecrated fiscal principle; moreover, generally speaking, to affect the fiscal receipts is to hinder the restructuring of fiscality, because it leads to substituting the internalized taxes with taxes that induce other directions of allocation, and the state has to have the possibility to count on a certain stability of fiscal entries. This is also the location of the controversy between the financial administrations, on the one hand, forced to ensure some income even by means of inefficient taxation (because a certain level of pollution perpetuates), and the decision makers in environment policy, on the other hand, interested in decreasing pollution, which means a perpetual process of making the tax efficient, i.e. by decreasing its productivity.

Without pretending to solve this dispute, the following **possibilities** emerge for the state to spend the sums collected as environment taxes:

- a. to cover the expenses required by public programmes;
- b. to reduce/to fund the budgetary deficit;
- c. to decrease (as a counter effect) other fiscal receipts.

a. By **covering the expenses for public programmes** a large public support can be obtained in accepting new taxes, in spite of the inconveniency of not being able to plan the governmental expenses in an optimum manner.

b. Using the money from various taxes **to cover the deficit of public finances** could be a priority but only in those economies where the budgetary deficit and/or the public debt are high, although a careful analysis of the entire structure of public expenses and of the global degree of fiscality is necessary.

c. The necessity to respond to the market pressures could be another destination of environment taxes, as **a compensation offered to those affected by these taxes**, such as the reduction of other fiscal receipts; in this case, they could be directed to transfer payments *to the benefit of both the consumers* (affected in a disproportioned manner) *and the producers* (somehow forced to protect their employees from the highly energy-consuming companies).

The “*double dividend*” formula has been used before to exploit the environment taxes for the reduction of labour taxes, thus obtaining a higher number of jobs as well, besides the significant improvement of the environment. But the success of such a combination can be significant only under the circumstances of a flexible economy with a high mobility of labour force, capable of absorbing the workers from the highly energy-consuming fields. To the ecological fiscality one should also associate the highly disputed exception of *the state support* for the protection of the environment designed as a support for the heavily polluting companies with precarious possibilities to adapt. It self a derogation from the “polluter pays” principle, this support is meant to stimulate the reduction of pollution but also to soften the economic incidence of regulations (in other words: “*high costs*”) regarding environment protection.

Practically, the purpose of this support is to correct the market's failures since the environment protection is a source of competitive advantage as long as it promotes (and implements) innovation, openness towards new markets through investments and efficiency in allocating resources.

Eco-innovation and *eco-efficiency* are the perspective commandments of the European Commission which, through the Plan of action regarding state support for 2005-2009 stage, is trying to gradually ensure the complete internalization of all environment costs.

2. The conceptual and effective instruments of the environment policy

The ecological approach of the economic growth signifies the carrying on of the economic activities by making similar or larger quantities of products with less energy and with less resulting waste as well. Therefore, the *modern strategy of environment protection* is taking the following **large directions of action**:

- a. preserving, protecting and improving the quality of the environment;
- b. protecting the population's health;
- c. carefully and rationally use of natural resources.

This explains the integration of the measures of environment policy in the defining structure of many of the sectoral policies such as those for agriculture, energy and industry, transportation and consumer protection. The environment investments are an important instrument in the implementation of ecological policies and they essentially represent the **economic dimension of the answer given by the society to the problems generated by the state of the environment at a certain stage**. Here are included both the funds for the environment surveillance and protection activities and the expenses meant to prevent and to repair the damage caused to the environment.

The environment fond represents one of the most important economic and financial instruments used by the ecological policy, especially in the context specific to transition, under the imperative obligation to rebuild the environment after it was irrationally used during the order economies.

The strategic purpose of this fund is to finance the investments which directly condition the evolution on the trajectory towards sustainable development, on which is based the construction of the biological model as the future model in economy. The main source of feeding this fund is represented by the pollution taxes, established and collected according to the "polluter pays" principle; this means the polluting entities must contribute to the covering of the costs of pollution prevention and control.

But the environment policy inventory of instruments contains a variety of **legislative, technical and financial-fiscal** instruments, jointly set up and forced to reach the variety of objectives set out by this policy.

A. **The legislative instruments** consist of more than 200 normative acts in the shape of directives, rules and decisions adopted in the '70s, belonging to the *acquis*.

B. **The technical instruments** include all the quality standards regarding the environment, as well as the use of all available technologies:

- *emission standards and limits*, the way they are included in each body of laws in order to quantify and limit the pollution but also to identify the polluters;
- *best available technologies (BAT)* included in real BAT guides by means of which the profoundly polluting areas are rigorously and precisely monitored;
- *the "eco-" denomination*, that is *eco-labelling*, as a way of correct informing of the consumers, so that their preferences are oriented towards those products whose production does not affect the environment;
- *environmental inspections*, designed as actions and catalogue of criteria on the basis of which the conformity of the environment laws is ensured; at the same time, through specialized networks of

pollution measure and control, they try to coordinate the efforts behind certain preventing and/or repairing activities regarding the natural environment.

C. **The financial and fiscal instruments** have a relatively recent history, as fees and taxes applied **in and by the** member states of the European Union, and not at the community level, even if it constitutes a component of a strategy constantly encouraged by the European Commission.

There are two categories of environment fees and taxes:

- a. *those applied to the polluting emissions*, such as the tax on water pollution or the noise emission in the aeronautic field, and:
- b. *those applied to products*, such as oil excises or the taxes on pesticides or herbicides.

The income generated by these fees and taxes is added to the budgets of the member states of the European Union and can be used to finance the environment protection actions but also to reduce other taxes such as labour taxes. The strategy of the European Union in this area is to collect and evaluate the experiences of the member states, to analyse the environment and economic effects of the already existing receipts as well as to monitor their effects on the Unique Market and on the competitiveness of the European industry in order to assess their efficiency as fiscal instruments and to translate them at community level.

The ecological taxes have a special significance among the other sources of feeding the environment fund and represent the *total amount of compulsory contributions collected when considering a taxable matter susceptible of harming the environment, regardless of where they are collected: in the budget or in a specially created fund*. In the context of all fiscal obligations, these taxes have a series of **characteristics** which confer them specificity:

- besides environment protection, they may also aim at reducing the fiscal burden generated by the action of the other taxes, such as those on income;
- the taxable matter is represented by fuels, automobiles, polluting emissions in water/air, pesticides or waste; this category does not include a number of compulsory payments, such as
- the taxes on sewer and house waste collecting services, the VAT associated to these services, as well as the dues on oil or natural gas extraction;
- applying these taxes is a complementary action along with numerous other specially designed measures and programmes.

According to statistics, for the 25 EU members, the ecological taxes represent approximately 3% of the GNP and represent 7.5% of the total sum of fees and taxes. The typology of these taxes comprises the following:

- a. **taxes on energy**, which include taxes on fuels used in transportations, on coal, gas and electricity;
- b. **transportation taxes**, gathered for owning or using a vehicle of any type or for certain transportation services (for instance charter or regular flights);
- c. **taxes on pollution and resources**, gathered for harmful emissions measured in the air and/or water, as well as for administering solid residues phonic pollution.

The income from ecological taxes is composed of 71% - energy taxes, 26% - transportation taxes and 3% - taxes on pollution and resources; as far as their share of the GNP is concerned, it fluctuates from 1.9% to 4.7%, Denmark, Cyprus, Malta, Spain, Slovenia, Estonia and France occupying significant places.

Initiated in 2003, the **European Environment and Health Action Plan (SCALE)** is based on the direct and complex causal relation between natural environment pollution and human health. It is worth mentioning the novelty of this strategy consisting of focusing the attention and actions on children's health; for this reason the plan conjugate the studies and researches from a variety of fields, not only economic or social, but also from the area of medicine and anthropology.

3. The environment fund – principles, components and objectives

Engaged in the implementation of an active policy regarding environment protection, the European Union militates for and cultivates the compliance as faithfully as possible with a comprising set of principles: precaution, prevention, removing the pollution source and forcing the polluter to pay. The Union has gained the status of prime author in terms of ecological policy at the national and regional level as well as in international relations, and the fact that approximately 70% of the commitments made when the Maastricht Treaty was signed have already been implemented supports and proves the determination and diligence with which the *sustainable development strategy* concept has been approached and treated.

The last decade of the previous century coincides with the attraction in this effort of a substantial number of operators, by direct implication of all ex-socialist countries, which constituted the Environment Fund specially dedicated to the ecological issue.

As an economic and financial instrument, the **Environment Fund** is a **public, extra budgetary fund, whose income is an integrated part of the general consolidated budget**. The economic agents making income from selling ferrous and non-ferrous residues as well as from depositing reusable residues or from trading dangerous chemical substances have the obligation to pay some of their income to the Environment Fund.

The use of this fund may also concern supporting and reaching several other objectives but the public interest's priority is represented by projects of ecological rebuilding of deteriorated areas, preserving ecological diversity, saving endangered species and good managing of natural areas with production regime.

Concrete means of reaching these objectives may include:

- subsidizing some interests for bank loans;
- guaranteeing some loans taken by private entities for acquiring clean technologies;
- stimulating bonuses for entities with significant results.

The most common environment taxes and dues are:

a. Spilling or emission dues, as sums paid according to the quantity and quality of the pollutants dumped into the atmosphere, air or soil, as well as for phonic pollution; the purpose of these taxes is to reduce the quantity of noxes ejected in the nature and to diminish the negative effects of pollution as well, thus transferring to the polluters a significant part of the costs generated by the damage caused to the environment. These dues may also be placed on products that pollute when consumed. A derivative is the *differential tax*, applied on a large scale in those cases where the polluting products are gradually replaced with other products less polluting and easy to identify.

The OCDE countries have instituted dues on emissions, the most common of all being on atmospheric pollution, on waste, on water or those that try to control the pollution of urban and industrial waste. For instance, some estimates in the western countries, with long and consistent experience in ecological policy, show that 50 – 70% of the actions to reduce the industrial pollution are due to these taxes along with taxing the energy products. Thus, starting with 1985, France applies a parafiscale tax on emissions of various sulphur compounds, nitrogen oxides, sulphured hydrogen and chloral acid, etc; applied by the Agency for air quality, this tax concerns several hundred highly polluting industrial installations and it is used to finance some aid for equipments which sustain the efforts and activities of fighting pollution.

Since an undifferentiated tax for all sectors would have negative effects on the competitiveness of some industrial branches, on the one hand, and would conflict with other objectives of the economic policy, on the other hand, the laws of these countries also stipulate a series of facilities, even exonerations regarding these dues, and this can be seen in the variation of the tax quantum for different categories of users. In reality, the level of tax collection is not of interest, because through its double function, both stimulating and redistributive ones, the purpose of this tax is to determine a 30%

reduction of the respective installation emissions, and the funds are redistributed accordingly, in proportion with the quantity of energy produced.

b. Dues on noise are amply applied both in developed and developing countries. As the sums obtained in this manner cover the compensations offered to the population that is victim of phonic pollution (as is the case of human settlements near airports), these taxes are not sufficiently effective stimulants to reduce noise.

Although noise is one the polluting factors of maximum perception for the population, most of the measures against phonic pollution have been inefficient. Thus, the maximum accepted level is 60 decibels but approximately 15% of the OCDE countries population is exposed to double levels of phonic pollution, and the measures that have been taken were limited to motor vehicles and trucks.

c. Product dues are taxes collected for and applied to products that are harmful for the environment when used in production, when consumed or when their packages become waste. Increasing the cost of the harmful products, product dues encourage both the producers and the consumers to replace the dangerous products with less harmful others. Here one can mention: the tax on coal and fat oils, the tax on fertilizers and pesticides, the tax on non-reusable packages, the tax on batteries, as well as the tax on basic chemical products.

The income generated after collecting these taxes may serve different purposes regarding the improvement of the quality of the environment or may be used for ecological research, but, sometimes, they may be simply sent to the public budget, as is the case with other fiscal receipts.

The taxes on products can fundament a certain tactics, following the life cycle, focusing on the potential environment costs of each segment: production, consumption and waste disposal. This explains why by applying these taxes on the intermediary consumers, the economic agents tend to make their *inputs* from less harmful products.

The analysts have not detected a visible influence of these taxes on behaviour, although their quantum allows funding policies and programmes that concern treating the negative effects of products over the environment.

Conclusions

A healthy environment represents the essential condition for the quality of life and for long term prosperity; this is the axiom at the basis of all actions of environment protection regarded as key priority, also sanctioned by the provisions of the Maastricht Treaty.

The economic development and the aspiration for prosperity will continue to exert a great pressure on the planet's capacity to respond to the (over)use of resources and to absorb the pollution as well. This implacable truth both determines the rigorous standards, always high, for environment protection, and exerts an impulse to create, innovate and find special business opportunities.

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