

# Resource productivity, environmental tax reform (ETR) and sustainable growth in Europe (PETRE)

Presentation to the Final Conference of the PETRE Project'

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## Questions to be addressed

- What is the experience to date of ETR in Europe?
- What opportunities are presented by ETR in Europe?
- Is ETR an appropriate and effective instrument?
- What might a large-scale ETR in Europe look like and what would be its implications for the rest of the world?
- What are the obstacles to ETR in Europe?
- What might be a way forward for ETR in Europe?
- How can single European countries like Germany and UK seek to implement their own ETRs?
- What are the implications of ETR for 'sustainable growth' in Europe?

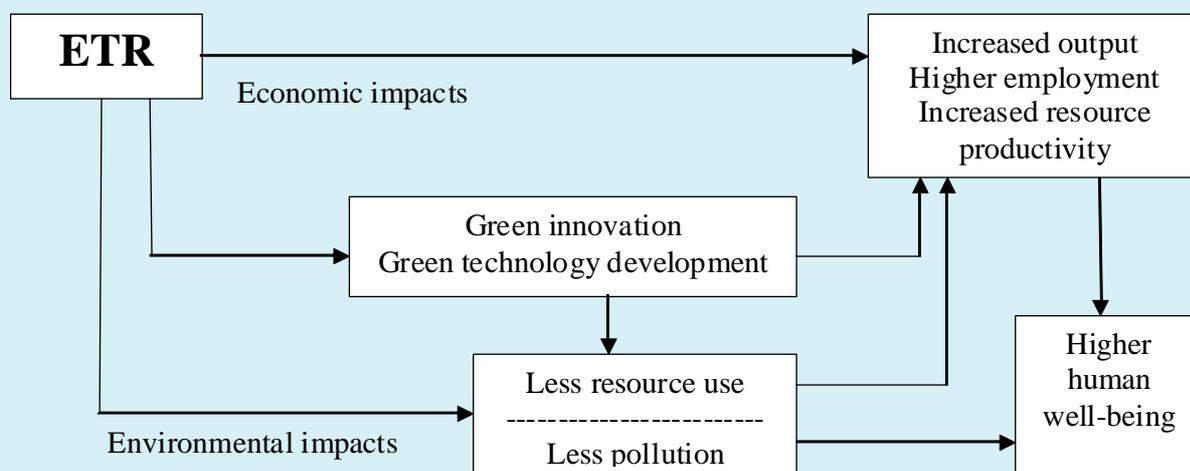
### Definition

- ETR is the shifting of taxation from 'goods' (like income, profits) to 'bads' (like resource use and pollution)

## What is the experience to date of ETR in Europe?

- Six EU countries have implemented ETRs: Denmark, Finland, Germany, Netherlands, Sweden, UK
- The outcomes – environmental and economic – have been broadly positive: energy demand and emissions are reduced; employment is increased; effects on GDP are very small
- See session on July 15 at 11.50
- See Andersen, M.S. & Ekins, P. (Eds.) *Carbon Taxation: Lessons from Europe*, Oxford University Press, Oxford/New York, 2009 (forthcoming)
- On competitiveness, see session on July 15, 16.20

## What opportunities are presented by ETR in Europe? The hypothesis.



## Is ETR an appropriate and effective instrument?

- See session on July 15, 12.30

## What might a large-scale ETR in Europe look like.....?

- Two European macro-econometric models: E3ME, GINFORS.
- Models deliver insights, not forecasts or 'truth'
- See session on July 15, 14.15

## ... and what would be its implications for the rest of the world?

- See session on July 16, 11.30

## What are the obstacles to ETR in Europe?

- Required unanimity on taxation in the EU Council
- Differences in national contexts and tax cultures – see session on new Member States on July 16 at 10.50
- Desire in some member states to keep taxation at exclusively national level
- Perceived competition with EU ETS
- See after-lunch sessions on political feasibility on July 16

## Will ETR lead to 'sustainable growth' in Europe?

- ETR would rule out a resource-intensive growth path
- This would constrain growth unless it led to innovation in low-resource technologies
- ETR would stimulate such innovation, but this may need to be supported with complementary policies
- See session on innovation, July 16 at 09.00
  
- Let the Conference begin!

## What are the obstacles to ETR in Europe?

- Required unanimity on taxation in the EU Council
- Differences in national contexts and tax cultures
- Desire in some member states to keep taxation at exclusively national level
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## How could single EU countries implement ETR?

- ETR has a minimal effect on national competitiveness and economic growth
- ETR will stimulate resource-efficient innovation – need to support this with complementary policies
- If all countries were committed to low-resource development, the leading countries would be those with strongly developed resource-efficient technologies and industries
- Germany is one of those (low-carbon vehicles, energy-efficient houses, renewable energy, waste management technologies)
- UK is not yet – but says it is (and is determined to be)

## What might be a way forward for ETR in Europe (in a time of financial crisis)?

- Need for substantial new sources of tax revenue (tax pollution)
- Need for substantial new sources of employment (make employment cheaper)
- Carbon tax very similar to permit auction
- Energy Tax Directive in place – proposal to split between energy and carbon
- Carbon tax would put floor on permit price
- EU-wide carbon tax would dilute concerns about competitiveness (cf China)

## Will ETR lead to 'sustainable growth' in Europe?

- Conclusions
- 'Sustainable' growth will be resource-efficient and may in time turn out to be slower growth, with higher employment (lower productivity and incomes)
- There is no extant modelling that suggests that environmental sustainability is only consistent with a 'no-growth' economy
- Relatively high-growth countries in a sustainable future will be those that have developed, and can export, resource-efficient technologies and industries