Carbon Taxes - Implementation Issues and Barriers

18th Global Conference on Environmental Taxation

University of Arizona, James E. Rogers College of Law

September 27th – 29th 2017

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Experiences

- **First wave** (early 1990s): Finland, Sweden, Denmark und Norway. Toronto Conference 1988: -20% CO_2 emissions till 2005. Environmental tax reform and economic crisis
- **Second wave** (ca 2000): Latvia, Slovenia, Estonia and Croatia. EU accession, emission reductions and raising revenues for the state
- **Third wave** (ca 2010): Ireland, Portugal and France. Emission reduction, raising revenues for the state. Green coalition (Ireland), attracting green voters (Portugal and France)

Approach

- Linking emission reduction objective with other goals (reduction of the income tax, EU accession, ligitimize fiscal consolidation)
- Intensive negotiations with trade associations and trade unions preceeded the introduction of CO_2 taxes

Approach

- **Denmark**
- 1993 reform: CO_2 tax for households, later extended to industrial energy consumprtion (industry did not pay energy taxes) => proceeds used to reduce income taxes
- 1995 reform: focus on industry, reduction of the social security contribution of companies and subsidies for energy efficiency but industry had to pay the same energy taxes as households
- 1998: focus on households => Recycling for lower and medium incomes and pentioners

Approach

- **Sweden**
- Budget neutrality was not the objective
- 1991 reform: CO_2 tax on households and industry => reduction of income tax => deficit
- 1993 industry does not pay energy taxes but reduced CO_2 taxes (frequently changed)
- 2001-2010: focus on households and sustainability => recycling for lower and medium incomes and pentioners

Approach

- **Finland**
- 1990-1994: CO_2 tax (100%) on all energy products
- 1994-1996: CO_2 tax on CO2 (40%) and energy content (60%)
- As of 1997: CO_2 tax (100%)
- ETR – budget neutrality not the objective
- Focus on households and companies => reduction of income tax and social security contributions through increase in environmental and corporate taxes

Recycling

- Denmark: no cross-subsidisation between households and companies
- Finland: recycling is stronger oriented towards households

Competitiveness

- Especially important in Denmark and Sweden
- Substantial tax exemptions on Energy in Denmark and to a lesser extend in Sweden. In the area of consumption taxes Sweden has a strong CO_2 orientation and Denmark a stronger Energy orientation. Industry in both countries is exempt from Energy taxes.

Support

- Finland and Sweden – no budget neutrality of the reforms
- Denmark– limited revenues

Concluding remarks

- Administrative complexity
- Societal consensus for an environmental tax reform
- Environmental aspects were strong at the beginning of the 1990s
- Economic crisis created the impetus for reforms