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**DANISH MINISTRY
OF THE ENVIRONMENT**

Department

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The Danish government's consultation response to the Commission's "Green Paper on market-based instruments for environment and related policy purposes" (COM(2007) 140 final)

The Danish government finds it positive that, with this Green Paper, the Commission has launched a public debate about the use of market-based instruments (MBIs) and the government concurs with the Commission's overriding wish to promote the use of MBIs in the environment and energy area. MBIs are cost-effective and can ensure flexible framework management, and the price mechanism provides a better basis for enterprises and consumers' willingness to show responsibility for solving more problems in the environment area.

Today, Denmark is among the EU Member States which have come furthest in using MBIs in the environment and energy area. Consideration for the competitiveness of enterprises means that some taxes are designed in a way that reduces the incentive effect for the enterprises most exposed to competition. Greater use of MBIs in the environment and energy area in other EU Member States, including common EU taxes, will help create more uniform competitive conditions. However, experience so far from the negotiations on harmonisation of taxes in the environment and energy area suggests that reaching an agreement on new proposals can be an extremely difficult political process.

The Danish government agrees with the Green Paper's assessment that MBIs can seldom stand alone, as many environmental problems are of a nature that calls for a broad range of instruments, and the combination and design of the instruments are therefore decisive for the effectiveness of the efforts invested.

The Danish government supports the Commission's proposal to establish a forum for the exchange of experience on Member State's use of MBIs in the environment and energy area.

The Danish government's position on a number of issues raised in the Green Paper is outlined in the following:

2.2 Market-based instruments in the EU context

What are the areas and options for the further use of market-based instruments at EU or national level?

There are still a number of areas where current market prices do not reflect the full environmental costs/environmental externalities. Similarly, the extent to which Member States make use of MBIs differs greatly, as do the levels of taxation. This suggests a great potential for wider use of MBIs. However, it also means that in countries which have led the way in the use of MBIs, as has Denmark, considerations for competitiveness also have the effect that some Danish taxes are designed in a way that reduces the incentive effect for the enterprises most exposed to competition, so that these enterprises are not placed in a position that is less favourable than for similar enterprises in other Member States.

Could market-based instruments be used in a way that promotes competitiveness, and does not impose an undue burden on consumers, in particular citizens with a low-income, but at the same time ensures revenue for public budgets?

In general, the Danish government believes that there is a need to be clear on objectives with taxation. Environmental taxation should be used out of consideration for their effect on the environment and nature. Minimum levels for Member States' environmental taxes on industries will promote both more equal competition and positive environmental effects.

2.3 Growth, jobs and a clean environment – the case for environmental tax Reforms

Should the EU more actively promote environmental tax reforms at national level? How could the Commission best facilitate such reforms? Can it for example offer some kind of co-ordination process or procedure?

On an overall basis, the Danish government believes that it should still be up to the individual Member States alone to decide on the design of the tax structure.

However, the Danish government also believes that the EU can recommend the Member States to carry out environmental tax reforms as a tool for achieving targets for the environment area most effectively and ensuring the social dimension of the overall tax structure.

Furthermore, the Danish government believes that the Commission can promote environmental tax reforms in the Member States by clarifying the connection between MBIs and EU State aid rules. The objective would be to improve the possibilities for using a tax instrument in combination with recycling of tax revenues in a way that will support the effect of the relevant MBI further.

Would the establishment of the above mentioned MBI Forum be useful to stimulate exchanges of experience/best practice on Environmental Tax Reform between Member States? How could it be organised in an optimal way? How should it be composed to avoid potential overlap with existing structures?

In the opinion of the Danish government, establishing an EU forum for the exchange of experience on the use of MBI would be useful.

2.4. Reform of environmentally harmful subsidies

What is, in the light of national experiences, the best way to advance the process of reforming environmentally harmful subsidies?

The Danish government is generally of the opinion that environmentally harmful subsidies should be phased out and is keenly looking forward to the Commission's announced roadmap for a sector-by-sector phasing-out of environmental subsidies.

3.1. Streamlining and developing the Energy Taxation Directive

Should the Energy Taxation Directive be reviewed to make a clearer link to the policy objectives the Directive integrates, in particular in the field of environment and energy? Would this make energy taxation a more effective instrument by better combining the incentive effects of taxation with the ability to generate revenue?

The Danish government finds the Commission's ideas about changing the tax basis in the Energy Taxation Directive to an energy tax and an environmental tax interesting. The changes would underpin the Community's target for energy efficiency, CO₂ reductions and security of supply. The Commission's considerations concur with general recommendations that the tax basis for behaviour-regulating taxes should be designed so that there is a direct connection between the tax and the objectives of the tax.

The Danish government believes that the Commission can promote Member State use of MBIs by clarifying and specifying, in connection with the new framework conditions for State aid in the environment area, how the energy taxation, the EU ETS and State aid rules work together. As stated previously, the Danish government is of the opinion that, if a Member State eases an environmental tax burden in order to avoid double regulation due to the EU ETS, this should not be considered State aid. In this case double regulation has no purpose as no extra environmental effect is achieved from it. Consequently, eliminating the double regulation should be possible and should not count as State aid.

The Danish government therefore agrees with the Commission's overriding idea that sectors regulated by the EU ETS should be exempted from the CO₂ tax element in a revised Energy Taxation Directive. In relation to the existing Energy Taxation Directive, the problem of double regulation should be solved by exempting enterprises subject to double regulation from environmental energy taxation.

The Commission's considerations with regard to changing the Energy Taxation Directive therefore do not change the position of the Danish government in the matter of State aid and exemption from the CO₂ tax for sectors covered by the EU ETS (double regulation).

3.2. Interaction of energy taxation with other market-based instruments, in particular the EU ETS

*Would the suggested changes to the Energy Taxation Directive and the proposed approach to its scope be the best solution for ensuring coherence between the Directive and the EU ETS?
Are there other options to achieve this objective?*

As stated previously, the Danish government believes that due to the implementation of the CO₂ ETS it should be possible to abandon national CO₂ taxes on enterprises that are subject to quota regulation, because double regulation, in this case, has no purpose in that no

extra environmental effect is achieved from it. Eliminating the double regulation should therefore be possible and should not count as State aid.

What are the potential options that should be explored in order to provide the necessary incentives to encourage the EU's trading partners to undertake effective measures to abate greenhouse gas emissions?

The Danish government supports the EU's efforts to promote ambitious CO₂ reduction targets in a post Kyoto agreement. It is in favour of a liberal trade policy and therefore, as a general rule, is sceptical towards trade restrictive policies. However, considering promotion of the EU climate targets and the global competitiveness of the Community, the Danish government can accept the instigation of an analysis of possibilities in accordance with WTO rules for providing the necessary instruments and incentives to encourage EU's trade partners to deliver effective measures to limit their greenhouse gas emissions, provided that such an analysis is without prejudice.

In the Danish government's opinion, part of the negative effects for the EU sectors most exposed to competition can be off set by exempting fuel consumption covered by the EU ETS from double regulation.

4.1. Tackling the environmental impact of transport

What would be the best MBI to tackle emissions from shipping, taking into account the specific nature of maritime transport? How could it be best designed?

The Danish government shares the Commission's view that possible use of MBIs as a means of reducing emissions from shipping should be examined carefully with regard to the legal, political and geographical circumstances which characterise international maritime transport. The Danish government believes that binding regulations on CO₂ emissions from the shipping industry, preferably, should be realised under the auspices of the IMO, in order to make for solutions that will ensure equal terms for the international shipping industry. The Danish government looks forward to the Commission's proposal for the future revision of the EU ETS Directive, as a follow up to the request by the European Council in March 2007 that a possible expansion of the Directive's scope of application to include the shipping industry be considered.

4.2. The use of MBIs to address pollution and protect resources

4.2.1. Water

How can the Commission most effectively ensure implementation of the water pricing policies set out in the Water Framework Directive? What options could be explored to reinforce the links between investments in national water projects and the introduction of corresponding water pricing to provide incentives for users and avoid distorting competition?

The Danish government supports the Commission's efforts to promote the application of user charges and MBIs in relation to implementation of the Water Framework Directive.

4.2.2. Waste management

If there is insufficient progress to divert waste away from landfill, should the Commission consider proposing a harmonised landfill tax with EU-wide minimum rates?

The Danish government supports the Commission's ideas about a common landfill tax with minimum rates.

4.4. The use of MBIs to address air pollution

Do you see scope for using cross border emissions trading schemes between groups of Member States to combat conventional air pollution through SO₂ and NO_x? How should such a system be designed to fit with national taxes and charges that are applied in several Member States?

The Danish government finds it interesting that the Commission intends to examine the opportunities for using allowance regulation for other emissions (NO_x and SO₂ in connection with the new NEC Directive) and together with other regulation (the IPPC Directive). However, as a general rule, the Danish government is sceptical as to whether an allowance trading scheme would be the appropriate way to remedy environmental problems of a regional nature.

5. CONCLUSION

In general, the Danish government supports the Commission's intention to promote the use of MBIs in environment and energy policy and to ensure more equal terms of competition in the internal market.

The Danish government believes the interplay between allowance regulation and regulation via taxes must be clarified so double regulation is avoided. Furthermore, existing double regulation must be eliminated without causing unequal competitive conditions or having a significant negative effect on the state finances of Member States.

Furthermore, the Danish government believes that the Commission can promote environmental tax reforms in the Member States by clarifying the connection between MBIs and the EU's rules on State aid, with a view to improving the opportunities for combining a tax instrument with the reversal of proceeds in a way that will further enhance the effect of the MBI in question.

Finally, it is the Danish government's opinion that Member States that wish to make use of additional national environmental taxes should be able to design this regulation in a way that shows consideration for the situations where the use of tax regulation, to a considerable extent, inhibits the competitiveness of enterprises, and, furthermore, that the revision of the current EU rules on State aid in the environment area should be changed to accommodate this