



Environmental Fiscal Reform in Germany

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Agenda

- I. EFR 1999-2003 in Germany**
- II. Experiences und results of EFR 1999-2003**
- III. Continuation of EFR in Germany**
- IV. Reform of energy taxation in 2006**
- V. Other fiscal measures with environmental relevance of the Grand Coalition**
- VI. Concluding remarks**
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 - Tax rates after reform of energy taxation in 2006**
 - Comparison of prices on light heating oil in EU 25 in february 2006**



I. EFR in Germany

ETR - Tax Rate Increases

Steady increases in 1999-2003:

- **Electricity tax** 1.02 Ct/kWh in 1999
(+0.26 Ct/kWh p.a. between 2000-2003)
- **Mineral oil taxes on transport fuels:**
(+3.07 Ct/litre p.a. between 1999-2003)

Single increase in 1999 (+2003) only:

- **Tax on natural gas** + 0.16 Ct/kWh (+0.2 Ct/l)
- **Tax on light heating oil:** + 2.05 Ct/litre

Ecotax revenues: 18.0 bn € in 2005 (total energy taxation: 46.9 bn €)

- **90% revenue neutrality:**
Reduction of employers' and employees' social security contribution by overall 1.7%-points
- **Target in Coalition Treaty 1998 of a reduction of social security contributions from 42.3% below 40% wasn't reached**



I. EFR in Germany

ETR - Reduced Rates

- To take into account industry's concerns about competitiveness
Value of tax concessions for industry is 5.4 bn €
 - very high volume compared to total revenues of 18.0 bn €
- Additionally there are some tax exemptions on basis of EU directive for non-energetic use and internal consumption of refineries (2.3 bn €)
- To promote environmental effects:
 - local public and track transport
 - natural gas in the transport sector
 - low-/no sulphur containing fuels
 - cogeneration plants
 - renewables in heating and transport sector are exempted (but not in electricity sector)
 - ➔ around 10 % of total revenues for environmental purposes)
- For social reasons:
 - lower electricity tax for night storage heating (until 31.12.2006)



I. EFR in Germany

Other elements of env. fiscal reform

Realised measures in income tax / others / energy taxation (in bn €)	Value of fiscal impulse	Effect on public budget
2004: Reduction of support of housing (for private buyers) (subsidy reduction of 2.5 bn € after 8 years)		2.5
2004: Reduction of commuters lump sum (deductability from income tax) from 40.9 ct/km to 35 ct/km		1.1
2005: Introduction of heavy vehicle charge		3.0
2005: Introduction of emission trading (market value 5-15 €/EUA)	2.5-7.5	
2003: Introduction of deposit refund system on one-way packaging	2.5-4	
1997-2005: Reduction of coal subsidies		1.7
1999-2003: Ecological Tax Reform (energy taxation)		18.0
Total volume of initiated measures (in bn €)	5-11.5	26.3



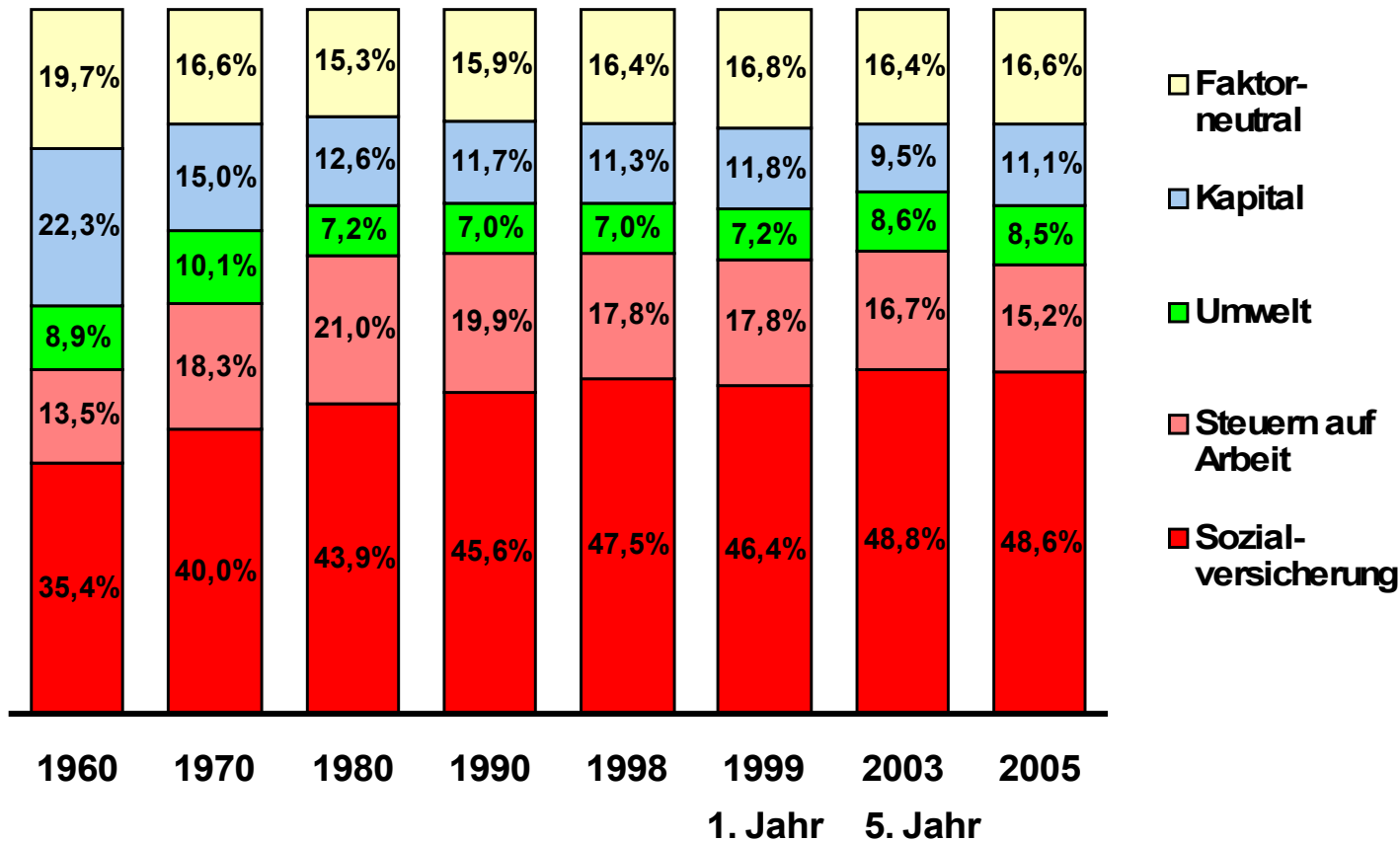
II. Experiences with ETR - environmental and economic effects

- **Price signals „convince“ people to change consumption patterns: Fuel consumption in transport sector went down by 15% from 1998 to 2005 after long periods of continuous increases; stagnation of diesel fuel, over proportional reduction of gasoline**
- **CO₂-emissions and energy consumption are reduced by 2-3% (study of DIW)**
- **additional jobs up to 250.000 (= 0.5%) (study of DIW)**
- **small – slightly positive – effect on GDP**
- **In industry there are more winners than losers (study of RWI)**
- **private households are net payers
energy tax is slightly regressive**
- **Role of environmental taxes has been strengthened
- but tax shift is only 0.8% of GDP or 1.6% of total tax revenues:
two thirds of total revenues of taxes and social security
contributions are still burdened on labour**



II. Experiences

Structure of tax system – and changes by EFR





III. Continuation of EFR in Germany

Necessary from environmental point of view ...

Reasons for EFR from environmental point of view:

- 3. Internalisation of external cost –
market-based instruments are more efficient than regulation**
- 4. Reach climate protection goals of Germany (2008-2012/2020/2050)**
- 5. Reduce dependency of oil and gas imports (and of uranium)**
- 6. Reduce taxes and social security contributions imposed on labour;
create new jobs (double dividend)**
- 7. Use part of revenues for environmental subsidies
(renovation of buildings, energy efficiency measures, renewables)**
- 8. Postponing action for climate protection will lead to much higher
cost in the future**



III. Continuation of ETR in Germany

... but confronted with many obstacles

- **Changes on energy markets:**
 - **drastic increase of world oil prices and strengthening of USD;**
 - **attempts to liberalise electricity and gas markets**
 - **price effects of other instruments (ET, feed in tariffs REN und CHP)**
- **Germany has comparatively high taxes on transport fuels and electricity (but not on heating fuels) - tankering tourism increased**
- **Though business is treated generously and in large parts is net benefitor, opposition continues**
- **Political parties, environmental groups and trade unions don´ t have EFR (high) on the agenda**
- **Campaigns against ecotaxes 1999-2003 are not forgotten**
- **Coalition Treaty of Grand Coalition (11/2005):
status quo is maintained (no lowering, no increase of ecotaxes)**

Anyhow – Grand Coalition already initiated reform of energy taxation and some other environmentally relevant fiscal measures!



IV. Reform of energy taxation in 2006

Draft of government from 15.3.2006 of a law for energy tax reform

- **to adapt energy taxation to EU Directive on Energy Tax Harmonisation**
- **mineral oil tax law is restructured and renamed to energy tax law**
- **four reform aspects are relevant for environment – next slide**
- **for tax rates on heating and transport market see appendix**
- **parliament discusses some changes – especially taxation of biofuels**
- **planned for coming into force 1.8.2006**

Simultaneously in preparation: „energy tax law II“

- **to come into force 1.1.2007 (but official draft not published until now)**
- **main points:**
- **obligatory quota system for biofuels (with full taxation within quota)**
- **further reform of tax concessions for energy intensive industries**

Also realised: broad tax reform (mainly income and value added tax)



V. Other fiscal measures of Grand Coalition with environmental relevance

Initiated or realised measures in income tax / energy tax	Revenue long run	Revenue 2007
Abolition of support of housing (for private buyers) from 1.1.2006 (subsidy reduction by 5.9 bn € after 8 years)	5.9	1.5
Commuters lump sum (deductability from income tax) from 1.1. 2007 only from 21. kilometer	2.5	1.3
Taxation of biofuels from 1.8.2006; 1.1.2007 introduction of a quota system with full taxation of biofuels within quota	> 2.3	1.6
Abolition of taxes on energy inputs in electricity sector	-0.08	-0.08
Introduction of taxes on coal for heating purposes	0.03	0.03
Tax exemption of certain industry processes	- 0.06	- 0.06
Total volume of initiated measures (in bn €)	10.3	4.3
Further planned measures: - negotiation on future of coals subsidies - reform of the annual vehicle tax towards a CO ₂ -basis - tax incentives to equip old vehicles with particale filters - stronger differentiation of heavy vehicle charge towards emissions		



VI. Concluding Remarks

- 1. Coalition of Social Democrats and Greens (1998-2005) introduced EFR with positive effects – emissions and energy consumption were reduced, employment was increased. Anyway, there are many opponents.**
- 2. Further initiatives for EFR were partly blocked by opposition in Upper Chamber (e.g. lower VAT for public transport, abolition of VAT exemption of international flights), partly came into force as weakened compromises (support for buying buildings, commuters tax allowance)**
- 3. Coalition Treaty of current coalition of Christian with Social Democrats (since 11/2005) determines, that there will be no general increase of energy taxes**
- 4. But: Energy tax law 2006 stabilises energy taxation and improves its structure (e.g. coal tax, abolition of energy inputs in electricity sector) due to prescriptions of EU energy tax directive**
- 5. Launched fiscal measures have relevant effect on public budgets (compare 26.3 bn € Red-Green to 10.3 bn € Grand Coalition)**



VI. Concluding Remarks

- 1. Germany has comparatively low taxes and prices for heating fuels (see appendix) – in terms of harmonisation action is possible, but for political reasons not to expect.**
- 2. Some instruments to support Renewables have similar effects as an ETR combined with use of revenues to support environmental measures:**
 - Feed-in-tariffs for electricity from renewables and cogeneration**
 - Quota system for biofuels (in preparation to come into force 1/2007)**

 - Intended law to support renewables in the heating market**
- 3. High priority for progress of climate protection in air transport – most promising initiatives are**
 - introduction of emission trading in EU (perspectively also at ICAO)**
 - ticket tax in context with development policy**
 - differentiated landing fees**



VI. Concluding Remarks

- 1. Kerosene taxation for domestic flights is also possible (see NL, NOR)
Coordinated initiatives of EU member states for taxation of kerosene remain on the agenda, but are politically difficult:**
 - opposition of ICAO based on Chicago Treaty of 1944
 - competition arguments if only flights of domestic lines are taxed
 - harmonised initiative in EU cannot be expected

- 3. Further progress only in combination with action of forerunners and coordination on European level**
 - Further harmonisation of energy taxation (hard because of unanimity principle)
 - Coordination with „group of forerunners“
 - Projects with accession countries



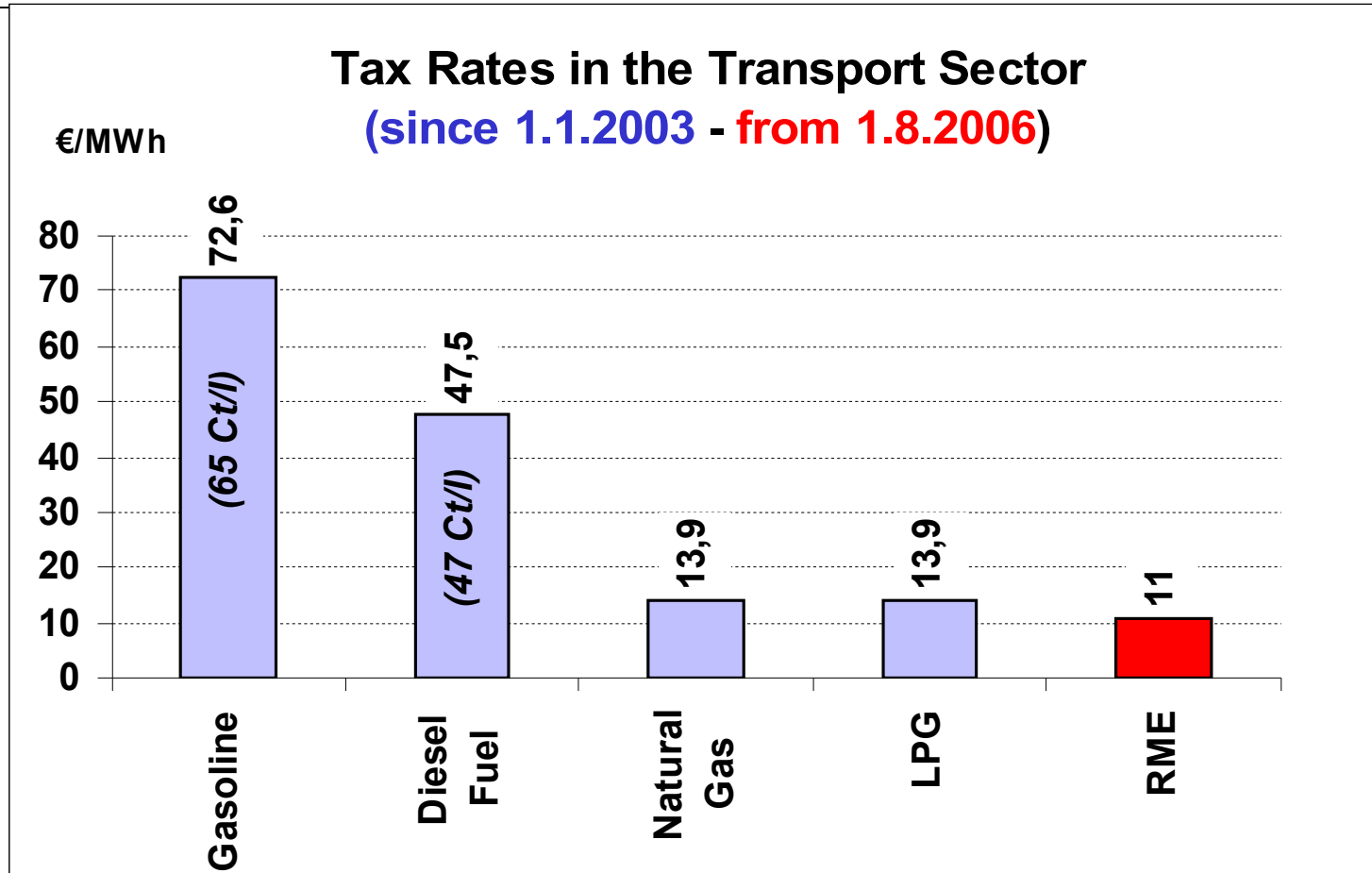
Thank you very much for your attention !

More information on Environmental Fiscal Reform :

- **www.bmu.de** or directly:
www.bmu.de/oekologische-finanzreform
(Information of Federal Ministry for the Environment,
Nature Conservation and Nuclear Safety)
- **www.bundesfinanzministerium.de**
(Information of Federal Finance Ministry)
- **www.foes.de**
(Informationen des Fördervereins Ökologische Steuerreform e.V.
– Green Budget Germany)

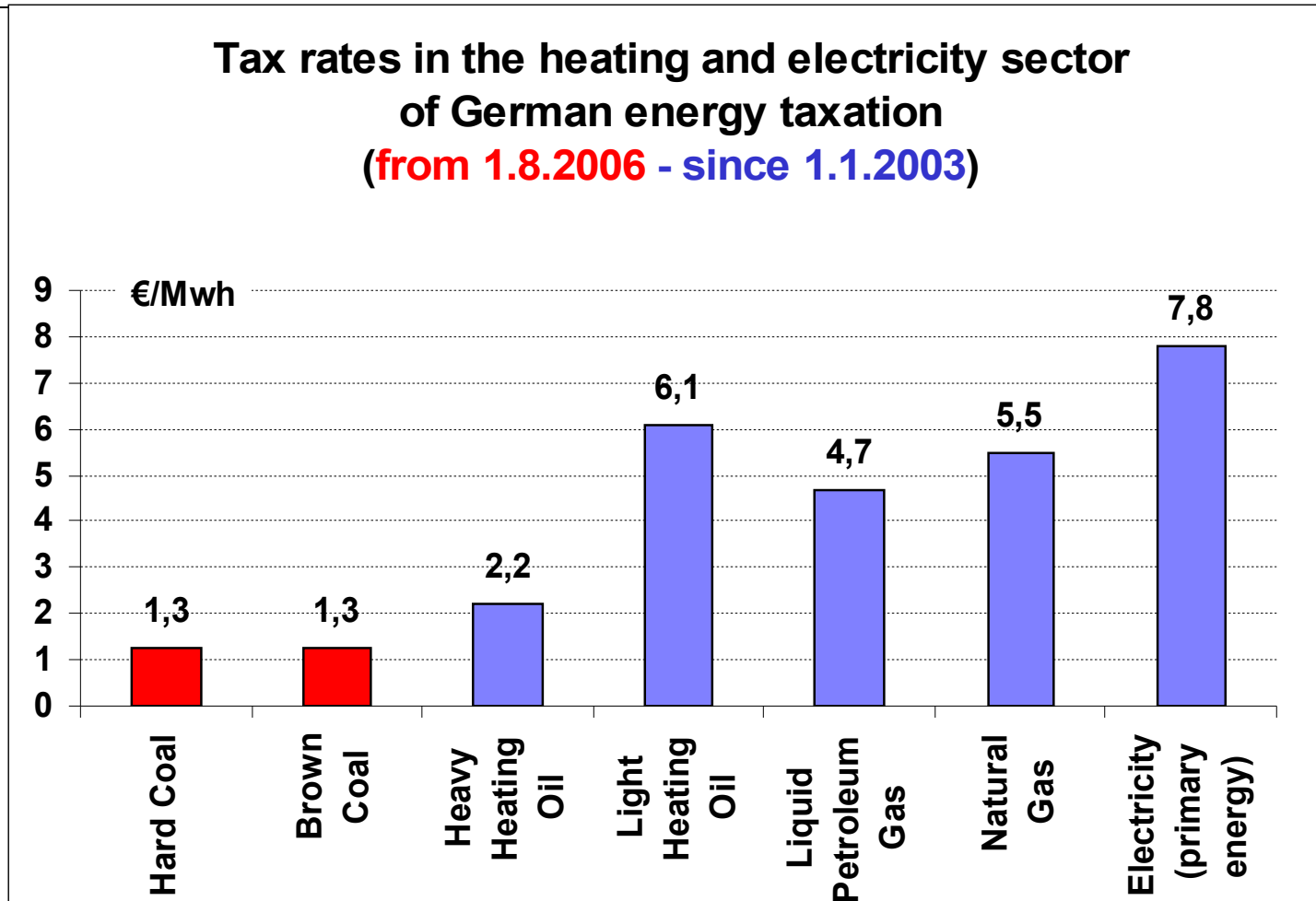


VII. Appendix: Tax rates after reform of energy taxation in 2006





VII. Appendix: Tax rates after reform of energy taxation in 2006





Comparison of prices on light heating oil in EU 25 in february 2006

