

Help or Hindrance to Cost-Effective Design of Environmental Taxes?



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EU state aid rules in short

- **What is state aid and who decides?**
 - Selective tax reductions are often state aid
 - No state aid: General measures that follow the nature and logic of the tax system
 - TFEU Treaty => EU Commission; EU Court => approved aid; necessary and proportionate, no overcompensation
- **State Aid Rules ./ other policy objectives**
 - TFEU Treaty => Energy and Climate Policy Targets; EU Directives
 - National tax sovereignty
- **State Aid Modernization**
 - Environmental and Energy State Aid Guidelines 2014-2020 (EEAG), applicable from 1.7.14 for new schemes, adjustment of old schemes from 1.1.16

What happens if the state aid rules are not observed

- **Illegal aid** *can occur by way of*
 - never been notified by a Member State,
 - complaint by competitor *or*
 - new interpretation of EU law by EU Court or EU COM
- **Recovery of illegal aid from companies**
 - MS obliged to recover aid (in practice retroactive tax)
 - Irrelevant if companies have acted according to national tax law



Environmental taxes and the new EEAG



- Environmental taxes are cost-effective tools to reach policy targets. They have served us well in Sweden.
- May need to involve state aid (certain tax reductions) to ensure best environmental results at an aggregated level.
- No CO₂ tax on bio fuels has been seen as a state aid by the COM => time limited state aid approvals.
- What will happen with the new EEAG? => *Will Sweden be able to continue on this path? Can we maintain our CO₂-tax?*

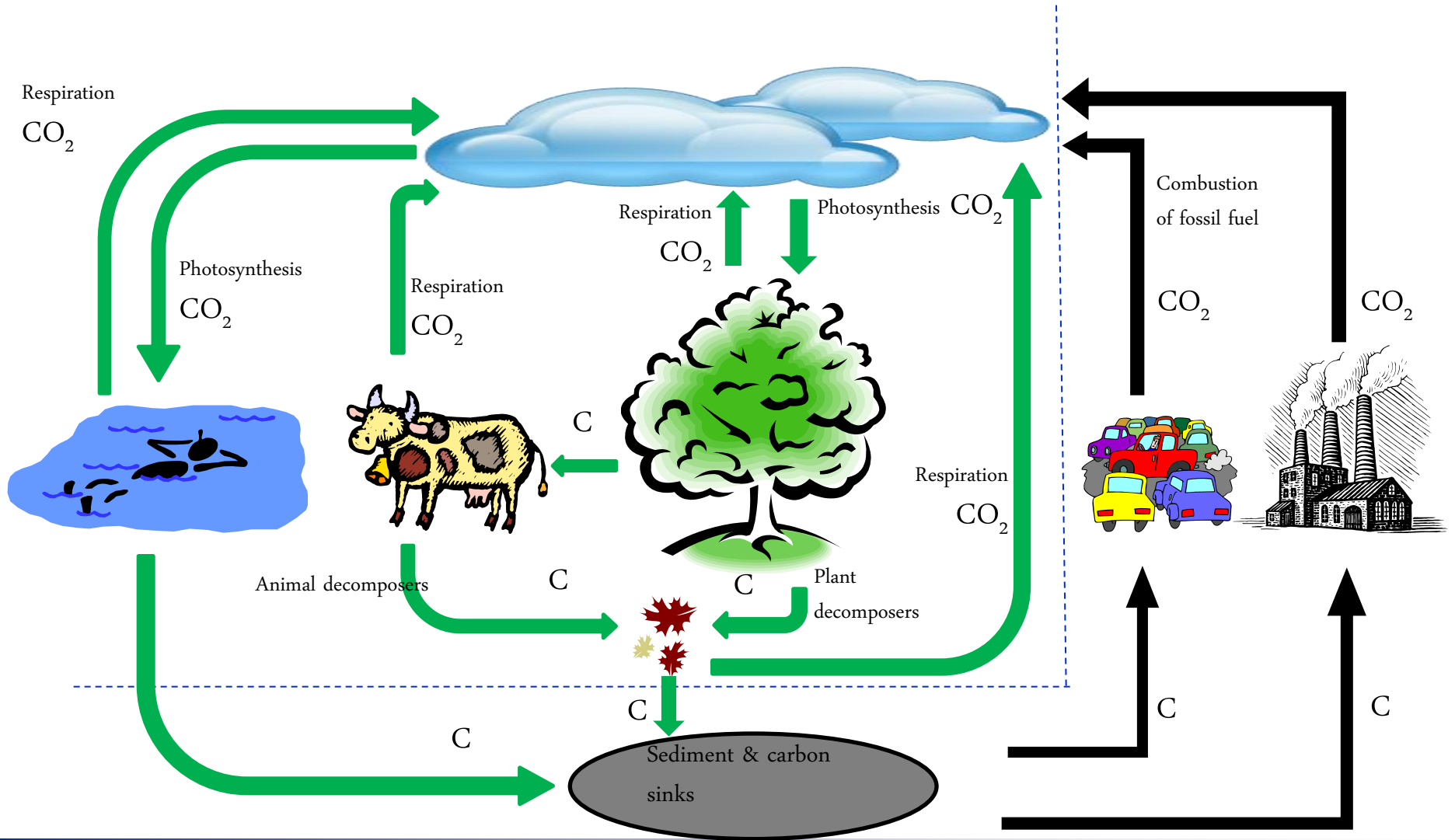
CO₂ taxation

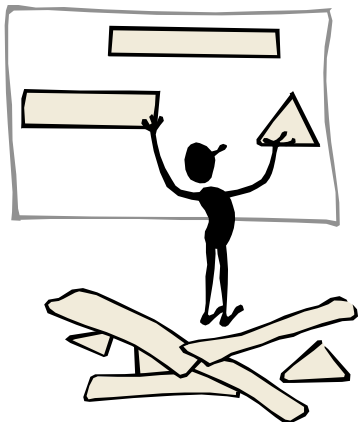
Two sides of the same coin



- **Fossil fuels are taxed, bio fuels are not taxed – why?**
 - Calculation on the basis of fossil carbon content of fuels
 - Only fossil fuels result in net increases of carbon to the atmosphere.
 - Such a tax helps to reduce our use of fossil fuels and thus reach set climate targets.
- **A CO₂ tax on carbon content of all fuels would not help us reach the targets.**

Carbon Cycle

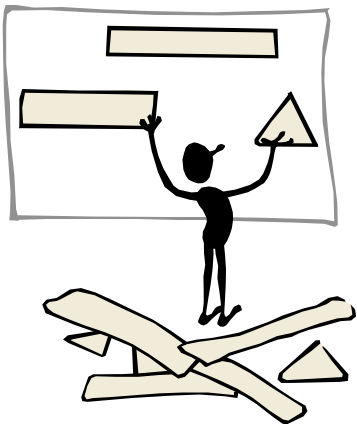




Major changes in the new EEAG

– *from an environmental tax perspective I*

- Less choice for MS = **good** or **bad** for reaching goals cost-effectively?
 - – "Picking a winner" puts a wet blanket on developing other solutions.
 - – "We're all different" - what's best for one MS is not necessarily best for others.
 - "Harmonization is good, isn't it?"
 - + Gives a more level playing field for operators, can reduce distortions on the internal market
 - – Investments are long-term, what happens in 2020?
 - +/- Good with ideas for starters, but what about old-timers having taken another path?



Major changes in the new EEAG

– *from an environmental tax perspective II*

- **Operating aid for biofuels** (such as tax reductions)
 - No aid to biofuels subject to a quota obligation
 - Food-based biofuels
 - No aid after 2020
 - No aid to production plants that started operation < 31 Dec 2013
 - Aid only until the plant is fully depreciated
 - Other biofuels (2nd generation)
 - Aid 2020-2030 phased out in a degressive way
 - Aid only until the plant is fully depreciated (with certain exemptions)



Sweden wanted to go this way ...

- Continued emphasis on CO₂ taxation for sectors outside EU ETS
- For bio propellants, introduce a quota obligation scheme to ensure certain volumes of biofuels
 - A quota scheme cannot be combined with state aid, as approved state aid has to be necessary.
 - Sweden argues that the tax design below is not state aid and can be combined with a quota scheme:
 - An energy tax based with the same tax amount/GJ for fossil fuels and competing bio fuels **YES?**
 - A CO₂ tax based on content of fossil carbon = no CO₂ tax on biofuels **NO?** (Far-reaching interpretation of EC Court Decision of 7 March 2012 in case T-210/02 RENV British Aggregates Association v the EU Commission supported by the UK)

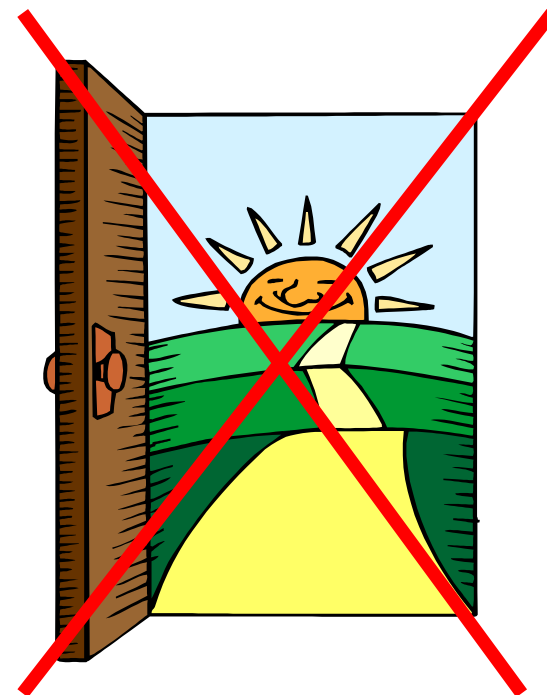


Will the new EEAG make it possible to go ahead?

- The new EEAG stipulate:
 - No state aid in combination with a quota scheme =>
 - Choose between a quota scheme and a CO₂ tax
 - If a CO₂ tax is chosen and such a scheme still is considered as state aid =>
 - A general CO₂ tax based on content of fossil carbon is not possible from 1.1.16
 - Need to apply a full CO₂ tax on certain biofuels
 - If a quota scheme is chosen =>
 - necessary to apply same total tax per liter for biofuels as corresponding fossil fuels
 - more expensive to reach goals

Consequences of new EEAG

- Hinder MS to develop cost-effective environmental taxes?
- More costly for the EU to reach its goals?
- No future for CO₂ taxes within the EU?
- How will MS reach their climate targets outside EU ETS?



The future?

Well-designed environmental taxes work
well and give results in a cost-effective
way

– *why prevent them from doing a good
job?!*





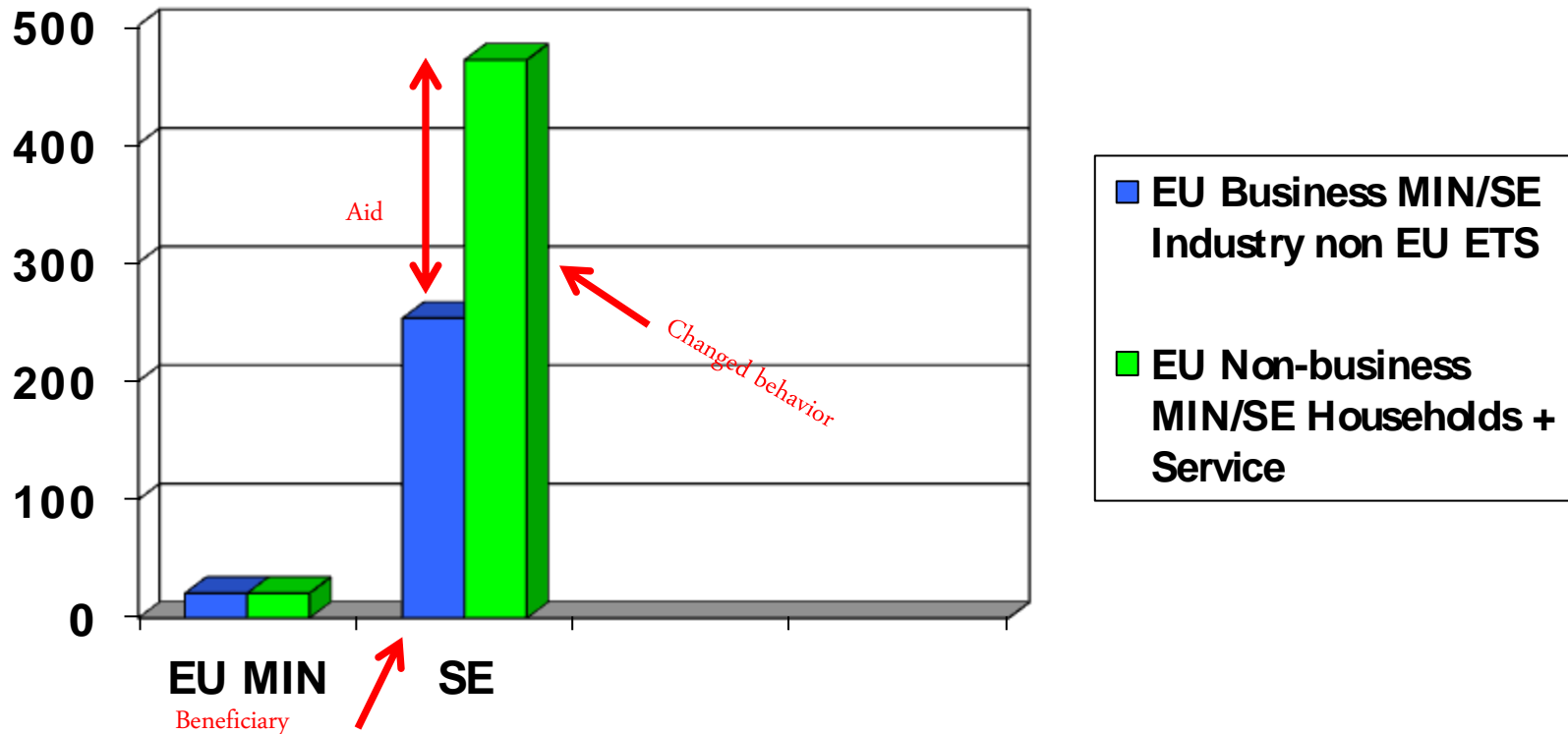
Annex

*some slides with more detailed
information*



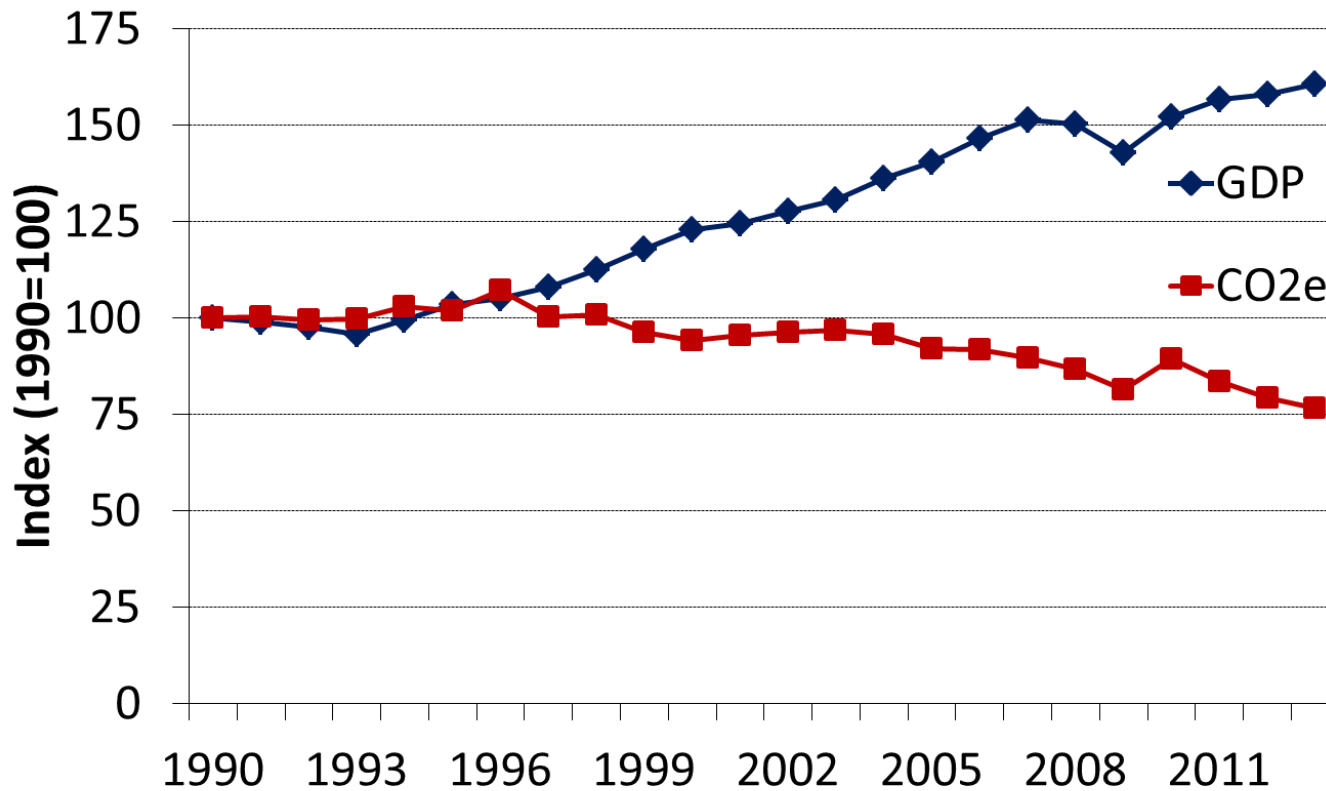
State Aid in the Swedish Energy Taxation System

Example: Tax Rates (energy tax + CO₂ tax) on heating gas oil, € per 1 000 liters per 1.1. 2015 ; exchange rate 1 € = 8.6329 SEK





Real GDP growth and CO₂e emissions in Sweden, 1990–2013



1990 – 2013:
23 % reduction of CO₂e
emissions
& + 61 % economic
growth

Sources. CO₂e: Swedish Environmental Protection Agency, preliminary figures for 2013.

Real GDP: Statistics Sweden.

Energy input sources for district heating in Sweden, 1970-2011

District heating in Sweden

- 2011 61 TWh (+ 49 % since 1990); district cooling 0.9 TWh.
- 92 % of all flats.
- **In-put bio mass (household waste , wood scrap etc.) 10 % in 1990; 71 % in 2010.**
- Note. 2010 was an extremely cold year.

