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SPRING ALLIANCE

GO GREEN, BE SOCIAL

HOW TO TACKLE CLIMATE CHANGE GREENING OUR TAXES WHILE PRESERVING SOCIAL PROTECTION SYSTEMS?

Conference Report | Social Platform

Go Green, Be social

How to tackle climate change greening our taxes while preserving social protection systems?

"Go green, Be social" is the name of the conference organized by Social Platform in the frame of the Spring Alliance and with the support of the King Baudouin Foundation.

The conference took place on the 5th of December 2013 at the European Parliament, and it was hosted by Pervenche Berès MEP, Chair of the Employment and Social Affairs Committee.

Under the strand *tax justice and climate change*, it focused especially on the social impacts of environmental taxation, within energy policies framework at the European level.

This report had been produced by the Social Platform Secretariat with the aim of summarizing the content of the project along with the main messages arisen during the event.

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Forward: addressing the issue

*Spring Alliance (Social Platform, ETUC, the European Environmental Bureau and Concord) is currently working on **Tax justice and climate change** with the support of the King Baudouin Foundation. Social Platform is looking specifically at the taxation component of the EU energy policies and their social impact on people's living conditions. To date EU energy policies for an energy transition towards a more climate friendly economy have not taken into proper account the social impact of the policies themselves.*

It is by the time an acquainted fact that a shift towards a greener economy is needed, because of the multiple evidences of the climate change and the necessity of adaptation in order to tackle its damages. Since multiple studies conclude that, to a certain extent, climate change is due to human economic activity[1], reducing the use of carbon-intensive sources of energy and the linked CO2 emissions is specifically required in order to control global warming.

Different efforts have been done, at different policy levels and with considerably different results. Despite international negotiations are ongoing since the 1992 Rio Summit, a shared global position dealing with sustainability issue -combining environmental, social and economic aspects- is still missing. In this world scenario, the EU has been taking considerable policy actions, but it must be borne in mind that it globally counts just for the 11% of total emissions; and also that Member States have substantially different levels of contribution within the Union itself.

Above all, making the EU economy more climate-friendly and boosting it straight to the *2050 energy roadmap* targets should not happen without taking into account the effects on people, especially the most vulnerable. Rising energy prices are contributing to difficulties in affording basic energy services – which arise from poverty and poor housing.

In Europe between 50 million and 125 million people are estimated to be energy poor[2]. Energy poverty (or fuel poverty) is when a household is unable to afford the most basic levels of energy for adequate heating, cooking, lighting and use of appliances in the home. The consequences include a restricted use of heating, cold and damp homes, debts on utility bills and a reduction of household expenditure on other essential items. In addition, fuel poverty could be associated with a wide range of physical and mental health illnesses, such as depression, asthma and heart disease[3].

[1] IPCC, Fifth Assessment Report, 2013.

[2] Source: EPEE, 2009

[3] For an in-depth analysis look for example at: "Fuel poverty and human health: A review of recent evidence", C. Liddell, C. Morris, 2010.

As more people are affected by rising energy costs across Europe it is time for EU leaders to finally re-balance the energy debate. Energy policies must not worsen the situation; instead they should bring improvement for both social and environmental issues.

Tackling climate change and pushing our society towards a less energy-consuming economy will involve the use of a wide range of instruments. Environmental Fiscal Reform could deliver a joint solution, both to the environmental and socio-economic challenges we are currently facing, but only if we guarantee that the tax burden is fairly shared between consumption and production, protecting energy consumers from runaway shifts in prices. The revenues that are raised from green taxation must also be used to promote social protection in an integrated approach to social, environmental and economic aspects at the same time.

There are at least three key challenges in the movement towards a low carbon economy:

1. ***Improved knowledge***. In Europe (and across the world) we are undergoing a fundamental shift towards new forms of distribution brought about not only by the changing nature of fiscal regimes, but the uneven socio-environmental implications of climate change *per se*. Yet we do not even know which and how many households in Europe are energy poor. There is an urgent need to develop identification and monitoring frameworks that will allow us to start identifying the social implications of decarbonization, particularly with respect to domestic energy services.

2. ***Taxation is not the only policy.*** In many Western European countries, the public focus is excessively placed on green taxes, without understanding that the energy transition involves a much wider range of institutional and spatial measures. We need a stronger emphasis on the positive and mutually-reinforcing interactions among different policy realms, and the types of approaches than can offer 'win-win' solutions.

3. ***Recognition and procedure also matter in climate justice***. A fair low carbon transition cannot be undertaken without allowing disadvantaged social groups to be fully recognized as relevant factors in policy-making practices, and putting in place the necessary procedures for socially inclusive and empowering public participation processes.

Introduction

With the conference "Go green, Be social", we wanted to launch a debate with EU decision-makers and relevant stakeholders on how to promote fair environmental policies – combining social, environmental and economic aspects. The debate covered the following points:

1. Ensuring that the burden is fairly shared between private consumption and production activities:

2. Shifting from labour to environmental taxation: how our welfare systems will be funded?

3. How to include people challenged the most by the energy transition?

4. What is the role of the EU and member states?

Pervenche BERÈS

Chair of the EP's Committee on Employment and Social Affairs

We can start the important discussion on this issue with some figures about energy poverty: Eurostat's data say that one out of ten European citizens cannot afford decent energy services. Between 2011 and 2012 electricity and gas prices arose up to 20% in Member States: the unavoidable increase of energy prices risk to open a new social rift.

The 3rd October 2013, the European Economic and Social Committee recommended to harmonize national statistics among Member States and to develop specific European indicators for *energy poverty*[4]. This technical process should be quickly addressed and concluded. The solidarity principle should be considered as a pillar of the energy transition policy towards a European decarbonized economy. In order to ensure that this effort has a real follow up in this domain at national level, the European Semester should integrate the issue of the fight against energy poverty so to guarantee that Member States actually include it in their national reform programs recommended by the Semester itself.

On the other hand, the Commission should put in place specific funding instruments to reduce the energetic fracture and support mechanisms to improve energy efficiency in favor of the most in need.

Moreover, a signal could be given by using the Structural Funds to better address the energy poverty issue: there already are instruments that just need to be used.

EP's Committees on *Industry, Research and Energy* and on *Environment* are working together to redefine 2030 targets and to make sure that the fight against energy poverty, the implementation of energy shield and the achievement of the third goal of energy efficiency will all happen for real.

[4] Nowadays, only France, UK and Ireland have an official definition of energy poverty.

Heather ROY

President of Social Platform

The members of Spring Alliance have the ambition that we can work towards a more just, sustainable and democratic Europe. We are working on social justice and climate change in partnership with the King Baudouin Foundation: in broad terms, we are looking at how to better integrate climate change policies with social and economic objectives.

We want to ask the question: are there trade-offs between these different policies? And if so, how can we overcome them by working together? And indeed is it possible to overcome them?

The Spring Alliance conference organized on the 4th December by the European Environmental Bureau looked at the 2030 framework for climate and energy policies.

With the conference of today, we want to focus on how to promote *fair* environmental policies combined with highly important social aspects. We also want to talk about what role the EU and Member States have in this discussion: is taxation only a MS' issue? Or is there a role for the European Union?

We are a bit disappointed that no other MEP has been able to join us (Social Platform's secretariat has invited 15 MEPs from 4 Committees and 5 political groups). How to promote a fair environmental and energy transition is a bipartisan matter, it concerns us all. But we hope to involve MEPs in this debate later on.

Proposals of policy orientations:
"Environmental taxation and equity concerns"

In order to shape the debate, Social Platform commissioned a background paper to independent experts following the publication of a term of reference (Lucas Chancel, in collaboration with Simon Ilse). This background paper does not necessarily reflect the position of Spring Alliance members on environmental policies and tax justice. It is just meant to be the starting point for a debate with EU decision-makers and stakeholders on such an important issue.

Lucas CHANCEL

Independent researcher, lecturer at Science Po Paris

By specifically looking at environmental taxation (focusing on carbon tax), what we wanted to investigate is if there is a tension between the environmental and social objectives. And if so, is it in the long run or in the short run? Using the *Gordian knot* metaphor[5], can we separate equity concerns from environmental policies?

The key messages arisen are three:

1. Over the long run, there is no tension.
   There is a positive synergy between environmental policies taxes and social objectives.
   Energy crises are going to increase anyway, and this means increasing pressure, mostly on vulnerable households. There are many arguments in order to support a fair energy transition, such as the positive health impact.

2. In the short run, there could be tensions.
   They can arise but we know how to solve problems: everything depends on the adequate policy design. More than 20 years of economic work on the so called *double dividend thesis* show that having on top of environmental gains economic gains (in form of: employment creation, high public spending in some domains, fiscal consolidation in times of crisis, etc.) is also possible. Many different impacts and the possibility of having a double dividend very much depend on the way we redistribute the revenues.

   Even if we do it, there is still a space for tension: because income is a very poor determinant of energy consumption. Some low income households can have different level of energy, and it is really difficult to understand who is constraint in their consumption because do not have the choice to modify it. The question is how to deal with these households. The answer is that many support mechanisms are available and they are not necessarily related to taxation. (Through income support: higher social benefits; by reducing energy bills for them: through reduced energy prices – although this does not encourage reducing consumption in the long run; by reducing transportation needs; by improving energy efficiency; by modifying their consumption habits thanks to information, technical devices, and financial support).

[5] The *Gordian Knot* is a legend of Phrygian Gordium associated with Alexander the Great.
It is often used as a metaphor for an intractable problem (disentangling an "impossible" knot) solved easily "thinking outside the box" ("cutting the Gordian knot").

As regards the businesses, there has been the tendency to exempt some businesses from environmental taxation and implement tax rebate. This can be good if tax rebates are linked to technical changes; but in many countries it was not. Acting like this risks not to influence the behavioral choices of the business (as it happens with households when you just reduce energy prices). There is also the difficulty of monitoring the process.

3. EU dimension of the problem.
   Europe has a role to play but the issue of dealing with equity issues is a member state issue.
   The Semester can be an interesting tool to set a general framework guiding MS: precise topic of fairness in general tax reform is coming up in the last Semester. This can be implemented at national level, taking as first step the identification of vulnerable groups, and then by providing a definition of energy poverty - not only on the basis of income, but taking into account other variables, as previously said. The issue of dealing with this problem and implementing fair policy tools is essentially a MS level issue, and even subnational - regional.

In conclusion, we know that we can actually reconcile the equity and environmental transition objectives: the instruments are available; they need to be put into practice.

Panel discussion 1: "Who pollutes pay": can we make it for real, and socially fair?

What environmental taxation and EU fiscal instruments are needed to promote a fair energy transition?

How can we ensure that the burden is fairly shared between private consumption and production activities, including the impact on the most vulnerable consumers?

Moderator: Judith KIRTON-DARLING, ETUC Confederal Secretary

Heinz ZOUREK

Director General of DG TAXUD

The EU level could set the frame: but there is lack of political will to do it. There are certain trade-offs in the short run between environmental and social objectives, but there are always ways to overcome them. Anyway, the role of the EU semester is a little bit overstated: it can only give policy orientations to Member States, but not being prescriptive.

A very good environmental tax should be: first of all very high, secondly it should be put on the input factors and not on the consumption, and finally it should take into account that revenues are declining. In the implementation of an environmental tax reform, it should be decided: first of all, are you looking at the tax system to create steady revenues for public finances? Or are you looking for tools which should merit (or demerit) consumption? And are you also taking into account redistribution purposes?

These are different levels in the tax model; greening tax schemes can be difficult if you only add environmental taxes in a system which is not designed for it: a trade-off with competition would immediately arise and compensation methods should be thought.

Environmental policies have a very long perspective and the work necessary to align taxes to environmental and social needs should be implemented predominantly at national level. But this should not happen in isolation, there must be coordination among MS to avoid bad competition between them, and looking also at what happens out of our continent.

In the end, there is nothing that has to be reinvented to address all the concerns: it has just to be wanted.

Brendan DEVLIN

Adviser on Internal Energy Market, DG ENER

In the energy debate, it is still unclear the role of taxation: is it for revenues? Or is it meant to change behaviors? The ones firstly implemented at a national scale started with the end of changing behaviors; but then, they turned in a way of making revenues.

As regards the tax exemption, understanding who should and who should not benefit from it is a difficult exercise: the fact is that in certain industrial sectors energy costs are really high and they need to be supported in order to maintain their economy and employment alive, because de-industrialization is not the key for fairness.

The problem that we really face in the EU is improving energy efficiency and giving value to the non-used energy. Poor consumers cannot see the point of a long run reduction of consumption and how to achieve this in a rationale way, but they still need to understand how to reach it. The tailor prices referred to in the Report could be a good solution, even because in the final sector there is very big wastefulness.

As far as concerns the industrial sectors, there is huge scope in the EU among synergies between the different industry sectors which should bear the highest costs. What is missing is a combined perspective on the energy value.

If we think about the social value of being green, this often affects the most vulnerable in our society and not who effectively pollutes, for example. If you want to provide citizens with the greatest amount of wealth in the shorter available time, the priority surely should be on issues that have immediate impact on their health.

Rather than opening a new front of discussion, what we need to do is to enforce systematically what we already have agreed on.

András LUKÁCS

Vice-President of Green Budget Europe

Social issues and equity: rich people generally use more energy than poor people. So if the costs of energy use are not included in the prices, we are subsidizing rich people. We should tackle first of all those sectors which are the major responsible for pollution: buildings and transport. It is also better to tax energy use in these sectors, because this would not effect negatively the competitiveness of European industry. Naturally, poor people should be compensated for the increased energy price.

As regards the revenues from the CO2 or energy tax, each Member State should decide for itself what is the best use for its national needs: reduce social contribution, invest in energy efficiency, etc.

The Country Specific Recommendations are important, however, the European Commission has no means to enforce them (with a few exceptions, such as government deficit). The Commission must be given power to enforce all or most of its recommendations.

Chris LENON

Chair of Green Taxation WG at BUSINESS EUROPE

We are facing an underestimated challenge: the target of 80% emissions' reduction from the level of 2005, means decarbonizing the EU economy in less than a normal working lifetime. We need to look at the EU role in the international scenario, both in terms of carbon and competitiveness. The real issue is how we achieve the de-carbonization. *How much* do we pay for it, *when* do we pay for it and *who* actually pays for it and in which way? But one thing well outlined by the report is that if there is a target for the de-carbonization and a cost of carbon, this should be applied on everything and in the long term no sector could be exempted. Here arises the friction with social implications.

There is a transition impact on competitiveness among MS and industries, and on employment: exemption is needed when European competitiveness could be affected. The challenge is when will there be a global basis: if we look at the European environmental investments compared to the rest of the world, they are significant.

About the *double dividend*: the principle of the environmental tax is to influence behaviors, otherwise it is just a tax. On low income households, there should be a price signal to reduce carbon consumption. Yes it is regressive in some ways, but we should look at support mechanisms to deal with that- a lot easier in social housing than in private housing- maybe the price should be placed on the owner of the building in private housing. It is also important to bear in mind the different problems in urban or rural areas.

Looking at the cost of carbon reduction, the cheapest way is to intervene on the decisions we all make on a daily base, such as turning off the lights: education in terms of consumption of power and carbon is a very significant challenge.

Comments from the audience:

- The transport sector most polluting is the aviation and has no fuel taxes and no Vat: in 40s and 50s this sector was developing and it was exempted for that, but with the ETS what can we really do about this?
- Energy efficiency is the central issue for energy poverty: funds to finance it could come from the carbon tax. Vulnerable people have difficulties in paying energy bills, and they pay 10% more than people on higher income.
- We are talking about infrastructures investments (309.000.000). How can the consumers engage with the actions they can take to turn down their bills? Who decides what are the criteria enabling the consumers to engage? And looking at the taxes, the bills are going up anyway but what can we do to make them going down and who is checking if it is actually feasible?
- It has been said that the environmental taxes could be less and less effective throughout the years. However it is possible to design them in a way that makes them progressively evolving, giving clear price signals (example of French carbon tax proposal).

- Massive contradiction is that we have a poverty target but we are actually increasing it and one of the biggest causes of this is the energy poverty itself. Talking about how to better use taxes for the redistribution issue and price issue are crucial now, along with the monitoring of energy poverty.
- It has been said a lot about infrastructures, but nothing about where the investments go at the national level.
- How important is it to raise green levies on consumers' bills and non-general taxation?
- On Mr Zourek's contribution and the fact that the "who pollutes pay" principle doesn't seem to work at the moment: who invests in higher energy efficiency has to pay a lot and basically pays for not consuming energy. We need an encompassing framework to reconcile inconsistencies.

Speakers replies:

Energy prices are going to increase and we have to deal with that: supply and demand issue. The cost of infrastructure is enormous because it is about a fundamental change in our economy: the question is "do the consumers pay or does the tax system pay for it, or a combination of both? The real political challenge is finding a balance.

Taxes must be paid in some way, so it must be decided which tax is best. Then about transport: international agreements are needed to introduce measures on aviation and best practices should be promoted. About adjusting the behaviours: provide information about energy efficiency; energy savings, but without putting price on energy consumption nothing will change.

Today in the EU are the poor who pay for the greenery and the aspiration of the middle class, because there are a lot of levies imposed on energy and electricity bills.
There is an unfair price structure, above all in the electricity supply: the first unit consumed costs a lot more than the last one, and this highly penalizes the poor. If the structure could be inverted, it would be a really good starting point.

A recurring question is: should the tax be put on the consumer or not? A clear decision should be made on the long and short term. Taxing input factors would trigger off changes in the investment orientations: in this way you will have the most immediate impact on the way products are designed and produced, and the consumption tax would not be a contradiction; it would just make visible for the consumers what is going on. And it should not be forgotten to look at the entire cycle of life of the product and its disposal.
It is not just an economic problem, it is about preferences and power in society.

Panel discussion 2: Designing environmental fiscal policies without undermining our current welfare system: is it possible?

What does a taxation shift from labour to environment actually mean for the sustainability of our welfare system?

Moderator: Claire ROUMET, Vice-President of Social Platform:

Robert STRAUSS

Head of unit: Employment Analysis, DG EMPL

There are many different ways of recycling revenues. The problem is that they can be used only once. As far as putting of the revenues of carbon taxes into pension systems, this is not a commonly proposed solution and might well not be the right one. As regards the impact, pension systems depend on a national choice, so the effect varies from Member State to Member State. Among the study cases presented by the paper: the French pension system has big challenges and the implementation of environmental/carbon taxes have been difficult. The Swedish model is in some ways the best one with real disincentives to carbon output but carefully thought out mechanisms to avoid social hardship, even if it has some features peculiarities to Sweden.

About the social impacts in the short run, the paper did not address the direct employment effect of paying for programmes to improve the insulation of houses: these can be very cost effective given the high labour input, and create a lot of jobs, even for low-skilled workers, as many houses are badly insulated.

Paulus ARNOLDUS

Economist, Economic Analysis of Energy, Transport, Climate Change and Cohesion Policy, DG ECFIN

Price incentives may not be enough on their own to reduce carbon emissions in an efficient and effective manner. The environmental taxes can help to tackle the main market failure, namely that the carbon pollution is not properly priced.

However, lower income and vulnerable households may not have the means to invest in energy saving measures. On a related point, merely lowering the price for households subjected to fuel poverty is "a false gift" and we should aim at reducing the energy bill in a durable manner, though increasing these households' capacity to deal with permanently higher energy prices.

The report favors targeted income support over of energy price reductions as a policy tool, and I agree with that. Moreover, a rate differentiation in consumption and environmental taxes tends to affect much wider groups than the vulnerable households one would like to support. Hence it blunts

the effectiveness of the tax. This problem tends to grow over time due to political pressures for more or wider exemptions. Then the targeting issue calls for interconnection between different policies.

Read the full speech of Mr Arnoldus.

Stefan BOUZAROVSKI

Director of the Centre for Urban Resilience and Energy, University of Manchester

Energy poverty is above all about the level of energy received by the households and the energy supply- then about prices and incomes. AEU common definition is missing and Eurostat doesn't collect these data: we actually do not know how many people are energy poor[6].

We should go beyond taxation: it is just one of the instruments. Other structural support mechanisms could be better. If people cannot afford energy services, working on prices will not be enough. Indicators about energy poverty could also be misleading (example of France where they count the share of consumption spent for energy and this information can create interpretation problems). Some households need only income support mechanisms: they need help to increase their energy consumption without paying more than they can. In order to have better services while spending less, retrofitting interventions and energy efficiency actions should take place.

Groups of energy poor households could need more energy because of other particular reasons (children, old parents etc.): they often lack adequate information and need systematic support.

As for the impact of different instruments, it even changes with the kind of *fuel*. In the UK all the taxes are upon electricity. The same is in the eastern EU, where this sector was subsidized for a long time.

Judith KIRTON-DARLING

ETUC Confederal Secretary

One thing not even mentioned in this debate is the missed approach to the infrastructures and their scaling up within the internal energy market. Moreover, a more holistic financial system, integrating consistently different taxation policies, could allow revenues while influencing behaviors' change.

The biggest price signal we have is the ETS: there is however room for redistribution- international competition- Swedish example- how to balance trade-offs among society, industry and environment.

Doing this transition in the current framework: common definition of energy poverty is missing, European energy regulator should be improved; public investments in energy solidarity are needed especially looking at eastern EU countries and prices charge and taxes need to be included in a wider EU energy policies framework.

[6] If we combined the different sources we may have more than 100 million energy poor households

Jean-Eudes MONCOMBLE

President of CEEP's Energy Committee

The main problem is the poverty itself because if *poverty* would not exist, then *energy poverty* could not exist.

About energy prices mechanism and redistribution: if they increase, vulnerable consumers cannot afford energy services. Social protection mechanisms should be effectively supportive in order to avoid unwilling effects, so they should be renovated; but doing it, is actually difficult.

A new financing mechanism is needed, promoting energy efficiency investment by joint capital both public and private.

In order to introduce new taxation measures, a crucial point is the articulation of the relations among European and national levels: nowadays much more policy decisions are taken at local level, and this is a fundamental issue that has to be taken into account even within this debate.

Comments from the authors of the paper:

- Energy prices are going to increase with or without environmental policies.

Then, support mechanisms should be implemented in favor of households.

- Question of emission accounting: for some they rise, for some others they fall.
- Example of social benefits which should be well designed along with energy bills.

Macroeconomic studies on the multiplication effect show that impacts on employment are much higher. Training issue is a problem for the double dividend.

- German case: a wider tax reform is a way to resolve the problems between social and environmental concerns. Even in Germany a prices increase would not be acceptable, but the interesting thing is that between 1999 and 2003 a shift actually happened there.
- The Semester is more about *what* than about *how*: but both the Commission and the Semester itself have become more concrete in their recommendations and articulated in the proposals. The question is: is it the right instrument or discussions should take place at another level?

Concluding remarks

The main aim of the conference was starting a debate on the issue of tax justice and climate change in the European context. It had been successfully achieved, as the speakers reacted to the background paper above presented and the audience had been actively involved in the discussion.

The event gave also the opportunity to the four members of the Spring Alliance to elaborate on their own position relating to this complicate issue.

Bernadette SÉGOL

ETUC General Secretary

Climate change is for us a core priority. Solidarity is a key value for trade unions. We have a duty towards future generations to fight climate change. People around the world are already suffering consequences. Moreover, in a moment of social and economic difficulties, greening the economy through investments on sustainable industry and infrastructures and promoting energy efficiency would help to secure growth and quality jobs.

Just transition is needed in order to protect the European social model while moving towards a low-carbon economy. This means notably taking care of workers who will be affected by restructuring, long term planning, training for new skills and new quality jobs and promoting workers participation. Social protection systems play a key role in just transition; they must be safeguarded and improved.

The taxation system is a useful tool to put into practice a fair transition. No Just Transition with unfair taxation. The issue of taxation cannot be narrowed to the alternative between labour and environmental taxes. There should be a wider debate regarding taxation system covering taxation on capital, corporate taxation, value added taxation, taxation on financial revenues, the financial transaction tax, the fight against tax evasion and tax fraud.

Even though taxation is an important policy instrument that should be part of any transition strategy towards a low-carbon and greener economy, it is not the only one, and not even the main driver of the transition. Given the scope of the challenge ahead of us in terms of infrastructure for transport and energy, the deployment of technology for manufacturing industries, training for the workforce, or research and innovation, what we need most is a broad EU investment plan. The EU needs a recovery plan for sustainable growth and decent jobs based on a target of investing an additional 2% of EU GDP per year over a 10-year period.











With the support of the King Baudouin Foundation

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