Air traffic must be a primary target for new measures

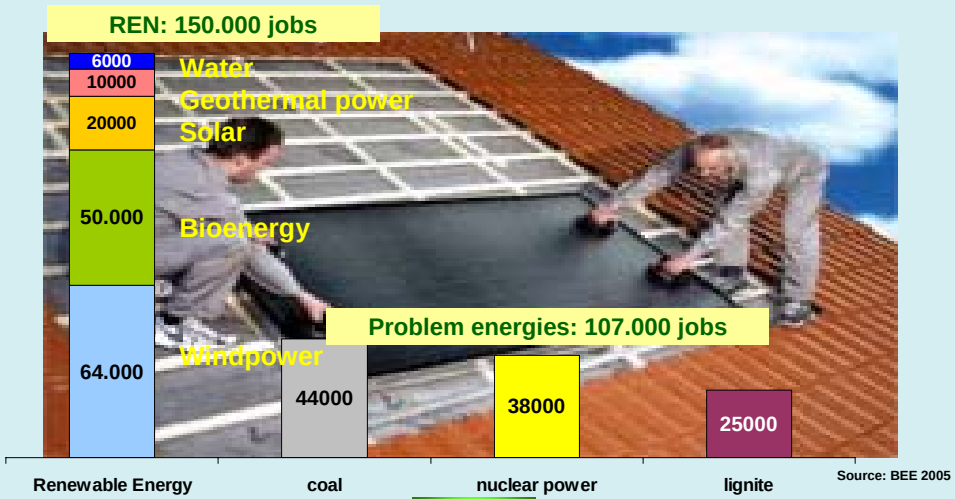
- VAT
- Ticket tax
- Kerosine tax
- Integration with ET

Future ecotax campaigns should not stress dangers, but innovation, benefits and future jobs




JOBS IN THE ENERGY SECTOR IN GERMANY 2005

More jobs in RENs than in our heavily subsidized problem energies



Even our MoE officials in Berlin came up with very funny promotion ideas

By turning off the light earlier, you get..

Movie about enery-conscious driving
www.bmu.de/files/allgemein/video/mpeg/bmu_spot_engl.mpg

EXECUTIVE SUMMARY (1)

In economic terms, ETR has generated clear benefits for pension system and labour market

Positive Effects	Negative Effects
• Relative **simple legislation**, only one new tax (electricity); moderate steps over five years; no shock effects • Complications only due to **exemptions** (industry, public transport, energy-intensive, bio-fuels, cogeneration) • Almost **€ 20 bn. fiscal returns** • 90 Percent used for **reduction of labour costs** (pension insurance) • **200.000 to 250.000 new jobs created** • **Industry relieved** by app. € 1 bn., many companies net winners; many **technological innovations** • Part of general tax reduction reform, therefore **reduced national tax and contributions quota** • Social burden for people not profiting from lower pension rates offset through **lower taxes** (in most cases) • **Correction of decades-long abuse** of pension system for social aims/ German unity etc.	• Generous exemptions lead to **fiscal losses** from these branches • **Revenue loss in border regions** from drivers filling up in neighbour states • **Phantom pain** of perceived burden may have had negative influence on some investors/ managers (e.g. Opel-Boss Forster **lost a bet** because he actually believed in net cost burden for Opel) • Actual pension reduction much lower than in theory (**loss of credibility**!)

GBG

EXECUTIVE SUMMARY (2)

For the environment, there were almost exclusively positive effects

Positive Effects	Negative Effects
• **Energy becomes gradually more expensive** (until oil price shocks accelerate price increase) • ETR provides **steady incentives for behavior change and innovations** by entrepreneurs and individuals (instead of detailed prescriptions what to do) • From 2000-2004, **transport fuel sales fall by >2% p.a.** (first time in after-war history!) • **CO_2-emissions: 2.4% less until 2003, 3% until 2010** • Use of ETR to subsidize **better building insulation etc.** • **Energy efficiency** becomes purchasing criterion • Each year, 0,5-1,5% more public transport passengers • 10% growth of gas-powered cars • Double-digit growth of solar thermal installations • Important factor to **fulfil Germany's Kyoto obligations**	• **Nuclear energy and coal not included** • Electric power tax partly offset by price cuts from deregulation • In some areas, **inelastic customer reactions** to higher prices • **Lack of institutional reforms** to facilitate customer reaction, i.e. in rented apartments • Exemptions **gave little or no efficiency incentives for energy-intensive industries**

GBG

EXECUTIVE SUMMARY (3)

In the political balance sheet, the negative effects dominate

Negative Effects	Positive Effects
• For most of the year 1998-2005, **ETR was a political burden** for the Red-Green Coalition • **Indirect recycling via pension system** is complicated and difficult to sell, often criticized • Use of revenues for non-environmental purposes is neither really understood nor appreciated • Inconsistent public demands: calls for **budget neutrality as well as spending for green projects** • **Pro-business parties attack generous exemptions** for business (after fighting for them!) • Ecotaxes are **perceived as socially unjust** (for families, students, pensioners) • Permanent **attacks from yellow press and car lobby** (ADAC) • **No recognition and support from winners**, but hard attacks from real and perceived losers	• **German Energy Policy gains high recognition within EU and overseas** • In 2000, Schröder cabinet holds firm against populist protest, making only symbolic changes • Majority of **serious press and academic community in favor** • Towards end of 2005 campaign, **Katrina turns energy policy into an asset** with many voters • CDU, CSU, and FDP still fight ETR – but **promise to sustain it** • ETR-debate **converts even marxist greens to market advocates!**

EXECUTIVE SUMMARY (4)

In sum: ETR is a phantastic product, but needs smart selling against populist and tabloid pressures

- Argue **chances and innovation**, not threats and doom
- Show **simplicity** of stepping **from fossil into solar bathtub**
- Win politicians with fiscal and practical advantages
  - **First tax in history actively asked for by citizens**
  - Efficient and unbureaucratic, **lowest admin cost of all taxes**
  - **More efficient than most other eco-instruments**
- Win economists with beauty of **prices saying the truth**
- Win labour and people with **jobs, jobs, jobs** (double dividend)
- Recycle most revenue, but **earmark part for green projects**
- Make **reform package to combine ETR with social relieves**
- Put small and mostly phantom **cost of today in relation to saving the future** of our kids and our beautiful planet
- **Forge rainbow coalition** of enlightened conservatives, innovative business people and progressive parties
- **Involve competent and enthusiast NGOs** like GBG

COMPARING JAPANESE CONCEPT FOR 2007 WITH GERMAN ETR 1999-2003

The MoEJ-proposal is courageous, though less ambitious than Germany's ETR

Tax base	Almost all energies	+ Coal - Transport fuels	Both provide for large exemptions
Rise	Most 5 times	All only 1 time	
Rate per ton of CO_2	2 €/litre for heavy oil, 66 €/l for petrol	19 Euro across the board	Traffic problems not only CO_2!
Total volume	€ 19 bn	€ 5 bn (370 bn Y)	D = .85% of GDP J = .15% of GDP
Revenue use	90% to reduce labour cost	50% for forests 50% for REN and energy savings	Forest maintenance = less CO_2?
CO_2-re-duction	20-24 mn tons (2,4-2,9% of D)	43 mn tons (3,5% of J)	Japan estimate a little too optimistic?

What would we recommend to Koike-San if asked?

Congratulations to your proposal – it's courageous and progressive. But:

1 Since Japan is an island, why not include the transport sector?

Great idea!

2 With Japan's high national debt + low tax quota,
- **why not 1/3 for debt reduction**
- **1/3 for recycling/soc. security**
- **and only 1/3 for green projects?**

3 And use all your charm and intelligence to win over the tough guys from METI!

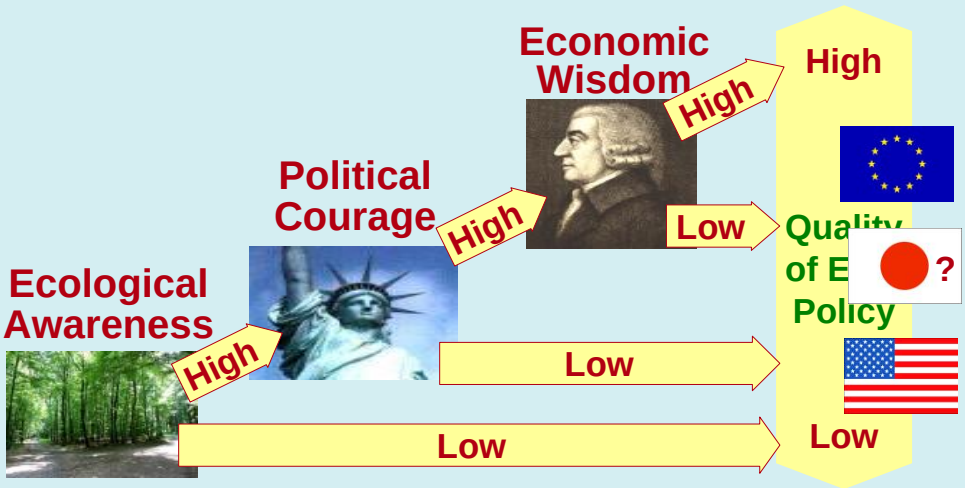
CONTENT OF THIS PRESENTATION

We've come to our last topic:

- Executive Summary/ Introducing Green Budget
- The challenge ahead – from bathtub to bathtub
- Germany's point of departure in comparison
- *Red-Green Ecotax Reform:* facts and figures
- Some lessons from the German ETR debate
- Some remarks about the instrument debate

CONDITIONS FOR GOOD INSTRUMENT CHOICE

For a high quality combination of eco-instruments, we need awareness, courage and wisdom



Sustainability is a central part of „The European Dream"

Five Dimensions of Sustainability				
Political Liberty		▪ Democracy ▪ Freedom ▪ Constitutional State	+++	++++
Economic Welfare		▪ Free Market ▪ Jobs and Growth ▪ Global Trade	+++	++++
Social Justice		▪ Basic Needs ▪ Just Distribution ▪ No Discrimination	+++	+
Global Develop-ment and Peace		▪ Global Justice ▪ Peace/ Cooperation ▪ Global Governance	++	+
			++/–	+/– –

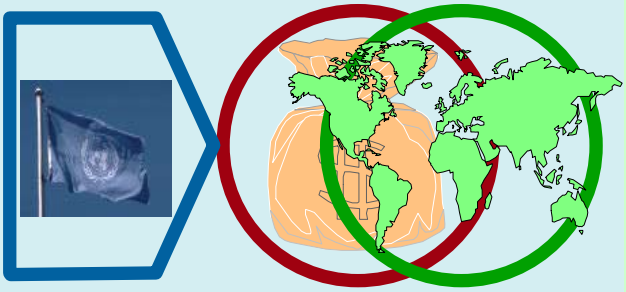
TWO DISTINCT PHASES OF ECOLOGICAL POLICY

Both nationally and globally, we must progress from Pollution Control to Resource Productivity

	1975 - 2000 Pollution Control	2000 - 2100? Resource Productivity
Problem Substances	Toxics, Waste, SOx, Fluorides…	CO_2, Energy, land use, other primary resources…
Regional Focus/ Process Stage	Mainly local / Mainly outputs/emissions	Mainly global /mainly inputs/resources
Predominating philosophy	End of pipe/ Command and control	As upstream as possible – mostly market incentives
Affected economic activities	About 5 Percent	About 95 percent
Most efficient tools	Policy mix – anything goes (Coase Theorem)	Not possible without market forces and allocative power of
Difficulty of task	**Prevent harmful activities – clean up our mess**	**Change entire way of life – develop new prosperity model**

Source: Ernst von Weizsäcker

Wanted Internationally:
Global Governance and Global Sustainability!



World situation defines multiple tasks:

- Just and sustainable World Order
- Globally shared responsibility for peace and security
- Worldwide protection of climate and resources

In other words: New rules and new tools

Mankind seems to learn only by catastrophes

1859 Battle of Solferino – Book of Henry Dunant	1864 Red Cross founded in Geneva
1914-18 World War I	1920 League of Nations
1939-45 World War I	1945 United Nations founded
1945 Hiroshima, Nagasaki	1970 (!) Non-prolife-ration Treaty
1986 Czernobyl	1990s nuclear exit of some countries