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## Chapter 1

# Executive summary

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Environmental degradation can have major consequences for society and for individuals. Anthropogenic climate change, biodiversity loss and health effects of pollution are some of the major environmental challenges facing the world.

The environmental situation in Norway is generally considered to be favourable, but there are nonetheless local environmental problems. Norway is also directly affected by regional environmental problems, such as long-range air pollution, and global environmental challenges, such as biodiversity loss and climate change.

In order to resolve the environmental challenges in an efficient manner it is necessary for the polluter to take account of the damage inflicted on society. A tax on environmentally harmful inputs, products or activities implies that the polluter pays for such damage. This will provide incentives to reduce emissions, whilst at the same time making it more profitable to develop and utilise new and more environmentally friendly technology.

Many environmentally harmful emissions have already been priced, either by taxes or an emissions trading system (ETS). However, not all emissions and negative environmental impacts have been priced, and economic activity with a negative environmental impact is even subsidised in certain areas. Hence, there is still scope for expanding the use of environmental taxes, as well as for reducing subsidies and tax expenditures with a negative impact on the environment, in an economically sound manner.

Taxes are the most cost-effective instrument for reducing environmental impacts if the tax rate either reflects the marginal environmental damage or contributes to Norway meeting its international obligations.

About 80 percent of Norway's greenhouse gas emissions are subject to either emission allowances or taxes (or both). As far as greenhouse gas emissions are concerned, the principle of cost effectiveness suggests that all emissions not included in the EU ETS should be subject to the same CO<sub>2</sub> tax per tonne of CO<sub>2</sub> equivalents. The Commission therefore proposes to abolish both exemptions and low rates, and that the CO<sub>2</sub> tax should be set at NOK 420 in 2016. Since emissions within the EU ETS have already been priced, such emissions should in principle not be subject to a CO<sub>2</sub> tax. The Commission nonetheless proposes that CO<sub>2</sub> taxes on petroleum activities and domestic aviation remain in place, but with the tax level being reduced in line with increases in the emission allowance price. The Commission also proposes measures to reduce greenhouse gas emissions that are not included in the EU ETS or subject to a CO<sub>2</sub> tax. This applies, inter alia, to agriculture, emissions of CO<sub>2</sub> from waste incineration, tax on mineral fertiliser (which is intended to reflect both its contribution to greenhouse gas emissions and the detrimental impact of excessive fertilisation), as well as the introduction of a black carbon element to the CO<sub>2</sub> tax on mineral oil.

Local air pollution is primarily a problem in major urban areas. The Commission proposes substantial changes in the taxation of road transport, in order for the price of road usage to better reflect the social costs of accidents, congestion and environmental impacts, including local air pollution problems. It will, as a result of this, become more expensive to drive in urban areas. The Commission also recommends that the introduction of a geographically differentiated tax on emissions of sulphur and nitrogen oxides be considered, in an effort to curtail local pollution problems.

The Commission also recommends, in order to reduce emissions from transport activities, the elimination of a number of tax expenditures in the area, including the allowance for daily commuting between home and work.

The Commission also proposes the introduction of new environmental taxes in areas in which environmentally harmful activities are not priced at present. There are currently few economic measures in place with the purpose of limiting biodiversity loss. The Commission therefore recommends the introduction of an ecosystem services tax on land-use changes and the discontinuation of subsidies that have a negative impact on biodiversity. It is recommended that several new environmental taxes be examined further in order to address unresolved environmental challenges. The Commission considers other exist-

ing environmental taxes to imply a fairly correct pricing of environmental costs. With respect to environmental challenges for which the damage cost is unknown or the estimate is outdated, the Commission recommends that estimates be updated.

A green tax exchange implies that increased revenues from environmental taxes and reduced environmentally harmful subsidies shall be used to reduce those direct and indirect taxes entailing the largest deadweight loss. The establishment of new tax expenditures, or new earmarked subsidy schemes, would, on the other hand, not contribute to realisation of the economic efficiency gains from a green tax shift.

The Commission's recommendations imply that government revenues are estimated to increase by NOK 25 – 30 billion. The Commission recommends that increased revenues be used to reducing the general tax level for individuals and enterprises.