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Policy Tools That Support Transition Into a Green Economy

September 2013

A number of policy tools are available to assist governments and other stakeholders pursue transition into a green economy. These briefing notes set the stage for our discussion by outlining some of the policy tools that are available to foster transition and to provide examples of how these tools have led to positive outcomes in other jurisdictions. In and of themselves, these tools do not create a green economy; rather, they help put the conditions in place for the transition to occur. The hope is that once these policies are in place, all Manitobans will choose to act in a more sustainable manner, creating the type of transition that we want. Note that these are not implied recommendations, but are examples of real case studies.

Fiscal Policy Instruments

Fiscal policy instruments are designed to encourage transition into a green economy by both incentivizing actions that support transition (e.g., investment in renewable energy development) and providing disincentives for unsustainable practices or those that generate negative impacts (e.g., the burning of fossil fuels). Examples of these types of instruments include taxation, subsidies, fees and levies, and market mechanisms (i.e., emissions trading). The effective use of fiscal policy instruments can also level the playing field between sustainable actions and unsustainable actions, for example through fossil fuel subsidy reform.

How Has This Worked Elsewhere?

Jurisdiction: Germany (and elsewhere in Europe)

Policy/Action: Reorganization of motor vehicle taxes

Synopsis: Germany pledged in 2008 to amend taxes on motor vehicles on a revenue-neutral basis. Taxes would be structured on the vehicles' carbon dioxide (CO_2) emissions and other pollutants. This shift would serve to both reduce greenhouse gas emissions and benefit the uptake of lower-emission vehicles.

Enabling conditions by government: Tax reform on a carbon emissions basis

Results: From January 2012 forward, new vehicles with engines emitting less than 110 grams of CO_2 equivalent per kilometre (gCO_2e/km) are tax exempt. For vehicles above 110 gCO_2e/km, the tax is €20 up to each additional 10 gCO_2e/km. The 110 gCO_2e/km threshold will decrease again in the future. While the tax is revenue-neutral overall, International Institute for Sustainable Development | Institut international du développement durable

drivers of more efficient vehicles have seen their taxes drop, while those driving less efficient vehicles have seen their taxes increase. A number of European Union countries have taken similar approaches to emissions taxes for vehicles.

Further details:

http://www.spiegel.de/international/germany/greenhouse-gas-sin-tax-germany-joins-eu-in-tying-car-fees-to-emissions-a-603798.html

http://www.acea.be/images/uploads/files/CO2_tax__overview_2013.pdf

Examining the Applicability of This Tool: Translating Success in the Manitoba Context

One of the metrics for success in Germany was that it was clearly acting in line with its neighbours in terms of this policy action. The link to the European Automobile Manufacturers' Association website provided above indicates that 19 countries in the European Union have some form of CO_2/fuel consumption tax structure in place. In Canada, this type of approach is not widely considered, but there are alternative approaches that have been successful in using fiscal mechanisms to drive emissions reductions. There are examples of fossil fuel use being taxed (e.g., Quebec's fuel tax or Manitoba's coal tax), and there have been examples of fiscal incentives for clean energy technology (Ontario's feed-in tariff program or Manitoba's previous hybrid rebate program). The key point is not that this specific type of tax reorganization would work in Manitoba, but that province-specific fiscal mechanisms can be an effective tool for transition into a green economy, driving uptake of sustainable technologies and reducing incentives for unsustainable practices.

Fiscal policy instruments are one of the most commonly considered ways to mitigate carbon emissions and drive low-carbon technology innovation and use. Subsidy reform is also considered an integral transitional tool given its ability to level the playing field between sustainable and unsustainable practices. Fiscal policy instruments can also provide direct economic incentives for green action. While relatively straightforward in principle (increased economic cost for "brown" activity; decreased cost or economic benefit for "green" activity), the implementation of fiscal instruments has to be carefully considered for economic (i.e., jobs) and social impacts (i.e., on low-income residents). Inefficiently designed fiscal mechanisms—be they taxes, subsidies or some other form—can also generate negative side effects, in addition to not meeting their designed goal.

There is also the question of the purpose of the funds raised through these instruments. In most Canadian jurisdictions, there is a desire to see revenues raised through fiscal policy instruments either recycled to enable transition into a green economy (e.g., Manitoba's coal tax revenue resulting in support for biomass development) or for assistance for exposed industry and citizens, such as funding for transitional technologies, low-income assistance programs or revenue neutrality (i.e., business or personal tax cuts).