



EaP GREEN PROGRAMME

Regional expert meeting Economic instruments for greener products in Eastern Partnership countries

6-7 March 2014, OECD Headquarters, Paris

1. Background and meeting objectives

Promoting green growth requires well-designed institutions and environmental policy instruments that are effective in achieving their environmental objectives without imposing excessive burdens on the economy. Economic instruments such as environmentally related taxes can be effective in stimulating a shift to less-damaging forms of production and consumption while providing producers and consumers with flexibility in making these adjustments. Behavioural changes stimulated by economic instruments may lead to the creation of new jobs and employment opportunities. Where economic instruments generate revenues, the appropriate deployment of these revenues can also make a significant contribution to enhancing incomes and growth. All European Union's Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) are interested in expanding the use of product-related economic instruments, particularly taxes on environmentally harmful products (currently in place in Armenia and Moldova) and extended producer responsibility (now being introduced in Belarus, Moldova and Ukraine).

The main objectives of this expert meeting were:

- To present and discuss the draft Policy Manual “Creating Market Incentives for Greener Products” [ENV/EPOC/EAP(2013)4] prepared by the OECD secretariat in order to help EaP countries to design or reform economic instruments related to environmentally harmful products; and
- To exchange the experience of the design and implementation of four categories of product-related economic instruments – product taxes, environmental tax differentiation, deposit-refund systems and extended producer responsibility (EPR) – internationally and in EaP countries.

The meeting brought together representatives of the EaP countries' ministries of environment and economy and OECD/EU country experts. It was organised within the framework of the “Greening Economies in the Eastern Neighbourhood” (EaP GREEN) Programme initiated by the European Commission and implemented by the OECD in partnership with the UNEP, UNIDO and UNECE.

2. Strategic approach to using product-related economic instruments: Discussion of the draft Policy Manual

Dr Stephen Smith, consultant to the OECD Secretariat, presented the draft Policy Manual. The objective of the document is to help EaP countries to design or reform economic instruments related to environmentally harmful products in order to provide incentives for both reducing pollution and introducing greener products. Dr Smith focused on considerations for selecting instruments that are

appropriate to the relevant environmental problems and policy objectives, and that are capable of achieving the required environmental improvements.

The discussion of the draft Policy Manual focused on ways to improve the draft as well as mechanisms for its eventual dissemination in EaP countries. Participants expressed suggestions to better address the issue of administrative costs associated with the alternative policy instruments as well as their impact on consumer prices. Providing more concrete examples of the use of individual economic instruments in OECD countries and evidence of their effectiveness would also strengthen the document.

In order to enhance the impact of the Policy Manual in EaP countries, it was decided to:

- Prepare a Policy Brief targeting high-level policy makers;
- Produce official letters from the OECD Secretariat to the ministries of environment and economy in each EaP country introducing the Policy Manual; and
- Encourage relevant ministries in EaP countries to post the Policy Manual and the Policy Brief on their websites.

3. Product taxes and environmental tax differentiation: practice and lessons learned

Taxes on the sale of products have their main effects through changes in consumer purchasing behaviour and in the supply of products by firms. Product taxes can be adapted to reflect environmental objectives, increasing the tax rates on “dirty” goods and/or reducing the tax rates on “green” goods to achieve behavioural changes in production or consumption.

Mr Nils-Axel Braathen (OECD Environment Directorate) gave an overview of the use of environmentally-related product taxes in OECD countries. He particularly emphasised tax differentiation of existing taxes on fuels and motor vehicles based on the environmental characteristics of these products. He also presented several examples of environmental effectiveness of fuel taxes.

Ms Tatiana Plesco (Ministry of Environment, Republic of Moldova) and *Mr Khachik Hakobyan* (Ministry of Nature Protection, Republic of Armenia) presented the current systems of taxes (charges) on environmentally harmful products in their respective countries. Ms Plesco also outlined the main directions for reforming pollution and product-related taxes that are being considered by the Government of Moldova.

Ms Natalia Trofimenko (Ministry of Ecology and Natural Resources, Ukraine) shared the information about Ukraine’s existing environmental taxes on motor fuels and motor vehicles as well as the recent unsuccessful attempt to introduce environmental taxes on a wider range of harmful products. She highlighted the issue of possible “double taxation” (an overlap in the tax base of pollution and product-related environmental taxes) as a perceived barrier to expanding the use of environmentally-related product taxes.

In his presentation, *Mr Torbjørn Christensen* (Ministry of Taxation, Denmark) described several types of “green taxes” implemented in Denmark, including taxes on energy, motor vehicles, fertilisers, pesticides

and packaging. He underlined the importance of weighing the benefits of individual taxes against the administrative costs related to their operation.

The discussion of the design and implementation of environmentally-related taxes in EaP countries focused on a number of critical areas that would need to be addressed as part of the reform process:

- The feasibility of maintaining or introducing separate environmental taxes on motor fuel and vehicles (with revenues earmarked for environmental purposes) as opposed to differentiating other taxes on these products based on environmental factors;
- Limiting the number of product types subject to environmental taxes to those where taxation or tax differentiation can have a significant impact on consumer purchasing behaviour;
- Ensuring that the tax rates (or their differential) are sufficient to produce an incentive impact; and
- Reforming the existing system of pollution taxes/charges to ensure complementarity between them and taxes on environmentally harmful products.

4. Extended producer responsibility and deposit-refund systems

For products whose main environmental issues relate to waste management, the most appropriate product-based instruments are those directed at disposal behaviour – extended producer responsibility (EPR) and deposit-refund systems (DRS). This session focused on EPR, which is attracting increased attention of policy makers in EaP countries, not least because of the expanding implementation of EPR principles in the European Union.

Mr Olivier de Clercq (Environment Directorate, European Commission) shared some results of the application of the EU Directives on packaging, batteries, waste electric and electronic equipment (WEEE) and end-of-life vehicles across the member states; as well as the principal conclusions of the recent case studies of EPR schemes in different EU countries. He emphasised the importance of permanent stakeholder dialogue, full transparency, fair competition, cost effectiveness and compliance monitoring and enforcement in the EPR implementation.

France's practice of operating its 14 EPR systems for different waste streams was presented by *Mr Baptiste Legay* (Ministry of Ecology, Sustainable Development and Energy, France). He addressed in particular the roles of municipalities, waste management operators, and government oversight in the effective functioning of EPR schemes.

Ms Irina Komosko (Ministry of Natural Resources and Environmental Protection, Republic of Belarus), *Mr Alexander Semenets* (Ministry of Ecology and Natural Resources, Ukraine), and *Ms Tatiana Ţugui* (Ministry of Environment, Republic of Moldova) described the experience in designing EPR systems in their three respective countries. Their presentations and the subsequent discussion showed a range of approaches to their design in EaP countries: from a scheme in Belarus with a single state-owned Producer Responsibility Organisation (PRO) and a long list of products covered to Moldova's plan to create a system with several industry-run PROs responsible for a few priority product waste streams. Ukraine has had a generally negative experience with its state-owned PRO for packaging waste and is currently moving towards a more flexible industry-run scheme for this and potentially other products (tyres, oils,

etc.). It will be important to draw further lessons from these diverse practices as the experience accumulates.

5. Next steps

Mr Eugene Mazur (OECD Environment Directorate) made concluding remarks and outlined specific next steps within the project on economic instruments related to environmentally harmful products, as follows:

- Meeting participants who had not yet provided written comments on the draft Policy Manual “Creating Market Incentives for Greener Products” have an opportunity to do so by 15 March.
- The Policy Manual will be finalised in English and Russian by the end of March 2014.
- A Policy Brief with key messages for EaP countries’ policy makers will be produced in English and Russian by the end of May 2014.
- The pilot projects that were launched in Moldova and Ukraine in October 2013 will continue into early 2015.
- National policy dialogue workshops will be organised in 2014-2015 in the four EaP countries that are not hosting pilot projects. One such workshop is planned in Belarus for October 2014, another may take place in Armenia in 2014.
- A regional event to discuss the results of country-specific activities will be conducted in 2015.