

Swiss steps to ecological tax reform

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Vortrag an einer OECD/Tagung in Lubijana

Erschienen als Ecological Tax reform – what is happening in Switzerland?, in: Kai Schlegelmilch (Ed.), Green Budget Reform in Europe, Countries at the forefront, Springer Verlag, Berlin, Heidelberg, New York, 1999 S.121ff.

Ecological tax reform what is going on in Switzerland?

Switzerland is....

- an industrialized country of 42 000 km² with 7 million people, including 20% residents from other nations
- a nation with 4 official languages (German, French, Italian, Romansch)
- a nation with 26 (small) states and strong federalistic legislation, leaving it up to states to take any tax or charging measures they want
- a nation with initiative and referendum right nationally and state-wide: To have a national referendum, 100 000 signatures are needed, (50 000 to vote on laws issued by parliament)
- a Non-EU-member so far
- a country with a forest legislation for more than 100 years, prohibiting cutting of any forest without compensation by reforestation 1:1
- a country who in 1987 first in Europe introduced US-car-emission-standards
- a country that has put a constitutional stop to nuclear power by 1990
- a country who took constitutional decision to bring forward renewable energies

1. User charges, fees and subsidies

| Issue | Level | type | character | stage of enactment |
|----------------------------|----------|---------------------|---|--|
| Deposits + recycling quota | national | recycling incentive | deposit enacted for bottles imminent for tins, batteries, PET-bottles, in case of insufficient recycling quota | quota enacted; deposit execution threatening |
| Water treatment charge | state | earmarked charge | User pays for water treatment additional charge for heavy pollution water treatment compulsory for any settlement | basic charges enacted; reform toward heavier charges on national level in legislation: Polluter pays principle (enacted by end of 1997) |
| Agrarian production reform | national | reform of subsidies | general redirection of subsidies toward ecologically careful agriculture | enacted |

| Issue | Level | type | character | stage of enactment |
|---|--------------------------------|---|---|--|
| Charge for hydro-electricity-production | state (national charge limits) | user charge DM 100 by kW/yr | user fee for hydropower from rivers or valleys | enacted (heavy increase by 1997) |
| Waste disposal charge | state and local | earmarked fee | tax on waste-bags or waste-weight | enacted, executed in about half of all communities |
| Prepaid disposal fee | national | earmarked charge, levied in stage of production/sale of product | enacted e.g. for electronics, cars, refrigerators, batteries in preparation for paper | enacted execution prepared |

2. Incentive taxes, mixed charges

| Issue | Level | type | character | stage of enactment |
|--|----------|---|--|--|
| Differentiated tax on gasoline | national | incentive tax differential | additional tax on leaded gasoline, tax reduction on unleaded gasoline | enacted |
| Flat rate tax on heavy road transports | national | mixed charge | additional fee for road transports up to 3,5-28 tons to charge for higher road user cost | enacted |
| Proportional tax on heavy road transports | national | distance and weight proportional incentive tax to promote transports by train | new tax for trucks to bring heavy and distant transports back on train-system (replaces flat rate) revenues are used fiscally to pay for new Alpine tunnels | constitutionally enacted enactment in preparation on difficult negotiations with European Union Swiss goal: tax > 0.03 DM/tkm |
| Tax on VOC (volatile organic compounds) | national | incentive tax | Tax on VOC, e.g. in on colours and sprays to promote water-based colours etc. the revenue is back by lowering health insurance-fees | enacted, execution by 1998 Tax = 3.50 DM/kg, later possibly 6 DM/kg |
| Tax on light heating oil with sulfur content over 0,1% | national | incentive tax | Tax on light heating oil the revenue is repaid to the people by a negative lump-sum-tax, paid back by lowering health insurance-fees | enacted, execution by 1998 Tax = 14 DM/ton |

| Issue | Level | type | character | stage of enactment |
|---|---------------|--|--|--|
| CO2- tax | nati- onal | incentive levy with full com- pensation | Tax on CO ₂ (250 DM/ton CO ₂) to reduce CO ₂ by 2010 by 10% compared to 1990. The tax will be fully reimbursed to people and economy (revenue neutral) | government proposal subsidiary tax along CO ₂ -goals. Introduction not before 2004 |
| Initiative for a „SO- lar cent“ | nati- onal | earmarked tax | tax of 0.05 DM/kWh on all non-renewable energies revenues of about 1 billion DM/yr (=5% of end-user energy-expenditures) serves promotion of solar energy and energy efficiency | people's initiative (constitutional proposal) referendum in 1999 |
| Initiative for ecolog- ical tax reform | nati- onal | incentive tax with full com- pensation | incentive tax to reduce non-renewables by 1 % a year during 25 years; growing revenues up to about 10-20 billions DM/yr all have to be unused revenue-neutral i.e. for lowering indirect taxes and social security contributions | people's initiative (constitutional proposal) referendum in 1999 |
| Initiative for finan- cing social security by energy ta- xes | nati- onal | mixed tax for funding of so- cial security | incentive tax to reduce non-renewables; minimum additional funding of social security contribution | people's initiative (constitutional proposal) referendum in 2001 |

Comment

Swiss environmental policy by end-of-pipe-measures was quite popular and a bit ahead of the rest of Europe during the 70ies and 80ies. In general, like in many other countries, most measures have been more successful using fees and charges than policies relying on end-of-pipe standards only. Nevertheless standards are more popular than fees or taxes; they do not concern incomes and costs directly, but indirectly, but they are in effect, as is well known, economically often more costly than fees and taxes.

After the big and impressive progress by standards in the 70ies and in the 80ies, fees and taxes and redirection of subsidies started to be more popular in the last ten years.

Good results for example have been achieved in the waste and sewage disposal. These measures are rather conventional, because they normally internalize costs that are measurable. For example in my home town Basel, the second biggest city of Switzerland, a tax on rubbish of around 2 DM a bag lead to the drop of waste by 30 to 35 % within a few years. This meant lesser investment cost for incineration of some 150 million DM in the same decade.

One reason for successful policy in Swiss waste affairs is that there exist clear conceptual principles who say that

- (1) all waste has to be treated in Switzerland
- (2) it is a goal to avoid waste, to re-use, recycle and as last option - to dispose it.
- (3) there was a consensus for the polluter pays-principle
- (4) Good results on state-level for waste reduction made it easier to progress.

Following these principles the environmental law defined nation-wide waste-limits for critical wastes like tins, glasses, paper, cars and so on. Since 1997 there is a new instrument: the pre-paid disposal fee. It creates or strengtens new cycles for material, that formerly was treated as a waste.

In the first act the polluters use their own effort to stay beyond the benchmark with waste. If they do not succeed, the national government can install prepaid deposit fees that all sellers of new products have to undergo. Every economic sector is free to organize its own private recycling organization; but final waste limits are controlled.

Another instruments are simple deposits that are reimbursed after final use. Polluters missing the benchmarks have to undergo the whole serie of instruments. The recycling organisations are typically private. The government reduces his efforts to setting benchmarks and organising financial coverage.

If some emissions can not be handled well, there are incentive taxes. The long economic stagnation in Switzerland creates new problems, the climate for new incentive taxes is critical. Today only incentive taxes for VOC and liht heating oil are installed.

But everybody knows: The time of end of pipe measures only has expired; standards are useful, but technical progress is not in sight without adaption of prices. Unfortunately the energy market stays to be a sector insufficiently regulated. The main instrument is compulsory reduction of car gasoline consumption by standards und insulationstandards for houses. We also made good experiences with labelling of products like Fax-machines or TVs. Their stand-by consumption can be reduced twentyfold sometimes.

Swiss fossil fuel prices are 50 % lower than in 1973. Liberalisation of electricity market also will reduce prices and promote squandering of energy. Progress in reducing energy consumption is far away without an ecological tax reform.

But as I said: The work is not done before we have a deep ecologicakl tax reform in the energy sector, too. Several political attempts are taken in this direction:

- a strong proportional levy for heavy truck transports is ahead to finance new tunnels for new alpine train transit lines.
- Swiss government also is going to tax CO₂ unilaterally, but on a minor level that is not fit for strong reduction.
- The popular „solar initiative“ demands an ear-marked tax for energy that is used for better efficiency and solar energy financing.
- Another popular initiative is launched to reduce consumption of non-renewable energy by 1 % a year by revenue-neutral incentive taxes.

All these „green taxes“ are in some way fiscally neutral, because they avoid new taxes on income or wages.

Sometimes they today already reduce even existing charges like the revenue-neutral solutions for VOC and for heating oil. The revenue is used to lower individual contributions for health-insurance.

Swiss social security is hit by some demographic changes. Additional funding for social security will be urgent by the years 1998-2005. I strongly hope that some of the financing will be found in energy taxes. I am optimistic that consensus for action can be found also without a general EU-coordination. But of course a coordinated EU-action would be helpful. The following conditions for a successful first mover are recommended:

- a unilateral, progressive CO₂-tax should be revenue neutral.
- it should be implemented step by step - no shocks for the economy.
- revenue-neutrality for economy is best ruled when companies receive lower social security-fees in exchange for higher energy taxes
- as long as European coordination is lacking, energy intensive companies need a separate treatment with taxes on international levels.
- for population, contributions or taxes should be reduced who have the same social profile as energy taxes (regressive)

The Swiss environmental policy is going slower, but some undoubted successes have been enacted. The economy is adjusting to the new rules. New technologies now frequently are developed with less government interference. Ecological tax reform is underway, but too slow. More serious attempts especially in the energy sector have to be undertaken.

Switzerland has a strong renewable energy industry, relying on hydropower and wood. New products in the solar field are coming strong. With correct taxation the energy consumption of non-renewables can be reduced by 50 to 80 percent in the next 50 years.

10.04.97

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