

High time for an Environmental Fiscal Reform in Viet Nam

In Viet Nam, environmental pollution has increased to an alarming level with a growing number of dead rivers and high levels of pollution negatively affecting the health and life of the Vietnamese citizens. Over the past years, the environment was severely exploited and natural resources were rapidly exhausted. Viet Nam is now paying a high price for this exploitation.



Polluted river in Viet Nam

After the recuperation of the financial crisis, the time seems to be right for the introduction of an environmental fiscal reform to initiate changes towards more environmental friendly behavior and production structures. Hence, the decision by the Vietnamese government to implement an environmental tax reform can be highly welcomed. Introducing an environmental pollution tax is a very modern instrument, to intervene on a regulative basis by using market mechanisms and incentives to protect the valuable public good “environment”. Well applied, it does not only increase state revenues but also stimulate necessary changes with regard to consumer and production behavior towards new energy-efficient products and renewable technologies.

With support of the GTZ Macroeconomic Reform Program, funded by the Ger-

man Federal Ministry for Economic Cooperation and Development (BMZ), a workshop on the drafted environmental pollution tax law was held in Buon Ma Thuot between 4-5th of May to gather opinions and comments from representatives of the southern provinces of Viet Nam.

This workshop clearly revealed strong support for an environmental pollution tax law, but also gave time to debate crucial passages of the draft law. After the welcome speech of Mrs. Dr. Maenner – Chief Technical Advisor of the Macroeconomic Reform Program (GTZ) - lively discussions on the following topics emerged.

Title of the law

The title of the law already was subject to several changes. The current title of the law is *Environmental Protection Tax Law*. Although there were many voices in the workshop stating that the title of a law is less important than its content, it is essential to title a law adequately, to avoid misunderstandings. From an international point of view, it is not convenient to connect the positive associated term “Environmental protection” with the negative connoted term “tax”. Additionally, this title could provoke the misleading conception of taxing environmental protection activities. Consequently, the law should be titled *Environmental Pollution Tax Law*.



Workshop participants closely listening to Mr. Schlegelmilch's presentation

Range of taxable objects

Numerous representatives suggested extending the range of taxable objects including other environmentally harmful activities and substances. As the draft law already includes the most important subjects to tax, this range could be kept during the introductory phase and extended over time, after some experience on the administration and implementation of environmental pollution taxes is gained, which would be in line with international best practice.

Range and extent of taxes

Additionally, the range of taxes (e.g. between 1000 – 4000 VND per liter of gasoline) was also often discussed. Various times the request for a more definite tax rate rather than a range was expressed.

TPD mentioned two reasons for these relatively wide tax ranges: First, taxes are nominal, so that inflation still needs to be taken into account. And second, prices for gasoline e.g. will increase in the future. Thus choosing a wider tax range could allow for accordant tax increases over time. According to international experience, levying taxes on the consumed physical units rather than on percentages of prices is best practice, as

the actual amounts of used units harm the environment, independent of its price. But most importantly, taxes must be indexed – at least - to inflation to keep the real tax rates constant. Otherwise real tax rates will even decrease, which might have an adverse effect on environmental protection – as environmental harmful substances will become relatively cheap. Hence, to keep real tax rates at least constant they need to be indexed to inflation. To guarantee an environmental impact, tax rates should even exceed inflation rates.

Further, it was criticized that the current gasoline fee shall be abolished, as soon as the environmental pollution tax law comes into force. So, there will be neither additional environmental nor educational impacts, if the introduced environmental pollution tax only equals the former gasoline fee.

Intended use of the additional revenues

When the Prime Minister in 2004 had decided to introduce an environmental tax reform, he asked the additional revenues to be used for environmental purposes. In fact, these could improve the environmental state substantially and would support the impacts of the tax

alone. This holds true not at least since there is still an urgent need for such environmental investments. Furthermore it would ease the transition towards a clean, efficient and renewable economy.

However, the major objective of the non-affectation principle, which requires that all revenues are independent of any expenditure, should be followed.

Competitiveness

Several participants claimed potential negative impacts on the competitiveness of industry. It was thus clarified that it is the intention of that law to make clean and environmentally friendly and efficient industries more competitive, so that they would gain a higher market share and create additional jobs.

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The German expert on Environmental Fiscal Reform - Mr. Kai Schlegelmilch - evaluated his 5-day mission as well as the workshop in Boun Ma Thuot as a success, as it revealed great support and awareness for the necessity of an environmental fiscal reform. According to him, Viet Nam is on a good way to implement an environmental pollution tax law, but some shortcomings still need to be addressed.

Hence, he suggested indexing the tax rates at least to inflation rates to guarantee a positive impact on the environment and also to increase the tax rates slowly and gradually to give citizens and entrepreneurs sufficient time to adapt by investing into cleaner technologies and low carbon production structures.



German expert Mr. Kai Schlegelmilch – presenting his comments on Vietnam’s draft law on environmental taxation

To further ensure investment certainty, he suggested publishing in advance a road map on planned tax increases. Finally, he emphasizes that tax revenues stemming from the environmental pollution taxes should be used for environmental purposes.

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