28 September 2018, Madrid, Spain - Experts from international organisations, national governments, academia and civil society, gathered at a side-event during the 19th Global Conference on Environmental Taxation (GCET19) to discuss how fiscal policies can support implementation of the Paris Climate Agreement. The event on ‘Delivering the Paris Climate Agreement: The role of green fiscal reforms in the transport sector’ was organised by the Green Fiscal Policy Network. The Network and this side-event are supported by the International Climate Initiative (IKI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

The event was opened by Joy Kim (Senior Economist, Resources and Markets Branch, UN Environment) who welcomed participants and introduced the Green Fiscal Policy Network. The Network was established by a partnership between UN Environment, the International Monetary Fund (IMF) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to promote
knowledge sharing and dialogue on green fiscal policies. Launched in 2014, the Network collaborates with partners to provide an online knowledge sharing platform and organizes events to share country experiences and push forward the international agenda on green fiscal reform.

In his opening address, Jesús Gascón Catalán (Director of the Spanish Tax Agency) outlined some of the main taxes applied to the transport sector in Spain. He noted that while there is a need for further action to address polluting activities, there are several key issues which need to be tackled first. This includes increasing social acceptance of new taxes, addressing sensitive sectors such as transport and agriculture and shifting incentives at a time of fiscal constraints. There is also a need to address the regressive impacts of tax reforms through compensation for low-income households such as increasing grants and social transfers. However, this is complicated as social payments are made at the regional/local level. Changing this to a more integrated system would require a political decision involving different levels of government. He concluded by saying that new times create new opportunities, for example globalisation, the digital economy and cryptocurrencies. However, in designing a fiscal system for the future, he stressed that compliance and administration costs should be taken into consideration and necessary investments made in new skills and training for tax administrators.

This address was followed by an overview presentation by Philip Gass (Senior Policy Advisor, Energy Programme, Global Subsidies Initiative (GSI)) on ‘How parties are utilizing fiscal instruments and market mechanisms to meet the Paris Agreement’. According to analysis by GSI, of the 176 nationally determined contributions (NDCs) submitted, 50% include a reference to domestic fiscal instruments (e.g. clean energy subsidies, carbon pricing, environmental tax reform, fossil fuel subsidy reform). The most common fiscal instruments proposed are emission trading systems, followed by subsidies for clean energy. While most fiscal instruments are in the energy sector, there are some instruments in the transport sector (e.g. tax incentives to encourage low emission/electric vehicles, fuel price reforms, fiscal incentives for public transport). The inclusion of fiscal instruments in so many NDCs is encouraging, however further effort is needed. In particular, countries could provide more detail on how they plan to implement specific fiscal instruments. Additional assessments of the contribution of fiscal instruments to GHG mitigation objectives and mobilising climate finance could support further up-take by other countries.

The presentation was followed by a panel discussion on the contribution of fiscal instruments in the transport sector to countries’ NDCs, lessons from experiences in using such instruments, social and economic impacts, political and other challenges to further action. Panellists included Rob de Jong (Head of Air Quality and Mobility Unit, Economy Division, UN Environment), Ian Parry (Principal Green Fiscal Policy Expert, Fiscal Affairs Department, IMF), Jacqueline Cottrell (Senior Policy Advisory, Green Budget Europe (GBE)) and Kurt Van Dender (Head of the Tax and Environment Unit, Centre for Tax Policy and Administration, OECD). The panel was chaired by Eike Meyer (Advisor, Climate, Environment, and Infrastructure Division, GIZ).

In his intervention, Rob de Jong, shared some practical insights from the work of the Global Fuel Economy Initiative - a partnership between the International Energy Agency (IEA), UN Environment, International Transport Forum of the OECD (ITF), International Council on Clean Transportation (ICCT), Institute for Transportation Studies at UC Davis, and the FIA Foundation, which works to improve the efficiency of the global vehicle fleet to meet climate targets. The initiative is currently supporting 55 countries, of which 40 countries use fiscal instruments to achieve clean, efficient fleets. He highlighted the experience of Sri Lanka where a diversified tax system has led to a significant increase in hybrid vehicles in the market, and Mauritius where a previous feebate and vehicle taxes linked to CO2 emissions has significantly improved the efficiency of vehicles. Country experiences indicate that fiscal policies are effective, with almost
immediate impacts in terms of fuel economy improvements and market changes. The best programmes combine fiscal instruments with communication and awareness raising tools such as labelling. However, it takes time to develop fiscal instruments and it is important to adopt a multi-stakeholder approach from the beginning and constantly adapt to changing market dynamics. While fiscal measures are important, he emphasised the need to introduce zero emission vehicles together with reducing the number of petrol vehicles to meet the Paris targets.

**Ian Parry** put the discussion into a wider perspective, noting that in comparison to other sectors such as energy, the contribution of fiscal instruments in the road transport sector to delivering countries' NDCs will be fairly modest. Nonetheless, fuel taxes are an important instrument which can promote the full range of behavioural responses, addressing broader environmental challenges and raising substantial public revenues. He noted that to be fully efficient, fuel taxes should reflect all costs. However, fuel taxes currently in place are not fully efficient, e.g. taxes on diesel vehicles do not reflect high air pollution costs, taxes on gasoline vehicles do not reflect congestion impacts etc. Thus, there is scope for most countries to raise fuel taxes up to a point. He argued that other fiscal instruments can also play more of a role and may offer effective solutions for addressing externalities in the transport sector. For example, feebates can support the shift to more efficient vehicles and address broader market failures. In the long-run, countries could also consider a move towards distance-based charging.

**Jacqueline Cottrell** focused on different dimensions of inequality and the social impacts of fiscal instruments which she stressed should be more central to discussions. She noted that the regressive impacts of fuel prices and fossil fuel subsidy reforms depend on several factors and vary between and within different income quintiles. She discussed the experience of Vietnam with the introduction of an environmental protection tax which has a large focus on transport. The tax led to a slight improvement in the Gini coefficient and a reduction in CO2 emissions. Some of the main challenges facing Vietnamese tax administrators in relation to the tax include communicating messages on higher fuel taxes to reduce opposition and building consensus between stakeholders on the application and design of the tax.

In his intervention, **Kurt van Dender** focused on the broader perspective of fiscal policies and decarbonisation of road transport. He argued that this requires a shift in emphasis and priorities in how we think about tax reforms in the transport sector: in addition to ‘getting the prices right’, there should be more emphasis on longer-term goals, not least decarbonisation, and results. This also requires a broader perspective on what types of fiscal instruments can support decarbonisation objectives. In addition to traditional fiscal instruments such as fuel taxes, vehicle taxes and distance-based charging, there are several other relevant features in the tax system such as corporate income taxes, homeownership taxes, parking charges and commuter subsidies. These often are aligned poorly with transport policy objectives at present. He noted that there is also a need to address the use of revenues, the relationship between revenues and spending needs, and to address concerns among some countries of tax base erosion. He argued these elements should be approached in an integrated way and with a broader view of long-run decarbonisation goals.

Several issues were raised during discussions with the audience. The need to improve the **measurement and monitoring of external environmental costs**, including non-CO2 impacts, was highlighted by several participants. The IMF’s estimates on the external costs of fuel on a country-by-country basis and the EU’s National Accounting Matrix with Environmental Accounts (NAMEA) were highlighted as important sources in this regard. Better data can provide direction and inform the design of environmental taxes. It can also help increase the political acceptability of environmental tax reform.
The need to address **air pollution** was also raised by a number of participants and was highlighted as a central issue in transforming transport sector. Panellists noted that countries want to demonstrate progress on carbon emissions and highlighting co-benefits in terms of air quality improvements is useful when trying to move forward. It was also noted that air quality is an important consideration for several developing countries and their actions are often motivated by the need to address urban air pollution as much as for climate benefits. In addition to greater use of air pollution taxes, panellists noted that air pollution could be better addressed in the vehicle tax system by incorporating non-CO2 emissions in circulation and other transport taxes.

The need to **better address equity concerns** both within and between countries was stressed during the discussions. It was noted that in developing countries, arguments of fairness also need to be considered and rather than trying to reduce access, efforts could focus on shifting towards a different type of vehicle fleet. It was noted that fiscal instruments to shift fleets to new technologies (e.g. subsidies for zero emission vehicles) can play an important role in supporting a wider technology shift towards a different type of vehicle fleet.

The need to adopt a more **integrated, comprehensive and long-term approach** to transport policy development was highlighted by several participants and panellists. This should take into account wider issues (e.g. infrastructure needs, air pollution costs, congestion, parking, technology shift etc.), other transport modes (e.g. aviation, maritime), and complementary policy actions (e.g. to reduce fleet size, increase mobility options, address exports of polluting diesel vehicles from developed to developing countries etc.). There is a need to better understand the factors driving mobility decision making, look holistically at how to drive incentives in mobility, and imbed mobility choices in what we do in other areas such as land use planning, to ensure a more integrated, comprehensive approach to addressing challenges in the transport sector.

Panel from left to right: Eike Meyer (GIZ), Ian Parry (IMF), Jacqueline Gottrell (GBE), Kurt Van Dender (OECD)