



Nordic Experience with Environmental Fiscal Reform in Response to Economic Crises

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10 March 2021



What is environmental fiscal reform?

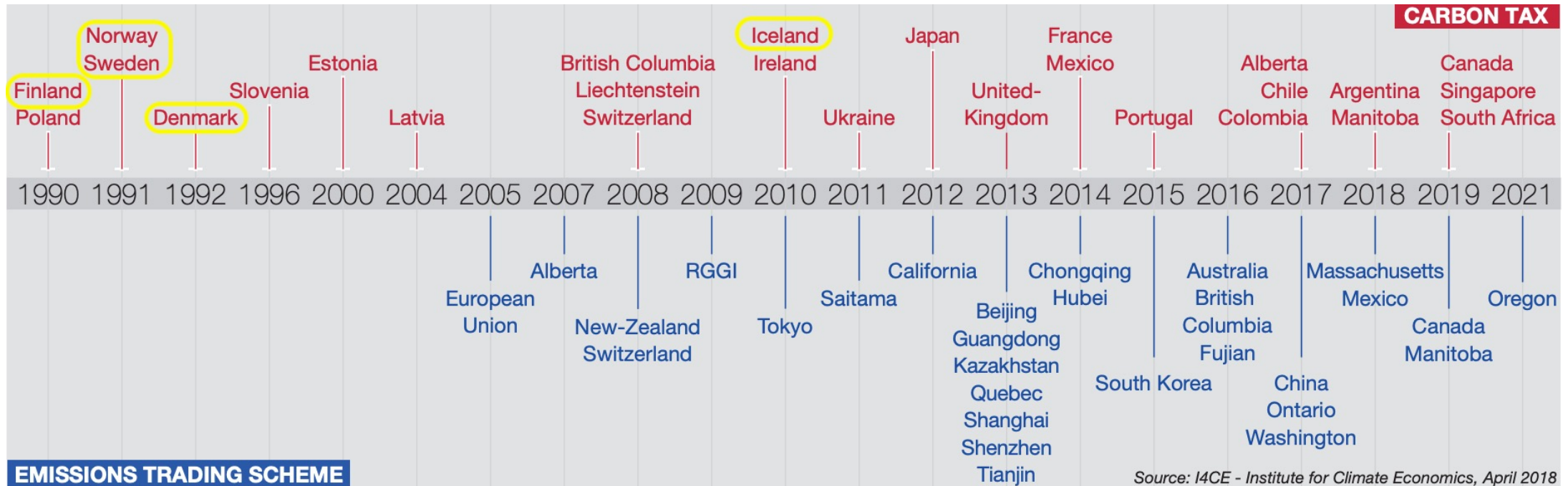
- Shift taxes from economic functions (labour, capital and consumption) to activities that have a negative impact on the environment
 - Fossil energy (including carbon)
 - Air pollution
 - Transport (e.g., vehicle registration based on emissions)
 - Waste
- Reform of environmentally harmful subsidies
- Socially or environmentally productive spending of the revenues

(Adapted from European Environment Agency & OECD)



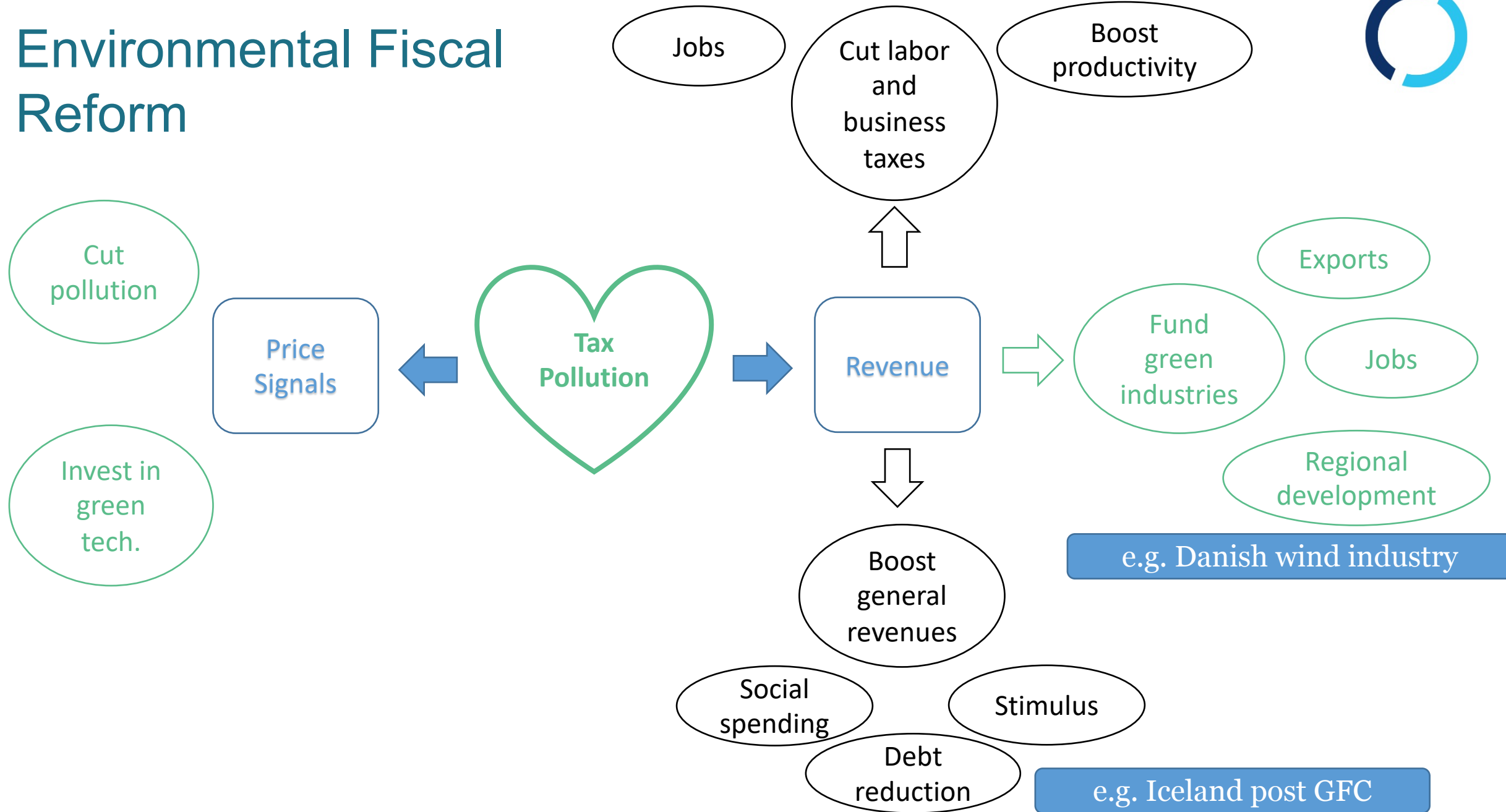
Nordics pioneered environmental fiscal reform

- carbon taxes imposed in response to a **regional financial crisis** in the early 1990s (Denmark, Finland and Sweden and Norway) and the 2008 global financial crisis (Iceland)
- also tax energy, transport, air pollutants and waste



Environmental Fiscal Reform

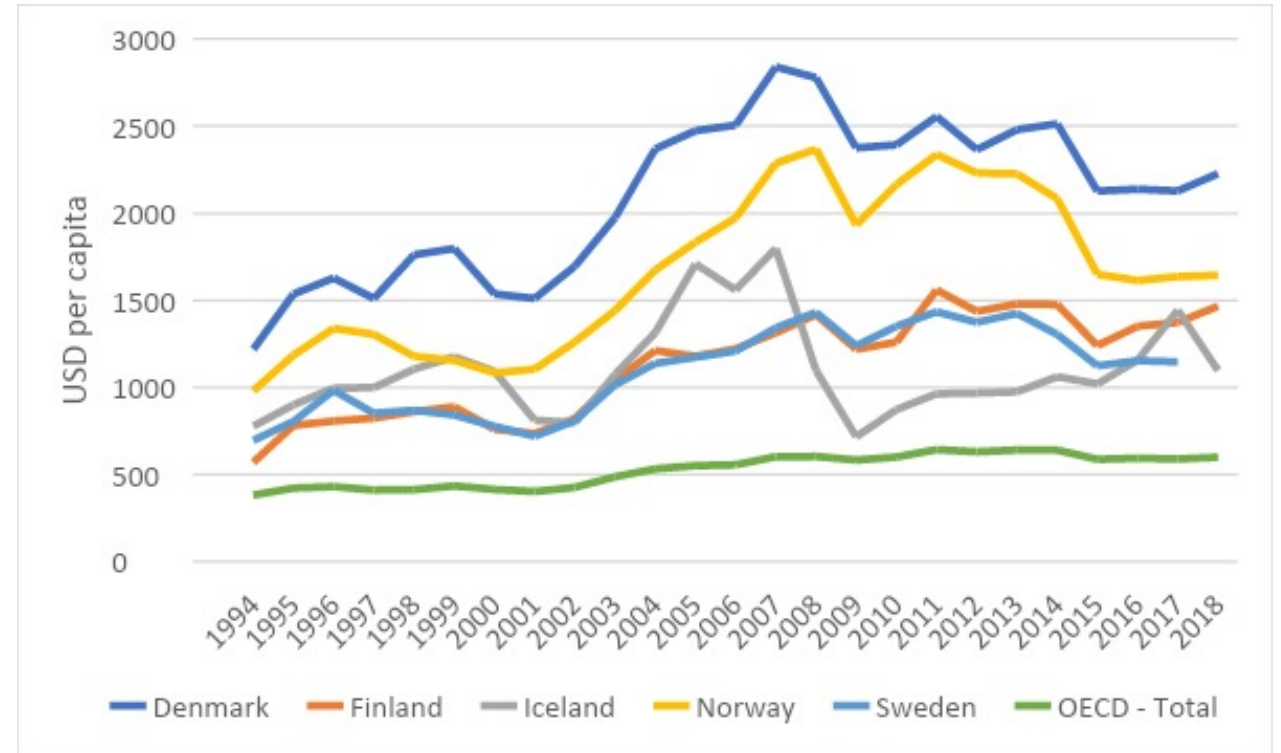
Denmark, Finland, Norway and Sweden



Revenue



- Environmental taxes raised **US \$7-13 billion** in all Nordics in 2018
 - except Iceland (small country)
- **2x environmental tax per capita as OECD average**
- Declining source of revenue

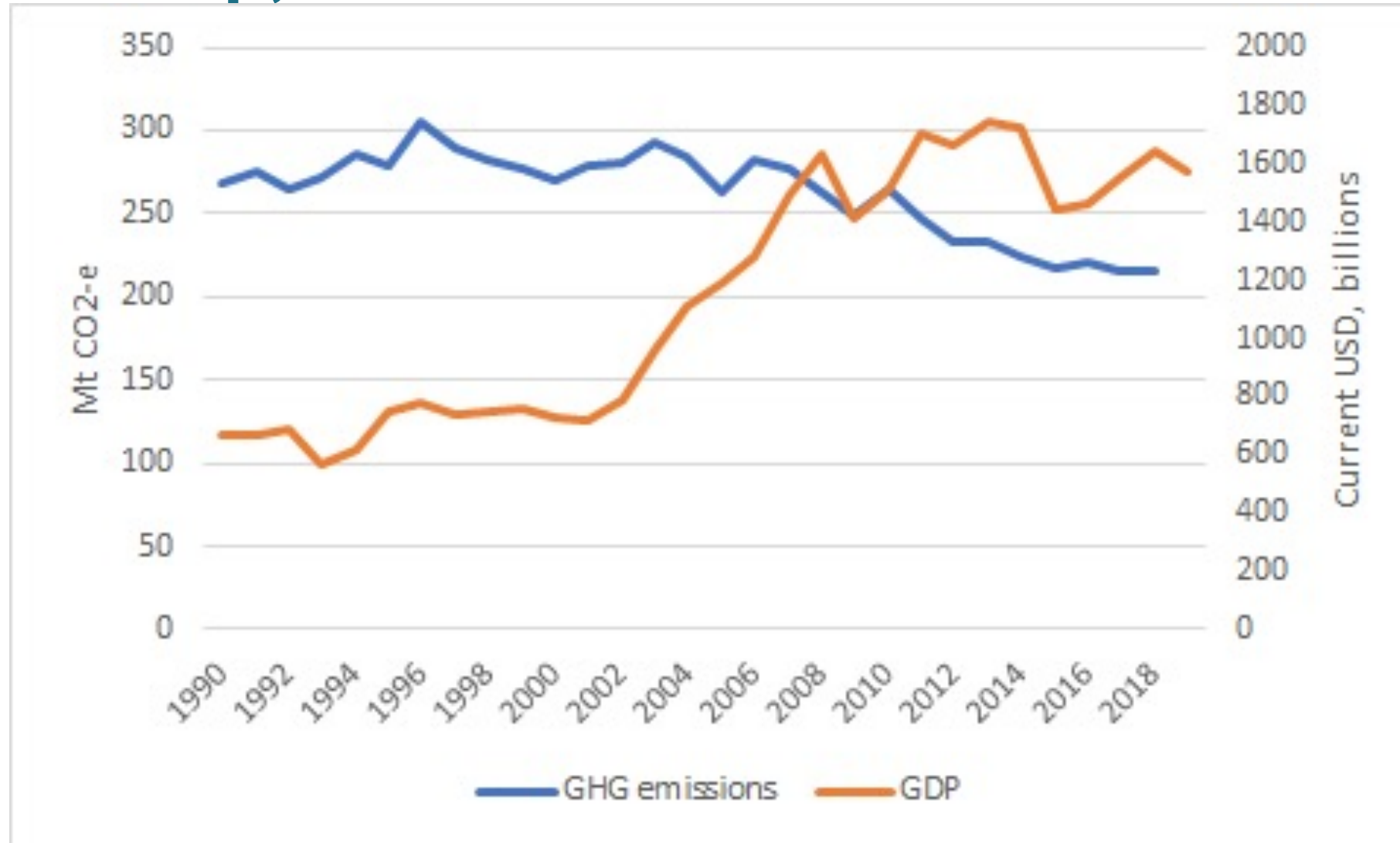


Revenue per capita from environmental taxes in Nordic countries compared with OECD average

Source: OECD, 2021



GDP up, emissions down



All Nordics



Implications for India

Scope for further environmental fiscal reform

- e.g. taxes on specific air pollutants to improve air quality and boost revenues
- need to ensure reforms are progressive
- revenues are spent productively

Nordics show that political support can be improved through

- revenue neutrality
 - recycle revenues in **VISIBLE** ways that assist the poor and boost jobs
 - earmarking funds for popular purposes
 - funding alternatives (low pollution technology)
- gradual phase in of higher taxes while reducing exemptions



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