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Carbon-Energy Taxation, Revenue Recycling, and Competitiveness

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1.1 Introduction

Conceptual interest in carbon-energy taxation emerged across Europe in recognition of serious environmental challenges, notably those highlighted in the first reports on the risks associated with greenhouse gases and global warming. Upon their return from the ground-breaking Toronto climate conference in 1988, several governments pledged to reduce CO₂ emissions by up to 20 per cent and to this end countries such as Finland, Sweden, and Denmark were soon to introduce unilateral CO₂ taxes. The Netherlands and also Slovenia followed suit and at the end of the 1990s key EU member states, Germany and UK, had introduced similar tax measures for greenhouse gases too. In countries as diverse as New Zealand, Japan, and Italy, carbon-energy taxation appeared on the political agenda and governments began to grapple with understanding the economic implications.

Carbon-energy taxation was conceived primarily as a policy instrument to curb carbon emissions, but in order to tackle the associated economic challenges, the idea of undertaking more comprehensive environmental tax reforms, in which the tax burden is shifted away from labour and on to energy and pollution, began to emerge (Nutzinger and Zahrnt, 1990). While carbon-energy taxation applied in isolation faced opposition due to concerns about the potential negative economic impacts, the wider

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