

Session #8 on market-based environmental policy instruments

Lead by SAI Estonia

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Content of the session

- *MBI – what is it?*
- *INTOSAI WGEA research project on market-based instruments for environmental protection and management (SAI Estonia)*
- *Country presentations:*
 - *SAI Norway*
 - *SAI Netherlands*
- *Country paper on Auditing economic instruments in environmental performance audits – NAO of Estonia's decade of experience*
- *Discussion and conclusions*

Market based environmental policy instruments (MBIs) ...

... tools that use markets, price, and other economic variables to provide incentives for polluters to reduce or eliminate negative environmental impacts (externalities).

If the tool changes the cost or price of a good, service, input, output, then it is MBI.

Key-words: incentive to change behaviour, flexibility, efficiency, effectiveness

MBIs are: environmental taxes/charges on pollution, resources use, products, deposit refund systems, (on-budget, off-budget) subsidies, tradable permits (emission trading, allowances, environmental labelling, green procurement etc.

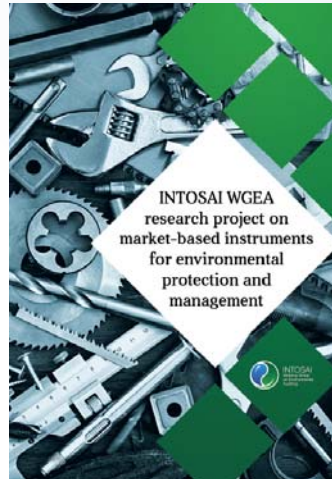
INTOSAI WGEA research project: Market based instruments in environmental management and protection

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The research project

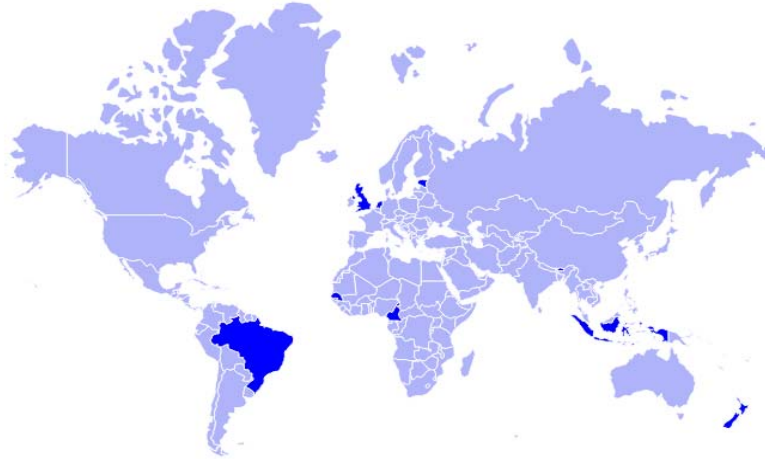
- *Why this research project?*
- *Structure of the report*
- *Main risks/ obstacles while auditing market based environmental policy instruments*



Why this research project?

- *Research project conducted under INTOSAI WGEA Working Plan 2014–2016*
- *Goal 1: Up-date existing and develop new guidance materials available to SAs, conduct research studies on emerging topics in environmental auditing*
- *Objective: to give an overview of market based environmental policy instruments (MBI); collect the experience of SAs on auditing MBIs*
- *Final approval by INTOSAI XXII Congress in December 2016*

Project sub-committee members



Scope?

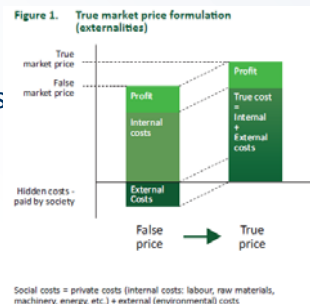
Taxes and charges: Air/energy – CO₂, SO₂, NO_x, other air pollutants, fuels, sulphur in fuels, other GHGs, Transport – car registration, annual circulation, air transport (noise charge, landing fee), vehicle scrapping, toll roads, company cars, congestion, **Water – pollutants**, effluent, abstraction, user charges, Waste – landfill, waste removal, incineration, hazardous waste, electronic/electric waste, nuclear waste management, user charges, **Product charges** – tyres, beverage/disposable containers, packaging, plastic bags, pesticides, products with CFCs, batteries, light bulbs, PVCs/phthalates, lubrication oil, fertilizers (N, P), paper/board, disposable tableware, junk mail, refrigerators, growth promoters (agriculture), **Resources** – mining, raw materials, recreational fishing, aggregates (sand, gravel, rock), **Deposit-refund schemes** – require paying a deposit on the purchase of potentially polluting products (cans, bottles, car hulks, batteries) which is refunded when the products or their residues are returned for recycling or disposal, **Administrative charges** – charges that raise revenue for covering the administrative costs of environmental programs, **Tradable permits:** Emissions trading (EUETS, national systems; CO₂, NO_x, SO₂, lead, water pollutants), Certificate trading for green electricity, Packaging recovery notes' trading, Trading allowances for land-filling waste, Individual transferable quotas, **Subsidies:** Direct payments to support renewable energy production, low-emission vehicles, pollution treatment infrastructure, nature conservation etc., Agriculture subsidies, **Green purchasing/procurement**, Grants and vouchers, **Low/zero-interest loans** ("soft loans"), Loans on special terms (Property-Assessed Clean Energy financing in U.S. – repayment on a basis of special assessment on the owner's property), Feed-in tariffs – government support of developing renewable energy projects by offering long-term purchase agreements for the sale of renewable electricity, Tax/charge differentiation, **Tax/charge deduction**, Tax/charge rebate – refund on taxes when the tax liability is less than taxes paid (e.g. certain energy upgrades), Payment for Environmental Services/ Environmental Conservation Scheme – incentives offered to landowners/farmers in exchange for managing their land to provide some sort of ecological service. Reduction/waiver on permit fees (e.g. green buildings), **Liability and compensation schemes:** Liability payments, Non-compliance fees (not fines), Performance bonds for potential hazards, Environmental guarantee fund, Zero net impact requirements (offsets), **Eco-labelling/product differentiation**, Standards (ISO, efficiency, energy codes, equipment, interconnection), Disclosure requirements (e.g. waste generation, electricity production components), **Blacklist of polluters**, Environmental City Zones/Eco-Neighbourhood, Green Accounting System etc

Structure of the report

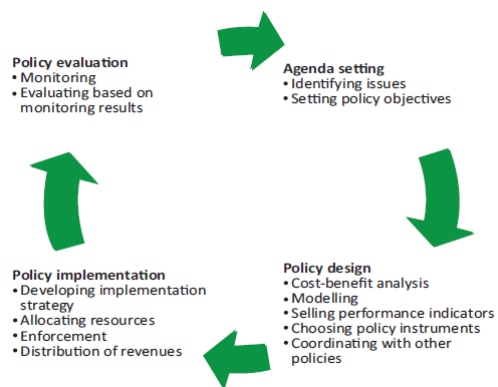
Foreword and Acknowledgements	3	3.4 Environmental subsidies	30
Abbreviations and acronyms	6	3.5 Other instruments	32
Executive summary	8	3.6 Instrument mixes	34
Purpose of the paper	8	3.7 Environmental tax/fiscal reform	34
Scope and structure	9	3.8 Market-based instruments used in different environmental areas	36
Methodology	10	4. Auditing MBIs	42
1. Introduction	11	4.1 What should be considered when auditing MBIs?	42
2. Environmental policy design and the instruments	16	4.2 Main risks and opportunities	49
2.1 Environmental policy instruments	17	4.3 SAIs experience in auditing MBIs	55
2.2 What are market-based environmental policy instruments (MBIs)?	19	Appendixes	56
2.3 How do MBIs compare with regulatory instruments?	21	Appendix 1. Recommendations for policy makers in designing environmental taxes and emissions trading systems	56
3. Main types of MBIs	24	Appendix 2. Audit cases	57
3.1 Environmental taxes and charges	25	Appendix 3. Bibliography and recommended literature	71
3.2 Tradable permits	27		
3.3 Deposit refund systems	29		

Chapter 1. Introduction

- *WHY governments intervene in markets?*
 - To achieve wider policy objectives
 - To overcome market failure (externalities)
- *HOW governments participate in markets?*

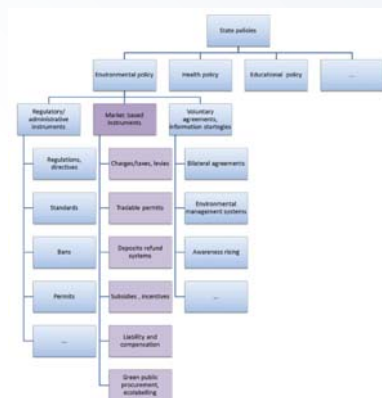


Chapter 2. Environmental policy design and the instruments



(cont) Environmental policy instruments

- *Regulatory/ administrative (“command-and-control”)*
- *Market-based instruments (incentive based flexible instruments)*
- *Voluntary agreements and information strategies*



(cont)

- What are market-based environmental policy instruments? Main principles.
- How do MBIs compare with regulatory instruments?
- Main concerns about using MBIs

Chapter 3. Main types of market based instruments

- Environmental taxes and charges
- Tradable permits
- Deposit refund systems
- Environmental subsidies
- Other instruments
- Instrument mixes
- Environmental tax/fiscal reform
- Market-based instruments used in different environmental areas

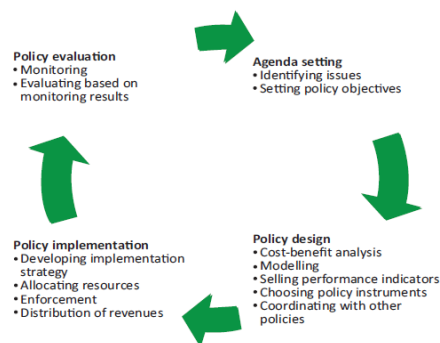


Table 2. Examples of market-based instruments by environmental area/sector

Area/sector	MBIs	Explanation	Country examples
Water management	Water resources taxes/charges	Water abstraction levies — a natural resource tax rather than a charge to recoup infrastructure costs — on tap water are generally used in combination with licensing and permit systems. In general, water abstraction taxes are designed either as taxes on the amount of water abstracted or on the quantity for which an abstraction permit has been given. ⁶⁹	Denmark, France, Germany, Netherlands, Estonia, India, Ethiopia, Egypt
	Water effluent charges	Water effluent charges are a common instrument used for regulating discharges of effluents into natural waters. Charges usually include chemical and biological oxygen demand, heavy metals, suspended solids, nutrients (nitrogen and phosphorus) and the total volume.	Belgium, France, the Netherlands, Estonia, Colombia, the Philippines, Nigeria, Mexico, Poland, Germany, Japan, Canada, Ireland
	Water quality trading schemes	Water quality trading refers to the application of emissions trading to water pollution control.	Australia, Canada, New Zealand, United States

Chapter 4. Auditing market based instruments

- *What should be considered while auditing MBIs?*
 - *What should be done in different policy phases by policy makers – hints for auditors*
 - *Possible (audit) questions to ask in different policy phases*



SAIs experience in auditing MBIs

- *2014 INTOSAI WGEA mini-survey*
- *59 replies, 39 reported auditing of MBIs*
- *Most frequently audited MBIs: taxes/charges, emission trading schemes, subsidies*
- *Most common environmental area: climate change/air pollution, waste management, energy issues, water management*

Main risks/obstacles in auditing MBIs (1)

- *Complex and complicated systems*
- *Evidence based policy design*
- *Multiplicity of policies and policy design*
- *Uncertainties and forecasting future liabilities*
- *Complex administration*
- *Use of revenues*
- *Evaluation of impacts*
- *Detecting fraud (insufficient transparency)*
- *Political volatility*

Main risks/obstacles in auditing MBIs (2)

- *Competence*
- *Mandate issues*
- *Quality/lack of data*

Appendixes

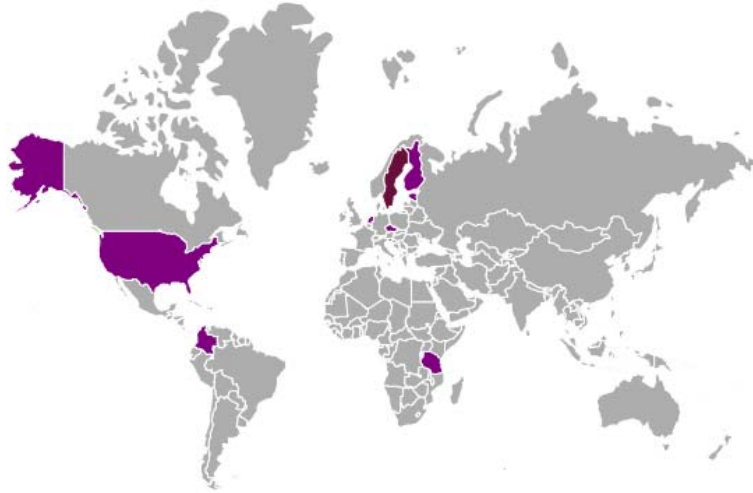
Appendix 1. Recommendations for policy makers in designing environmental taxes and emission trading schemes

Appendix 2. 11 audit cases

Title of the audit, name of the SAI

1. *Objective of the audit*
2. *Audited market-base environmental policy instrument*
3. *Audited stages of implementing the instrument*
4. *Methodology used to audit the instrument*
5. *Main findings and recommendations*
6. *Additional information*

Audit cases



Cases

SAI Columbia

Audit: Analysis and evaluation of the economic, financial and tax instruments for environmental management in Columbia 2008-2012 (2013)

Objective: evaluate the design and efficiency of effluent charges and their impact in improving water quality

Instrument: effluent charge

SAI Finland

Audit: Vehicle taxation (2009)

Objective: to assess whether the vehicle taxation of used cars was carried out cost-effectively and according to good governance

Instrument: vehicle tax

*The research project report will be available in INTOSAI WGEA
website www.environmental-auditing.org*

Thank you!

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Discussion

- *Are there any other obstacles and risks in auditing MBIs?*
- *How to overcome these obstacles and risks?
Solutions and opportunities?*
- *What would we recommend to SAIs?*