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**Do environmental taxes reduce sectoral competitiveness?:
some theoretical and ex-post case studies***

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Abstract

Many OECD countries are expected to implement new environmental policy initiatives given the legally binding and quantified obligations of the Kyoto Protocol to limit emissions of greenhouse gases. Despite the theoretical efficiency advantages of environmentally related taxes, concerns of reduced international competitiveness are often an obstacle to their implementation.

This paper attempts to assess the competitiveness impact of environmentally related taxes using theoretical and ex-post case studies. Its main result shows that the competitiveness pressures depend on the type and design of a given environmentally related tax, and the characteristics of the markets and firms affected. The case studies indicate modest impacts of environmentally related taxes implemented at the OECD level, especially if the policies raise revenues that can be used to lower some taxes that cause significant economic distortions. In contrast, simulation results show likely stronger negative impacts on international competitiveness when unilateral environmentally policy instruments are implemented.

Additionally, provisions to protect industry typically linked to the implementation of environmentally related taxes make it difficult in practice to find examples of the negative impacts on competitiveness. An important lesson to learn is that relatively modest carefully designed compensation schemes can often suffice to make firms equally well-off as before implementing environmentally related taxes. The relevant challenge for policy makers is to find a reasonable balance between the benefits and the costs of environmental improvements and to choose the policy instruments that best help in achieving a given environmental target at the lowest possible cost to the society as a whole.

Keywords: environmentally related taxes, competitiveness, double dividend

* The views expressed are those of the author and are not necessary the views of the OECD or the governments of its member countries.