BUSINESS

Europe's industries play dirty

BRUSSELS

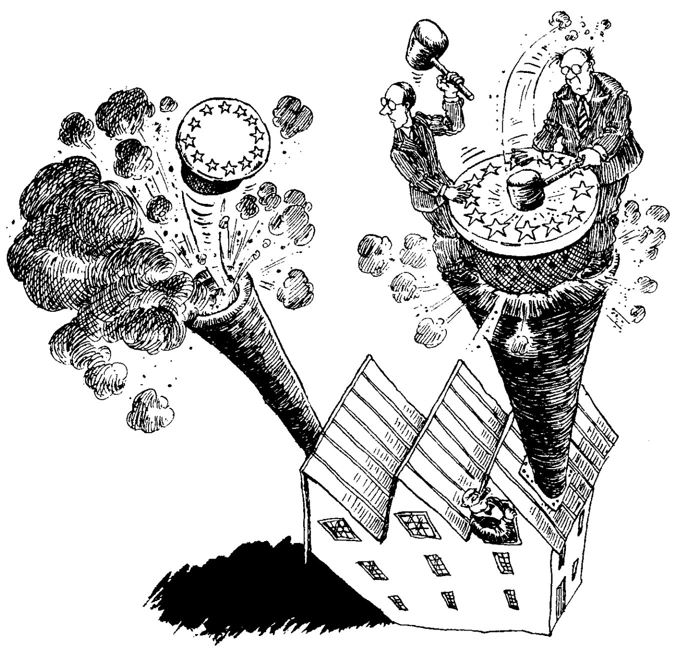
The European Community aims to give the green light to plans for a carbon and energy tax before next month's Earth Summit in Rio de Janeiro. European industry hates the idea

ON ONE thing governments of all OECD countries agree: global warming will be bad for the planet. They have found it much harder to agree on what to do about this. The countries of the European Community (EC) have set themselves a target for stabilising their output of carbon dioxide (CO_2), the gas thought mainly responsible for global warming, at 1990 levels by the end of this century. They have tried unsuccessfully to persuade the United States to do the same; it protests that the EC has good intentions but no agreement on how to deliver them. Now, before the leaders of most of the world's countries meet in Rio for the Earth Summit in early June, the European Commission hopes to persuade EC member countries to rectify that omission.

Jacques Delors, president of the European Commission, wants the EC to take the moral high ground in Rio by agreeing to its first-ever environmental tax, to be imposed on the carbon-dioxide content of fuels and on energy in general. On May 13th the commission will approve a directive which the Council of Ministers will probably endorse later this month. But some hectic lobbying by European industry has weakened the proposal, so that it will bite only if the Community's main trading partners also agree to a similar tax.

Norway, Sweden, Finland, Denmark and Holland already have something resembling a carbon tax in place. But continuing hostility from America, which generates a quarter of the world's CO_2 emissions and churns out more per head than any European country except Luxembourg (see chart on next page), may ensure that the plan spends some time on the shelf.

The commission's plan stems from a Community decision two years ago to stabilise CO_2 emissions, which will mean cutting their predicted level in 2000 by 12%. Last October EC ministers approved a white paper setting out a three-part strategy for meeting that target: EC measures to promote energy saving; national measures; and an EC tax.



The proposed tax would start at $3 on the equivalent of a barrel of oil in 1993, rising to $10 by 2000. Half would be levied on the use of energy from any source other than renewable ones (which, apart from nuclear energy, would be excluded); and half on carbon emissions. At $10 a barrel the tax would raise the price of coal by 58%; of natural gas for industry by 34% and for consumers by 14%; and of petrol by 6%. The commission estimates that by 2000 the tax would yield EC governments some 50 billion ecus ($63 billion) a year. But it would in theory be "fiscally neutral", meaning that governments would be expected to lower other taxes by a similar amount.

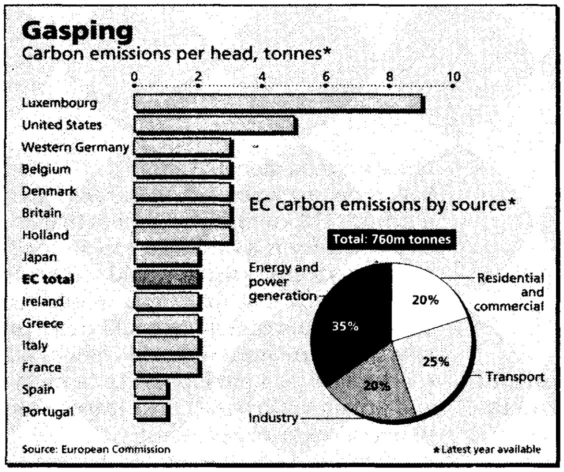
Critics argue that if the commission was serious about global warming it should have proposed a pure carbon tax rather than a hybrid. The commission replies that energy efficiency is a desirable goal in itself, and that costlier energy would stimulate more research into renewable sources. In any case a pure carbon tax could never get past ministers, since it would clobber big coal burners (and producers) like Germany and Britain much harder than France, with its huge nuclear-power industry.

The white paper has spurred the massed ranks of Europe's industrialists to mount what is probably their most powerful offensive against an EC proposal. Some of the lobbying has been heavy-handed, such as the repeated and strange claim that the tax would destroy 900,000 jobs. Before a conference in Brussels last month, supposedly on the pros and cons of a carbon tax, executives from Britain's ICI (one of the sponsors) asked speakers not to praise the commission's plan.

Industry's strongest argument, that to impose the tax unilaterally would put the EC at a competitive disadvantage, has swayed the commission. Mr Delors has insisted—over the head of Carlo Ripa di Meana, the environment commissioner—that the tax be conditional on other OECD countries following suit. Even a conditional tax, however, could change the way industry behaves, for it would signal to companies that if they failed to use energy more efficiently they would be liable to penalties at some point in the future.

That may be why the industrial lobbies are not satisfied with the switch to conditionality. They argue that a tax is pointless, since firms are voluntarily becoming more energy efficient. Raymond Bloch, president of BP France, claims that the EC could cut its carbon output by 520m tonnes a year through converting coal-fired power stations to gas, improving the efficiency of domestic insulation and appliances, cutting speed limits on roads, honing industrial techniques and planting more forests.

British Steel's chairman, Sir Robert Scholey, says that his firm cut the amount of energy needed to make a tonne of steel by 26% in the decade to 1990. Giorgio Porta, managing director of Montedison Primary Chemicals, says that the European chemicals industry uses 35% less energy per unit of



output than it did in 1974, and that a further 15% could be saved by 2000. But European industrialists should not be too smug. Britain's Association for the Conservation of Energy estimates that from 1975 to 1985 the Community's industries improved their energy efficiency by 20%, while Japanese industry—whose competitiveness seems unharmed by energy costs nearly double those in Europe—made a 35% improvement.

The commission argues that voluntary efforts to curb CO_2 emissions will not be enough. It believes that in the long run the threat of global warming may push the Community towards lowering rather than stabilising CO_2 output, and it wants a tax system in place that would allow such a goal to become feasible.

Industrialists have a point when they ask why the commission is proposing a carbon tax while EC members continue to subsidise their coal industries and while energy taxes vary so much across the Community. The tax on petrol is $965 per thousand litres in Italy but only $500 in Greece, Spain and Britain (and $85 in America). Commission officials answer that they are pruning coal subsidies and that if they have to wait for an undistorted market before taking action, Holland may by then be under water.

Industry does not trust governments to cut other taxes to make up for the new environmental-tax burden. Mr Ripa di Meana fuels such fears when he says that "a fraction of [the tax] can help developing countries to stop deforestation." Otherwise, he says, the EC will be unable to meet its promise to give 0.7% of its GDP in aid every year.

The EC produces only 13% of the world's CO_2 emissions. Opponents of the tax therefore argue that the Community should put its efforts into helping poorer countries to use energy more efficiently. Ernst von Weizsacker, president of the Wuppertal Institute for Climate, Environment and Energy, has this reply: "Europe's per capita use of energy is five times that of developing countries, and if Europe does not set an example, no one will follow."

Mr Von Weizsacker despairs at the modesty of the commission's proposal. He believes that the world's climate will not stabilise over the next 30-40 years unless the output of greenhouse gases is halved. Yet on current trends the output of these gases is set to double in that period. Mr Von Weizsacker notes that energy costs make up only 5% of total costs for most German manufacturing firms, and argues that a tax of $10 a barrel would have no effect. Only the promise of rising energy prices for the next 40 years would change behaviour, he says.

European industry has succeeded in weakening the tax plans. But once the principle of a carbon tax is enshrined in EC law, it may be here to stay. A new source of revenue, imposed for green reasons and with the blessing of the commission, is something that many governments might be secretly delighted to have in place.