

CONGRESS OF LOCAL AND REGIONAL AUTHORITIES OF EUROPE

Recommendation 57 (1999)¹ on local and regional economic instruments for the environment

*(Extract from the Official Gazette of the Council of Europe
– June 1999)*

The Congress,

1. Having regard to the report presented by Mr Leinen (Germany) on “Local and regional economic instruments for the environment” on behalf of the CLRAE Working Group on Environmental Protection and Sustainable Development;
2. Recalling Resolution 55 (1997) on local and regional financial instruments for the environment in Europe, which instructed the Working Group “to continue work on this subject with a view to drawing up a draft recommendation to be submitted to the Committee of Ministers”;
3. Welcoming the ongoing co-operation between the Working Group and the International Council for Local Environmental Initiatives (ICLEI), which resulted in the publication of the “Guide on Economic Instruments for Local and Regional Authorities”;

Stressing that local and regional authorities have a key role in sustainable development and environmental policy, since:

4. They influence the behaviour of the different sectors of society significantly, e.g. through local traffic policy, regulatory and financial instruments for industry, land use planning and public procurement;
5. They significantly influence, or often even own, public suppliers of the key resources such as energy and water, as well as provision of waste and sewage treatment;
6. They form the level of administration and state representation closest to the people and so are more able to stimulate a process of transformation involving all sectors of society;
7. Because of their large number they can serve as “laboratories” for new policy and management concepts;
8. They can adopt strategies to improve the ecological efficiency of their operations by paying attention both to the goods and services they produce, and to those they

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consume (e.g. building, transport services, education, health care, water utilities and power stations);

9. They can set the social and environmental framework for eco-efficiency, thereby ensuring that price signals are not distorted through the local political framework;
10. In some European countries economic instruments can be implemented by local and/or regional authorities, whilst in other these authorities are allowed to employ centrally defined economic tools in a discretionary manner;
11. Where they have tax raising powers, local and regional authorities can use this to reflect the needs of sustainable development, in the same way as national taxation: this could mean more waste, water and transport taxes whilst cutting taxes on investments or income.

Considering that economic instruments:

12. Are often more effective than the common legislative instruments of rules and prohibitions, which usually do not provide sufficient incentives to implement solutions protecting the environment beyond the legislative standard;
13. Have several appealing properties, which, if properly designed, may promote environmentally friendly behaviour and penalise pollution;
14. Can influence the price to be paid for a certain activity or process in such a way that environmentally friendly behaviour becomes cheaper than environmentally damaging operations;
15. Allow market agents to decide upon the best ways of reducing pollution taking cost factors into account;
16. Provide permanent incentives for technological improvement, innovation and emission abatement;
17. Can be used to not only penalise the bad but reward the good;
18. Are easier and cheaper to administer than regulatory approaches requiring the monitoring of compliance with legislative standards;
19. Can, therefore, enhance, complement and often replace traditional regulation methods.

Considering that the most widely used economic instruments for the protection of the environment include:

20. Incentive price structures, which favour sound environmental choices and cover the full cost of service supply;
21. Tax differentiation, which provides lower taxes for environmentally friendly solutions;
22. Licenses and fees, which discourage environmentally undesirable activities;
23. Special taxes and surcharges on environmentally costly practices, which generate funds for local or regional environmental programmes;
24. Subsidies, which decrease the costs of environmentally friendly investments;

Recommendation 57

Emphasising that, by using economic instruments, local and regional authorities can set incentives for environmentally friendly behaviour:

25. They can enhance environmental quality by providing financial incentives to users of services in order to conserve resources, or to manufacturers in order to reduce their emissions;

26. Revenues generated by economic instruments can be used by local and regional authorities for environmental improvement purposes;

27. The implementation of economic instruments at local and regional levels can help to change awareness and behaviour of the citizen concerning the environment;

28. At the local level, economic instruments mainly consist of fees and charges for service suppliers, but surcharges, permission fees and, in some countries, taxes are also widely used instruments;

29. Subsidies can be used to affect the environment positively, but in some fields actually work against environmental protection;

30. An incentive rate structure can be set for most economic instruments (charges, fees, surcharges and taxes), so as to encourage environmentally friendly behaviour;

31. Local and regional authorities can influence the price signals of private service providers as well, by requiring them also to adopt rate structures;

32. Combined with the implementation of economic instruments, it is necessary to provide information for citizens and companies about the possibilities to save resources and costs, and in certain cases to subsidise saving measures;

Noting that:

33. Central government environmental policy is still dominated by the regulatory approach, which can only deal with a limited number of pollution sources and often lacks flexibility or economic efficiency;

34. Regulations can be designed to force technological development and stimulate innovation but market mechanisms such as environmental taxes offer greater flexibility;

35. As with most policy areas, neither regulation nor taxation alone can be the solution: a combination of policies including awareness raising and voluntary action from business will be more effective;

36. A new type of environmental policy should influence decisions of businesses and individuals without claiming to be able to work out the most appropriate decisions itself;

Recommends that national governments consider the introduction of the following new approaches in their environmental policies:

37. Communicative approach – steering decisions via consumer information and environmental education;

38. Environmental management approach – processing information, analysing the environmental impact, taking decisions, assigning duties and controlling implementation;

39. Eco-efficiency approach – delivering competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity, to a level in line with the earth's carrying capacity;

40. Eco-efficiency can only be achieved via a new economic policy, which should promote a shift of financial burdens from the taxation of labour to penalising pollution and the consumption of natural resources. Such a shift should create employment and promote the economic use of resources without loss of economic efficiency;

41. An environmental or "green" tax reform should help in resolving one of the main problems of the European growth model, which under-uses labour, thereby causing unemployment, and over-uses natural resources, causing environmental degradation;

42. A new environmental policy, integrated into general economic policy and based on the use of economic instruments is required;

43. The main guiding principle of such a policy should be the introduction of cost-covering prices whenever natural resources are used, so as to avoid a faster use than their regeneration rate;

Calls on national governments to assign more policymaking power to local and regional authorities:

44. In many European countries the policy-making power of local authorities is very limited, and only managerial responsibilities for environmental matters are in the domain of local government;

45. This situation needs to be corrected: given the powers to develop new policy instruments, local authorities could come up with more innovative approaches to environmental policy using economic instruments;

46. If these innovations are linked to knowledge on local economic development needs, the benefits for employment could be substantial;

47. Progress towards decentralisation and more autonomy at the local and regional levels should be recognised as essential, while maintaining a common national policy and legal framework;

Recommends that national governments allow local and regional authorities to implement economic instruments in the following key areas of the environment:

Water and waste water

48. Water usage should be charged for everywhere, especially in countries with water shortage problems. Where local and regional authorities control the suppliers of water, pricing decisions should be influenced so as to encourage the economical use of water;

49. Where local and regional authorities control the sewage system, charges should be established so as to discourage the production of waste water ;
50. Water and sewage treatment prices should cover the full costs of the service ;
51. Charges for sewage treatment should, as far as possible, take into consideration both the quantity of waste water and the amount of pollutant substances, such as nitrate load ;
52. Ecological farming should be promoted by way of subsidies or tax concessions, in order to protect groundwater resources ;
53. Programmes that give rebates on water conservation devices is the most effective investment to reach this goal ;

Energy conservation

54. Where prices for electricity and gas are set by local or regional energy suppliers which are to some extent under the control of the local or regional authority, pricing decisions should be influenced so as to motivate citizens and industries to save energy ;
55. Suppliers of renewable energy should charge cost-covering prices ;
56. An incentive rate structure should eliminate reduced rates for higher consumption levels to create more equity ;
57. The use of energy saving technologies and renewable energy sources should be encouraged by providing subsidies and/or tax concessions to their providers and users, or by requiring power suppliers to invest in such technologies ;
58. Local or regional authorities should provide house improvement grants to private sector householders to fund the capital costs of energy conservation measures ;

Solid waste management

59. To reduce the amount of waste, waste management should work on the principles of avoiding waste and recycling ;
60. Waste collection charges should be introduced by all local authorities, and should directly depend on the amount of waste, providing an incentive for minimisation and reuse rather than disposal ;
61. The minimum standard is that waste charges have to cover the costs of collection services ;
62. A landfill levy charged on local businesses placing waste in landfill sites should provide an incentive for recycling rather than dumping ;
63. Although in the waste hierarchy recycling is seen as better than disposal, the ultimate goal should be avoidance and minimisation, therefore a recycling collection charge should also be considered ;
64. A local charge on packaging materials in order to reduce their usage should reduce their input into the waste stream ;

Traffic

65. Local and regional authorities should, as far as possible, limit road traffic, one of the main polluters in urban areas. The main financial instrument for attaining a reduction in traffic is the introduction of parking fees ;
66. It is also possible to levy a development charge on new building developments, related to the extra traffic that it is estimated to generate ;
67. Income from such fees and charges should be used to subsidise the price of public transport, in order to provide incentives for switching from unsustainable to sustainable modes of transport ;
68. In some areas local or regional tolls for road use may be justified, provided they do not result in an undue environmental strain on other (non-paying) roads ;
69. Where this is possible, local authorities should take responsibility for the enforcement of traffic offences (such as parking in restricted areas, urban speeding, etc.). Revenue from such charges should be used for reinvestment in sustainable forms of transport ;

Air quality

70. Whilst taxes on harmful emissions are usually implemented at national level, local authorities should also introduce a licensing charge, whereby firms pay a fee to their local authority for a licence to emit into the air ;
71. In accordance with the polluter pays principle, the licensing charges should be higher for the more polluting processes ;
72. Local and regional authorities should also charge businesses for administration and monitoring costs ;

Land use

73. Land use taxes should be implemented by local and regional authorities in such a way that they have an environmental guiding effect. Impact fees, facility fees and mitigation fees (e.g. for soil sealing) should be considered to mitigate the impacts (loss of open space, increased traffic congestion, increased demands for public infrastructure) assessed during the planning process ;
74. Since most development projects result in degradation and increased consumption of natural resources, it is justifiable to add an incremental surcharge onto existing permit fees to support local environmental programmes. On the other hand, local, regional and national authorities may provide incentives through grant aid or tax relief to reclaim derelict, vacant or contaminated land for environmentally sound development ;
75. Soil pollution should be minimised by charging polluters directly for the cleaning of contaminated land. The polluter pays principle is undermined if public money is used unnecessarily to clean up contaminated or derelict sites.

