Chapter 2
The Commission

2.1 The Commission and its mandate

The Green Tax Commission was appointed by the Solberg Government on 15 August 2014.

The composition of the Commission has been as follows:

- Lars-Erik Borge (Chairperson), Professor, Trondheim
- Brita Bye, Senior Researcher, Bærum
- Jørgen Elmeskov, Director General, Statistics Denmark, Denmark
- Marianne Hansen, Bank Manager, Steigen
- Michael Olaf Hoel, Professor, Oslo
- Ann Johnsen, Attorney, Oslo
- Knut Einar Rosendahl, Professor, Ski

The Commission was given the following mandate on 27 June 2015:

«A green tax shift is characterised by the refocusing of taxes onto environmentally harmful activities. The increased revenues generated by environmental taxes are used to reduce other direct and indirect taxes, primarily those that encourage poor resource utilisation. The commission is mandated to evaluate whether and how a green tax reform can be used to promote improved resource utilisation and the achievement of the objectives contained in the cross-party broad agreement on climate policy; see Innst. 390 S (2011-2012) (in Norwegian only). An ambitious national policy must help to reduce emissions globally. The term "improved resource utilisation" also covers the question of how environmental taxes can be used to reduce local environmental problems such as local pollution of air, water and earth, noise, the use of chemicals hazardous to the environment and human health, undesirable interventions in nature and activities that negatively impact the enjoyment of nature.

A fundamental prerequisite for the proper functioning of a market economy is that the costs of using different resources are factored into market prices. In an unregulated market economy, the consumption of environmental resources is under-priced, thus encouraging over-consumption. The market's failure with respect to environmental goods can be remedied by ensuring that the prices of goods and services also reflect environmental costs. The authorities can achieve this by imposing taxes on individual activities that reflect the associated environmental costs. Environmental taxes help to improve the functioning of markets.

The commission is required to apply the "polluter pays" principle in its work. Although this principle can be interpreted in various ways, the primary interpretation is that those who consume environmental goods should also bear the costs of environmentally harmful activity.

In principle, environmental taxes should be evaluated based on their environmental impact, irrespective of revenue potential. Accordingly, the primary purpose of such taxes – the correct pricing of environmentally harmful activities – must form the starting point for any discussion of their use. Nevertheless, the future revenue potential of environmental taxes must also be considered closely in the context of a green tax shift. Environmental problems mutate over time, and the emphasis on environmental conditions must be expected to increase as prosperity levels rise. Both these factors suggest that the revenue potential of environmental taxes may change over time.

The primary objective for the commission's work is to evaluate whether and how the increased use of climate and environmental taxes, in conjunction with reductions in other direct and indirect taxes, can secure lower greenhouse gas emissions, improved environmental conditions and sound economic growth. The commission is mandated to assess both the scope and level of current environmental taxes and whether they are having the intended effect. Further, the commission shall evaluate whether targeted environmental taxes can be introduced in new areas, whether any existing taxes should be repealed and whether other targeted changes can/should be made to the tax rules to promote the development and use of climate-friendly technology.

Several previous reports have pointed out that environmental taxes are a cost-effective environmental policy instrument. When considering the amendment of existing environmental taxes and the introduction of new ones, the commission shall compare these measures to other environmental and energy policy instruments such as emissions trading systems, electricity certificates, grant schemes, agreements and direct regulation. The commission should examine the coordination of the different instruments with the aim of ensuring that environmental targets are achieved efficiently. In this context, the commission should also conduct a brief assessment of local instruments such as congestion pricing. The commission should take into account, among other things, the assessments presented in the official Norwegian report on green taxes and policies for a better environment and high employment (NOU 1996:9 Grønne skatter – en politikk for bedre miljø og høy sysselsetting – Norwegian only), the official Norwegian report on the evaluation of excise duties (NOU 2007: 8 En vurdering av særavgiftene – Norwegian only), the white paper Norwegian Climate Policy (Meld. St. 21 (2011-2012)) and the recommendation on Norwegian climate policy made to the Storting (the Norwegian parliament) by the Standing Committee on Energy and the Environment (Innst. 390 S (2011-2012) – Norwegian only). The commission should also consider recent international studies of instruments for the efficient pricing of CO_2 emissions and environmental damage.

The commission shall make proposals regarding how environmental taxes can be designed to improve overall instrument use in the climate, energy and environmental fields and boost incentives to engage in environmentally friendly behaviour. The commission is also requested to evaluate whether increased use of environmental taxes can replace schemes that currently constitute expenditure items in the national budget, and whether there are subsidies and grants harmful to the environment that should be reduced. When assessing such proposals, the commission should take international framework conditions and guidelines into account, including the EEA Agreement. The commission should also discuss the question of carbon leakage, i.e. where greenhouse gas emissions are relocated to other countries. The commission may also consider other factors it deems relevant in the context of a green tax shift.

Increased revenues from environmental taxes and potential expenditure savings linked to the repeal of environmental measures and subsidies harmful to the environment may permit cuts to direct and indirect taxes that encourage less efficient resource allocation. Within a revenue-neutral framework, the commission shall evaluate the potential for securing socioeconomic gains by reducing other direct and indirect taxes.

The commission is requested to assess the overall short- and long-term consequences of a green tax shift, including the effect on emissions to air and other environmental impacts, overall activity levels, employment, industry structure and income distribution. Economic and administrative consequences shall also be examined.

The commission is to complete its work by 1 December 2015.»

2.2 The work of the Commission

The Commission has held twelve ordinary Commission meetings over the period from 11 September 2014 until 4 November 2015. In addition, an open meeting was held on 25 February 2015, with 76 registered participants from 36 different organisations. Nine organisations were invited to make brief, prepared presentations in relation to issues of special interest to the Commission. In addition, the meeting included an «open hour» towards the end, during which brief contributions were invited from the floor.

The Commission has received 22 written submissions in the wake of the open meeting. The written submissions have been posted on the Commission's webpage at www.regjeringen.no.[1]

[1] https://www.regjeringen.no/no/tema/okonomi-og-budsjett/skatter-og-avgifter/gronn-skattekommisjon/id2363991/

The Commission has, in order to obtain a better basis for its assessments, received and attended presentations of four reports, which are attached as electronic appendices (in Norwegian only):

- Appendix 1: Basis for a detailed assessment of ecosystem services tax (Vista Analysis)
- Appendix 2: Marginal external costs of certain environmental impacts (Vista Analysis)
- Appendix 3: Policy measures that may promote the development and use of environmental technology (CREE/Frisch Centre)
- Appendix 4: Reduced greenhouse gas emissions from the production and consumption of red meat: An analysis of policy measures using the agricultural partial equilibrium model Jordmod (Norwegian Institute of Bioeconomy Research)

The Commission has during its deliberations also attended presentations on marginal costs of road traffic (Kenneth Løvold Rødseth and Harald Thune-Larsen of the Institute of Transport Economics), on emission measurements (Henning Høie of Statistics Norway), on behavioural economics (Karine Nyborg of the University of Oslo and Mathias Ekström of the Norwegian School of Economics), on a joint solution with the EU on a new emission commitment for 2030 (Elen Alstadheim of the Ministry of Climate and Environment) and on agricultural subsidy schemes (Per Skjeflo of the Ministry of Finance).

The Commission extends its thanks to everyone who has contributed to enlightening the Commission.
The recommendations of the Commission are unanimous.