How could a pro-growth reform program be made deliverable by 2020,
and appeal to electorates and decision makers alike at the national and European level?

Getting out of secular stagnation and entering the 21st century economy: an energy tax revision to reduce debt, boost investment and employment and facilitate the adoption of other structural reforms

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Abstract

In a context of lack of confidence, depressed investment and aggregate demand as well as deflation risks, all of these phenomena occurring despite a conjunction of favourable factors (cheap oil, weaker euro and very accommodative monetary policy), we propose to take up the proposal of the European Commission to revise the Energy Taxation Directive, introduced in 2011 and withdrawn last year due to the opposition of the Parliament and the Council.

In an updated version, the energy tax would help the EU and its Member States clearing debts, lifting prices up to keep the scenario of deflation at bay and providing investors with more serious commitments about the Union's intention to decarbonize the economy and its will to support investment in such undertakings.

Collected additional revenue would also be employed to smooth the potential immediate losses incurred by energy-poor households, and as the next step invest in retrofitting or urban public transport to diminish "structural" energy consumption. Redistributive measures are to facilitate the acceptance of the proposal, whereas its almost universal character has to create a confidence shock among investors and consumers and lay the ground for a more fundamental shift in tax base from labour income to resource consumption, and ultimately property.

The reform should be presented before the beginning of the big electoral cycle in 2017, otherwise the possible victory of a strongly Eurosceptic party in one of the largest EU countries will block any kind of EU-wide solution to the economic crisis and the Union will remain stuck in a secular stagnation.

In early 2015, after years of economic slump, some analysts started to perceive a light at the end of the tunnel for the EU thanks to an alignment of three “stars”: a twofold drop of oil prices, a significant depreciation of the euro against the dollar and a very accommodative monetary policy, reflected not only in negative deposit facility interest rates, but also in the recourse to “unconventional” instruments such as targeted longer-term refinancing operations (TLTROs) and asset purchase programmes.

One year and a half later, while signs of recovery are indeed observable, the economy of the EU continues to underperform. True, its GDP rose by 2.0% in 2015 – the highest growth rate since 2010 – but the output gap is forecast to remain negative at least until 2017[1]. A study to be soon published by the ECB[2] stands that for the euro area, the output gap has even been underestimated and would be in reality closer to -6% than the -2% calculated by the European Commission.

The favourable constellation is not expected to change abruptly, nonetheless it is a conjuncture-linked phenomenon whose positive effects are to fade. Also, they cannot on their own address the output gap issue, which is in the EU partly explained by structural factors. The slowdown of other major economies such as China further weakens growth prospects in the EU, and the 2.0% performance of 2015 is unlikely to repeat itself in the next years[3].

Combined with the persistence of high unemployment – 9.5% in 2015 – and limited improvement to come[4], the pessimistic scenario of a “secular stagnation”[5] in the EU more

1. European Commission, *European Economic Forecast – Spring 2016*, Institutional Paper 25, Luxembourg, Publications Office of the European Union, 2016.
2. Jarocinski, Marek and Michele Lenza, “How large is the output gap in the euro area”, ECB Research Bulletin, July 1st, 2016, https://www.ecb.europa.eu/pub/economic-research/resbull/2016/html/rb160701.en.html (accessed July 18, 2016).
3. European Commission, *op. cit.*, p. 29.
4. *Ibid.*, p. 40.
5. Summers, Lawrence H., “Speech at the IMF Fourteenth Annual Research Conference in Honor of Stanley Fischer”, Washington, DC, November 8, 2013, http://larrysummers.com/imf-fourteenth-annual-research-conference-in-honor-of-stanley-fischer/ (accessed July 19, 2016).

than probable. The ECB, which has already shot most of its bullets, should not be this time much of a help, unless it starts dropping "helicopter money".

Such a measure, however, has never been experimented and in addition to financial risks, it would certainly create further divisions in the eurozone between "orthodox" countries like Germany and those which count on monetary policy because they cannot or do not want to use other tools, especially fiscal policy and structural reforms.

ECB's invisible money

Nonetheless, the discussion initiated *inter alia* by the "Quantitative Easing for People"[6] campaign stresses three important points. First, the ECB's current accommodative monetary policy provides little direct and tangible benefit for the majority of ordinary EU citizens. Designed at the beginning to avoid a credit crunch, it has evolved to preserve the integrity of the euro area by reducing sovereign bond spreads between Member States and thus, alleviating default risks of the weakest[7].

Of course, the consequences of a sovereign default and potentially, a breakup of the eurozone would have been terrible for the population. As many banks held government bonds, they might have become unable to honour their debts in relation to savers, like in the case of Cyprus. Salaries for civil servants, social transfers and public investment would have been on hold, while prices of imported products would have risen in proportion to the scale of devaluation.

Yet because this scenario did not eventually happen, the ECB has been in a sense victim of its success and rather than being grateful for avoided losses, a large part of the

6. "Quantitative Easing for People", http://www.qe4people.eu/ (accessed July 19, 2016).
7. Cour-Thimann, Philippine and Bernhard Winkler, *The ECB's non-standard monetary policy measures – The role of institutional factors and financial structure*, Working Paper 1528, Francfort, European Central Bank, 2013, pp. 10-18.

population has been paying more attention to actual difficulties, in particular unemployment, and has been blaming the EU as a whole for its alleged inaction or for giving more support to banks than to ordinary people.

Even if this dissociation is often misunderstood – taxpayers can also be bondholders, as the Italian example is showing –, one should remember that in order to build confidence, improve economic agents' expectations and pull up GDP growth, a economic programme should contain at least one measure with high visibility that directly affects (almost) everybody.

Insufficient investment

The second element rightly pointed out by campaigners in favour of "QE4People" is that public investment is insufficient in the EU. This feature was already noticed in 2014, when Jean-Claude Juncker was appointed President of the European Commission and introduced his Investment Plan for Europe[8].

Back then, Commission experts underlined that "*as a consequence of the economic and financial crisis, the level of investment in the EU* [had] *dropped significantly since its peak in 2007, by about 15%,* […] *well below its historical trend*". At the same time, they acknowledged that "*there* [were] *significant levels of savings and* [...] *high levels of financial liquidity that* [could] *be mobilised*". Therefore, for the Commission, "*the challenge* [was] *to put savings and financial liquidity to productive use in order to support sustainable jobs and growth in Europe*."

The Juncker plan is to unlock at least €315 billion of additional investment over the

8. European Commission, *Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank – An Investment Plan for Europe*, COM(2014) 903 final, Brussels, November 26, 2014.

next three years by raising private funding on the basis of €21 billion of public money or guarantees. The regulation establishing the European Fund for Strategic Investments (EFSI) was adopted in June 2015, meaning it has been in activity for about a year.

In a mid-term report[9] published in June this year, the Commission expresses its satisfaction that "*around 250 transactions have been approved under EFSI*", amounting altogether to €100 billion of investment. This can be seen as in line with the target of €315 billion in three years. Building on this success, the Commission would like to strengthen the EFSI and to extend it "*beyond the initial three-year period to address remaining market gaps and failures and continue to mobilise private sector financing in investments*."

However, one might interpret this invitation as a sign that investment levels will continue to be insufficient in 2018 and that public support will remain necessary afterwards. In fact, despite apparently impressive figures, the EFSI is bringing only about one third[10] of what would be necessary for the EU to fulfill its investment gap. For energy efficiency alone, the Union has to invest about €100 billion per year to meet its targets, and currently hardly the half of this sum is on the table[11].

While not all investment needs are expected to be covered by public money, private investors remain timid in spite of cheap and abundant liquidity on the market. The reasons are relatively well-known:

- debt levels (both public and private) are still high, if not on the rise for governments of certain countries, and this trend is not likely to reverse any time soon[12];

9. European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of Regions – Europe investing again. Taking stock of the Investment Plan for Europe and next steps*, COM(2016) 359 final, Brussels, June 1st, 2016.
10. Rubio, Eulalia, David Rinaldi, Thomas Pellerin-Carlin, *L'investissement en Europe : tirer le meilleur parti du plan Juncker – avec des études de cas sur les infrastructures numériques et l'efficacité énergétique*, Paris, Institut Jacques Delors, 2016, p. 7.
11. *Ibid*, p. 22.
12. McKinsey Global Institute, *Debt and (not much) deleveraging*, 2015, p. 29.

– policy instruments such as carbon pricing or support schemes are unstable and do not provide certainty on long-term directions[13].

Though it is true that the EFSI has developed an effective methodology which does not discriminate in terms of sectors or countries, its possible evolution towards a permanent instrument inclines to think, in a similar manner as with the ECB's unconventional measures, that the "crisis" is not going to end any time soon and that exceptional policies will stay in force as the new norm. This is confirmed by the Commission's latest forecast, which indicates that "*the pace of investment growth in the near term is expected to remain modest*."[14]

Serious deflation risks

The third argument put forward by "QE4People" is that the ECB has so far failed to bring inflation to the agreed target "below, but close to, 2% over the medium term". Despite a very accommodative monetary policy, deflation risks are still serious, negatively impacting investment decisions and the deleveraging process. If they turn true, then the secular stagnation hypothesis is likely to materialize for good. Market-based long-term inflation expectations provide little consolation[15].

For the sake of justice, the ECB does not bear the brunt of responsibility for this situation. Very low inflation rates and expectations are to a large extent driven by exogenous factors, in particular the sudden drop of crude oil prices. True, core inflation is also at a relatively weak level, but as the Commission observes, the gap between headline and core inflation has been widening. At the same time, the belief that oil prices will not rebound in

13. Egenhofer, Christian, Monica Alessi, Jorge Núñez Ferrer and Arndt Hassel, *Why the future of European renewables policy may be decided in Washington and not in Brussels*, Brussels, Centre for European Policy Studies, July 13, 2016.
14. European Commission, *European Economic Forecast...*, *op. cit.*, p. 33.
15. European Commission, *op. cit.*, p. 43.

the coming years has been creating second round effects, whereby core inflation expectations are pulled down by the energy factor, even though they are not supposed to take them into account.

Having said that, "QE4People" campaigners consider the ECB could act in a more decisive way by resorting to helicopter money. Though their diagnosis is mostly accurate, the proposed solution is, in our view, dangerous and may not necessarily lay the ground for robust, longer-term growth prospects.

Another, more specific policy instrument can address the three aforementioned issues at a lower risk while simultaneously contributing to reduce debt levels in the EU and initiating a structural (and very much needed) shift in tax policy – two major challenges on the path back to growth. The flagship measure of a pro-growth reform programme should be, in our opinion, a new attempt to revise the Energy Taxation Directive (ETD), in a similar spirit to the Commission's proposal[16] tabled in 2011 or more recently, President Obama's 21st Century Clean Transportation System[17] and his $10 per barrel fee on oil.

In the course of this essay, we would like to focus on the pros and cons of such an initiative and to formulate suggestions on how to make it appealing to electorates and decision makers alike at the national and European level. For a more comprehensive pro-growth reform programme, we refer to the numerous recommendations expressed by the Commission within the framework of the European Semester[18] and the OECD[19], as we agree

16. European Commission, *Proposal for a Council Directive amending Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity*, COM(2011) 169 final, Brussels, April 13, 2011.
17. The White House, "FACT SHEET: President Obama's 21st Century Clean Transportation System", February 4, 2016, https://www.whitehouse.gov/the-press-office/2016/02/04/fact-sheet-president-obamas-21st-century-clean-transportation-system (accessed July 21, 2016).
18. European Commission, "European Semester 2016", http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm (accessed July 21, 2016).
19. For example in the "Going for Growth" programme or annual Economic Surveys.

with most of them. In our view, the revision of the ETD is nevertheless linked to other, potentially unpopular structural reforms like increased flexibility on the job market or liberalisation of certain regulated professions as it can help raise revenue to compensate for losses incurred by particular social groups.

A revision of the Energy Taxation Directive

Let's recall that in 2011, the European Commission introduced a proposal to amend the ETD and define the tax base on CO_2 and energy contents. This would have allowed to better incorporate into price signals negative externalities linked to the use of fuels rich in greenhouse gas (GHG), in particular coal (for heating purposes) and diesel.

The revision of the ETD would have been a complementary measure to the EU ETS and would have covered sectors not concerned by the market-based scheme, which regulates less than half of the Union's total GHG emissions. At that time, the ETS was indeed still thought to be able to deliver incentivising prices to trigger low-carbon investments, a calculation that turned out to be wrong.

The Commission did not propose a full harmonization of energy taxes, only setting minimum rates and leaving to Member States the possibility to set higher levels as well as the choice on how to spend the money, be it on energy efficiency improvement, diminution of labour costs or non-distorting, targeted financial support for the poorest households.

Despite its limited ambitions, the Commission's proposal was first weakened by the Parliament, then blocked at Council until it was eventually withdrawn in 2015 when President Juncker's team took office. In a context of oil prices above $100 per barrel, both MEPs and ECOFIN ministers were reluctant to adopt a measure that would have led to an

increase of fuel prices, in particular diesel, even if additional revenue could have been redistributed through reduction of social security contributions to boost employment and income[20].

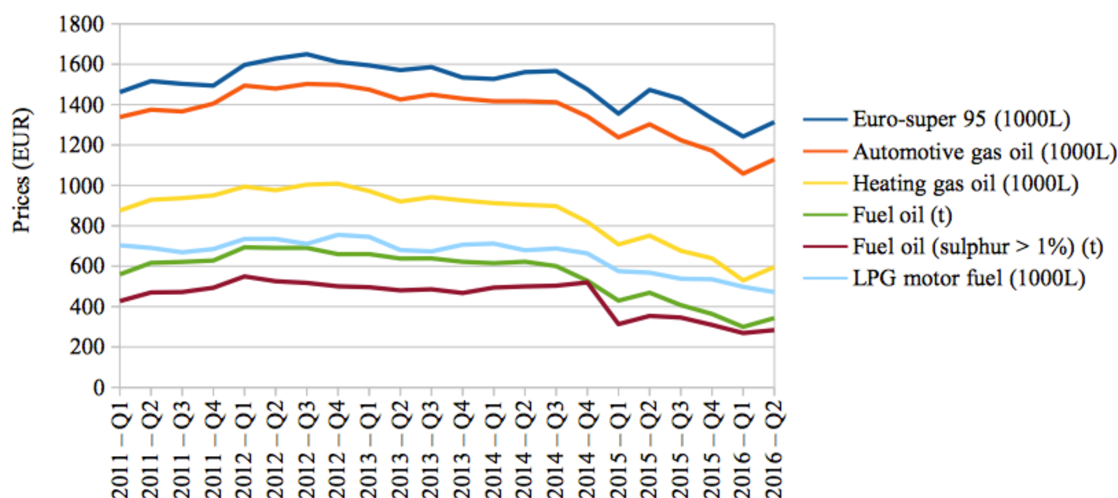
In 2016, the picture is different. Oil prices have fallen below $50, and though they will most likely rebound at some point, there is no consensus among experts to forecast when this will happen and what their future levels will be[21]. Looking at crude oil WTI futures prices, even by 2020 the price of the barrel is expected to remain below $60.

Chart 1: crude oil prices: Brent – Europe
Source: Energy Information Administration[22]

Chart 2: evolution of consumer prices of petroleum products, inclusive of duties and taxes[23]

20. European Commission, *Impact assessment – Accompanying document to the Proposal for a Council Directive amending Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity*, SEC(2011) 409, Brussels, April 13, 2011, pp. 28-29.
21. Klevnäs, Per, Nicholas Stern and Jana Frejova, "Oil Prices and the New Climate Economy", The Global Commission on the Economy and Climate, 2015, p. 4.
22. Retrieved from FRED, Federal Reserve Bank of St. Louis - https://fred.stlouisfed.org/series/DCOILBRENTEU (accessed July 23, 2016).
23. Author's own calculations based on the European Commission's Weekly Oil Bulletins - https://ec.europa.eu/energy/en/data-analysis/weekly-oil-bulletin (accessed July 23, 2016).

Evolution of consumer prices of petroleum products inclusive of duties and taxes (EU weighted average)



This gives the EU some time to take advantage of this bonanza, draw and enforce a credible deleveraging plan and invest in projects which will protect consumers and businesses from future oil and gas price hikes by developing a more resilient economy based on energy-efficient technologies and domestic sources.

For that purpose, the main idea behind our proposal is to revise the Energy Taxation Directive in accordance with principles laid out in the 2011 Commission's text, but with some differences to take into account the current economic context in the EU and the situation on world energy markets.

Though energy taxation should indeed integrate a CO_2-based component and a distinct part calculated from the energy content of a given fuel, the CO_2-based component would be set at a level compatible with EU objectives in terms of reduction of GHG emissions. Its trajectory would be defined in advance in order to provide consumers and businesses with clear and predictable price signals and trigger low-carbon investments, for instance in environmentally friendly stoves – a major issue in Poland – or fuel-efficient cars.

In 2011, the Commission suggested to set the minimum rate of the CO_2-based component at €20 per ton of CO_2 across the EU. This is consistent with the level of carbon tax adopted in certain Member States such as Ireland, the United Kingdom or France[24] and can be an acceptable starting point. However, it should increase by about 5-10% per year to reach about €50 by 2030[25], accompanying the EU towards its 40% reduction target of GHG emissions at that date.

Since world oil prices are very volatile and difficult to forecast, some flexibility should be sought on the side of the tax part linked to the energy content of the fuel. In this regard, the most important element is that calculation turns blind to the type of fuel and only focuses on the energy content. However, minimum rates need not be uniform in the entire EU as there are differences in wealth levels across the Union.

Flexibility should also be understood in a time perspective. In other words, the energy content-based part of the tax should be floating – above of course a minimum level – in order to smooth the effects of possible price shocks on world commodity markets. Such a solution was experimented in France in the years 2000.

As a target for the beginning period of implementation, we recommend the energy content-based tax rate to be set at a level which will bring back final consumer prices of petroleum products at least to the pre-2014 situation. Because the scope of the ETD does not cover only road fuels but also heating fuels, including coal, and because price increases will most likely affect demand, projections of revenue raised according to different price scenarios requires the use of a complex model that goes beyond the limits of the present

24. Alberola, Emilie, Benoît Leguet and Pierre Ducret, “Mettre un prix sur le carbone – Accélérer le dialogue : un défi pour les gouvernements et une demande des entreprises”, Paris, Institute of Climate Economics, 2015, p. 4.
25. Canfin, Pascal, Alain Grandjean, Gérard Mestrallet, “Propositions pour des prix du carbone alignés avec l'Accord de Paris”, Report to Ségolène Royal, Chairman of the COP 21, 2016.

essay.

Nevertheless, based on the Commission's impact assessment for the 2011 revision proposal[26] – at a time when crude oil prices were higher than today – and newer studies, yet more limited in scope[27], we can find out a gross range of how much additional revenue the measure would generate: at minimum €40 billion for the whole EU.

Less "structural" consumption

What would be the expected effects of this revised energy tax? First, it should partly absorb the negative impact of falling oil prices on inflation rates, helping the ECB to repel the risk of deflation. Greater predictability of consumer prices for petroleum products should also weaken second round effects and contagion of core inflation statistics by energy-related phenomena.

Second, it should limit the rise, or even decrease fuel consumption, leading to lower imports of crude oil. Rebalancing prices between gasoline and diesel will at the same time put an end to a European exception advantaging the latter, despite its greater adverse consequences on air quality and the fact that the EU, whose refinery sector produces more gasoline, must cover about 10% of its diesel consumption with imports, mainly from Russia[28].

Third, as consumers and businesses will be certain that higher prices are to stay, they will be more likely to change behaviour and to invest in equipment and services such as energy audits and insulation that will lead to "structural" energy consumption reduction. While relatively short episodes of high prices might encourage people to travel less or to

26. European Commission, *Impact assessment...*, *op. cit.*, p. 27.
27. For example Transport & Environment, "Europe's tax deals for diesel", Brussels, 2015.
28. FuelsEurope, "Statistical Report 2015", Brussels, 2016, p. 19.

tolerate lower temperatures at home, with the risk that these gestures will be forgotten once energy becomes cheap again, longer periods of high prices bring about structural changes that are unlikely to be reversed in the future – after having installed energy-efficient windows, few people would remove them, even if fuel gets more affordable.

Not everyone, however, will be able in an easy fashion to shift to public transport to commute or to improve insulation of their homes. In fact, at their current levels, energy prices are already very high for a large number of people who, for this reason, must spend their evenings in the cold. This phenomenon, called fuel or energy poverty, would concern in the EU over 50 million citizens[29], and probably more if we retain a different definition based on the share of income spent on energy and take into account transport-related expenses. That leads us to the most crucial point of the revised energy tax proposal, i.e. what to do with additional revenue?

In the Commission's plan, some suggestions were made to Member States on how to spend additional revenue coming from the reform of energy taxation, but the authors abstained from inserting binding provisions or linking their project to the EU budget. In other words, energy taxation, already a sensitive subject among Member States, was not to give birth to a real EU tax that would have provided the Union with a new own resource.

In our view, while some leeway should be left to national Parliaments and governments on picking up their own priorities to recycle the product of the new tax, there are some areas of common interest where European institutions should be able to set some limits to this room for manoeuvre.

29. Pye, Steve, Audrey Dobbins, "Energy poverty and vulnerable consumers in the energy sector across the EU: analysis of policies and measures", INSIGHT_E, 2015.

First priority: clear debts

As mentioned before, debt levels – public and/or private – are still very high in certain Member States and contribute to paralyse investment. For countries with major budgetary difficulties, a part of the tax should be employed at clearing debts. The earmarked character of the additional resource and its relative predictability should reassure bondholders about the credibility of the deleveraging path and reduce borrowing costs during rollover operations.

In an ideal scenario, instead of leaving every Member State pay back its own debt thanks to revenue generated by the revised energy tax, a redemption fund would be created – rather for the eurozone than for the entire EU – and would take over liabilities above a certain percent of national GDP, for example 60%[30].

This would remove a heavy burden from Member States' shoulders and probably restore confidence among economic actors. At the same time, borrowing costs would be even lower since the eurozone as a whole is comparatively less in debt than other advanced regions of the world and would enjoy better credentials thanks to the participation of low-risk countries like Germany.

Besides government bonds, Members States and the European institutions should examine on a case-by-case basis whether other types of debt should be cleared through such kind of mechanism. It could be for instance part of the non-performing loans currently threatening the Italian banking sector – though shareholders, even small ones, will also have to take their part of losses in the end – or, among non-euro countries, the issue of borrowers having signed for mortgages in foreign currencies like Swiss francs.

Though in terms of "moral" responsibility, one may object that these situations are the

30. German Council of Economic Experts, "The European Redemption Pact: An Illustrative Guide", Working Paper 02/2012, 2012.

result of wrong decisions from individuals or their governments and therefore, that they should not be addressed at the EU level, political realism shows that it is a lesser evil to work out a solution allowing an organized and effective exit from the problem, even at the cost of economic orthodoxy, instead of letting populist parties take up these social demands and answer them in their own – and usually dangerous – way.

Redistribution imperative

A second keyword that should be kept in mind when recycling energy tax revenues is redistribution. We have deliberately chosen to a version of the tax that directly applies at the level of consumer prices and not, as it is the case for example in President Obama's proposal, to tax oil companies. While this is likely to be neutral in terms of revenue, oil companies being tempted to pass the tax onto consumers, from a political and economic point of view the difference is significant.

One must admit that taxing oil companies is politically easier to sell to voters than a hike of consumer prices, all the more as oil majors are usually not very popular. Yet, targeting them would be seen as a move mainly motivated by the perspective of revenue, whereas setting a tax that would directly impact almost everyone would have more chances to trigger behavioural change. If the plan is adopted, it will also send a strong signal to the business community that political authorities are determined and are ready to take long-term commitments.

The flip side of the coin is that a share of revenue should return to households in a tangible way, so that they feel the reform is fair and for the poorest, that they have a chance to escape a further deterioration of their financial situation. This aspect is comparable to recommendations given to countries willing to phase out energy subsidies.

Here, a lot of attention should be paid to specificities of each Member State and their particular needs. In some of them, the most urgent measure to adopt would be to substitute social security contributions in order to decrease labour costs and boost employment while in others, health and financial risks linked to energy poverty are so high that governments should as a first step grant energy checks to the most vulnerable households and lift them at a later stage, when retrofitting progammes will have curbed structural energy needs.

Generally speaking, taxing resource consumption rather than labour and income is fairer from a perspective of social equality and is more favourable to growth[31]. Nonetheless, this might not be the case at the very moment of the tax reform, hence the need for political authorities to gradually introduce it and to accompany it with compensating measures during the adjustment period.

Under this section, an ideal scenario would be to further reduce the number of exemptions applied in some countries for certain sectors and professions, for instance lorry or taxi drivers. This type of exception is harmful for the environment and for economic competition as it creates distorsions between alternative modes of transport, e.g. road and rail freight or, in France, licensed taxis and so-called "VTC".

Again, for the reform to be socially acceptable, all exemptions cannot be withdrawn overnight. However, the draft directive would set a clear calendar and leave to Member States the possibility to recycle tax revenue to finance transitional compensating measures. These negotiations could extend to other structural reforms, and tax reform would then be part of a global package to liberalize a sector or a profession. The example of French taxis is very telling, as no governement has been able since the 1960s to really open this market[32].

31. Arnold, Jens, "Do tax structures affect aggregate economic growth? Empirical evidence from a panel of OECD countries", OECD Economics Department Working Paper No. 643, 2008.
32. An interesting method on how to change this state of fact has been described in Delpla, Jacques and Charles Wyplosz, *La fin des privilèges : payer pour réformer*, Paris, Hachette Littératures, 2007.

Stimulate investment

The third and last possibility to use the revenue of the revised ETD is public investment. Though we have acknowledged the existence of a large investment gap, in our opinion it is most of all due to a lack of confidence, aggregate demand and clear price signals rather than missing money in the economy. For this reason, we consider it is more important to clear debt first – to restore trust and give some oxygen to public budgets overburdened by repayments – and to design direct redistribution mechanisms, a *sine qua non* condition for political acceptability.

As with the EFSI, in the current context there is a non-negligible risk that new resources for public investment would simply finance projects which would have been anyway realized by the private sector, even without public support – the dead-weight effect. At the same time, it is important to remember that not all countries start on the same page in this regard.

For example, in 2010, France settled a "General Commission for Investment" endowed with €47 billion[33]. Also, Central and Eastern Europe countries still receive a big shot of money thanks to the EU "ordinary" Structural & Investment Funds (ESIFs) – €454 billion for 2014-2020[34].

Therefore, the insufficiency of public investment is quite unequal across the EU and revenue generated by the revised energy tax should be employed in such a way that does not substitute private funding or negatively impact the quality or efficiency of the investment.

Having in mind the origin of the tax and the salience of the redistribution dimension, we advise that if it has to be re-invested, revenue should go in priority to energy and

33. Premier ministre, "Le Commissariat général à l'investissement", http://www.gouvernement.fr/le-commissariat-general-a-l-investissement (accessed July 26, 2016).
34. European Commission, "European Structural & Investment Funds", http://ec.europa.eu/contracts_grants/funds_en.htm (accessed July 26, 2016).

transport, where savings in terms of money but also GHG emissions are major. The resources could either add up to existing programmes or be spent under a fast-track procedure that would guarantee the money supports projects which fulfill an urgent need or have a very good ratio between costs on the one hand, and on the other visibility, usefulness for the general public and time for completion. That could be in practice urban public transport or home retrofitting projects.

Conclusion

Having arrived at the end of this essay, one might wonder, in the absence of more precise data, whether the proposed revision of the ETD and the few tens of billions of euros it is expected to generate can really generate such a impactful snowball effect as described above.

Though a tax is not a full programme, we think a first step on the path of adapting European fiscal systems to the logic of the 21st century is vital to make our economies more competitive in a globalized word but also more sustainable, particularly in terms of resource efficiency and GHG emissions. From this perspective, an overhaul of the ETD should have a high psychological power and carry out the value of example for further shifts to taxation systems based on resource consumption and ultimately, property, rather than labour income.

Also, the mentioned figure of €40 billion is a conservative evaluation which does not factor in the current price of the barrel and the evolutionary character of the CO_2 component. While a target of €100 billion is certainly irrealistic, about €50 billion of fresh money in a context of extremely low interest rates and with clearer price signals regarding carbon finance can lead to much larger investments decided by the private sector. The International Energy Agency (IEA) claims for example that one euro invested in energy efficiency can deliver a

return up to four times bigger[35].

For its own proposal, the Commission calculated at that time that besides additional revenue, it would create one million jobs, increase GDP by 0.27% and reduce CO_2 emissions by 3.5% by 2030[36]. This would be a significant contribution to the EU goal of diminishing by 30% GHG emissions in the non-ETS sector by 2030[37].

Benefits seem to be clear and their evidence is supported by a large member of institutions, however the most difficult part will be to convince citizens that taxation is part of the solution. For a reform of this type, taking into account the current moods in the EU regarding the institutions, it might not be a good idea for the Commission to take the front seat.

A more feasible way would be for the Commission to circulate among Member States a non-paper showing a policy scenario and its concrete advantages. It should also be ready in advance to integrate some other elements that might be helpful to convince them, in particular links to national problems such as foreign currency mortgages or non-performing loans.

We have to keep in mind that not all of the EU needs to participate in such a scheme. It could be a good move to give a new impulse to European integration after the Brexit. Considering the benefits and in the opposite way, the threat of a Japanese-style lost decade if fiscal instruments are not used[38], a compromise should be achievable.

35. International Energy Agency, *Capturing the Multiple Benefits of Energy Efficiency*, Paris, OECD/IEA, 2014, p. 7.
36. European Commission, *Impact assessment...*, *op. cit.*.
37. European Commission, "Factsheet on the Commission's proposal on binding greenhouse gas emission reductions for Member States (2021-2030)", Brussels, July 20, 2016, http://europa.eu/rapid/press-release_MEMO-16-2499_en.htm (accessed July 26, 2016).
38. Bank of International Settlements, "86th Annual Report – 1 April 2015–31 March 2016", Basel, June 26, 2016, pp. 85-86.

The European Council would then ask the Commission to introduce its proposal at the beginning of 2017 at the latest. Next year is an important election year with possible power shifts in France and Germany. Though it might be counter-intuitive to launch a potentially very unpopular initiative at the very end of a mandate, immobilism in France has been providing even more arguments to Eurosceptic and Europhobic parties accusing the EU of being impotent.

The revision of the ETD would be an EU initiative but would have to be “sold” by national governments to their Parliaments and electorates. Therefore, they will have to stress that additional revenue would directly benefit citizens and that it is not an EU tax “feeding Brussels”, even if deleveraging and boosting investment at home has positive consequences for the whole EU.

Conversely, muddling through a climate of incertainty and lack of appetite is damageable for the Union in its entirely, and missing the 2017 window of opportunity would mean taking the risk of having a large country governed by a Eurosceptic group which will block all types of EU-wide solutions to the crisis.

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