Executive summary

Promoting green growth requires well-designed institutions and environmental policy instruments that are effective in achieving their environmental objectives without imposing excessive burdens on the economy. There is growing recognition in OECD countries that economic instruments such as environmentally related taxes can be effective in stimulating a shift to less-damaging forms of production and consumption while providing producers and consumers with flexibility in making these adjustments. Behavioural changes stimulated by economic instruments may lead to the creation of new jobs and employment opportunities. Investments in new "cleaner" technology can be an important source of employment and business development. Where economic instruments generate revenues, the appropriate deployment of these revenues can also make a significant contribution to enhancing incomes and growth.

This policy manual considers the potential use and implementation of product-related economic instruments as part of a portfolio of environmental policy measures.

Product-related instruments are those which regulate the sale and use of products, rather than those directed at environmental aspects of production. Four broad categories of product-related economic instruments are discussed:

- ***Environmentally related product taxes***, levied on the sale of a product or group of products. These include taxes, such as those on motor fuels and other energy products, with an important environmental dimension, even if the principal purpose of the tax is revenue generation.
- ***Tax differentiation***, under which existing revenue-raising taxes are adapted to reflect environmental objectives, increasing the rates of tax on "dirty" goods and/or reducing the rates of tax on "green" goods to achieve behavioural changes in production or consumption.
- ***Deposit-refund systems (DRS)***, which are used to recover product packaging, drinks containers, or end-of-life products, especially those which would be hazardous or toxic within the general waste stream.
- ***Extended Producer Responsibility (EPR)***, under which various obligations are imposed on producers, either individually or collectively, e.g. to recover and recycle end-of-life products.

A crucial early step in developing policy towards product-based economic instruments is selecting instruments which are appropriate to the relevant environmental problems and policy objectives, and which are capable of achieving the required environmental improvements. The various product-based economic instruments covered in this document all have strengths and weaknesses which make them suitable for use in certain contexts and applications and less effective, or more costly or burdensome to the economy, in others. Much greater impact is likely to be achieved if a small number of products are targeted by carefully designed instruments than if product-based instruments are applied to a large number of products.

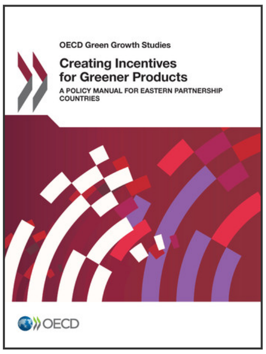
The experience of OECD countries suggests that the use of some product-based economic instruments has been more successful than others, and that there may be potential to successfully apply economic instruments beyond the products covered by OECD experience. However, the pattern of OECD experience reflects some underlying strengths and weaknesses of these instruments, which have meant that the majority of the applications lie in a relatively small number of fields:

- Taxes on ***motor fuels, other energy products, and on motor vehicles***. Together these account for well over 90% of all revenue from environmentally related taxes in OECD countries.
- Taxes, deposit-refund systems and EPR applying to ***packaging products and materials***;
- Taxes, deposit-refund systems and EPR applying to ***products liable to generate hazardous wastes***, such as batteries, used motor oils, pesticides, fertilisers and certain electrical and electronic goods.

Within the broad pattern of existing applications of product-based economic instruments, it can be seen that the instruments fall into two broad groups:

1. ***Instruments directed at achieving behavioural changes in consumer purchasing behaviour.*** Taxes on the sale of products have their main effects through changes in consumer purchasing behaviour and in the supply of products by firms. The higher tax will increase the price of "dirty" goods to consumers, and reduce the profitability of producers of these goods, encouraging both to shift to cleaner alternatives.
2. ***Instruments directed at achieving changes in waste generation and waste management.*** Taxes can be used to discourage the sale of certain products that involve high costs of end-of-life waste management – such as polluting batteries – and to encourage consumers to switch to alternatives (such as rechargeable batteries). However, deposit-refund systems and EPR can be targeted more precisely to achieve separation of wastes so as to promote greater re-use, recycling or the safer waste management of particularly hazardous materials.

The policy manual lays out the key principles that will help to ensure the environmental effectiveness of these instruments, addresses main design issues and legal and institutional arrangements for their implementation.



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