

Foreword

Over the last few decades, it has been proven that environmental taxes can be effective and efficient instruments for environmental policy. Environmental taxation contributes to environmental improvements by introducing a price signal that reduces the demand for environmentally harmful products or helps insure that polluters take into account the costs of pollution on the environment when they make production or consumption decisions. However, in spite of the many advantages of environmental taxes, their use has been relatively limited in many countries.

The limited use of environmental taxes as a policy instrument can partly be explained by the fact that policymakers often fear that environmental taxes have a negative impact on income distribution or on the international competitiveness of the domestic industry; typically the most polluting energy intensive sectors of the economy. In general, there are different ways to address such concerns without compromising the environmental benefits of environmental taxation, for example, imposing similar costs on foreign products through the use of Border Tax Adjustments which are duties charged at the border on imported products.

In practice, environmental taxes are seldom used in complete isolation. They are applied in combination with other regulatory instruments or packages of instruments. Thus, the current picture of national policies on climate change, energy transitions and the environment is often a patchwork of different policy instruments. In general, there is a critical lack of knowledge on how such different policy instruments interact and work together. Therefore, it is important to examine the impact of different policy mixes, including environmental taxation, in order to identify effective and efficient combinations of policy instruments.

Volume XVI of *Critical Issues in Environmental Taxation* gives a comprehensive discussion of these issues and of recent research on the environmental and economic impact of applying environmental taxes. In particular, it discusses the high potential for a wider use of environmental taxation in combination with other policy instruments, provided that such

environmental taxes are well-designed and that their potential impact on international competitiveness and income distribution are properly addressed.

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