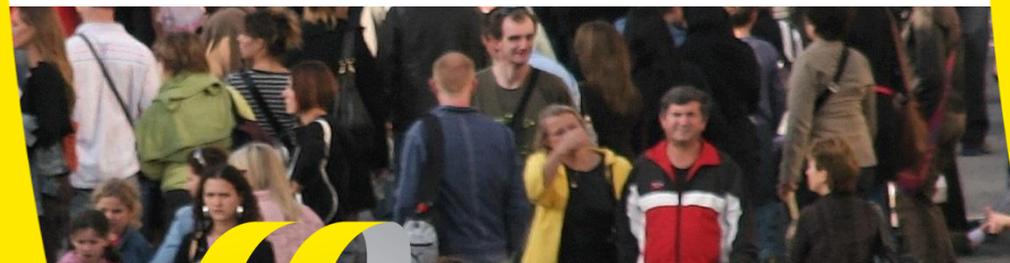




Financial policy instruments for sustainable wood

Study for the Dutch government and wood
trading sector



CE Delft

- Independent research and consultancy since 1978
- Transport, energy and resources
- Know-how on economics, technology and policy issues
- 40 Employees, based in Delft, the Netherlands
- Not-for-profit

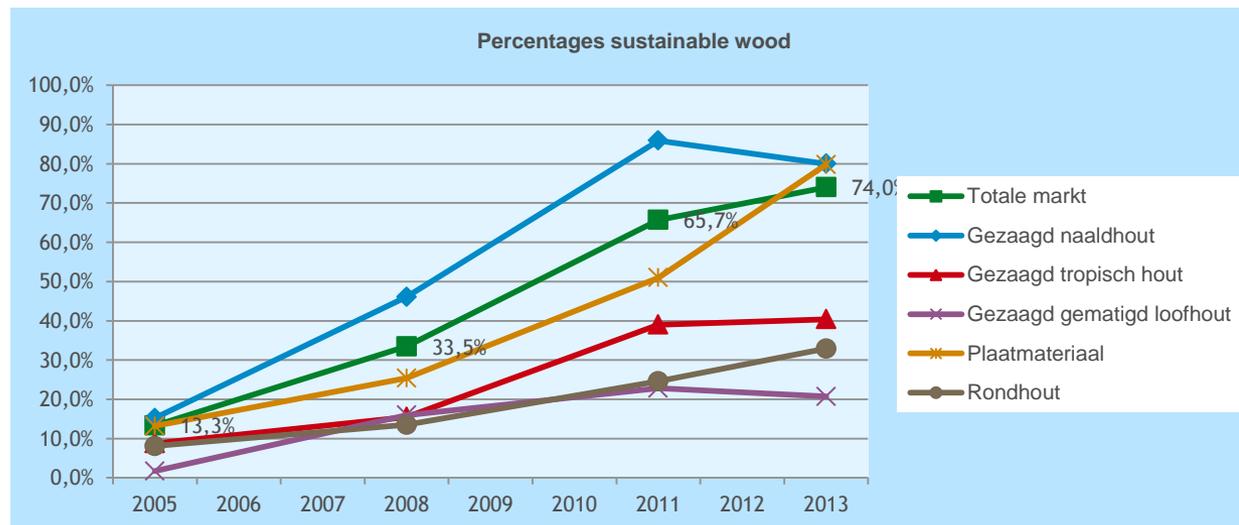
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Why this study (update of study in 2009)

- Sustainable wood is key issue in Dutch biodiversity policy
- Earlier study Probos: Differences in prices between sustainable and non sustainable wood is important factor for delay in increase of sustainable wood
- Price differences vary between 0 and 25-30% price (especially tropical)
- Percentage sustainable wood differs per type of wood and does not increase any more



Definitions

Sustainable wood: Wood considered as sustainable by the Dutch TPAC commission (this is better than legal)

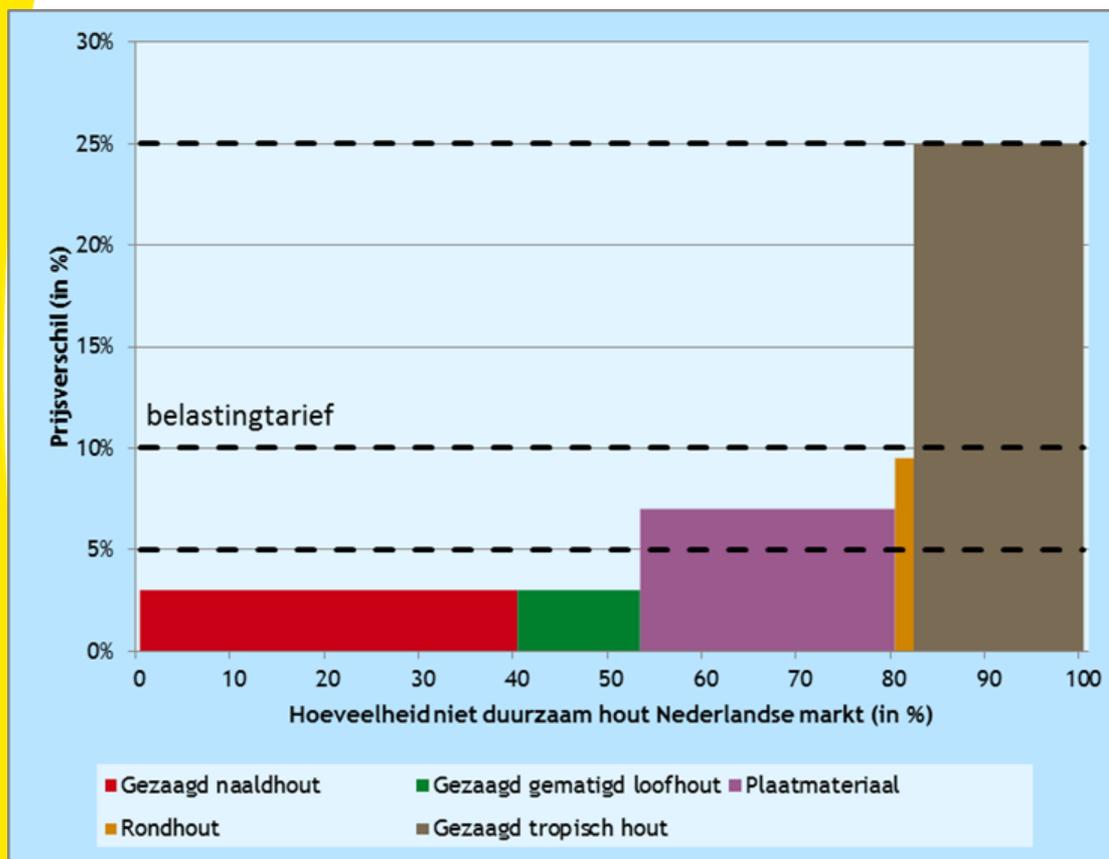
Legal wood: Wood legal on the EU market

Wood and wood products: Preference to include paper. Proposal is to follow the EU Timber regulation which includes more and more wood products.

Administrative costs: In 2009 the Dutch government saw this as a hurdle for economic instruments.

In 2015 the EU Timber regulation asks for wood administration so extra costs for a sustainability administration are low.

Price curve and effectivity of economic instruments



5% price difference can halve non sustainable wood amount

10% price difference can lower non sustainable amount with 80%

20/25% price difference can make all wood sustainable in a few years

Different options

Short term options:

- 1 A private fee on non sustainable wood combined with a bonus for sustainable wood (bonus/malus system)
- 2 Extra options for tax cuts on sustainable forestry under the Dutch tax law (Green investments, MIA, VAMIL)

Longer term options:

- 3 Differentiations in EU import taxes on wood based on sustainability of wood (possible after WTO agreement on “green good agreement)
- 4 A VAT tax cut on sustainable wood after changing EU rules for VAT tax cuts

Possibility with more materials included:

- 5 Tax on non sustainable wood in the Netherlands including more materials (steel, concrete, plastics, etc.)

Results short term options

1 A private fee on non sustainable wood combined with a bonus for sustainable wood (bonus/malus system)

- The example of the Public-Private fee on packaging and the packaging fund for funding recycling can be followed
- The government has to oblige all companies to participate in the system (legally this is in principle possible but some laws has to change)
- The bonus can be very specific to support categories of wood where the price differences between sustainable and non sustainable are large

2 Extra options for tax cuts on sustainable forestry under the Dutch tax law (Green investments, MIA, VAMIL)

- Interesting for only a part of the wood market
- Can be included in a package deal with the private fee

Results longer term options

3 Differentiations in EU import taxes on wood based on sustainability of wood (possible after WTO agreement on “green goods”)

- Can improve sustainability of wood all over the EU
- Can be used for more materials
- Can help preventing ETS material leakage
- Interesting way to fund the EU

4 A VAT tax cut on sustainable wood after changing EU rules for VAT tax cuts

- Currently not allowed by EU tax rules
- UK has lost court case about low VAT on solar panels
- Interesting instrument to use temporarily

Last option: A tax on non sustainable resources

5 Tax on non sustainable wood in the Netherlands including more materials (steel, concrete, plastics, etc.)

- Tax only on non sustainable wood too low and unstable to be acceptable for the Dutch Ministry of finance
- Tax only on non sustainable wood raises questions on the competition with other non sustainable materials
- A more general tax on non sustainable resources is discussed in the Netherlands but most stakeholders prefer a European solution

Recommendations:

- 1 Develop in the Netherlands a private fee system on non sustainable wood including a bonus system for sustainable wood for 2016-2020
- 2 Enlarge the options for tax cuts for sustainable wood (production)
- 3 Lobby in the WTO discussions for a “green good agreement” with possibilities for variations of import tariffs based on sustainability
- 4 Lobby in the EU for differentiations of import tariffs based on sustainability
- 5 Lobby in the EU for the possibility of differentiations in the VAT based on sustainability
- 6 Include wood in a broader tax study on non sustainable resources (shift tax from labour to resources)

Pro's and cons best option 2016

Private economic instrument

Pro:

- Transition to 100% sustainable wood possible
- Sustainability image of wood improved
- CSR risk addressed
- Both the malus and the bonus strong steering options
- No nett price increase compared to other materials

Con:

- Administrative costs (reasonable cause of the EUTR)
- Fraud and free-riders
- An organisation has to be established
(can be copied from the packaging waste fund)

International lessons from this Dutch study:

Interesting economic instruments for support of sustainable wood:

- 1 Higher EU import tariffs for non sustainable wood (and other materials)
- 2 Differentiation in VAT in member states for sustainable and non sustainable products

Necessary for this policy transition:

- A “green good agreement” in the WTO
- EU agreement on the option for differentiation of VAT based on sustainability (now social and culture only exception)
- Support for a shift of taxes from labour to non sustainable materials

For the short term now possible:

- 3 Private systems in EU member states with bonus malus system for sustainable and non sustainable wood (similar to packaging schemes)

Thank you

More information bergsma@ce.nl

or www.cedelft.eu

Table discussion:

1. Which of the options presented by CE Delft are the most promising to your opinion and what can you do or what is needed to help establish this option?
2. How can the private sector promote sustainable tropical timber in tenders?
3. Are there any financial incentives / instruments in your country which favor sustainably sourced timber over 'regular' timber? And if so, what are the experiences?
4. Which incentives are needed to ensure a fair price is paid for sustainable tropical timber?

Table discussion:

- App. 15 min table discussion
- 2 key insights shared in break-out
- Selection key insights shared plenary

