



CASE STUDY

Economic policy targets polluters

Thailand's initiative on environmental tax reform

Key point

- *With increasing environmental degradation and rising demand for a better environment, the Thai Government realized its pollution policies needed to include changing consumer behaviour by strengthening economic policy instruments.*

There was a one-sided focus...

Until recently, environmental taxes in Thailand have largely focused on pollution control and management rather than on changing behaviour. Among them were fees on industrial wastewater pollution (since the late 1980s) and a small excise tax on petroleum products (since 1991).¹ During the 1990s, the country has effectively eliminated lead from petrol products by charging gasoline tax based on lead content.² The taxing, however, was not significantly affecting consumer behaviour.

What was done?

To establish a legal framework for a more comprehensive and integrated approach, the Government drafted the Act on Economic Instruments for Environmental Management, which proposes a central governing committee to be chaired by the Minister of Finance and whose members would consist of senior officials from the Ministries of Natural Resources and Environment, Industry, Interior and Public Health as well as representatives of the private sector and local governments, experts and academia. The institutional framework would allow determining, in an integrated and multi-sectoral manner, the appropriate economic instruments for different purposes and appropriate administration of the funds derived. In October 2010, the cabinet agreed in principle with the proposed fiscal measures for the environment bill.

The Act combines a variety of economic instruments, including environmental tax, user fees or charges for pollution management, product surcharge, performance bonds, tradable permits, subsidies and other support mechanisms under one law and allows product prices to include end-of-life management fees.

In this context, in mid-2011, the Excise Department of Thailand announced a "green tax" proposal. A number of measures were selected to strengthen the environmental protection by enforcing the "polluter pays" principle. For instance, the excise taxes on cars would be determined by their carbon emissions rather than engine size.³ Oil excise tax will also shift towards a carbon emissions base from volume. Air conditioners would not be exempt from taxation anymore, and the tax rates will depend on their energy-efficiency performance. Products, including such environmentally harmful substances as oil lubricants, pesticides, tyres and packaging, would also be taxed.

Revenue recycling for greening the economy

Part of the revenue collected through the green taxes will be earmarked for a newly established environment fund. While the vehicle and fuel taxes are expected to become higher in the short term with the introduction of

¹ Background information from the Fiscal Policy Office of Royal Thai Government shared at the South-East Asian Training of Trainers Seminar on Green Growth Policy Tools for Low-carbon Development, from 31 August to 5 September 2009, Kanchanaburi, Thailand.

² AEA Technology, *Promotion of Market-Based Instruments for Environmental Management in Thailand*, Report for the Asian Development Bank (London, 2001).

³ Wichit Chantanusornsiri, "Green Tax Could Affect Many Sectors", *Bangkok Post*, June 23 2011. Available from: www.bangkokpost.com/business/economics/243554/green-tax-could-affect-many-sectors (accessed 24 February 2012).

the new taxes, the resulting reduced use of carbon-emitting products and the development of low or zero-emission technologies will mitigate economic and environmental impacts in the longer-run.

Expected results

The Government is in the process of implementing a ten-year Alternative Energy Development Plan (2011–2030) and a 20-year Energy Efficiency Development Plan (2011–2030), with the goal to increase the share of the alternative energy sources up to 20 per cent of the country's total energy use by 2021. Through these efforts, the country aims to reduce the greenhouse gas emissions by 205 million tons by 2030.⁴

Further reading

"Environmental Taxes in Developing and Transition Economies", by Randall A. Bluffstone, *Public Finance and Management* (2003), Winter. Available from:
http://findarticles.com/p/articles/mi_qa5334/is_1_3/ai_n29064767/?tag=mantle_skin;content.

Promotion of Market-Based Instruments for Environmental Management in Thailand, Report prepared for the Asian Development Bank (London, AEA Technology, 2001).

⁴ Pithaya Pookaman, "Statement", presented at the High-level Segment of the UNFCCC 2011 COP17 and CMP 7, Durban, 8 December 2011. Available from http://unfccc.int/files/meetings/durban_nov_2011/statements/application/pdf/111208_cop17_hls_thailand.pdf (assessed 24 February 2012).