

# Environmental Taxation in Viet Nam

## Tackling Environmental Problems and State Deficit with Economic Instruments

### The challenge

Viet Nam is one of the fastest growing economies in South East Asia with an average growth rate of 5.91% for the period of 2011-2015. However, the growth in Viet Nam has followed a carbon-intensive path which brought pressures on the environment, increasing exhaust fumes, noise pollution and growing problems of solid waste disposal and waste water sewage. As a lower middle-income country Viet Nam needs to accelerate its efforts towards a green economy

Against this background, the then Vietnamese Prime Minister Nguyen Tan Dung asked already in 2004 for an environmental tax law to be introduced by 2012. Environmental taxes are part of economic instruments such as marketable permits, refund systems, subsidies and performance bonds. The advantage of economic instruments is that they use market signals (prices) rather than regulations to create incentives and disincentives for consumers, producers, and service providers to shift to environmentally friendly production and consumption patterns. They do not substitute but rather complement and strengthen regulatory and other approaches in the respective policy area.

### Our approach

The Vietnamese-German development cooperation in the context of public finance can build on more than 20 years of trustful partnership with the Ministry of Finance, from 2005 – 2014 as part of the Macroeconomic Reform Programme. From 2015 the Programme “Macroeconomic Reforms/Green growth” builds upon the achievement of earlier programme and focuses more on green growth topics. In this context the programme helped MoF with the design of an environmental tax including the definition of taxable objects and appropriate tax rates. Furthermore, questions regarding political acceptance, environmental impacts, administrative burden as well as non-intended economic and social impacts needed to be tackled.

A key feature in supporting the design of the environmental tax law was the successful transfer of international know how by an international expert on environmental taxation and the iterative discussion process with the Vietnamese partners where GIZ national staff served as the main communication bridge.

As Vietnamese legislation requires a regulatory impact assessment

for each law, the Macroeconomic Reform Program in cooperation with the Institute of Development Studies (University of Sussex), the University of Copenhagen and Viet Nam’s Central Institute for Economic Management supported Viet Nam’s Tax Policy Department to launch an ex ante impact assessment. The different socioeconomic and environmental effects of the taxation were analyzed by using a general computable equilibrium model.

<b>Project name</b>	Macroeconomic Reforms/Green Growth Programme
<b>Commissioned by</b>	Federal Ministry for Economic Cooperation and Development (BMZ)
<b>Project region</b>	Viet Nam
<b>Executing agency</b>	Ministry of Finance (MoF)
<b>Duration</b>	2014 – 2018

### Impacts

After several discussions and revisions, the Vietnamese parliament passed the bill in mid November 2010 with a large majority. As the law came into force in 2012, Viet Nam has succeeded in becoming a frontrunner in South East Asia on environmental taxation. The Vietnamese government levy taxes not only on energy in terms of refined fuels and coal but also on environmental harmful substances such as Hydrochloro-fluorocarbons (HCFC) substances, selected pesticides and soft plastic bags. The exact tax rates are determined by the National Assembly for each period.

The environmental tax law took effect from 1.1.2012. As there is only a tax rate range table in the Environmental tax law, the Standing Committee of the National Assembly issued a Resolution on tax rate in 2011, in which most of the implemented tax rates are at the floor rates, tax rate of anthracite is lower than the floor rate and three objects have rates that are higher than the floor, but do not exceed the ceiling in the frame regulated in the Environmental tax law. Even if the tax rates in the beginning were rather low and the impact therefore limited, it introduced a new policy instrument which would increasingly gain importance in subsequent years.

The most obvious effect of the Environmental tax law in the first phase could be observed in the usage of plastic bags by the population: consumers are now using less plastic bags, many of

them reuse them, or bring durable bags or container from home to the market to keep foods and stuff. Sellers are now more conscious in using plastic bags and reminding customers of a more efficient use. However, most of small businesses still provide plastic bags to customers, as they would rather get less profit than losing customer. Besides, substitutes for plastic bags are still limited or not popular, especially in the northern part of the country. This fact does present a difficulty in the effort of strongly limit the use of plastic bags.

Environmental tax imposed on gasoline and oils slightly increased prices of these goods, which in turn make production costs and hence product prices higher. This is the price signal that the Environmental tax law sends to the market, so that businesses, consumers and the population are aware of the fact that the products/services they are using are harmful to the environment, thus they will consume less.

In December 2014, the first ex post impact assessment was conducted with support from the Macroeconomic Reforms/Green Growth Programme. The assessment showed that the Law had unfavourable economic and social impacts reflecting in marginally reduced GDP (0.2%), sectoral outputs (9.1% in 2012 and 9.5% in 2013) and a slower pace of poverty reduction (11.1% in 2012 to 9.8% in 2013), but did positive impacts on the environment via a diminished level of carbon emissions (a decrease by around 1.7%). Government revenue has been raised by the amount of the environment tax collection, but without it the revenue was somewhat smaller. Among the various environmental taxes, the refined liquid fuels taxes were the dominant source of the environment tax revenue.

The poverty rate still declined, but at a slower pace than in the absence of the tax. The income distribution in Viet Nam seems to be slightly improved (a modest decrease in the GINI index of 0.4202 instead of 0.4203).

The environmental tax rate on coal is set negligible and signifi-

cantly lower than the environmental tax rate on refined fuels. Given the fact that CO<sub>2</sub> emissions per unit of energy content for coal are significantly higher compared to those for refined fuels, this may induce substitution effects in an undesirable direction.

In 2015 the rates of the environmental tax were increased. Policy-makers expected a substantial impact on the behavior of businesses and consumers as well as on public revenues. The lesson here is the importance of the introduction of new appropriate policy instruments even if in the beginning the impact may be low, it opens the way for more effective use of the instrument later. As currently the budget deficit is of utmost concern for the Vietnamese government, it is to be expected that environmental tax rates will be increased further after evaluation of the current impact. This is exactly one of the goals of the tax: Tax the use of natural resources instead of taxing labour.

Overall, Viet Nam seems to be on the right track: Besides the general Law on Environmental Protection, which entered into force already in 1994, the government recently adopted a series of more specific, issue or sector focused laws, regulations and decrees including the National Strategy for Environmental Protection for the period between 2010 and 2020. After the introduction of the Environmental tax law in 2012, the Green Fiscal Policy Reform Component under the Macroeconomic Reform/Green Growth Program supported the Ministry of Finance to elaborate the Green Growth Action Plan for financial sector and issue Decrees on environment protection charges for waste water, solid waste, emission and mineral exploitation. Expectedly, a comprehensive implementation and impact assessment will be conducted for the Environmental tax law at the end of 2016 – beginning 2017, which will be followed by a revision of the Law to maximize its intended impacts.