



# ENSURING THAT POLLUTERS PAY

## Lithuania

Lithuania's revenue from environmentally relevant taxes remains close to the EU average. Environmental taxes stood at 2.3 % of GDP in 2019 (EU-27 average: 2.37 %). The largest portion of the environmental taxes were the energy taxes at 1.42% of GDP, against an EU average of 1.84 %. Transport taxes represented 0.86% of GDP (EU average being 0.45%), taxes on pollution and resources represented only 0.2%. In the same year, the environmental tax came to 5.34 % of total revenues from taxes and social security contributions (slightly below the EU average of 5.76%)<sup>1</sup>.

### Further options

## Landfill tax reform and incineration tax

Lithuania could consider reforming the landfill tax (LFT), alongside the introduction of an incineration tax, in order to achieve a recycling rate of 50% of municipal solid waste. The current levels of landfill tax are too low to significantly drive a reduction in landfilling, having been reduced to €5/tonne in 2019. This means that the costs of landfilling are significantly lower than the costs of recycling and there is no incentive to improve this. There is one incineration facility in Lithuania, with two more due to open in the

near future. Introducing an incineration tax reduces the chances of an increase in LFT increasing incineration rather than recycling.

The revenue could be used for monitoring and enforcement; and/or to fund improved collection / sorting systems. Such a tax would have a slightly negative impact on GDP of -0.02%, but with revenue recycling this could be offset and even lead to an increase of 0.017-0.019% depending on the chosen method. Employment could also benefit.

## Biodiversity offsetting

Reports to the European Commission on the implementation of the nature directives shows a broad range of biodiversity pressures associated with development. Lithuania could consider introducing a scheme for biodiversity offsetting

to improve the situation. To be economically efficient such a scheme must require offsetting or offsetting payments at least equal in value to any ecosystem services which are lost.

### Examples of economic instruments

## ENVIRONMENTAL POLLUTION TAX

As of 22 January 2002 seven widely used products, which account for a large portion of the waste stream, were added to the Law on the Tax on Environmental Pollution of the Republic of Lithuania: tyres, accumulators, galvanic elements (batteries), fuel or oil filters, air intake filters, shock absorbers and mercury lamps.

### How it works

The tax is reduced according to the level of recovery/recycling achieved. If the producer meets the full target, no tax is paid, if half of the target is met, half the amount of tax is paid. Legally exported waste is also exempted.

### What it does

The tax was supposed to be the 'stick' leading to behaviour change by producers and importers, and to lead to initiatives to create more environmentally friendly products. The instrument was designed as a 'dual' system, i.e. with features of a tax and a producer responsibility scheme. No official evaluation of the effectiveness of the instrument has been done, but expert evaluation has revealed that the instrument for tyres, accumulators and galvanic elements (batteries) is considered to be only partly effective, whilst the instrument for fuel/oil filters, air intake filters and hydraulic (oil) shock absorbers is considered ineffective. The instruments have also had a relatively insignificant

impact on improving the environment. Furthermore, there is a lack of transparency in how much money is actually collected from tax payers, and where it is spent.

### How it came about and stakeholder involvement

Before introduction of the instrument, a Working Group on Pollution Tax Law was created by the MoE, including representatives from Ministry of Economy, Ministry of Agriculture, Ministry of Finance, Lithuanian Association of Municipalities, Association of Environmental Engineering, Lithuanian Communal Services, Waste Management Association and other institutions. In 2016 a new Working Group has been formed by the MoE to analyse problems related to the treatment of ELVs and their parts (including taxable products), comprising representatives from the MoE, other ministries, PROs and waste treatment/management associations. Despite the formation of these Working Groups, however, there has been a minimal involvement of stakeholders, mainly because the tax was not associated with any EU Directive and because it was driven by environmental authorities and the waste management sector. It may be the case that the environmental authorities failed to adequately communicate the objective of the tax and its potential benefits. Importers and their PROs were passive. Documents around the introduction of the Law indicate that 'citizens, NGOs, political parties and political organisations and other interested persons hadn't submitted proposals for amendments'.



<sup>1</sup> [https://ec.europa.eu/eurostat/databrowser/view/env\\_ac\\_tax/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/env_ac_tax/default/table?lang=en)

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