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# Social and political barriers to green tax reform

The case of CO<sub>2</sub>-taxes  
in Norway

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## **CICERO**

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## Abstract

In this paper, I present the story of several attempts to tax Norwegian mainland emission intensive industries during the 1990s. These industries, mainly made up of aluminium and ferro-alloy producers located in the Norwegian countryside, and a series of planned gas-powered power stations along the coast, have enjoyed full exemption from CO<sub>2</sub>-taxes during a period in which relatively high CO<sub>2</sub>-taxes have been imposed on Norwegian consumers and some other industries.

The various sources of the superior power of the emission intensive industries are explored, including their ability to amass broad support for "pro-industrial" social norms among politicians, media and the bureaucracy. Theoretically, these capabilities are described in terms of the policy network approach developed in British political science.

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# 1 Introduction

Green tax reforms are becoming increasingly popular as a promising environmental policy instrument able to combine economic and administrative efficiency with environmental protection. Economic expertise (for example EEA 1996, OECD 1997) and environmental activists (for example Durning & Bauman 1998) are recommending a shift of taxation from labour to environmentally harmful activities. Such a shift does not only combine labour market and environmental advantages. If applied consistently to all economic sectors, a green tax would be an economically efficient regulatory option. Thus, green tax reform has been at the core of the idea that economic recovery could be combined with environmental improvements. Weale (1992) and Hajer (1995) have called this idea *ecological modernisation* and connected it to cognitive developments within institutions like OECD and the European Union.<sup>2</sup>

However, political scientists (Midttun & Hagen 1997, Andersen 1997, Reitan 1998a) warn against strong potential political barriers to such reforms. They focus on a problem that is typical for environmental regulation (Wilson 1980, Heidenheimer et. al 1990), namely that groups of polluters are concentrated and well-organised, while those who gain from pollution control are dispersed and unorganised. Thus, the outcome is often inconsistent tax regimes with exemptions for well-organised groups.

In this article, I will describe and discuss three phases of Norwegian proposals to widen the basis of existing CO<sub>2</sub>-taxation to include some emission-intensive industries. The first case is the taxation attempts in 1990-92 that followed the Norwegian parliamentary consensus to stabilise CO<sub>2</sub>-emissions on the 1989 level. Although the CO<sub>2</sub>-tax proposal in this period was not part of a “green tax reform”, that means that increasing CO<sub>2</sub>-taxation was not linked to decreasing labour taxes or other taxes, it is interesting to study the pattern of political mobilisation against broadening CO<sub>2</sub>-taxes also in this period.

Focusing on this resistance may assist us in understanding the destiny of later attempts to introduce a pervasive CO<sub>2</sub>-tax as part of a “green tax reform”. The same mainland “emission intensive” industries that blocked a pervasive CO<sub>2</sub>-tax in the early 1990s, managed to water out the proposals from the later Green Tax Commission (1994-1996) and block an attempt by the current Centre government coalition to impose a modest CO<sub>2</sub>-tax on these industries in 1998. Instead, the mainland emission intensive industry managed to mobilise parliamentary support for the establishment of an expert committee to discuss their own regulatory proposal.

This is a system of tradable domestic emission quotas, probably including free quotas for emission intensive industries allocated on a “grandfathering” scheme. While these industries have been winners in this regulatory contest, labour intensive industries and the service sector as well as other emission intensive sectors like transportation, petroleum exploration and private consumption became losers, as they ended up carrying a higher CO<sub>2</sub>-tax burden. The labour intensive sectors were also deprived of the benefits from reduced labour taxation when the green tax reform was shelved in 1998. The failure of these groups becomes even more striking when we take into account that economic sectors like petroleum exploration or labour intensive industries are more important for Norwegian production and exports than the

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<sup>2</sup> Mol (1996) makes a distinction between ecological modernisation as a *social theory* and as a *political programme*. This article clearly deals with ecological modernisation as a political programme.

mainland emission intensive industries. Thus, when only the economic importance of various economic interests is taken into account, the fact that the mainland emission intensive industries succeeded in evading taxation is an unexpected result.

Like Midttun & Hagen (1997), I explain Norway's problem with broadening the CO<sub>2</sub>-tax to include emission intensive industries in terms of what may loosely be called "corporatist arrangements". However, the term corporatism applied in this loose meaning is somewhat vague and fails to deal explicitly with situations where there is discrepancy between a group's economic importance and political power. Therefore, I move one step further by applying the concept of "policy community" (Marsh and Rhodes 1992, Smith 1993, Marsh 1998) to the particular form of relationship between the mainland emission intensive industries and the state in Norway. In my view, this concept is sensitive enough to the mainland emission intensive industries' organisational strength and cultural dominance to be able to explain the apparent inconsistencies of Norwegian "green tax policies".

Moreover, I explore the historically given character of the power distribution between Norwegian business groups. In this way, I link the "policy community" concept to Jessop's (1990) thesis that the privileged access of some business groups to the state is an outcome of past strategic struggles, both including struggles for cultural and organisational resources as well as partnerships with particular state institutions and political parties.

I conclude that the kind of "policy community" found in the Norwegian mainland emission intensive industries controls such a broad range of political resources that it effectively reduces the state's ability to apply cost-effective and equitable climate policy solutions on the Norwegian economy. A central conclusion that may be of general interest to researchers and politicians dealing with green tax reforms, is that the "double dividend" promised by such reforms may be less politically feasible than many of its proponents hope. Employers and employees in well-established heavy industries are often much better organised than employers and employees in the new, "flexible" service sectors. Moreover, the public and politicians may be more ready to accept the legitimacy of the needs of old "heavy industries" with an established popular image than the needs of new service sectors and high-tech industries with a less established popular image. Thus, implementing green tax reform, which is a central part of ideas of ecological modernisation, may be undermined by contradictions between the organisational forms of different historical phases of capitalist development in many OECD countries.

## 2 The emergence of environmental taxation in Norway

As pointed out by Reitan (1998a, 1998b), the idea of using taxes as central instruments of environmental regulation emerged in Norway towards the end of the 1980s. Command-and-control measures and subsidies to polluting industries earmarked for instalment of cleaner technologies were main instruments for pollution control during the second half of the 1970s (Reitan 1998b). As mentioned by Asdal (1995) and Reitan (1998b:114), the application of these instruments was part of a more generalised, countercyclical Keynesian economic policy.

In the early 1980s, economic orthodoxy in Norway, like in most other OECD countries, changed. Keynesian solutions to the post-1973-crisis lost credibility among economists, and monetarist, supply-side policies gained popularity (Tranøy 1994). This change of economic paradigm also influenced environmental policy-making. Environmental policies were seen as conflicting with considerations for economic efficiency and growth (Reitan 1998b:114-115). Considerations for employment and the current account balance prevailed over environmental considerations during the international recession of the early 1980s. Both Jansen (1989) and Asdal (1995) conclude that economic concerns enjoyed supremacy over “pure” environmental concerns in the 1980s. Environmental policies were shaped in the broader framework of economic policies, symptomised by the central position of the powerful Ministry of Finance in decision-making also on environmental issues.

However, like in most western countries, new “global” environmental concerns became widespread during the second part of the 1980s. The Brundtland-commission’s report was a particularly strong driving force for such concerns in Norway given the prominent role of Ms. Brundtland in Norwegian political life. The environmental organisations also increased their membership in this period. In Norway, a very important outcome of this period of strong environmental mobilisation, was the 1989 parliamentary agreement to stabilise Norwegian CO<sub>2</sub>-emissions on this year’s level within year 2000 (Reitan 1998a:6).

A main reaction to the combined drive for environmental protection and post-Keynesian economic solutions among the top echelons of Norwegian economists was to investigate the option of environmental taxation. Some environmental taxes had already been applied during the 1970s and 1980s. A tax on sulphur emissions had been introduced in 1970, a tax on garbage in 1974, taxes on leaded petrol in 1980, and taxes on fertiliser and herbicides in 1988. However, in the Long-term programme published in 1989, environmental taxes were considered as a broader environmental policy option (St. meld. nr. 4 1988-89). It was pointed out that increased environmental taxation could lead to decreases of other taxes, and improve economic efficiency. The idea that applying economic instruments could combine economic efficiency and environmental protection became increasingly accepted by OECD states in this period (Weale 1992, Hajer 1995).

This idea was reflected in several economic studies in Norway from the late 1980s. In 1989, the Central Bureau of Statistics, one of the three most prominent economic expert groups in Norway, produced a model-based report called SIMEN, particularly focused on the economic consequences of reductions of CO<sub>2</sub>-emissions (SIMEN 1989).<sup>3</sup> In the report from the

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<sup>3</sup> The Ministry of Finance and the Institute of Economics at the University of Oslo are traditionally perceived as the two other core economic expert groups.

application of the model, it was concluded that there was no strong conflict between carbon dioxide emission reductions in Norway and economic growth. However, in the interpretation of the model results, it was also pointed out that these results were relatively uncertain, and that costs varied widely across economic sectors. Costs imposed on Norway by adopting unilateral taxes would put industries with at high fossil fuel consumption at a disadvantage.

The Environmental Tax Committee established in 1989 reflected the next important step in systematic evaluation of the development and application of environmental taxes in Norway. The background for establishing this committee was a request from the Standing Committee of Finance in the Parliament to propose a comprehensive plan for the use of economic instruments in environmental policy (Reitan 1998a:6). In its final report in 1992, the committee emphasised the superior efficiency of economic instruments and the compatibility between considerations for economic efficiency and environmental protection that could be achieved by applying taxes. However, the attention of the public was attracted by the committee's recommendations related to the consequences of introducing CO<sub>2</sub>-taxes in Norway. Given the government's ambition to reduce Norwegian CO<sub>2</sub>-emissions to the level of 1989, implementing carbon taxes might impose very high costs on some heavy industries like metallurgy and pulp and paper production and imply extensive losses of jobs (Reitan 1998a:7). It should be noted that Norway found itself in a serious economic recession in early 1992, just when the results of this committee were published. Thus, it was no surprise that such worries emerged in Norwegian media. Nevertheless, Professor Michael Hoel, one of the experts who participated in the committee also emphasised the positive potentials of applying environmental taxes. The huge uncertainties related to employment reduction were also mentioned (Reitan 1998a:7).

In spite of mounting scepticism in the business sector, Norwegian governments introduced some important new environmental taxes in the early 1990s. The centre-right Syse-government (1989-90) proposed CO<sub>2</sub>-taxes on mineral oil and gasoline as a first step in using such taxes as an instrument to curb Norwegian CO<sub>2</sub>-emissions. The CO<sub>2</sub>-tax on gasoline was proposed to be NOK 0,6 per litre, while the tax on mineral oil was proposed to be NOK 0,3 per litre (Reitan 1998b:124-125). In addition, increased taxes on sulphur emissions from oil combustion and other taxes on oil combustion were proposed. Although these proposals were not consistent with the principle of taxing according to the concentration of pollutants in emissions (mineral oil is more carbon-intensive than gasoline), the proposal was presented as being a first step in a more generalised future effort (Reitan 1998b:124).

The Labour government, which took over in late 1990, followed up and even broadened the environmental tax efforts of the Syse-government. The new government proposed to include emissions from oil and gas consumption in petroleum production on the Norwegian continental shelf in the basis of the carbon tax. The tax was proposed to be NOK 0,6 per m<sup>3</sup> natural gas or litre of oil consumed by petroleum producers on the Norwegian continental shelf. However, because of tax deduction rules, the net tax was only about a third of this. The minority Labour government managed to attract the support of a majority in the Parliament for this proposal. The new taxes were implemented from 1991. The Parliamentary decision to introduce these taxes was made against strong resistance from the petroleum industry as well as the Conservative Party (Høyre) and the anti-tax Progress Party (Fremskrittspartiet).

In the discussions related to green taxes, there were strong conflicts between those who were proponents of earmarking carbon tax income for environmental investments, and those who

wanted a “pure” fiscal tax (Reitan 1998b:126-127) Both pro-environmental groups and companies favoured earmarking of taxes, as well as the Ministry of the Environment and the Ministry of Trade and Industry. However, considerations for economic efficiency in the Ministry of Finance prevailed, and the idea of “tax recycling” for environmental investments was not supported.

### **3 Increasing business mobilisation: Tax efforts face powerful industrial resistance**

As the idea of using taxation as an instrument for curbing Norwegian greenhouse gas emissions gained momentum and support, adversary interests also started to mobilise. However, neither automobile associations nor the large petroleum companies operating on the continental shelf managed to reduce their CO<sub>2</sub>-tax burden. But other industries were far more successful in lobbying in favour of reductions or maintaining outright exemption from carbon taxes, and would continue to be successful throughout the 1990s.

After intensive lobbying towards the Standing Committee of Finance in the Parliament, the pulp and paper industry as well as the fishmeal industry managed to reduce the CO<sub>2</sub>-tax on mineral oil for their industries with 50 percent in the autumn of 1992 (Espeli 1999:187). The pulp and paper industry organisation (Papirindustriens Sentralforbund), which was generally perceived as a very strong lobby group during the 1980s,<sup>4</sup> increased its leverage even more by joining a new “peak organisation” organising most energy-intensive industries in Norway in 1992. The new organisation was PIL, or the Federation of Norwegian Process Industries (Prosessindustriens Landsforening).

This new organisation integrated companies from chemical, metallurgical, pulp and paper as well as petroleum and gas refineries and some other energy-intensive industries. Besides being energy-intensive, most of the companies in PIL are export-oriented and located in rural areas. The metallurgical industry, which is the core of PIL with reference to exports and production value, is located along the coast, close to hydropower stations. The metallurgical industries employed less than 20.000 in the early 1990s and employment had been decreasing since the 1970s (Godal 1998:9). However, these employees were concentrated in a series of small rural locations that rely heavily on industrial employment to survive (Godal 1998:10).

Metallurgical industries in Norway produce mainly aluminium and ferro-alloys for export (Godal 1998:10). In 1996, the metal industries contributed 1,1 percent of GDP and 9,6 percent of total exports (Godal 1998:13). Their main energy source is hydropower, but they are dependent on using coal and coke as an integrated part of the production process (Godal 1998:6). Emissions from these industries made up 11 percent of Norway’s greenhouse gas emissions in 1996 (Godal 1998:7). Calculations demonstrate that these industries would lose considerably more than any other industry in Norway from a CO<sub>2</sub>-tax (Godal & Holtmark 1998). Thus, these industries have a strong interest in mobilising in favour of exemptions from CO<sub>2</sub> emission taxes.

Moreover, these industries have a long tradition of organisational integration and lobbying focused on electricity tariffs. Various favourable electricity tariff agreements between Norwegian metallurgical industries and the Parliament in the post-war period had demonstrated the immense organisational strength and power of these interests clearly (Midttun 1989, Thue 1996). According to a Norwegian government report (NOU 1996:36), electricity tariffs are lower than those offered to the metallurgical industry in most other OECD countries. This ability to promote their interests in coalition with various government agencies, political parties as well as representatives of rural areas in the Parliament has led

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<sup>4</sup>The Prime Minister Kåre Willoch (1981-1986) from the Conservative Party (Høyre) calls the Paper Industry Organisation’s (Papirindustriens Sentralforbund) lobbying “ruthless” in his memoirs (Espeli 1999:193).

one leading researcher (Midttun 1989) to talk about a closely integrated and powerful “hydropower industrial complex” connected to the metallurgical industry.

Besides the industries organised in PIL, the broadening of CO<sub>2</sub>-taxes also threatened another *planned* heavy industrial segment related to mainland processing of natural gas. There was strong mobilisation among petroleum companies and the metallurgical industries to exploit some of the natural gas and petroleum produced on the continental shelf for electricity production. The large government-owned petroleum company Statoil and the petroleum division of the government-controlled<sup>5</sup> company Norsk Hydro had plans to establish a methanol factory as well as power stations fuelled by natural gas. To a certain extent, these interests were integrated with the interests of the power-intensive industries. Most Norwegian hydropower resources are already developed. There were plans among aluminium producers like Norsk Hydro and Elkem to increase their production (Tenfjord 1995:181) based on electricity supplies from burning of natural gas. These interests perceived a broadening of the base of the CO<sub>2</sub>-tax to include burning of natural gas as a threat to their future electricity supply and as a barrier to future investments. Like the metallurgical industries, these industrial interests were particularly provoked by the fact that the Labour Party (Arbeiderpartiet), the biggest party in Norway, in 1990 had signalled that it considered more general taxes on all industries and energy production (Tenfjord 1995:182).

PIL mobilised together with its mother organisation, Norway’s central business organisation NHO (Confederation of Norwegian Business and Industry) as well as the Norwegian Confederation of Trade Unions (LO) in a strong campaign against broadening the application of CO<sub>2</sub>-taxes in Norway to include metal production. From the autumn 1990, these interests pursued a media offensive against plans to broaden CO<sub>2</sub>-taxes (Tenfjord 1995).

The industry campaign against CO<sub>2</sub>-taxes continued when a new Labour government took office in late 1990. The new labour government was particularly vulnerable to strong mobilisation from LO (The Norwegian Confederation of Trade Unions). Traditionally, heavy industries like metals and chemicals have dominated this trade union, and the Labour government has very strong ties to LO. In addition, the labour government was dependent on support from LO to implement income moderation policies (“the Solidarity alternative”) aimed to improve Norwegian employment and competitiveness during the 1990s (Dølvik and Stokke 1998:132-133). This income policy was the centrepiece of Labour’s strategy to fight unemployment and regain industrial competitiveness during the economic recession in the early 1990s. Thus, Labour was extraordinarily vulnerable to pressure from LO in this period.

The concerted offensive from the mainland emission intensive industries in Norway seems to have been a strong barrier to the broadening of the basis for CO<sub>2</sub>-taxation in Norway during the early 1990s, although it is not known whether the Labour government actually had plans to implement this policy (Tenfjord 1995:178,182). The interests opposing a broadening of CO<sub>2</sub>-taxes in Norway were in fact assisted by the final conclusion from the Environmental Tax Committee in 1992. As mentioned, the conclusion from this committee that attracted most media attention, was that the costs of broadening and increasing CO<sub>2</sub>-taxes in Norway would be prohibitive in terms of economic growth and employment if the goal of stabilising CO<sub>2</sub>-emissions on the level of 1989 should be achieved. Moreover, Norway would be far better off by supporting international agreements that would permit investments in much cheaper emission reductions in other countries (“joint implementation”) (Reitan 1998b:138-140).

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<sup>5</sup> The government currently controls 51 percent of shares in Norsk Hydro.

Thus, although the economic experts in the Environmental Tax Committee were in favour of using taxes as an instrument to curb CO<sub>2</sub>-emissions, the problems related to the relatively high marginal costs of reducing such emissions in Norway became an important part of the Committee's conclusion as published in the media.

Thus, when confronted with economic recession, an increasingly well-organised industrial lobby and ambiguous advice from economic experts,<sup>6</sup> the momentum towards increasing and broadening CO<sub>2</sub>-taxes was virtually halted. However, the issue re-emerged later on in the 1990s.

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<sup>6</sup> The fact that the Environmental Tax Committee was in favour of cost-effective, flat CO<sub>2</sub>-taxes was not given much attention in the media. The warnings related to the costs of unilateral Norwegian domestic measures were given much more attention, cfr. the article: "Miljømålene for tøffe", *Dagens Næringsliv*, 6. februar 1992.

## 4 A new attempt: Green tax reform efforts 1994-1998

During the budget negotiations in 1994, the pro-environmental left-wing Socialist Party (Sosialistisk Venstreparti), managed to negotiate an agreement with the ruling Labour government to appoint a committee to explore the opportunities for green tax reform in Norway. This decision was part of a larger compromise on economic policies, and did only to a limited extent reflect pressure for green tax reform in Norwegian politics. The proposal from the Socialist Party was focused on the potential for a “double dividend” from increasing CO<sub>2</sub>-taxation as the committee should also analyse the increasing employment potentials from reducing social security contributions paid by employers. This topic had attracted attention in the report from the Environmental Tax Committee, although this report had been presented in a way that attracted most public attention to the *costs* of CO<sub>2</sub>-taxation for heavy industries rather than the possible *benefits* of tax reductions for other sectors (Tenfjord 1995:122). In the mandate of the Green Tax Commission, it was spelled clearly out that the Committee was expected to look into the possibility of combining increasing environmental taxation with decreasing taxation of labour (NOU 1996:12).

In contrast to the expert-dominated Environmental Tax Committee, the participants in the Green Tax Commission were recruited from several political groups and ministries. In addition to economic expertise, representatives from the Foundation for Nature Conservation (Naturvernforbundet), the Ministries for Trade & Industries (into which the previous Ministry of Oil and Energy was integrated), Transportation, the Environment, and Finance participated together with representatives from the NHO, LO and the big, government-controlled energy intensive company Norsk Hydro. Thus, the committee included participants with highly conflicting views and interests.

The main issue of the environmental tax discussions of the early 1990s, whether emissions intensive industries should enjoy exceptions from a carbon tax, became a central issue also for this committee. This issue was partly a question of *cost-efficiency*, and partly a question of *cost distribution* related to CO<sub>2</sub>-taxes. The issue of cost-efficiency was important to the economic expertise in the committee, as the differentiation of CO<sub>2</sub>-taxes across sectors would imply economic losses as compared to a situation with an equal, carbon graded tax for all emitters. Thus, all the academic experts as well as the representative from the Ministry of Finance were preoccupied with considerations for cost-efficiency. The representatives from the industry and the trade unions did not accept these arguments. Their argument in favour of tax exemption was motivated by considerations for export losses and considerations for declining employment in the small Norwegian rural towns dependent on employment in metallurgical and other heavy industries. However, the industry’s pleas for tax exemption also became a question of distribution of costs between various economic sectors. The transportation sector, to some extent “represented” by the Ministry of Transportation, which already paid relatively high CO<sub>2</sub>-taxes on their emissions, was sceptical to continued tax exemptions for heavy industries.

Within NHO (the Confederation of Trade and Industries), there were also distributional conflicts between the organisation for emission-intensive heavy industries (PIL), and the organisation for mechanical industries (The Federation of Norwegian Manufacturing

Industries, TBL).<sup>7</sup> Technology intensive companies like the mechanical industries, which are much more labour intensive and less emission intensive than the companies organised in PIL, would benefit from decreasing taxes on labour and increasing taxes on CO<sub>2</sub>-emissions. However, this conflict did not influence the position of NHO during the committee's work. The interests of the well-organised emission intensive industries prevailed, and the mechanical industries even supported NHO's position in public.<sup>8</sup>

Similar conflicting interests also existed within LO. The organisations for workers in the labour intensive service sector (Handel & Kontor) would clearly have an interest in reducing labour taxes as part of a green tax reform; securing employment and profits in private services. However, three factors reduced actual conflict within LO. *First*, although the number of employees in the service sector is much larger than those in emission intensive industries, the much higher share of organised workers in emission intensive industries than in the service sector make "emission-intensive" workers numerically superior within the LO as compared to those employed in private services.<sup>9</sup> *Second*, there is a common perception that the heavy industry unions within LO are more powerful than the unions organising service workers. *Third*, decision making routines within LO charge the unions and cartels most heavily influenced by particular issues with organising LO's activities on these issues. Thus, the industrial cartel *LO Industri* as well as the Norwegian National Union of Chemical Industry Workers (NKIF) were given responsibility for dealing with the green tax issue.<sup>10</sup> This effectively prevented mobilisation on the issue from the service cartel and the service unions.

Thus, during the Green Tax Committee's work both LO and NHO confronted any attempt to broaden the basis of the CO<sub>2</sub>-tax to also include mainland emission intensive industries.

Among the *ministries* participating in the Green Tax Committee, the Ministry of Trade and Industry (NOE) clearly refused any proposal to make CO<sub>2</sub>-taxes include emission-intensive industries.<sup>11</sup> The Ministry of Trade and Industry, has a very close relationship both to Norwegian petroleum industries (as it in this period also included the previous Ministry of Oil and Energy) and traditional heavy industries.<sup>12</sup> Historically, this close relationship has emerged from the state's central role in establishing the energy-intensive metallurgical industries as well as petroleum and gas exploration and refining. Some of the government agencies charged with the responsibility for establishing these industries have become *de*

<sup>7</sup> Interviews with top executives in PIL and NHO December 1998 and January 1999. TBL had 1.250 member companies with 92.000 employees in January 1999. The mechanical industry consists of a variety of branches, including electrotechnical products, information technology, mechanical engineering, semi-finished and finished metal products, furniture, products for offshore oil exploration, shipyards, marine equipment, textiles and foundries, cfr. TLB's homepage: <http://www.tbl.no/default.asp>.

<sup>8</sup> Cfr. the article: "Vil ikke være miljø-pådrivere", *Dagens Næringsliv*, 15. October 1996. According to the chairman of PIL, Per Terje Vold, and NHO's representative in the Green Tax Committee, Gro Brækken, long discussions inside the NHO were necessary to bolster NHO behind a unified position against green taxes. Interviews November 1998, January 1999.

<sup>9</sup> LO is organised in various unions and cartels. The cartels represent various economic sectors, and cut across the unions. As of April 1999, the industrial cartel *LO Industri* had 216.193 members, while the cartel for private service *LO Service* had 100.368 members (personal communication with LO). *LO Industri* is headed by Knut Weum, who is an ardent supporter of supporting heavy industries and a strong opponent to pervasive green taxes, cfr. speech held by Weum at Analytica's annual conference in Oslo in June 1998.

<sup>10</sup> Interview with Jan Strømme, NKIF, October 1998.

<sup>11</sup> Interviews with various members of the Green Tax Committee, October 1998-January 1999.

<sup>12</sup> Interview with top executive in the Ministry of Oil and Energy, December 1998.

*facto* proponents of the interests of these industries within the state itself. Reitan (1998b:184-188) concludes that the Ministry of Trade and Industry has been a consistent opponent to environmental taxation of emission-intensive industries in Norway.

The superior political influence of the LO/NHO/Ministry of Trade and Industry pro-industry alliance was demonstrated clearly by the political process surrounding the Green Tax Commission. In the second last meeting of the committee in early 1996, the economic experts, the representative from the environmental movement, as well as the representatives from the ministries of Transportation, the Environment and Finance had agreed on a proposal that also emission-intensive industries should be charged with a modest CO<sub>2</sub>-tax (NOK 50/tonne CO<sub>2</sub>).<sup>13</sup> The tax income from this tax should be used to reduce labour taxes with 0,7 percent.<sup>14</sup> This CO<sub>2</sub>-tax, which was recommended by the majority of the committee, would also include the planned natural-gas based power stations.

This provoked the committee's member from the Confederation of Trade and Industries (NHO), Gro Brækken, to leak the proposal to the newspapers.<sup>15</sup> The day after this leakage, NHO arranged a public seminar on the effects of the proposed CO<sub>2</sub>-tax (Reitan 1998b:150). Based on calculations from the economic consulting company ECON, NHO predicted bankruptcies in the metallurgical industry and increasing unemployment as a consequence of introducing this modest tax. According to NHO, there was no "double dividend" of a green tax on CO<sub>2</sub>-emissions in Norway. Instead, companies would go bankrupt, unemployment would increase, and global emissions would increase, as heavy industries would be transferred to other countries. The problem with such transfers, according to NHO, was that emissions would rise as production in other countries relied on "dirty" coal energy instead of "pure" Norwegian hydropower (Reitan 1998b:150-151).

When the committee had its final meeting on 23. May 1996, the representatives of the ministries that favoured a broadening of the CO<sub>2</sub>-tax had changed their mind. The ministries now denied signalling their views on a broadening of the tax, leaving this issue to the politicians. Later, it emerged that the Prime Minister, Ms. Gro Harlem Brundtland, had instructed the members from the ministries to avoid supporting a broadening of the CO<sub>2</sub>-tax.<sup>16</sup> Formally, instructing committees is certainly within the powers of the government, but it is done very rarely.

The immediate motive for instructing the committee seems to have been government considerations for the fact that even a reduced CO<sub>2</sub>-tax that included all sources might threaten the economic viability of the planned natural-gas-based power stations.<sup>17</sup> As mentioned, these power stations had become a focus for political mobilisation for heavy industry interests, as hydropower supplies were no longer abundant in Norway. These power stations also were of crucial importance for the long-term supply of cheap electricity for the metallurgical industry. Moreover, Norsk Hydro, which is heavily dependent on cheap electricity for many of its activities (metals, fertilisers), was also involved as an investor in the

<sup>13</sup> See the article: "CO<sub>2</sub>-fritaket fjernes", *Dagens Næringsliv*, 10. May 1996. Interview with members of the Green Tax Commission in 1998 and 1999.

<sup>14</sup> *Dagen Næringsliv*, op. cit.

<sup>15</sup> Interview with Gro Brækken, January 1999, cfr. also the article: "Lund tukter NHO", *Dagens Næringsliv*, 22. May 1996.

<sup>16</sup> Cfr. the article: "Slik grep Gro inn", *Dagens Næringsliv*, 8. June, 1996. Anonymous high-level sources.

<sup>17</sup> *Dagens Næringsliv*, op. cit. Cfr. also the article: "Maktarroganse", *Dagens Næringsliv*, 12. June 1996.

power stations. Thus, this issue combined the interests of the existing emission-intensive industries with the interests of investors in gas-based power production

Although the government's actions were scandalised in Norwegian media,<sup>18</sup> this did not lead to serious political consequences. Thus, it is clear that the anti- CO<sub>2</sub>-tax interests in the committee had successfully managed to water out the proposal for a green tax against a majority of ministries, economic experts and representatives of the environmental movement by exploiting their superior political connections outside the committee. These political connections were also of crucial importance when the green tax proposal was presented for the Norwegian Parliament.

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<sup>18</sup> Cfr. the article: "Slik grep Gro inn", *Dagens Næringsliv*, 8. June 1996, "Maktoarroganse", 12. June 1996.

## 5 The Parliament rejects uniform carbon taxes

After the Green Tax Commission's report (NOU 1996) was presented, the next step for the government was to send a report on the issue (Stortingsmelding) to the Parliament. However, as tax changes in general are slow, and there were (according to newspapers) internal conflicts between various ministers within the Labour government, the government report was substantially delayed. As the Labour government resigned after the 1997 parliamentary elections, and a new Centre coalition government assumed office, it is difficult to figure out whether the Labour government really had any plans to propose a CO<sub>2</sub>-tax that also included emissions from emission-intensive mainland industries.<sup>19</sup>

However, there is no doubt that the minority coalition that assumed power in October 1997 was more strongly in favour of taxing all CO<sub>2</sub>-emissions than the Labour Party. Thus, the destiny of the green tax proposal makes up an interesting case from which we can learn even more about the opportunities for green tax reform in Norway. While Labour's close relationship to powerful pro-industry trade unions had curbed the party's interest in introducing green taxes for emission intensive industries, the new government coalition was not limited by any such relationships with trade unions or industry. Moreover, the new government explicitly favoured taxing the emission-intensive industry as well as denying establishing natural gas based power stations, and were determined to defend these positions in the Parliament. Thus, this case offers a more clear-cut study of the capabilities of the various actors with an interest in green tax reform in Norway to influence the *parliament*. Moreover, the fact that it was only with the new government that the issue of taxing the emission intensive industry was discussed and decided upon in the Parliament indicates the ability of this industry and its political partners to keep the issue off the agenda for almost ten years.

In addition to greater distance to the trade unions and big business, there were other reasons for the sympathy for a more pervasive CO<sub>2</sub>-tax in the new government. All the parties of the coalition, but particularly the small social-liberal party *Venstre* (Left) were eager to encourage the development of small and medium-sized companies.<sup>20</sup> Consequently, these parties perceived the proposed decrease of labour taxes as a direct industrial policy advantage in addition to the expected positive effects of a green tax reform on employment in general. However, the change of government in October and the very protracted budget negotiations that had to be finished before Christmas 1997 implied that a green tax proposal could not be presented for the Parliament before in the spring of 1998.

In the meantime, the new government was to some extent assisted by the Kyoto-agreement. Even though Norway was allowed to increase emissions of a basket of greenhouse gases in the years with 1 percent in the years 2008-2012, the agreement for the first time put a clear limit on Norwegian greenhouse gas emissions. One of the implications of the agreement was that the distributional aspects of reductions of greenhouse gas emissions in Norway became more visible. If greenhouse gas emissions from some industries remained unregulated, other economic sectors would have to accept higher regulation costs.

<sup>19</sup> The newspaper *Aftenposten* suggests that the Minister for the Environment, Thorbjørn Berntsen, was about to propose this, cfr. the articles: "Berntsen varsler flere grønne skatter", *Aftenposten*, 6. June 1997, "Berntsen planla CO<sub>2</sub>-avgift for gasskraft", *Aftenposten*, 26. September 1997.

<sup>20</sup> Cfr. the articles: "Først blant sinker", *Dagens Næringsliv*, 24. February 1994, "Kraftsalve fra Venstre", *Dagens Næringsliv*, 28. April 1997.

This emerging distributional conflict provoked the second largest of the employers' unions, HSH (The Federation of Norwegian Commercial and Service Enterprises), to launch an attack on the exceptions from CO<sub>2</sub>-taxes enjoyed by the emission-intensive industries.<sup>21</sup> HSH is the second largest employers' union in Norway measured in terms of the number of companies and their employees. The organisation is relatively new; created in 1990. It organises employers in trading and services; mostly retailers (HSH 1997a).

HSH also had other conflicts with the emission intensive industries. The organisation mobilised against the politically negotiated favourable electricity prices enjoyed by the metallurgical industries, pointing out that this pricing regime left their own members with higher electricity costs (HSH 1997b). Moreover, as HSH member profits are heavily dependent on transportation costs, the fact that tax exemptions for the mainland emission intensive industry imply a heavier tax burden on road transportation sharpened HSH's perception of a distributional conflict involved in green tax issue (HSH 1998b:table 5). Thus, HSH became a proponent of green tax reform in line with the environmental movement and the pro-small business government coalition.

The new Centre government coalition prepared the parliamentary proposal on Green Taxes in isolation from all the most important lobby groups. The Minister of Finance, Gudmund Restad, was virtually inaccessible for PIL and the emission intensive industry during this phase.<sup>22</sup> The roles of the Ministry of Trade and Industry as well as the once again independent Ministry of Oil and Energy were completely changed in this period, as the new ministers were less involved with the emission-intensive industries than their predecessors. Thus, there was little lobbying from these ministries in favour of exemptions.

The government finally suggested a tax of NOK 100 per tonne of CO<sub>2</sub> on sectors that had enjoyed exceptions from the CO<sub>2</sub>-tax in April 1998.<sup>23</sup> This also implied increasing the tax on mineral oil used for energy purposes in wood processing and cement production. A compensation for taxes on emissions from coke and coal used for processes in the metallurgical industries was also proposed. This compensation was to be gradually reduced until its elimination in 2010. The income from the new tax should finance a modest 0,1 percent drop in Norwegian labour taxes.

When deprived of direct access to government circles, the mainland emission intensive industries launched a vigorous campaign against political parties and their members of the Parliament. The campaign was organised as a joint effort by PIL, the local and central levels of relevant trade unions, and the central and county levels of the employers' organisation NHO.<sup>24</sup> When working against the Parliament, the anti-tax interests worked both against central politicians in important political parties and the various representatives from regions with emission-intensive industries. The most important of the parties were the Conservative Party (Høyre; the third biggest party in Parliament) and Labour (Arbeiderpartiet; the biggest party). The central politicians here were Jan Tore Sanner (Høyre), and Jens Stoltenberg

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<sup>21</sup> Cfr. the article: "Næringene i krig om grønne skatter", *Aftenposten*, 18. February 1998. Cfr. also HSH (1997b).

<sup>22</sup> Interview with Per Terje Vold, Director of PIL, November 1998.

<sup>23</sup> Stortingsproposisjon nr. 54 1997-98.

<sup>24</sup> Cfr. PIL's strategy on Green Taxes: "Posisjonspapir – Grønne skatter" on their homepage: <http://www.pil.no/posgronne.htm>, particularly p. 4. Cfr. also *PIL-Aktuelt* No. 1, 1998. Interview with Jan Strømme, Chemical Workers' Union (NKIF) November 1998, Per Terje Vold, Director of PIL, November 1998, Gro Brækken, Vice-Director of NHO, January 1999. For documentation of close cooperation between PIL and the trade unions, cfr. the article: "Truer og lokker for CO<sub>2</sub>-fritak", *Stavanger Aftenblad*, 18. March 1998.

(Arbeiderpartiet).<sup>25</sup> Both these politicians represented their parties in The Standing Committee on Energy and the Environment in the Parliament and enjoyed high influence on environmental and energy issues. Stoltenberg was chairman of the committee, and Sanner co-chairman. As mentioned, Stoltenberg was Minister for Trade and Industry in the period when the Green Tax Commission was active. Both are spokesmen for energy and environmental matters in their respective parties. In addition, it was an easy match for the pro-industry lobby to persuade the anti-tax Progress Party (Fremskrittspartiet, the second biggest party in the Parliament) to refuse the CO<sub>2</sub>-tax proposal.<sup>26</sup>

The strategy of lobbying directly the most important politicians was supplemented by lobbying Congressmen from various counties (“fylker”) with emission intensive industries. The main vehicles for county-level lobbying were the county branches of NHO.<sup>27</sup> As less populated peripheral areas in Norway benefit from a system of disproportional representation in the Parliament, and most emission intensive industries are located in peripheral areas, the design of the electoral system benefits emission-intensive industries.

PIL’s regulatory counter-proposal was to scrap the CO<sub>2</sub>-taxes and establish a system of tradable CO<sub>2</sub>-quotas domestically. Such a system would open the door for distribution of free or very cheap quotas to the industry. This implicit subsidy had several advantages for the emission-intensive industry. A free or cheap quota for CO<sub>2</sub>-emissions would be of a more permanent character than a direct subsidy to cover tax expenses, and it would not emerge as an explicit subsidy in public budgets.<sup>28</sup> The costs would instead be carried by other economic sectors, which would have to pay higher prices for their quotas or higher taxes.

The emission-intensive industry’s lobbying succeeded. The tax proposal was defeated in the Parliament, where a majority voted in favour of establishing an expert committee to look into how to design a future quota system.<sup>29</sup> This was done against explicit protests from HSH (The Federation of Norwegian Commercial and Service Enterprises); and representatives from the environmental movement, who feared that this decision was made to prepare a system for free quotas for the emission-intensive industry. The Director of HSH, Anne-Grete Ellingsen, feared the distributional consequences for other economic sectors.<sup>30</sup> Her fear was justified by comments from leading politicians from the major parties.<sup>31</sup> Although a quota system is presently under evaluation, the decision to shelve the idea of a comprehensive CO<sub>2</sub>-tax covering all emissions was a substantial victory for Norwegian mainland emission intensive industries.

<sup>25</sup> Mentioned as important co-operative partners by Director Per Terje Vold, PIL.

<sup>26</sup> Interview with Per Terje Vold, PIL, November 1998, Jan Strømme NKIF

<sup>27</sup> Interviews with Per Terje Vold, PIL, November 1998, Gro Brækken, NHO, January 1999.

<sup>28</sup> According to Ingeborg Rasmussen, member of the Green Tax Commission, the representative of Norsk Hydro, Eivind Reiten, was strongly opposed to any “visible subsidies” to the industry. He clearly preferred exemptions or quotas, that did not emerge in public budgets as a “positive” transfer. Interview with Ingeborg Rasmussen, October 1998.

<sup>29</sup> Cfr. the article: “Kvoter for prosessindustrien”, *Aftenposten*, 18. June 1998.

<sup>30</sup> Cfr. the article: “CO<sub>2</sub>-avgifter: Nytt nederlag for regjeringen”, *Aftenposten*, 12. June, 1998.

<sup>31</sup> Per Kristian Foss, spokesman for the Conservative Party (Høyre) on economic policy and member of the Standing Committee on Finance and Economic Affairs, supported explicitly the idea of distributing free quotas to the emission-intensive industry, cfr. the article: “CO<sub>2</sub>-avgifter: Nytt nederlag for regjeringen”, *Aftenposten*, 12. June, 1998.

## 6 Social and political barriers to green tax reform

Above, I have demonstrated how three different attempts to impose CO<sub>2</sub>-taxes on Norway's emission intensive industries have failed during the 1990s. On the first occasion, the tax proposal was a conventional environmental tax without any clear associated tax benefits for other economic sectors. Thus, the outcome in this case was determined mostly by the capabilities controlled by the potential losers from the tax.

Most interestingly, one economically important group of actors, oil companies operating on the continental shelf, did not manage to avoid CO<sub>2</sub>-taxation completely, while the mainland emission intensive industry managed to avoid all regulations. If one assumes that the ability of various groups to influence policies is mainly decided by their economic importance, this contrast is quite surprising. The petroleum industry is clearly more important for Norwegian exports and production than the mainland emission intensive industries. Both industries also have strong historical ties to the Ministry of Oil and Energy, and to the Labour Party, as both sectors are centrepieces of social-democratic strategies for state-led industrialisation in Norway. In addition, the government is strongly involved in both industries through its ownership of Norsk Hydro and Statoil.

The weakness of policy-explanations focused on the economic importance of business sectors in this case is also highlighted by the events connected to the attempts to introduce a CO<sub>2</sub>-tax as part of a larger green tax reform. Neither the economically important private service sector<sup>32</sup> nor the labour-intensive, mechanical industries<sup>33</sup>, expected to be main beneficiaries of a reduction of employer taxes (NOU 1996:307), were able to influence policies to their own advantage. While the private service sector, represented by HSH, supported the green tax proposal openly and ultimately lost in the Parliament, the mechanical industries were in practice defeated by the emission intensive industries in confrontations inside the employers' organisation NHO. Then, as explanations based on the economic importance of various economic sectors fail to explain outcomes observed in Norwegian green tax policies, what alternative explanations are there?

In my view, the exceptional strength of the links between the mainland emission intensive industry organisations NHO and LO, as well as the strength of their links to the most important political parties and parts of the government bureaucracy are very important explanatory elements. As I have described above, the links between LO and NHO are bolstered by the fact that the emission-intensive industries have very strong representation *within* these organisations. PIL enjoys considerable influence within NHO, and the heavy industry unions within LO. In turn, both PIL, NHO and LO benefit from very good connections with the biggest party in Parliament, in particular the Conservative Party and Labour. The connections with Labour were particularly important, as this was the ruling party from 1990 to 1997. By exploiting these good connections, the emission intensive industries, represented by the employers' and trade unions, managed to keep the issue off the

<sup>32</sup> The private service sector's contribution to GDP in 1997 was 40 percent as compared to the industry's 11 percent, and the sector's share of total employment was about 43 percent, cfr. the website of the Central Bureau of Statistics, <http://www.ssb.no/www-open/aarbok/tab/T0901003.shtml> and <http://www.ssb.no/www-open/aarbok/tab/T0901007.shtml>.

<sup>33</sup> According to the mechanical industry organisation, Teknologibedriftenes Landsforening (TBL), the industry employs 120.000 persons and exports 27 percent of Norway's non-oil industrial exports, cfr. TBL's homepage: <http://www.tbl.no/indogsamf/statistikker.html>

parliamentary agenda from the late 1980s to 1998. None of the pro-tax interests benefited from such “good connections”. The service sector employers’ organisation HSH had much weaker connections with the major parties, and the mechanical industry was not able to influence the positions of the dominating employers’ organisation NHO. Neither did the environmental movement benefit from such connections. In fact, when analysing the CO<sub>2</sub>-tax issue in Norway in the 1990s, the marginal influence of the environmental movement is certainly striking. Established political forces in the bureaucracy and the business community have dominated the issue. The mobilisation of social movements and the media has been relatively limited, and less well established sections of the business community have enjoyed marginal access to the political process.

How could this story be interpreted in terms of political theory? While Midttun & Hagen (1997) apply the broad terms “corporatism” and business representation in the “functional channel” in their comparative analysis of energy taxation in four Nordic countries, their analysis of the political process is relatively brief. Moreover, they do not address the paradoxical economic inconsistencies and inefficiencies of tax exemptions, but analyse tax exemptions as outcomes of the conflict between pro-environmental rhetoric and economic realities. Implicitly, then, they analyse problems of implementing cost-effective and equitable environmental taxes without clearly addressing the domestic distribution of power. Reitan (1998) moves an important step beyond Midttun & Hagen (1997) by introducing the term “realpolitik” as a conceptualisation of the importance of the power distribution in explaining the failures of green tax reform in Norway. However, her focus is more on the implications of the power distribution for the implementation of “ecological modernisation” ideas than on conceptualising the “mechanisms” of power linking particular groups to specific policy outcomes. Consequently, she does not put much effort into a further conceptualisation of the forms and mechanisms of influence and power.

In this paper, I suggest that the political networks that blocked the extension of CO<sub>2</sub>-taxes in Norway may be properly described and analysed as “policy communities”. This concept is developed in theories that try to specify the content of what may loosely be called “corporatist arrangements” of state-society interaction (Smith 1993). Policy communities are highly cohesive groups of actors characterised by a *limited amount of members*, a *high level of interaction* and *high agreement about values*, a *relative balance of power* between its members (NHO, LO) as well as a *close relationship to government and the legislature* (Marsh and Rhodes 1992).

I have demonstrated that the group of actors active in resisting proposals for broadening the base of CO<sub>2</sub>-taxation in Norway has involved a small amount of actors in government and society. This group consists of the employers’ organisations NHO and PIL, the national trade union LO as well as its industrial branches, and ministries like the Ministry for Oil and Energy and the Ministry for Trade and Industry. These groups have a high level of interaction, most easily documented with reference to the co-operation between the trade unions and the employers’ unions. However, interview data also suggest that the mentioned ministries are important partners often consulted by the trade unions and employers’ unions. There is also a relative balance of power as all groups control resources important for the other groups. While the employers control investment decisions and benefit from a close relationship with the Conservative Party, trade unions benefit from a close relationship to Labour. However, both groups are dependent on maintaining a close relationship to the mentioned ministries, which are crucial actors in policy formation and implementation. In

turn, these ministries draw much of their legitimacy from the existence and success of the mainland emission intensive industries, and depend on a close relationship to these industries for being able to successfully shape and implement policies.

Moreover, in our interviews with representatives of trade unions, employers' unions and ministries with responsibility for the emission intensive industries, we were struck by the strong consensus on pro-industrial values or the common *industrial culture* that characterised all the interviewees.<sup>34</sup> These actors were all very proud of having participated in establishing such heavy industries in Norway, and perceived themselves as guardians of employment in the Norwegian periphery. Their main outlook is also much more inspired by the outlook of engineers and technologists than economists, which are generally perceived as enemies of the heavy industries. This outlook also characterises the public discourse on environmental regulation in Norway, as both politicians and media tend to label the emission intensive industries as "*the industry*". This label implicitly excludes the large mechanical industry, which production, employment and exports are bigger than the emission intensive industry. The special importance and value of industrial production implied in this term also contributes to a widespread neglect of the very high and rapidly increasing contribution of private services to Norway's economy among policymakers. Thus, in addition to increasing the internal cohesion of the policy community, this industrial culture seems to have inspired a public discourse that may enhance the legitimacy of the industry's claims in policy-making.

The other side of the coin of the domination of pro-industrial values is the weakness of values that support the claims of the economically very important private service sector. According to a top executive in the private service employers' organisation HSH, several members of the HSH also perceived their own activity in trade and services as "less valuable" than Norway's big industries.<sup>35</sup> In other words, the same *industrial culture* that benefited the cohesion of the emission intensive policy community and its access to politicians hampered organisational efforts in trade and services, and, most likely, the access of service sector interests to the politicians.

The fact that promotion of certain cultural values may be useful not only to maintain internal policy community cohesion, but also to increase the weight of a policy community's arguments in the decision-making process reminds us that the focus on the cohesion and resources of particular groups could be enriched by drawing more actively on some insights in power research, for example Bachrach & Baratz' (1963) distinction between power and influence as well as Lukes (1973) idea about the third dimension of power. Smith (1993:62) also focuses on this aspect of power when he states that: "The ideology (...) privileges certain ideas within the policy process".

The outcomes of the attempts to apply a CO<sub>2</sub>-tax to the mainland emission intensive industries in Norway confirm assumptions about the effects of policy communities on policy outcomes. As mentioned by Marsh and Rhodes (1992:197), Smith (1993:75) and applied to environmental policies by Daugbjerg (1998:78), there is a tendency that policy communities are conservative and protective to their members' interests, thereby producing policy stability

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<sup>34</sup> Smith (1993:62) defines a common ideology or culture as a crucial common characteristic of policy communities. For the participants from the ministries, the adoption and promotion of these pro-industrial values may be seen as an illustration of Olsen's (1983:145) argument that the views of top civil servants are shaped by their tasks and their environment.

<sup>35</sup> Interview with Lars Haartveit, Chief Economist, HSH, October 1998.

when confronted with external challenges. Daugbjerg (1998:80) formulates this insight in this way:

“Outsiders’ opportunities for forcing new policy rules into an old regulated sector in which a policy community exists are limited. They will meet strong united resistance. The state actor which is a member of the established network allies with the interest group. The cohesion is, in some cases, so strong that the network can be said to act in unity, especially if all members feel they are being threatened by an outsider (..)”.

This picture of the effects of policy communities on policy outcomes fits very well with the politics of the CO<sub>2</sub>-tax process in Norway. While the employers’ organisations and the trade unions co-operated closely, the Ministry of Trade and Industry did ally with these interest groups to the extent that the network could be said to act in unity. The only exception is the role of the Ministry of Trade and Industry as well as the Ministry of Oil and Energy under the Centre government after 1997. Although many of the public servants in these ministries still resisted a CO<sub>2</sub>-tax on the emission intensive industry, the new ministers pushed these ministries into a pro-tax position.

The role of economic expertise in the green tax process has been somewhat ambiguous. Economic expertise has been perhaps the most powerful adversary to the established policy community centred on the mainland energy intensive industry during the 1970s and 1980s because of the electricity subsidies. This group has also been an ardent supporter of cost-effective, pervasive CO<sub>2</sub>-taxes. However, during the presentation of the report from the Environmental Tax Commission in 1992, a high official from the Ministry of Finance emphasised the high costs connected to applying CO<sub>2</sub>-taxes in Norway. Although this conclusion was criticised by other economists because of the uncertainty of its gloomy predictions and its main motivation was a criticism of the idea of unilateral Norwegian emission reduction policies, it clearly supported the views of the policy community. The only organisations critical to the shelving of more pervasive CO<sub>2</sub>-taxes, the environmental movement, were easily marginalised by this powerful coalition.

During the Green Tax Committee’s work (1994-96) and later attempts by the Christian-Democratic government’s to impose a “double dividend” green CO<sub>2</sub>-tax on the emission-intensive industry, there was a direct confrontation between the energy intensive industry policy community and economic expertise. While the economic experts’ arguments against CO<sub>2</sub>-taxes in 1992 were based on a fear that Norway would have to pay a high price for adopting an excessively pro-active climate policy, cost-efficiency arguments in favour of a more equitable sharing of the burden of a climate policy prevailed during the tax committee’s work. However, the energy intensive policy community’s ability to counter environmental and economic efficiency arguments by using concerns for employment, regional policies and by threatening to cancel future investments and remove existing plants to other locations also prevailed in these cases. Three of the most powerful members of the policy community, namely LO, NHO and the Ministry of Trade and Industries (which then encompassed the Ministry for Oil and Industry) also participated in the tax committee. Privileged access to the Labour government by the emission intensive policy community broke the pro- CO<sub>2</sub>-tax alliance between the Ministries for the Environment, Transportation and Finance, and watered out the recommendations in the final report in 1996.

The ability of the mainland emission intensive policy community to counter challenges both from economic expertise, other economic sectors and the environmental movement reminds

us of how important history is to understand political access structures. As pointed out by Jessop (1990), such structures are outcomes of previous strategic struggles. In Norwegian post-war history, the social-democratic heavy industrialisation project focused on energy intensive industries seems to have produced a powerful network of mutually reinforcing interests and institutions that make reform of this sector difficult; a conclusion which is supported by Midttun (1989) and Thue (1996).

However, some aspects of the “Norwegian story” may also be of interest to other countries considering the introduction of energy- and CO<sub>2</sub>-taxes on the industry through “double dividend” green tax reforms. The weakness of the private service sector in Norway, the main beneficiary of such a tax reform, is not likely to be unique. While the share of organised labour in “traditional” emission intensive industries in Norway is almost one hundred percent, and virtually all of these are organised in the LO, the share of organised workers in trade and industry is much lower. The economic benefits from introducing a “double dividend” CO<sub>2</sub>-tax mostly accrue to recently developed, poorly organised economic sectors. Then, at a more general level, there may be a conflict between recent trends in the development of capitalism and the application of increasingly popular “green taxes” as an environmental policy instrument. As recently developed labour intensive economic sectors are less well-organised and exercise far less power and influence over policy-making than the still strong and well-organised heavy industries established 50-100 years ago (OECD 1991:97-128), the feasibility of green tax reform may be undermined by organisational trends in post-industrial societies. This may be an important political science lesson to economists who often expose strong optimism about the feasibility of applying economic instruments in environmental policies based on calculations of aggregate economic benefits.

Another generally interesting aspect of green tax reform in Norway that reinforced the organisational barriers were the social-psychological asymmetries of the “double dividend” proposal. Tversky & Kahnemann (1974) point out that actors are likely to perceive future losses as a stronger motivation for action than future gains, also in situations where the gains and losses are of comparable magnitude. This mechanism emerged clearly from the interviews. While the emission intensive industry perceived a modest green tax as a “lethal threat”, a top executive at HSH (The Federation of Norwegian Commercial and Service Enterprises) admitted that the mobilising effect of a potential bonus from a green tax reform was substantially weaker than the mobilising effect of other tax issues that involved potential losses for their members.<sup>36</sup> Thus, this psychological mechanism may enhance the effects of asymmetries of costs and benefits and historically given disparities of political power and influence between winners and losers from “double dividend” tax reforms. Theoretically, this observation has not only implications for the debate on green tax reform and ecological modernisation, but may also contribute to explain the increasing integration and co-operation of policy communities under threat observed by Daugbjerg (1998:80).

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<sup>36</sup>Interview with Lars Haartveit, Chief Economist, HSH, October 1998.

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CICERO was established by the Norwegian government in April 1990 as a non-profit organization associated with the University of Oslo.

The research concentrates on:

- International negotiations on climate agreements. The themes of the negotiations are distribution of costs and benefits, information and institutions.
- Global climate and regional environment effects in developing and industrialized countries. Integrated assessments include sustainable energy use and production, and optimal environmental and resource management.
- Indirect effects of emissions and feedback mechanisms in the climate system as a result of chemical processes in the atmosphere.

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