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Reply to Discussion of “The Association between Energy Taxation, Participation in an Emissions Trading System, and the Intensity of Carbon Dioxide Emissions in the European Union”



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Below are our responses to Andreas Charitou’s discussant comments from the 2014 *TIJA* Symposium.

Incremental contribution and motivation

1. *What is the contribution of this study beyond other existing EU and international studies? Is there something distinct about the EU with respect to energy taxes and emissions?*

Authors’ Response: To date, there have been many modeling studies on both energy taxes and emissions trading systems, but as noted by Sumner, Bird, and Smith (2009) and cited on page 3 of the revised manuscript, scant empirical research has examined the effectiveness of these policy initiatives. While economic theory supports the hypothesis that energy taxes and greenhouse gas (GHG) emissions will be inversely related, significant constraints on the implementation of energy tax policy exist, including the difficulty in establishing the appropriate tax rate, political considerations that sometimes result in exemptions for some energy-intensive fuels (page 9 in the revised manuscript), and variations in policy across jurisdictions, which make an empirical test of policies supported by the theory necessary. Further, empirical work is necessary to determine what, if any, the magnitude of the effect is; this information is

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important as policy setters both examine the effectiveness of current policy initiatives and consider what changes might be appropriate in the future.

We also note that other studies (e.g., [Sundqvist, 2007](#)) have not considered both energy taxes and an emissions trading system existing simultaneously. While both are incentive-based systems, they may induce different mitigation strategies with respect to efficiency and effectiveness initiatives. We discuss this issue on page 13 of the revised manuscript, and our research examines the impact of participation in an ETS on the relationship between energy taxes and carbon emissions. The EU ETS has only been in existence since 2005, so appropriate data to test this relationship is only recently available.

The existence of energy taxes is not unique to the EU, but the.

2. *Energy taxes may have a different effect in EU countries. How do you take care of this?*

Authors' Response: We control for this by including country fixed-effects dummy variables in our analyses. We apologize for not making this clear in the earlier version of the paper; it was only indicated in a footnote to the tables. We have revised both the paper and the tables to make the use of this control variable salient.

3. *Which are the major policy implications from this study? What should EU policymakers do after going through this study? Increase taxes further? If not, why?*

Authors' Response: The policy implications depend on the preferences of various jurisdictions. Even though there are threats to the effectiveness of both energy taxes (i.e., tax rates, exemptions, etc.) and the ETS (i.e., as noted on page 12 in the revised manuscript, the existence of a surplus of permits that has potentially impacted the market price of permits), both energy taxes and the ETS are having an impact on carbon emissions. To the extent that the political environment in a given jurisdiction makes taxation more difficult, an ETS is a viable alternative. However, we also present results that the ETS tends to favor efficiency measures, as opposed to effectiveness measures, which is an important policy trade-off. As we note on page 14 of the revised manuscript, the [Maryland Climate Change Commission \(2009\)](#) is concerned that both efficiency and effectiveness measures are necessary if policy goals are to be achieved.

4. *Isn't it intuitive that higher energy taxes will lead to lower emissions? What do we learn then? Policy implications?*

Authors' Response: While the theory predicts that energy taxes will lead to lower emissions, this relationship is dependent on the tax rate imposed as well as other constraints noted in our response to Comment #1 above. For instance, if the tax is less than the cost of abatement, companies may elect to pay the tax, and determination of an

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