



Tourist soil could be recovered in 10 to 15 years through the collection of a tourist eco tax

On the island of Lanzarote an ever growing current of opinion is questioning the limits of tourist growth that poses the necessity to obtain extra funds for environmental politics, and particularly to recover previously granted building rights that require compensation payments.

The present study analyses the role economic tools – specially taxation tools – can play to reduce environmental pressure as a result of the total number of people – residents and tourists – on the territory as well as of consumption patterns and use of soil by each person. The study deals with these two very different though interrelated aspects: how to advance towards an “ecologic reform” of the tax system and how to face the expenditure necessities to restrain environmental impoverishment and in particular to curb tourist growth.

From this perspective the application of an eco tax could generate extraordinary funds with which to recover tourist soil that can be developed on the island after the year 2010.

Synthesis of the Report:

“Taxation, environment and tourism on the island of Lanzarote”

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SYNTHESIS OF THE REPORT

In October 1993 Lanzarote was declared Reserve of the Biosphere by the UNESCO and specially from this date on, a current of opinion that questions the limits of tourist growth in the island started forming. In 1998 the so-called *tourist moratorium* was passed and it entered into force in 2000, establishing limits to the growth of tourist accommodation for the following ten years.

Environmental pressures are a result of the consumption pattern and the use of soil by each person as well as the total number of residents and tourists on the territory. Both questions may be addressed by means of an ecological tax reform, which is the main focus of this study.

On the one hand, it is necessary to heed possibilities of using tax regulations and public prices to encourage behavioural changes with an aim of reducing consumption of natural resources and waste generation, either by creating new taxation figures or by greening already existing taxes.

On the other hand, costs generated by tourist presence have led several tourist destinations to consider ways of facing these expenses by putting into practice specific taxes on tourism. Amongst these experiences some are specifically orientated towards environmental preservation through earmarking (some examples are the Balearic "ecotax", the experience of Belize and that of the archipelago of Fernando de Noronha in Brazil, analysed in this report). In Lanzarote the question of the necessity to obtain extraordinary funds for environmental policies has been risen, particularly for the recovery of previously granted building rights that require compensation payments; for this reason the introduction of a tourist tax is an idea that has gained strength.

This report deals with these two very different though interrelated aspects: how to advance towards an "ecological reform" of the taxation system, and how to face expenditure needs in order to restrain environmental degradation and specifically how to curb the trend towards increasing urbanization.

1. GREENING TAXES ("ECOLOGICAL TAX REFORM")

Municipal Scope

A first general idea suggests improving collection procedures, i.e. reducing the high level of unpaid taxes in order not to depend excessively on income derived from urban development. Further more, there are a number of possibilities to introduce environmental criteria in the design of existing taxes, some of which are significant: Real Estate Property Tax (IBI) could consider negative discrimination for empty houses; other measures would be subsidies on this tax in case of environmental investments (such as solar panels...); taxes on vehicles could establish a differentiation according to emission of pollutants; the possibility of a tax on rental cars could be studied -preferably harmonizing it among municipalities- as it would lead to improvement of public transport; taxes on household and commercial waste should be defined in relation to the quantity of generated waste, considering pay-as-you-throw schemes, at least for big producers.

Insular Scope

As the level of the Island Council (Cabildo), the report proposes that water consumption should not be subsidised and that prices be progressive according to consumption level. First and very basic consumption would be low priced whereas the cost should rise as *per capita* consumption increases.

Regarding urban waste, the proposal to the Island Council is to share the costs of using the landfill among municipalities not only according to contributed weight, but in a way that would encourage reduction and recycling. This could consist of a fee-rebate system between municipalities, in such a way that those who have better environmental management would pay a lower price *per ton* than those whose management is worse.

Autonomous Scope

Lanzarote should also pressure the Canarian Government to promote the introduction of environmental criteria in the tax system. The most relevant reform in this case would be that of the Reserve for Investments in Canary Islands (Reserva de Inversiones en Canarias, RIC).

In this sense, the criteria allowing tax advantages in the RIC should be changed and some kind of “environmental conditionality” should be established. This way, it would be desirable that restoration of existing buildings would be accepted without restrictions in the admitted investment criteria, whereas forbidding that the RIC be used for the construction of a new buildings.

Yet another positive performance would be to increase the tax on petrol, the income of which goes to the Island Councils, and that the destination of the revenue would not be limited to repairing and preserving the island’s road net.

2. ENVIRONMENTAL FUNDS FOR THE RECOVERY OF CONSTRUCTION RIGHTS

Regarding financing environmental preservation, an Environmental Fund should be created that could be either provisional with a specific object -such as the recovery of building rights- or, even better, permanent, though its first priority would be the mentioned recovery of rights. The Fund could be managed by the Island Council but with the assessment of a board representing every sector of society and Public Administration with the aim of guarantying that the obtained resources are invested in areas considered critical by the island’s society.

The Fund could centralize different revenue sources, diversifying the risk and relieving the pressure that could exist on one single tax. The multiple possible financing sources include voluntary donations by people or foundations, possible extra revenues derived from the greening of taxes, a possible participation of -maybe increased- entrance fees to the Cabildo’s Art, Culture and Tourist Centres... Furthermore the direct participation of the Autonomous Canarian Region with significant contributions to the costs associated with the restraint of tourist growth is absolutely justified (be it by contribution of the foreseen Territorial and Environmental Compensation Fund or by other mechanisms).

An indirect way of providing major income to the Island Council, which could be assigned to the Environmental Island Fund, would be to modify the criteria of distributing the funds from the Economic and Tax Regime (Régimen Económico y Fiscal), either by taking into account the real population and not the one residing on each island, or by earmarking to each island the Tourist Canarian Value Added Tax (Impuesto General de las Islas Canarias, IGIC).

The exact amount that implies recovering construction rights is unknown but 300 million euros are taken as a reference point (see report by Larrea, Rexach and González within this programme *Life Lanzarote 2001-2004*). The rhythm at which the payment has to be faced is not clear either. This is a crucial issue, because a significant imbalance between revenue flow and the expenditure required to face the recovery would mean additional financial costs. Nonetheless, the risk of such a potential imbalance is considerably reduced in the case of issuing national debt suitable for the RIC, which even at a practically zero interest rate will still be attractive to investors as it implies tax relieves.

However, due to the extraordinary magnitude of expenditure needed for the recovery of rights, and in spite of the financing sources previously mentioned, facing this expenditure seems difficult unless a new specific taxation tool to provide income to the Island Council is created. Due to the legislation in force, the creation of this tool would always depend on a decision at the autonomous level (Canary Region).

The first possibility would be for the Island Council to introduce additional charges on the Insular Valued Added Tax (IGIC) according to the principle of fiscal joint responsibility. If this was the case, the insular increase on the IGIC for all activities, or even only for tourist activities, could bring in significant income. For each percentage point of increase on the base subject to the IGIC for activities on the island, a minimum annual income of 10 million euros could probably be obtained.

The second alternative is the creation of a tourist tax, popularly known in Lanzarote as “the ecotax”. Since the Island Councils holds legislative powers in the Canarian Parliament, the Island Council of Lanzarote could present a Law Motion to allow those islands that so wish to introduce the mentioned tax. There are two basic schemes for this tax:

Payment for overnight stay (as in force in the Balearic Islands).

Payment for entering the island.

The big advantage of the second one that preferably would be charged together with the plane or boat ticket is that it would affect all non-residents who visit the island, no matter their place of accommodation (legal, irregular, with friends or family...). Another advantage is that it is easier to manage.

On the other hand, an overnight stay tax charged in hotels has the advantage of being fairer as it is charged in proportion to the length of the stay; and it can also be regulated according to economic capacity (according to the category of the accommodation) or according to the season. Furthermore, in the last case, the lawfulness of the tax would practically be guaranteed thanks to the precedent of the Balearic Islands, under the condition that the pending resolution from the Spanish Constitutional Courts be favourable to the Balearic Government.

In the future, the tourist tax could be designed to foster some environmental behaviours and practices. If the tax burdens accommodation, a classification by points could be established, according to environmental criteria (energy and water consumption, renewable energy, waste treatment, etc.) which would determine different values of the tourist tax. In case of the levy being charged upon entering the island, a possibility would be that its payment would allow the free and unlimited use of public transport.

In the study, moderate tax levels have been contemplated, which would not lead to a decrease in tourist influx below the aim of stabilizing tourist population. This target, shared at present by the majority of the population, is not only essential from a perspective of environmental sustainability but is also a means to maintain and increase Lanzarote's tourist prices and to promote tourism of higher quality that shows more respect for the island's cultural and environmental values.

Both types of taxes and the annual potential revenue of each one are summarized in the table below. For the entrance tax, the calculation is based on two million visitors per year and for the overnight tax is based on an average of 50.000 tourists per day in regular accommodation. The overnight tax corresponds to an average amount, although it actually might be different according to the category of the accommodation.

	Entry tax			Overnight tax		
Tax unitary amount	10€	15 €	20 €	1 €	1,5 €	2 €
Annual Revenue (in 1.000 of €)	20.000	30.000	40.000	18.250	27.375	36.500

The existing uncertainties and the variety of political options call for caution when trying to establish the time needed to pay off the recovery of building construction rights using the income of a tourist tax. Nonetheless, if the decision is to choose one of the average values (15 euros for the entrance tax or 1.5 euros for the overnight tax), it is not unrealistic to place the total necessary years between 10 and 15 since the tourist tax is introduced.

To guarantee it, or to even recover the rights in less time, would require giving almost exclusive priority to the use of the revenue for this goal, while exploiting to the utmost other possibilities of income, mainly the contribution of the Autonomous Government.