

# THE IMPACT OF GREEN TAXES AND OF FISCAL MEASURES ON COMPETITIVE SUSTAINABLE TOURISM IN ROMANIA

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## **Abstract:**

*Tourism, as a mass phenomenon, has grown over the last decades due to increased population incomes, global infrastructure development, communication and promotion means, and last but not least, due to increased leisure time. Tourism identifies with nature, movement, culture, health and knowledge. However, these desires have led to the spectacular development of a new industry, i.e. the tourism industry. Tourism, if not planned and controlled through institutional policies, can give rise to serious social and environmental imbalances. A particular problem is caused by the air pollution entailed by the industry; the pollution sources with repercussions on the tourism potential have been considered, in a decreasing activity rate, as follows: energetic, metallurgical, chemical, petrochemical, building materials, wood processing, and food industry. Mixed emissions of dust, harmful gases, irritants and smelling substances produced by the units of these industries can pollute the resources underlying the development of activities specific to spa, leisure and relaxation tourism, cultural tourism, hunting and sport fishing. By charging environmental impact activities, states aim to achieve environmental objectives, which is only one of the instruments used for this purpose.*

*Therefore, this paper focuses on this issue, i.e. the impact of green taxes and of fiscal and social taxes on competitive and sustainable tourism.*

**Key words:** green tourism, green taxes, fiscal and social measures, competitiveness,

**JEL classification:** F64, O44, Q56, M41

## **1. INTRODUCTION**

Tourism is seen as a form of relaxation alongside other leisure means and activities (Holloway, 1994). It involves the temporary movement of people to destinations located outside their usual residence and focuses on activities carried out during the time spent at those destinations (Witt, Brooke, Buckley, 1991).

The multiple connections of tourism and its economic, social, cultural and political implications argue for the permanent concerns about knowing its content, weaknesses and incidents, to better understand its functioning mechanisms, hence the magnitude and complexity of the connections between tourism, the other branches of the economy and the environment. The natural degradation of the local environment, generated by the over-development of tourism activities in association with a general lack of specific and integrated management programs for the preservation of natural resources within tourist areas has resulted in economic decline in many tourism destinations (Travis, 1980; Lozato-Giotart, 1991; Hall, 1998).

The development of the society as a whole exposed the environment to two types of threats. One of them is directly triggered by demographic growth and urban expansion, by the rapid growth of industry, agriculture and other fields of activity, transport and communication systems, intensive and extensive exploitations of natural resources. The other threat, which is much less aggressive and predominantly seasonal, derives from tourism and leisure activities.

The success of public and integrated management to safeguard natural resources on a local scale initially depends on the efficiency of public authorities in obtaining the necessary financial resources to develop specific environmental planning for its territory. Thus, different measures, either at local or regional level, are adopted in order to implement a series of tourism tax collection systems that guarantee long-term tourist economic revenues, when, in turn, these are partially

employed to sustain the local community's future environmental and economic needs (Pazienza, 2011).

By charging environmental impact activities, states aim to achieve environmental objectives, which represent only one of the instruments used for this purpose. Depending on the activity type, taxation can be used in combination with other types of instruments, such as fees, tariffs or tradable permits.

Thus, the simultaneous achievement of environmental, economic and social policy objectives has been envisaged, because the hidden production and consumption costs are taken into account both in terms of human health and of their impact on the environment.

## **2. THE RADIOGRAPHY OF TODAY'S ROMANIAN TOURISM**

Over the last 20 years, Romanian tourism has been characterized by profound unrest. Although more than 20 years have passed since the 1989 Revolution, which marked the end of the communist era and Romania's passage to capitalism, the situation of Romanian tourism does not please and honor us because Romania has an enormous natural and cultural potential that is insufficiently capitalized. Moreover, foreign and Romanian tourists encounter great difficulties in accessing it. In terms of tourism, Romania means seaside, the Danube Delta, the Carpathians, spa resorts, Bucovina, Maramures, Dracula; all are tourist destinations specific to different tourism forms: seaside, mountain, spa, religious, and business. However, we are unable to create a competitive tourism product, tailored to the tourists' needs, and we failed to capitalize our natural potential.

The pollution of landscapes, heritage sites and heritage buildings is another extremely serious problem, accompanied by the local authorities' disinterest to preserve the cultural and historical values (such as Constanta Casino, Adamclisi, Histria).

The landscape degradation factors belong to the group of factors whose actions destroy the environment (vegetation, wildlife, river system, etc.). Other issues add to these factors, such as uncontrolled deforestation, uncontrolled industrial and domestic waste, unaesthetic or inappropriate buildings/ constructions; these are only several elements that deteriorate nature, precisely where it is most sought for its beauty.

The most serious shortcomings are caused by the construction of forest roads, which lead to deforestation, the excavation of slopes, the defoliation of trees, which occur especially in the Apuseni Mountains, Bucegi Mountains, in the Bila-Lala Reserve from Rodna Mountains, etc.

The degradation of natural reserves and natural monuments is also detrimental to the tourist potential, reducing the scientific, cognitive-educational, aesthetic contribution of some unique landmarks. The degradation of these monuments and natural reserves in our country is a result of uncontrolled economic activities, entailing incalculable damages both scientifically and economically, by diminishing the possibilities of their tourist value (the Danube Delta, Retezat National Park, caves – nature monuments, etc.).

As a consumer of space and tourism resources, tourism participates implicitly in the degradation and pollution of the environment and of the tourism potential, either through the direct pressure of tourists on the landscape, flora and fauna, through the partial or total deterioration of some tourist attractions, or through the wrong capitalization of certain tourist areas, points and objectives.

Destructive activities can be numerous, especially in areas or objectives where there is an obvious tourist concentration and where no special facilities are needed to practice different tourist activities, especially in order to visit them. They are caused by uncontrolled tourist traffic in areas or tourist sites located outside marked trails, leading to the destruction of vegetation and flora, the outbreak of fires, preventing the regeneration of plants, terraced soil, poaching, hunting, which sometimes lead to the destruction of some species.

The Romanian tourism sector has been affected by the absence of general guiding policies, by the lack of a general policy framework for the development and sustainable management of the

tourism industry in terms of natural and cultural resources. Thus, at governmental level, a masterplan has been drawn up, which takes into account these aspects, policies and strategies that target this sector of national priority.

Regarding the impact of tourism on the economy, the 2018 World Travel & Tourism Council (WTTC) report ranks Romania the 66th in the world in terms of the absolute direct contribution of tourism to the GDP (i.e. \$ 3 billion), at a great distance from the EU average (i.e. \$ 23.8 billion) or from the global average (i.e. \$21,5 billion). In the latest global report of the World Economic Forum on Tourism Competitiveness, Romania ranked 68th in 2017, with an aggregate index of 3.78, on a par with Oman and Vietnam. This situation was entailed mainly by the lack of infrastructure and the insufficient promotion of Romanian tourist destinations.

### 3. GREEN TAXES – GREEN TOURISM

Over the last years, perhaps from the experience of other states, but also under the constraints of European directives, Romania has understood that it must promote green tourism, which is responsible for sustainable development, i.e. a tourism form whereby the tourist is aware that s/he must consume tourist services by diminishing environmental pollution as much possible (be it natural travel, accommodation in organic units, consumption of natural products, etc.). Thus, it contributes to the sustainable development of tourism and, why not, to changing the perception of what tourism consumption is nowadays and what it will be in the future.

Daedalus Consulting, in partnership with Green Report, has developed the first quantitative research on environmental issues in Romania (Daedalus Consulting, 2008). The poll appeared in February 2008 and was conducted on a sample of 1,003 respondents. Among the phenomena with an impact on the environment, Romanians identified worrying issues related to atmospheric pollution (84.3%), deforestation (84.1%), genetically modified food (77.3%), industrial pollution, drought and floods or ozone layer thinning (by over 72%) (Daedalus Consulting, "Green Thinking, environmental survey among Romanians", February 2008).

According to the Eurostat methodology, environmental taxes can be classified into three groups: energy taxes, transport taxes and pollution and resource use taxes.

Energy taxes include taxes on energy products used both for transport and for powering stationary machinery. The most important products used in transport are gasoline and diesel. Natural gas, coal and electricity are among the products used for powering stationary machinery.

Transport taxes mainly include property and vehicle taxes. Taxes on other transport equipment (e.g. airplanes) and related transport services (e.g. charter or program fees) are also included in this category, when they comply with the general definition of environmental taxes.

Pollution and resource use taxes apply to emissions from mobile and immobile sources, the sale of certain goods (batteries, hazardous chemicals, tires, plastic bags, plastic and cardboard packaging) and the exploitation of natural resources (wood, aggregates) other than those used as energy sources (OECD, Taxation Innovation and the Environment, Paris, 2010).

Green taxes – taxes for environmental purposes – arise from the desire to preserve resources and to offset the possible negative effects of tourism. They create an incentive to protect and restore the environment and its resources, compensating for the tourist activity in each area.

These taxes help to:

- create funds so that destinations can invest in improvements such as environmental protection or resource recovery;
- encourage environmental awareness amongst tourists about their use of the destination's resources;
- promote a positive image of the destination and the companies based there by demonstrating their environmental concern.

According to the Eurostat 2009 EU Taxation Report, since 1999, there has been a slightly decreasing trend in the share of green taxes as a percentage of the GDP25 in the EU-1524, while in the new Member States there is an increasing trend. The report stresses that this trend is unexpected having in view that environmental issues have become increasingly important in recent years.

However, these developments can be explained by the actions undertaken by national governments to limit the effects of the steady rise in oil and gas prices in recent years, and by accentuating the use of other instruments in order to achieve environmental objectives.

Another explanation advanced by the Eurostat26 report focuses on the consequences entailed by the decrease in the energy intensity of the industry in the EU member states caused by the increased prices of energy sources in relation to the maintenance of fixed excises. Overall, as a result of the implementation of minimum excises for all energy sources, the taxation profile of the new EU Member States, except Romania, has changed after 2004, eliminating some sensitive differences from the other EU member states in terms of incomes (Table 1, Fg.no.3).

The structure of green tax revenues in 2015 shows the key role played by energy tax revenues in green tax receipts, which is clear for almost all countries, (accounting for some 77% of EU-28 green tax revenues) — of which transport fuel taxes represent around 70% of receipts — followed by non-fuel transport taxes (20%) and pollution/ resources taxes (4%).(Fig.no.2)

Changes in the structure of green tax revenues between 2005 and 2015 can be noticed in Greece, Slovenia, Italy and Estonia, which display the largest increases in both overall green tax revenues and in energy tax receipts.

Around 70% of energy tax revenues in the EU are raised on transport fuel. In 6 Member States, transport fuel represents over 90% of energy tax revenues.:(Fig.no.1) Denmark, Sweden, Italy, the Netherlands, Finland and Greece have the lowest share of transport fuel tax revenues (between 40% and 62%). Overall, the energy tax revenue is the highest in Slovenia, Greece and Italy (3%, 3% and 2.8% of the GDP respectively).



Note: Ranked on the share of energy taxes.  
(\*) 2015 instead of 2016.

**Figure no. 1. Environmental taxes by tax category, 2016**

Source:

[https://ec.europa.eu/eurostat/statisticsexplained/images/f/f2/Environmental\\_taxes\\_by\\_tax\\_category%2C\\_2016\\_%28%2F5\\_of\\_total\\_environmental\\_taxes%29.png](https://ec.europa.eu/eurostat/statisticsexplained/images/f/f2/Environmental_taxes_by_tax_category%2C_2016_%28%2F5_of_total_environmental_taxes%29.png) [accessed on 11.09.2018]

Romania shows a divergent evolution compared to the other 9 post-communist EU member states, with the largest decline in green tax revenues as a percentage of the GDP between 1999 (i.e. the start of the EU accession negotiations) and 2007.



**Figure no. 2. Total environmental tax revenue by type of tax, EU-28, 2002 -2016 (billion EUR)**

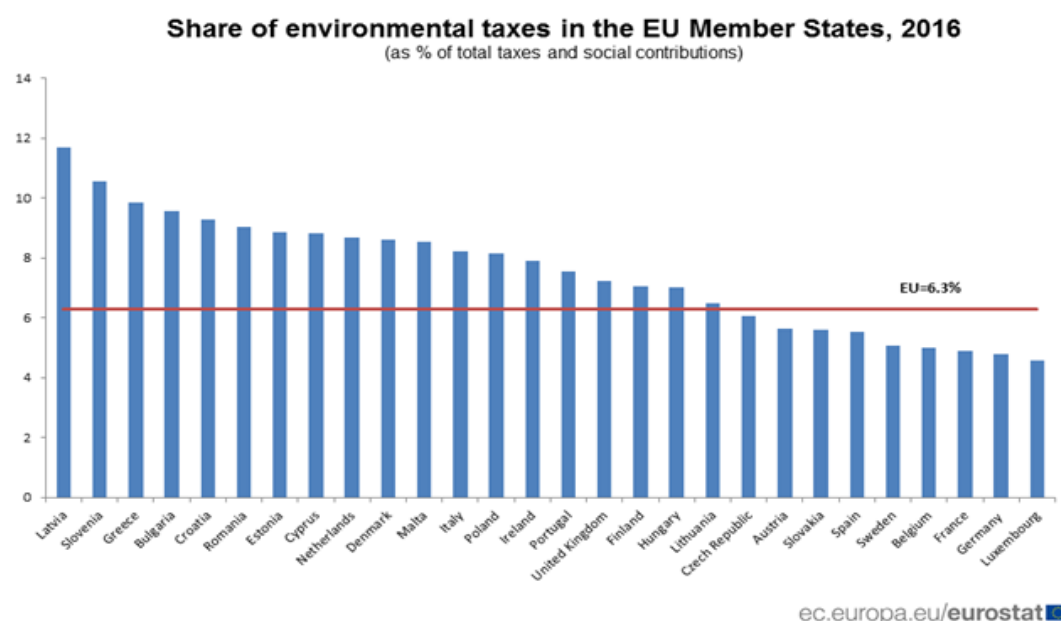
Source:

[https://ec.europa.eu/eurostat/statisticsexplained/index.php/Environmental\\_tax\\_statistics#Environmental\\_taxes\\_in\\_the\\_EU](https://ec.europa.eu/eurostat/statisticsexplained/index.php/Environmental_tax_statistics#Environmental_taxes_in_the_EU) [accessed on 11.09.2018]

**Table no. 1. Total environmental tax revenue relative to GDP 2004-2016, EU member states**

Structure by type of tax	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Ranking 2016	Revenue 2016 bil.eur
<b>Environmental taxes</b>	2.3	2.0	1.9	2.0	1.7	1.9	2.1	1.9	2.0	2.0	2.3	2.4	2.4	18	4.0
Energy	2.1	1.8	1.7	1.7	1.4	1.6	1.8	1.7	1.7	1.7	2.1	2.2	2.1	12	3.6
of which transport fuel taxes		:	:	1.5	1.3	1.5	1.5	1.3	1.3	1.4	1.7	1.7	1.7	13	
Transport	0.1	0.1	0.1	0.3	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.2	21	0.4
Pollution and resources	0.14	0.09	0.08	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	25	0.0

In 2016, the total environmental tax revenue in the EU-28 represents 2.4 % of the EU-28 Gross Domestic Product (GDP) and the energy taxes (which include taxes on transport fuels) represented by far the highest share of overall environmental tax revenue.

**Figure no. 3**

Source: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180131-1?inheritRedirect=true>

Environmental taxes have been used more and more to influence the behaviour of economic operators, whether producers or consumers. These taxes in all countries generate revenue that can potentially be used by government to increase its expenditure on environmental protection or efficient management of natural resources. Between 2002–2015, the level of the environmental taxation in Romania decreased below the EU average level. In 2015, this level is quite similar for Romania and EU, although Romania ranged among the EU countries with a low share of environmental tax of GDP.

#### 4. FISCAL MEASURES TO RELAUNCH ROMANIAN TOURISM

The government – through its line ministries – is trying to compensate for the weaknesses of Romanian tourism by adopting fiscal or social measures aimed at the population and at the economic agents in this field (i.e. tourism). This paper assesses the impact of these measures, which although are necessary in the context of prioritizing this sector within the national economy, are not enough to place Romania at the top of tourist destinations.

Overall, Romanian tourism is on a positive trend. The sector's profitability is estimated to reach over 200 million RON this year, i.e. double, compared to the one from ten years ago.

A recent fiscal measure adopted by the government resides in the application of the 5% VAT rate to areas such as accommodation in the hospitality sector or in similar-function sectors (including the rental of camping grounds), restaurant and catering services (excluding alcoholic beverages, other than beer) sport, recreational and entertaining activities. Thus, tourism will have the lowest VAT rate among all economic sectors. In addition, another measure that will stimulate Romanian tourism and influence positively the population's health will be the unblocking of spa tourism by zero royalties for geothermal water and natural mineral water, for population consumption in public buffets. Moreover, local authorities and commercial companies will be able to access money from the investment fund, specifically dedicated to the development and modernization of spa resorts.

Romania risked an infringement procedure on the part of the European Commission for failing to implement the European legislation in the field of tourism and, implicitly, for not transposing into the national legislation the European Directive guaranteeing packages of tourist services purchased by individuals. The Ordinance for the implementation of the Package Travel

Guideline 2302/2015 will allow the full reimbursement of the packages paid by tourists and non-performed by tourism agencies, as well as the urgent repatriation of the tourists remaining outside the country due to the agency's insolvency.

Starting this year, the employees in the state sector have benefited from holiday vouchers. The government has been pursuing the revival of Romanian tourism also by limiting the Romanians' tendency to access tourism services abroad. The measure should produce a visible positive impact on the tourist services market and will probably boost the hospitality industry as well as the leisure industry. This may increase the profit for such units and perhaps even increase their competitiveness compared to other such options abroad.

Thus, the inappropriate infrastructure and the absence of promotion, in a country whose touristic potential is enviable, Romanian tourism will register this year the best financial result of the last decade, boosted by these fiscal and social measures that practically compensate for the great obstacles to the development of this sector.

## 5. CONCLUSIONS

The promotion and implementation of competitive and sustainable tourism require the adoption and implementation of some measures that mainly concern the following aspects: the preservation of all tourist functions of national parks and of biosphere reserves should be based on tourism development plans, which should not be limited to these natural areas and which should be part of a wider regional context. The isolated actions of partial improvements exclude the development of sustainable tourism. All tourist facilities and equipment should be performed in a certain style, on a certain scale, in full harmony with the local environment, using traditional local construction materials;

Cleaner, non-polluting modes of transport should be developed by using alternative energy sources.

For the future, there are needed new types of holidays requiring low energy expenditures, minimizing the use of resources, preserving and protecting the environment.

The tourists and the local population should become acquainted with the role and the implementation means of sustainable tourism; they should also be informed about the gradual achievement of a way of living compatible with international environmental protection rules, which is particularly useful for the development needs of future generations.

The compliance with these minimum requirements needs a political and economic engagement of all stakeholders in the development of tourism, the achievement of real financial support, the implementation of collaborations between international, national and local bodies.

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