A green reform is not always green

This paper analyses a tax reform, explicitly conceived by policy makers to be climate-friendly, that partly replaces a high vehicle registration tax by road user charging and allows for differentiation of the remaining registration tax by fuel efficiency. A microeconomic framework is proposed to analyse such a reform. For the case of Denmark, the analysis shows that the reform is likely to yield a significant and robust welfare gain. However, it seems not unlikely that CO₂ emissions from passenger cars may increase as a result of the reform.