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COVER NOTE

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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE FITNESS CHECK of the Polluter Pays Principle (PPP)

Delegations will find attached document SWD(2026) 403 final.

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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE FITNESS CHECK
of the
Polluter Pays Principle (PPP)
{SEC(2026) 404 final} - {SWD(2026) 402 final}

Introduction

Article 191(2) of the TFEU sets out the polluter pays principle (PPP). In practice, the Treaty-based PPP means that the polluter should pay for the cost of measures taken to prevent, control and remedy pollution and also pay for the costs imposed on society, such as costs associated with impacts on health, the loss of ecosystem services, or impacts on the economy.

The PPP is a tool to respond to a market failure where the prices of goods and services incurred by the polluter do not (fully) reflect these costs. Therefore, market prices are distorted, and the polluter is not (sufficiently) incentivised to prevent pollution. The PPP corrects the market mechanism by introducing the right price signals, which provides an incentive for pollution reduction and investments towards clean technology; and supports the just transition by shifting the burden of pollution from society onto polluters.

Methodology and scope

This Fitness Check assesses how the PPP is applied across EU policies affecting the environment. It takes a comprehensive approach, examining 76 pieces of legislation reflecting the scope of the 8th Environment Action Programme (EAP)¹.

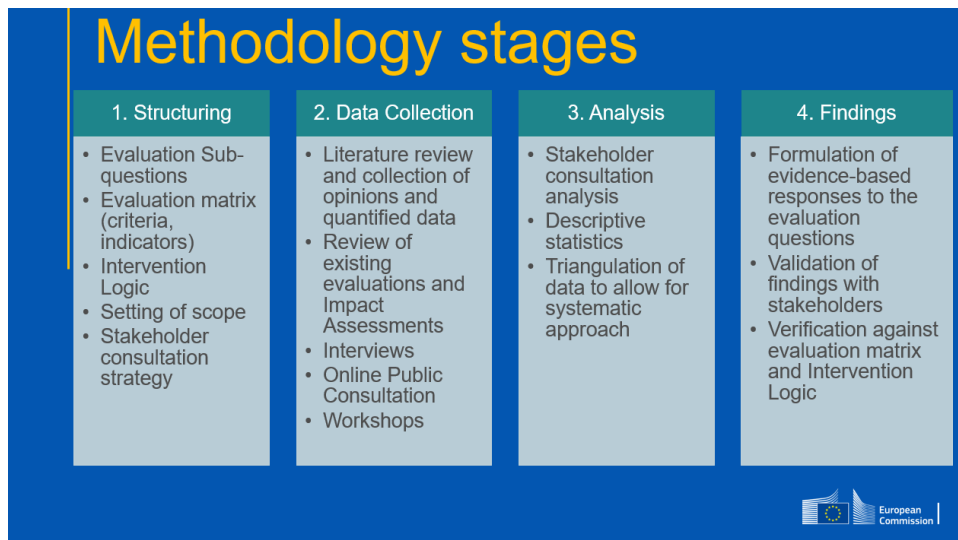
Contrary to a standard evaluation which asks about all aspects of a policy, in this Fitness Check the focus is on who pays for the required actions. For example, a piece of legislation may require prevention (abatement of pollution), and this Fitness Check does not evaluate whether the level of ambition is right. Instead, it evaluates whether the polluter pays for that prevention and, where data allows, the costs of making the polluter pay. To ensure a systematic approach, this Fitness Check examines three cost categories: i) costs of pollution prevention and control, ii) costs of administrative obligations and iii) costs of environmental damage.

The PPP is a fundamental principle of EU environmental law and so it is also the responsibility of the Member States to implement it on a national level. This issue is greatest for the costs of environmental damage, where a price may be placed at EU level (such as the EU Emissions Trading System, or through Extended Producer Responsibility schemes) but EU competence related to taxes is limited and so Member States often have the competence to apply environmental taxes in line with the principle of subsidiarity.

Questions asked include why we do not fully implement the PPP, what is the cost of applying it, whether it makes environmental policy more efficient in cost-benefit terms, whether it is fair and just, whether there are significant differences in its application across EU policies and Member States, whether the PPP is relevant to the EU's climate and environmental objectives, and what is the EU value-added.

The Fitness Check was supported by a public consultation, targeted consultations, and workshops including to validate emerging findings.

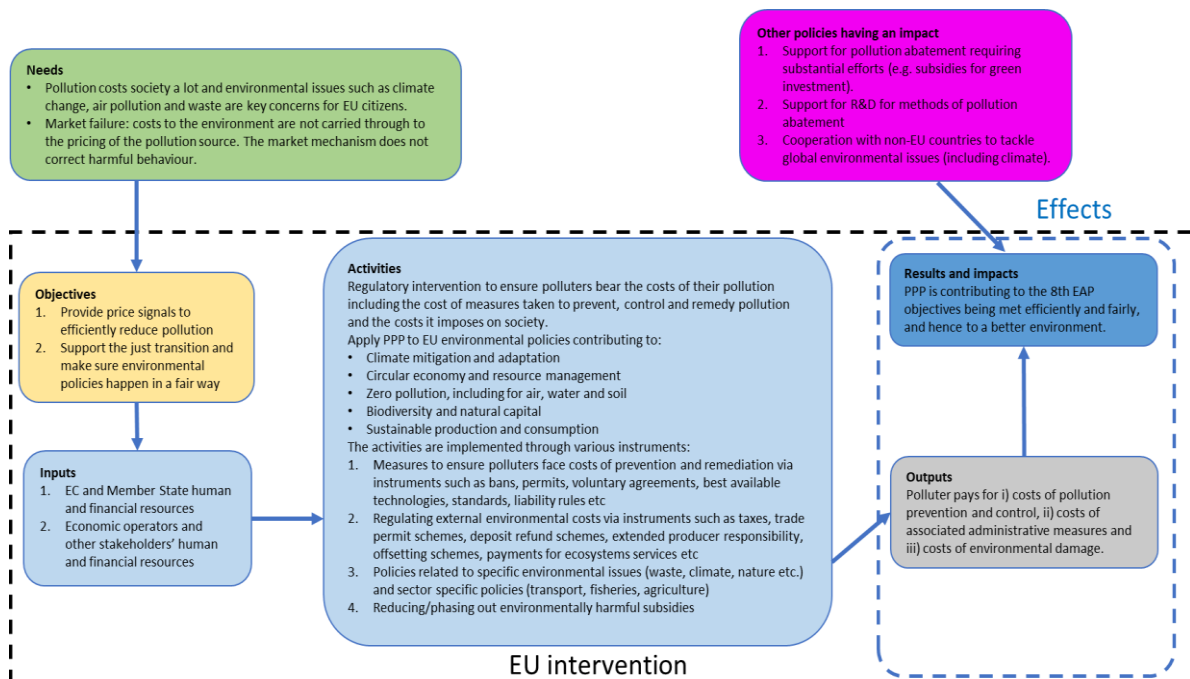
¹ The EU Bioeconomy Strategy, although being an important strategy to drive the green transition based on biological resources, has not been included in the scope.



The intervention logic

There are two objectives of the PPP: firstly, to provide price signals to efficiently reduce pollution and, secondly, support the just transition and make sure environmental policies happen in a fair way.

Inputs, in the form of overhead costs, ensure there is activity in the form of regulatory intervention so that the PPP is applied. This results in polluters bearing the costs of their pollution and the impact is that the 8th EAP objectives are met efficiently and fairly.



State of play

Despite some conceptual differences, EU's national expenditure on environmental protection (NEEP) reported to Eurostat provides a good estimate of spending on prevention and control and is EUR 357 billion per annum. This figure comprises some spending on administrative costs, including the overhead costs of ensuring that the PPP is applied.

There is a moderately strong evidence base on environmental damage, but only partial monetisation of the damage. Where evidence is available, estimates of the degree of

internalisation point to only a partial implementation of the PPP. This reflects environmental taxes of around EUR 320 billion per annum, that are much lower than even the partial estimates of the monetary damage (for example, between EUR 268 and 428 billion per year, just for air pollution from industry). In addition, environmentally harmful subsidies sent a contradictory price signal: fossil fuel subsidies are EUR 123 billion per annum.

Main findings and lessons learnt

The analysis identified that the PPP is partially implemented, but where implemented it is effective in improving the efficiency of environmental policy. The partial implementation leaves scope for further improvements, considered on a case-by-case basis.

- This Fitness Check found that the **PPP is partially implemented**. The principle is generally well implemented in policies to address the **costs of pollution prevention and control**. There are though gaps in how the PPP is implemented for the **administrative costs** of policy implementation, and especially for costs of environmental damage. The picture of partial implementation applies across all economic sectors. Lessons learnt concern how to improve implementation, which needs to be considered on a case-by-case basis.
- Another finding is that the PPP is an **effective mechanism for providing price signals that increase the efficiency of environmental policy**. The PPP is a tool to make environmental policy more efficient, by giving to economic agents the price incentives to modify their behaviour or innovate, and thus reduce pollution costs. Fostering a fuller implementation of the PPP might further reduce the costs of environmental policy.

It is a challenge to provide a cost-benefit analysis of a principle. The analysis needs to separate the costs and benefits of the policies from the costs and benefits of applying the PPP to these policies. For the latter, the costs are mainly the costs of identifying the polluter and enforcing the PPP (called here “overhead costs”); while the benefits are the efficiency gains achieved via price signals when the polluter pays rather than someone else such as the general taxpayer. Both, costs and benefits of applying the PPP, are difficult to identify and distinguish from the costs and benefits of the environmental policies themselves.

The cost-benefit analysis is conducted on the data available reflecting the costs that polluters pay for, as well as to some extent the administrative overheads of ensuring they pay for concrete sectoral policies, and the benefits in terms of improved efficiency. The **overhead costs of applying the PPP seem more than justified by the benefits of doing so**. However, this needs to be considered on a case-by-case basis for further implementation.

The partial implementation can be incentivised by three **critical success factors** that have so far dissuaded policymakers, and which need to be addressed to allow for improved implementation:

1. Making the polluter pay **can be an effective mechanism for supporting the just transition**. Careful policy design with consideration to distributional effects is a critical success factor to make sure this happens in practice. The application of the PPP in environmental policies starts from a position of being inherently fair; in the sense that the social pollution costs are paid by the polluter and not by the general taxpayer or people affected by it. There is a risk though that the PPP can be inconsistent with the just transition when distributional effects negatively affect vulnerable groups or regions in a way that is not justified by the benefits for these groups/regions. However, case examples show that a progressive distributional effect can be achieved through a careful design of policies, including progressive pricing or exemptions or a compensation mechanism using the revenues from environmental taxes.

2. Making the polluter pay, increases costs for polluting businesses and can **impact on their competitiveness and lead to pollution leakage**. However, depending on the policy design, environmental policy can also support and drive profitability and competitiveness. While environmental policy applying the PPP can also drive innovation, flanking measures and mechanisms need to be considered on a case-by-case basis to address the potential negative impacts on competitiveness.
3. There is a **need to address the difficulty of application, and the resulting ‘overhead’ costs**. Although they are difficult to isolate, the existence of overheads to applying the PPP helps to explain the partial implementation. These include the costs of identifying who are polluters and measuring their pollution. Digital solutions should be explored to further ease the costs of implementation.

This Fitness check also found that:

- The **coherence of application of the PPP across EU policies is strong**, with a lack of conflicts between measures to which the PPP is applied. However, there is **inconsistency of implementation**, with variation in the application of the PPP most pronounced in relation to environmental damage costs. Consistency also varies within and between priority objective issues: climate policy has introduced the most widespread pricing mechanism covering environmental damage. Other priority objectives lag, and have generally weaker implementation of the PPP, in particular, pricing of environmental damage is weak for biodiversity. There are also variations in implementation of the PPP between Member States, especially for the use of environmental taxes.
- **Environmentally harmful subsidies send the wrong incentive to polluters** and so contradict the implementation of the PPP. Environmentally harmful subsidies conflict with the PPP because they reward the polluter and distort market prices. The application of the Do No Significant Harm (DNSH) principle in EU funds is a way to improve their application of the PPP, and this will be applied to the future Multiannual Financial Framework programmes where feasible and appropriate.
- The **PPP is highly relevant for achieving the climate and environmental goals of the EU**. PPP aims to reduce pollution levels via price signals. A particular strength of the PPP is in promoting technology change through price signals, and as the PPP is technology neutral, it can respond to changes in technology and so remain relevant.
- Finally, **the analysis shows EU value-added**. There are consistent clear benefits in terms of coherent application of the PPP across the EU stemming from rules set out at the EU level, which improve overall consistency across Member States and ensuring a greater degree of single market harmonisation, thus allowing for more efficiently meeting policy objectives. Where national policies decide on specific rules, the PPP implementation is less consistent. Further EU level action would have led to stronger implementation of the PPP, greater market harmonisation and a stronger internal market.