

Green Budget Europe

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Structure

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Introduction

- Environment is a market failure
- Putting an appropriate price on environmental damage – explicitly through tax or trading, or implicitly through regulation – means that companies are faced with the full social cost of their actions.
- To do this Government intervention = essential
- EIC lobbies for this Government intervention on behalf of the environmental technologies and services sector
- Creates new economic opportunities from environmental policy
- Creating a strong domestic market – export opportunities
- Challenge has been set – fiscal stimulus across the world.

Market Size - EU and UK

- Global market is £3 trillion
- The US leads with a market share of 20.6% worth £629 billion.
- It's followed by China with a market share of 13.5% worth £411 billion
- Next is Japan with less than half of market share enjoyed by China at 6%
- Europe as a whole has 27% of global market
- Behind Asia and the Far East with 37.71% and Americas with 30%
- The largest market share of an EU country in Germany, which has 4% of global market

- Followed by UK with 3.5% of global market
- The value of the UK LCEGS sector was £106.5 billion in 2007/08
- 7.4 per cent of GDP
- Just under 55,000 companies (50 per cent of which are in low carbon sector)
- Employs 881,000
- Grow to value of £154 billion by 2014/15
- Forecast growth for whole UK environmental market for 2009/10 = 4.7 per cent, increasing to 6.10% by 2014
- 400,000 new jobs in UK
- Claiming these benefits is dependent on Government intervention – ahead of international competitors
- FIRST MOVE ADVANTAGE RULES
- This Government intervention needs to be a mix of policy instruments – R&D support, incentives, subsidies, regulation... and tax
- It's about using the right policy levers to achieve the desired outcome.

Environmental Tax Reform - What part does environmental tax have to play?

- With regards to tax, a basic question is, of course: what is an effective tax system?
- In this context = I would suggest it is one that ensures companies and individuals pay for their wider impacts, for example, environmental pollution.
- Helping put a price on environmental damage
- This means it must be targeted effectively at those whose behaviour the taxes are intended to change
- Putting a price on environmental damage in this way can help stimulate innovation
- Environmental Fiscal Reform (EFR) can also play an important role helping countries raise revenues, while creating incentives that generate environmental benefits
- Some revenues should be recycled back... eg EU ETS auctioning revenues
- Another argument is that environmental taxes should be recycled back into lowering other taxes, eg on labour, which is of course

hard to do if environmental taxes are recycled back into environmental protection measures. Needs a balance.

- Revenue raising aspect of environmental tax might be more attractive to Governments in the current economic climate
- The effectiveness of environmental taxes will be reduced if they are accompanied distortionary tax provisions – for example tax exemptions and rate reductions are granted in countries that are members of the Organisation for Economic Co-operation and Development.
- In the UK 80% rate reductions from the Climate Change Levy are granted for energy-intensive sectors if they comply with energy-efficiency targets set in negotiated Climate Change Agreements. But these agreements are not very ambitious
- Also the European Commission recently approved a Danish proposal to reduce a CO₂ tax on fuel consumption paid by companies covered by the European emission trading scheme (EU ETS), subject to conditions
- **Three important aspects that should be considered in the use of environmental taxes:**
 - Economic
 - Opportunities
 - Economy-wide impacts can be rather small if CO₂ taxes are recycled in the form of reduced labour taxes
 - 2007 EU study into Competitiveness impacts of environmental tax reform – looked at member states which launched ETRs during the past two decades (ie Denmark, Finland, Germany, the Netherlands, Sweden and the UK).
 - Shown at ETR brought about a reduction in GHGs in all 6 EU countries that implemented them.
 - Biggest cut was in Sweden where ETR achieved almost 7 per cent cutNo evidence that ETRs have caused any loss of competitiveness to dateBut key is the use of the right instrument
 - Political and social
 - Crucial aspect to consider
 - Could combine environmental policy with tax reform for poor families?

Future of Environmental Taxes Across the EU

- Swedish Presidency of the EU - to push for a tax on carbon emissions falling outside the EU emissions trading scheme (ETS).
- France – agreed to introduce a carbon tax on fossil fuel use to reduce greenhouse gas emissions in sectors such as transport and housing
- G8 - Carbon taxes "can also be useful" to accelerate the transition to a low carbon economy
- WTO – some countries may be allowed to impose a carbon tax on imports of energy-intensive products from parts of the world that do not have emission reduction commitments
- However, Eurostat report in June suggesting that governments may be turning their backs on green taxes in favour of other policy instruments such as regulation and emissions trading
- The report shows that green taxes as a proportion of GDP fell to an eight-year low of 2.5% in 2007
- Energy taxes accounted for around three quarters of all environmental taxation, with transport taxation contributing just under a quarter. Taxes on pollution and resource use accounted for just 4%.

Use of Environmental Taxes in UK

- Existing environmental taxes include:
 - Landfill Tax – contribute to one million tonnes a year savings in carbon dioxide equivalent by 2020
 - Climate Change Levy
 - Vehicle Excise Duty
 - Air passenger duty
 - Aggregate levy
 - Fuel taxes – of course, not originally an environmental tax
- Environmental tax receipts rose to £38.5 billion in 2008, an increase of £0.5 billion (1.4 per cent) compared with the previous year and almost twice the amount collected in 1993.
- In 2008, UK Environmental taxes were 2.7 per cent as a percentage of Gross Domestic Product (GDP) and accounted for 7.2 per cent of total taxes and social contributions.

- Duty on hydrocarbon oils such as petrol and diesel makes by far the largest contribution to environmental taxes and accounted for 64.4 per cent of the total in 2008.
- After duty on hydrocarbon oils, the next largest increase was in Vehicle Excise Duty ('road tax') where receipts increased by £0.1 billion to £5.5 billion in 2008. Revenues from Air Passenger Duty were almost unchanged at £1.9 billion.
- Revenues from the climate change levy were broadly unchanged at approximately £0.7 billion.
- Green Fiscal Commission was established recently to look at social, environmental and economic impacts of “greening” the UK tax system such that 15-20 per cent of tax revenues come from environmental taxes.
- Published report in June Public Opinion on a Green Tax Shift
- On the one hand, there was approval for the principles of green taxation and recognition that fiscal mechanisms were effective at changing behaviour.
- On the other, when specific interventions were explored in depth, participants became concerned around the fairness of environmental taxes in certain instances.

Proposals for Environmental Tax Reform in the UK

Energy Efficiency

- Enhanced capital allowances
- Green Building Allowance
- Use of council tax
- EU ETS and hypothecation of auctioning revenues
- Extension of stamp duty exemption for zero carbon homes to non-domestic buildings

Waste

- Land Remediation Relief
- Landfill Tax – HYPOTHECATION
- Carbon pricing

Franklyn Roosevelt once said that “Taxes are what we pay for civilised society...” let’s also use them to help create sustainable economies.