House of Commons

Environmental Audit Committee

Pre–Budget 2004 and Budget 2005: Tax, Appraisal, and the Environment

Seventh Report of Session 2004–05

HC 261

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Report, together with formal minutes, oral and written evidence

Ordered by The House of Commons to be printed Tuesday 5 April 2005

HC 261
Published on Wednesday 13 April 2005
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

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A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are: Mike Hennessy (Clerk); Lynne Spiers (Second Clerk); Eric Lewis (Committee Specialist); Elena Ares (Committee Specialist); Louise Combs (Committee Assistant); Caroline McElwee (Secretary); and Robert Long (Senior Office Clerk).

Contacts

All correspondence should be addressed to The Clerk, Environmental Audit Committee, Committee Office, 7 Millbank, London SW1P 3JA. The telephone number for general inquiries is: 020 7219 6150; the Committee's e-mail address is: eacom@parliament.uk

References

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Conclusions and recommendations

Pre-Budget 2004 and Budget 2005

1. Pre-Budget 2004 and Budget 2005 contained few new environmental measures and those which were included were relatively minor. We should perhaps not have expected too much at this stage of the electoral cycle. But if that is the reason for the failure to adopt a more radical approach, it represents a dismal reflection on the extent to which politicians of all parties can pursue the environmental policies we need if we are to move towards a truly sustainable society. (Paragraph 10)

Environmental Tax Reform

2. Revenues from environmental taxes have declined in percentage terms since 1999 and now stand at their lowest level since 1994. This demonstrates the failure of the Treasury to carry through the visionary objective it adopted in the 1997 Statement of Intent on Environmental Taxation. Indeed, in relation to environmental measures, budgets since 2000 have contained substantially more subsidies and tax giveaways than taxes and charges. (Paragraph 19)

3. The Treasury has taken a special approach with regard to environmental taxation which we consider is both inconsistent and intellectually flawed, and for that reason we reject its argument that the percentage of revenues raised from environmental taxes is not a valid indicator. We see no reason why environmental taxes cannot be used, alongside taxes on capital and labour, to raise revenue as indeed they do in the case of fuel duties. Indeed, it seems to us that the central premise of the Statement of Intent the concept of 'shifting the burden' is only intelligible in the context of a shift within the overall tax base. In this context it is worth reminding the Treasury that, while it claims to have an environmental tax strategy, there are no documented strategies underpinning other tax regimes and indeed no overall strategy underpinning the balance between different tax regimes. (Paragraph 25)

4. Following the forthcoming election, the Treasury must publicly re-affirm its commitment to the Statement of Intent, and in particular to the strategic aim of shifting the burden of taxation over time from 'goods' to 'bads'. This should form the heart of a new environmental fiscal strategy in which the taxation of our use of natural resources is considered as valid a source of Government revenue as taxes on labour and capital. If the Treasury fails to commit itself anew in this way, its vaunted commitment to the environment will lose all credibility. (Paragraph 27)

5. There is considerable scope for the Treasury to pursue an environmental tax policy in the next Parliament. In taking forward this agenda, the guiding principle should be to use environmental taxation to achieve policy ends rather than to perpetuate the illusion that it is possible to calculate precisely the associated cost externalities and levy a tax only to that extent. (Paragraph 30)

6. The Treasury has still not put in place any kind of environmental tax strategy to support the strategic aim of 'shifting the burden' set out in the Statement of Intent.

Moreover, the environmental objective contained in its latest PSA does not contain any reference to that aim, and indeed is far weaker than it. In the context of the overriding importance of tackling the environmental threats we face in particular, climate change and the loss of biodiversity the Treasury's environmental objective must be strengthened and supported by specific targets. (Paragraph 34)

7. The Treasury should take forward the environmental tax agenda by establishing an independent body to build a consensus on the fiscal measures needed to achieve our national environmental objectives. As the controversy over the fuel duty escalator demonstrated, it is vitally important to achieve cross-party agreement so that governments are able to pursue long-term environmental objectives even when this might incur a degree of short-term political unpopularity. We would therefore urge the Treasury to examine once again the concept of a Green Tax Commission. (Paragraph 36)

8. Effective monitoring is an important aspect of any environmental tax and spending strategy. The information currently available in the Pre-Budget and Budget reports is inadequate even to assess outturn expenditure in specific policy areas, let alone overall environmental impacts. We would urge the Treasury, in the context of developing a more comprehensive environmental strategy, to provide an annual monitoring report. This could include data on financial expenditure in specific environmental policy areas and analysis of performance against key targets, together with details of research commissioned and ex post appraisals conducted. (Paragraph 39)

Appraisal and Regulation

9. The shift to Regulatory Impact Assessments (RIAs) as the primary method of evaluating environmental, alongside social and economic, impacts has occurred in the context of a failure by departments to fulfil adequately previous requirements relating to screening and environmental appraisal. This is disappointing. We are also astonished that the Cabinet Office should claim that until the incorporation of environmental impacts within the RIA procedures in April 2004 there was no central requirement for policy makers to look at wider impacts, including environmental impacts. If true, this would constitute an admission that the Government had made no progress in greening policy making procedures from 1997 to 2004. (Paragraph 46)

10. "Placing the environment at the heart of policy making" receives very little emphasis within the current RIA guidance. Indeed, the fundamental structure of the RIA and the associated guidance is ill-suited to the overriding need for policy makers to be able to balance environmental impacts against social and economic impacts, and to assess the extent of any trade-offs which need to be made. In this respect, it betrays its historical origins which are more to do with minimising the impact of regulations than utilising the process to help achieve other policy goals. We do not see that the present RIA structure will do anything to address the failure by departments which the Government has itself acknowledged to improve their performance on environmental appraisal of policy measures. (Paragraph 54)

11. We recommend that the Government considers restructuring the present RIA procedures by inserting a new higher strategic tier to be named the Strategic Impact Assessment (SIA). This should separately identify economic, social and environmental impacts, and incorporate a summary appraisal table setting out these impacts on a single page for each policy option. Environmental impacts should be broken down and categorised in non-monetary terms on a plus/minus 7 point scale. In view of the huge challenges facing us in reducing carbon emissions, the impact on greenhouse gas emissions should be clearly highlighted and prioritised, as we have previously recommended. The SIA should also set out whether a Strategic Environmental Assessment is required. (Paragraph 55)

12. If RIAs are to capture all the costs and benefits associated with policy proposals and new regulation, the Government cannot afford to ignore wider impacts for example, on health and tourism. It must ensure that RIAs do indeed take full account of these wider impacts whether or not they can be meaningfully quantified in monetary terms. And where they cannot, it will be crucially important that adequate weight is given to them. (Paragraph 59)

13. As current methods of evaluating environmental impacts fail to give adequate weight to global threats such as climate change and the loss of biodiversity, appraisal processes must take greater account of strategic objectives and targets which the Government has set in these areas. In so doing, they must adequately recognise the contribution which the creation of thriving environmental industries can make, and the RIA guidance needs to be strengthened in this respect. (Paragraph 64)

14. There seems considerable evidence that industry and trade organisations regularly exaggerate the likely costs of implementing environmental regulations. Government departments are not in a strong position to assess industry claims in this respect, as has been demonstrated by the difficulties DEFRA experienced in negotiating Climate Change agreements and in managing the allocation process for the UK Emissions Trading System. We are therefore concerned about how reliably departments can assess such costs for inclusion in RIAs. (Paragraph 67)

15. We recommend that the NAO should carry out on our behalf an analysis of RIAs to assess how effectively departments have responded to the changes in RIA procedures from April 2004. The analysis should assess whether departments are accurately identifying and incorporating environmental impacts within RIAs in the light of the concerns we have expressed above. A supplementary objective might be to check that RIAs are in fact being completed for all significant policy proposals. (Paragraph 68)

16. We are sceptical about the extent to which environmental regulations damage competitiveness, and we reject the scaremongering approach which the Confederation of British Industry has often adopted in this respect. However, given the amount of industry lobbying and the extent to which it has been successful in weakening proposed environmental regulations, further examination of these issues is needed. We therefore recommend that the Government should commission an independent review of the impact of environmental regulation on competitiveness. (Paragraph 73)

17. While we entirely agree with the need for better regulation, we are concerned at the potential conflict between the need to reduce regulatory burdens and the need to ensure that environmental objectives are fully incorporated within the policy appraisal process and given adequate weight. We therefore find it unsatisfactory that these divergent processes and objectives should now have been merged within the function of the Cabinet Office Regulatory Impact Unit. We are particularly concerned at this development as the Cabinet Office has still not set up a Sustainable Development Unit which might provide expert advice on environmental and sustainable development issues to the rest of the department. (Paragraph 76)

18. Moreover, we are concerned about the role of the RIUs and Board Level Champions for Better Regulation within each department. The Government must clarify how these structures tie into existing initiatives for greening government in particular what role the Green Minister and senior official for sustainable development has in all of this, and whether a duty to promote sustainable development has been incorporated within the remit of departmental RIUs and Board Level Champions. (Paragraph 77)

19. The primacy which the Cabinet Office memorandum and the RIA guidance place on monetarising environmental impacts is fundamentally mistaken. It is simply not possible, for example, to quantify meaningfully in financial terms the value of the climate to us: in that sense, it is literally priceless. In reverting to a crude aggregation of financial values to decide between competing policy objectives, the Government has failed to face up to the challenge of developing an approach to integrated policy appraisal which places adequate weight on non-financial impacts and environmental limits. (Paragraph 83)

Spending Review 2004

20. We welcome the extension of the DEFRA/DTI carbon reduction target to include the DfT. However, it remains true that environmental objectives and targets still receive far less emphasis in SR 2004 than that placed upon social and economic objectives. Indeed, if DEFRA’s targets are excluded, only 4 out of a total of 124 targets in departmental Public Service Agreements can be classified as environmental and three of those are in fact shared with DEFRA. (Paragraph 89)

21. There is considerable scope for including in departmental PSAs further environmental targets relating, for example, to the marine environment and water resources. Moreover in view of the key role that the Treasury needs to play in combating climate change, we recommend it should take on the shared carbon target and be responsible for coordinating carbon reduction strategies across all departments. In addition, the operational target of reducing departmental carbon emissions by 1% a year should be included in each department’s PSA. (Paragraph 90)

22. We are particularly interested in the extent of government R&D and capital grant funding available for renewables and energy efficiency, given the important role these must play in helping to reduce greenhouse gas emissions. In order to fulfil our audit role here, we recommend that the National Audit Office should conduct on our behalf a detailed analysis of financial expenditure and forecasts in these two areas in order to help us assess the effectiveness of departmental programmes. This would form part of the growing work programme which we are jointly developing with the NAO. (Paragraph 95)

The Climate Change Programme review

23. It is distressing that it has taken so long for the Government to acknowledge that its Climate Change strategy is so far off course, and that we are now struggling even to go beyond our Kyoto target. The difficulties the UK is experiencing in reducing its emissions reflect the need for far greater priority to be accorded by governments to mainstreaming environmental objectives. The various reviews which the Government is now undertaking provide an opportunity to put matters right, but in our view radical measures will be needed even to meet our existing UK **targets.** (Paragraph 102)

24. If climate change is indeed such an overriding concern, we would expect this to be reflected in organisational objectives and structures. The forthcoming election provides an opportunity for the Government to restructure departmental responsibilities and objectives in such a way as to align them with the need to address climate change. The Government should establish a Cabinet Committee for Climate Change to drive forward action; in addition, it should draw together responsibility for energy policy including renewables and energy efficiency within one department. It should also ensure that a primary duty to promote renewable energy and energy efficiency is incorporated within the remits of key organisations such as Ofgem. (Paragraph 107)

25. With regard to domestic energy efficiency, we are appalled that so little progress has been made despite two Treasury consultations in 2002 and 2003. It is a matter of particular concern, for example, that more than five years after we highlighted the importance of creating an energy services market the Government has made so little progress on this agenda. The Government needs to pursue far more radical policies here, not only in the domestic rented sector but in the privately owned sector as well where there may be even greater scope for carbon reductions. (Paragraph 112)

Introduction

1. In 1997, the incoming Government set out a challenging agenda for achieving progress towards sustainable development. Its manifesto pledged that "*concern for the environment will be put at the heart of policy-making*", while at the United Nations the Prime Minister stated that: "*We must make the process of government green. Environmental considerations must be integrated into all our decisions, regardless of sector. They must be in at the start, not bolted on later.*"[1]

2. The new Government did indeed do more than utter pious aspirations. It embarked on the creation of a new all-encompassing Sustainable Development Strategy; it rejuvenated the network of Green Ministers so as to form the Green Ministers Committee; it created a Sustainable Development Unit within DETR to drive forward sustainable development across all central departments; and it created the Environmental Audit Committee (EAC), as a means by which Parliament could hold the Government to account on this agenda and audit the progress made by all Government departments against targets set.

3. Even the Treasury was caught up by a certain degree of zealous fervour and released as part of the June 1997 Budget a remarkable document—*the Statement of Intent on Environmental Taxation.* This committed the Government to "*explore the scope for using the tax system to deliver environmental objectives as one instrument, in combination with others like regulation and voluntary action. Over time, the Government will aim to reform the tax system to increase incentives to reduce environmental damage. That will shift the burden of tax from 'goods' to 'bads'; encourage innovation in meeting higher environmental standards; and deliver a more dynamic economy and a cleaner environment, to the benefit of everyone.*"[2]

4. Since its establishment in 1997, the Environmental Audit Committee (EAC) has regularly reviewed the progress made by the Treasury in placing environmental objectives at the heart of its fiscal policies and, in doing so, has taken as one of its reference points the Statement of Intent. To the extent that the Treasury is central to the Spending Review process and monitors departments against the targets set for them in Public Service Agreements (PSAs), since 1998 the Committee has also periodically examined how far spending decisions and PSA targets reflect the explicit commitment of the Government to mainstream environmental objectives alongside social and economic goals.[3]

1 Speed to the UN General Assembly, 1997.The text is at:http://www.number-10.gov.uk/output/Page1045.asp

2 The *Statement of Intent on Environmental Taxation* was issued in July 1997 as an annex to one of the Budget press releases. It is reprinted at Appendix II (p xx) in the Third Report from the Environmental Audit Committee (EAC), Session 1997-98, *The Pre-Budget Report: Government response and follow-up*, HC 985

3 First Report, Session 1997-98, *The Pre-Budget Report*, HC 547;Third Report, 1997-98, *The Pre-Budget Report: Government response and follow-up*, HC 985;Third Report, Session 1998-99, *The Comprehensive Spending Review and Public Service Agreements*, HC 92;Fourth Report, 1998-99, *The Pre-Budget Report 1998*, HC 93;Eighth Report, 1998-99, *The Budget 1999: Environmental Implications*, HC 326;Fourth Report, 1999-2000, *The Pre-Budget Report 1999: Pesticides, Aggregates and the Climate Change Levy*, HC 76;Sixth Report, 1999-2000, *Budget 2000 and the Environment*, HC 404;Second Report, 2000-01, *The Pre-Budget Report 2000: Fuelling the Debate*, HC 71; Minutes of Evidence, 14 March 2001, *Budget 2001*, HC 333 of Session 2000-01;Second Report, 2001-02, *Pre-Budget Report 2001:A New Agenda?*, HC 363;Fourth Report, 2002-03, *Pre-Budget Report 2002*, HC 167;Ninth Report, 2002-03, *Budget 2003 and Aviation*, HC 672;Third Report, 2003-04, *Pre-Budget 2003:Aviation follow-up*, HC 233; Tenth Report, 2003-04, *Budget 2004 and Energy*, HC 490

5. At the end of EAC's second Parliament, we have taken the opportunity in this report to look not only at the measures contained in the latest Pre-Budget Report and Budget, but also more generally at the progress the Government has made on environmental tax reform and spending. As policy appraisal has been a recurring theme of our work, in the course of our inquiry we have also examined the emphasis the Government is now placing on Regulatory Impact Assessments as the central mechanism for assessing all costs and benefits, including environmental impacts. Finally, in the light of the overriding importance of climate change, we have used this report as a vehicle for summarising some of our key conclusions on energy policy in the context of the review of the Climate Change Programme which the Government is currently conducting. In doing so, we have drawn freely from some of our own previous work where appropriate.

6. In the course of our inquiry, we took oral evidence from the Confederation of British Industry, the Environmental Industries Commission, the Green Alliance, the Campaign for the Protection of Rural England, Professor Paul Ekins, and from the Economic Secretary of the Treasury, John Healey MP. We are grateful to all those who provided both oral and written evidence to us. In particular, we would like to thank Professor Ekins for the advice which he has provided to us during this Parliament in his capacity as a Specialist Advisor to the Committee.

Pre-Budget 2004 and Budget 2005

New environmental measures

7. Pre-Budget 2004 recognised the scale of the environmental challenges facing the Government in various areas such as waste, road use, and climate change. It also reviewed progress on reducing carbon emissions and the opportunities afforded by the UK's presidency of the G8 and EU during 2005. However, it contained relatively few new specific environmental measures:

- an Energy Efficiency Innovation Review to be conducted jointly with DEFRA, and a related £20 million R&D fund to be administered by the Carbon Trust and designed to accelerate the take-up of energy efficient technology;
- a consultation and feasibility study on a possible Renewable Transport Fuel Obligation. This would operate similarly to the Renewables Obligation – as an obligation on suppliers to provide an increasing percentage of biofuels in petrol (up to 5%);
- some minor measures relating to rebated fuel oils, the fuel scale charge, and company car taxation.

8. The 2005 Budget Report added little in terms of practical measures. It included confirmation of a reduced rate of VAT for micro-CHP, the extension of a reduced VAT rate for the installation of air source heat pumps, and an extension of the Landlord's Energy Savings Allowance to cover solid wall insulation. In the memoranda we received, there was limited positive feedback. The Environment Agency, for example, welcomed the

recycling of landfill tax revenues into the Business Resource Efficiency and Waste (BREW) fund and the commitment to funding its fight against fly tipping.[4] We also noted some relief that the Treasury had finally decided to support micro-CHP without waiting for the end of the field trials which are currently being conducted.

9. However, what was more apparent in both PBR 2004 and Budget 2005 was the absence of anything more radical. Fuel duties were only valorised (increased in line with inflation) and even this increase has been deferred to September 2005. Rates for other taxes or duties, such as the Climate Change Levy and Vehicle Excise Duty, were frozen or only nominally increased. And there were no proposals in a range of other areas such as pesticides, diffuse water pollution, and incineration. Friends of the Earth commented that:

> *"There were almost no new measures in PBR 2004. … PBR 2004 was wholly inadequate, for several reasons. Most significantly, despite naming climate change as one of six long term global economic challenges, PBR 2004 fails to present a plan (or even a process to develop a plan) to manage carbon emissions strategically across the economy. Given the urgent need to get to a low carbon economy, the key role HMT has to play and, as PBR 2004 notes, the importance of this year's climate change programme review, this is extremely worrying."* [5]

10. **Pre-Budget 2004 and Budget 2005 contained few new environmental measures and those which were included were relatively minor. We should perhaps not have expected too much at this stage of the electoral cycle. But if that is the reason for the failure to adopt a more radical approach, it represents a dismal reflection on the extent to which politicians of all parties can pursue the environmental policies we need if we are to move towards a truly sustainable society.**

Appraisal tables

11. For the last 7 years, in response to an early recommendation of ours, both the Pre-Budget and Budget Reports have contained a chapter on environmental measures, together with two appraisal tables which aim to summarise their impacts.[6] While we initially welcomed the introduction of these tables, we have subsequently expressed two main concerns about them. Firstly, they sometimes fail to quantify meaningfully the impacts of specific measures—or indeed the absence of any measures (eg when taxes or duties are frozen). Secondly, they ignore the environmental impacts of other primarily economic initiatives set out elsewhere in budget reports.

12. Some witnesses shared our concern. Indeed, in its memorandum, the CPRE comment that: "*It is CPRE's contention that this appraisal activity [of mainstream budgetary measures] has, in fact, not been undertaken in many cases. CPRE will shortly be writing to the HM Treasury requesting, under the Freedom of Information Act 2000, the environmental*

4 Ev100

5 Ev104

6 EAC, Third Report of Session 1997-98, *The Pre-Budget Report: Government Response and follow-up*, HC 985

appraisal of principally economic measures included in the Pre Budget Report 2004." [7] This is a topic which we have ourselves pursued in the past. On the basis of the responses we received, it appears that the Treasury has its own internal processes for assessing measures to be included in PBR and Budget reports, and that it considers budgetary processes to fall outside the conventional screening mechanisms and integrated policy appraisals which other departments are obliged to undertake.[8]

13. Indeed, on a number of occasions more recently, we have written to the Treasury to ask whether an environmental appraisal was undertaken to underpin certain specific budget decisions. Their responses have not always been clear, but it is illuminating that – in the case of the decision not to introduce more radical differentials in VED—the Treasury admitted that no environmental appraisal had been carried out.[9] We also note that some other countries are rather more ambitious in this respect. The Danish Government, for example, has on a number of occasions carried out an environmental appraisal of the impact of all budgetary measures—not just those which are environmental.[10]

14. We continue to feel that the appraisal tables included in the PBR and Budget reports could play a useful role, but we consider that the Treasury needs to give more consideration to them in the context of the need to develop an environmental tax strategy which would involve, *inter alia*, a more systematic approach to monitoring progress against the Statement of Intent.

Environmental tax reform

Progress against the Statement of Intent

15. The Statement of Intent on Environmental Taxation committed the Government to shifting the burden of taxation from 'goods' to 'bads', and implementing the polluter pays principle. As we have previously acknowledged, considerable progress was made on this agenda during the 1997-2001 Parliament with the development of the Climate Change Levy, the UK Emissions Trading System, and the Aggregates Levy. However, in recent years we have witnessed far less progress—at least on the domestic front.

16. Analysis of data on environmental taxes published by the Office for National Statistics shows that the impact of the Treasury's policy of 'shifting the burden' has been minimal. Government revenue from environmental taxes rose by 50% between 1994 and 1999 (largely due to the fuel duty escalator). But since 1999 the total amount raised by environmental taxes has remained almost static at around £33 billion. As a percentage of total taxes and social contributions, revenue from these taxes actually fell from 9.8% in 1999 to 8.6% in 2003, as the table below demonstrates.

7 Ev43 para 7

8 See, for example, EAC Fourth Report of Session 2002-03, *Pre-Budget Report 2002*, HC 167, Ev29

9 Ev87

10 Other governments have also commissioned academic research in this area. See, for example, *European Environment*, vol 15 no 1 (January-February 2005), page 27ff for Denmark

UK Environmental Taxes (£ billion): 1994-2003

Tax/£ billion	Introduction date	1994	1997	1998	1999	2000	2001	2002	2003
Energy									
Duty on hydrocarbon oils	1928	14.0	18.4	21.0	22.4	23.0	22.0	22.1	22.5
VAT on duty	1973	2.4	3.2	3.7	3.9	4.0	3.9	3.9	3.9
Fossil fuel levy	1990	1.4	0.4	0.2	0.1	0.1	0.1	0.0	0.0
Climate change levy	2001	-	-	-	-	-	0.6	0.8	0.8
Road vehicles									
Vehicle excise duty	1921	3.8	4.3	4.6	4.9	4.6	4.1	4.3	4.6
Other environmental taxes									
Air passenger duty	1994	-	0.4	0.8	0.9	0.9	0.8	0.8	0.8
Landfill tax	1996	-	0.4	0.3	0.4	0.5	0.5	0.5	0.6
Aggregates levy	2002	-	-	-	-	-	0.0	0.2	0.3
Total environmental taxes[1]		**21.8**	**27.4**	**30.7**	**32.6**	**33.2**	**32.0**	**32.7**	**33.6**
as % of total taxes and social contributions		*9.3*	*9.5*	*9.8*	*9.8*	*9.3*	*8.7*	*8.8*	*8.6*
as % of GDP		*3.2*	*3.4*	*3.6*	*3.6*	*3.5*	*3.2*	*3.1*	*3.1*

Source: UK Environmental Accounts: Autumn 2004
Note: totals may differ due to rounding

17. Moreover, of the £33.6 billion environmental tax revenue in 2003, some £31 billion comes from taxes and duties on road transport—fuel duties, Vehicle Excise Duty, and VAT on fuel duties. As we have seen above, following the abandonment of the Fuel Duty Escalator in 2000 there have been no real-terms increase in fuel duty, and it is this which accounts for the steady decline in the percentage of environmental tax revenues. If these transport related taxes are excluded, the remaining environmental taxes raised in 2003 amounted to only £2.5 billion—some 0.6% of the total tax revenues of nearly £400 billion.

18. During 2004, we asked Professor Ekins to examine the extent to which the Treasury had responded to our previous recommendations in this area.[11] Professor Ekins concluded that the Treasury had certainly not met its objective of 'shifting the burden' set out in the Statement of Intent. Indeed, on the basis of analysing predicted yields, he went on to suggest that measures in Budget 2000 and subsequent budgets contained substantially more subsidies and tax giveaways than taxes and charges. This is demonstrated in tables A1 and A2 of the Financial Statement and Budget Report (FSBR) where decisions to freeze or revalorise duty rates result in significant negative figures. As Friends of the Earth pointed out in its memorandum, for example, the decision to freeze fuel duties in Budget 2004 was alone responsible for £500 million in lost revenues.[12]

19. **Revenues from environmental taxes have declined in percentage terms since 1999 and now stand at their lowest level since 1994. This demonstrates the failure of the Treasury to carry through the visionary objective it adopted in the 1997 Statement of Intent on Environmental Taxation. Indeed, in relation to environmental measures,**

11 Professor Ekins' memorandum and the executive summary of his report is printed at Ev58-61

12 In the 2005 Budget Report, the indexed value of the subsidy for 2005-06 is £665 million, rising to £710 million by 2007-08.See table A2 on page 188

budgets since 2000 have contained substantially more subsidies and tax giveaways than taxes and charges.

Shifting the burden

20. In the face of such analyses, the Treasury has on previous occasions put forward an argument that it is not appropriate to measure the effectiveness of its environmental tax strategy on the basis of the percentage of environmental tax revenue raised. Its argument is that, if an environmental tax is effective in altering behaviour, revenues from it will diminish—possibly even to zero. For this reason, the Treasury has consistently refused to accept the relevance of the indicator which the Office for National Statistics includes in the Environmental Accounts.

21. We disagree profoundly with this argument. Our view was supported by Professor Ekins who considered the Treasury's argument to be simplistic and flawed, and went on to point out that, in terms of our consumption of natural resources such as fossil fuels, there will be a substantial tax base for decades to come.

> *"In an economy which is growing one will expect, other things being equal, the use of environmental resources to grow and for issues like transport, waste and energy use this is clear, these things do grow along with economic growth; sometimes not as fast as economic growth, but nevertheless they grow. Now, it would be perfectly possible to argue that the purpose of an environmental tax was actually to slow the rate of growth rather than bring about a precipitate decline and there is some evidence that the road fuel duty escalator was in fact doing that in the mid to late nineties ….. You need to make a distinction between two different kinds of environmental tax and then recognise that the purpose of environmental taxation is not very often to reduce resource use to zero. In fact, with regard to transport, there is no earthly reason why one should want to stop driving entirely. …. We can envisage fossil-based energy use at a very substantial level for the coming decades. There will therefore always be a substantial tax base and there is no reason why the revenues from that tax base should not continue to be very significant."*[13]

22. The argument that environmental taxes can act as major revenue earners is borne out forcibly by the fact that fuel duty, along with VAT on fuel sales and VED, together amount to over £30 billion a year and raise as much money as Corporation Tax.[14] Indeed, it seems to us that the central premise of the Statement of Intent—the concept of 'shifting the burden'—is only intelligible in the context of a permanent change within the overall tax base. For that reason, we have previously recommended that the Treasury should exploit the scope to use environmental taxes to raise substantial revenues.[15] While the behavioural response to such taxes may be relatively inelastic, they would—as Professor Ekins suggests —slow down continuing growth in our consumption of natural resources, and over time

13 Q 153

14 Corporation Tax raised £29 billion in 2003-04. This is forecast to grow to £44 billion by 2005-06 (2005 Budget Report, p250)

15 EAC, Fourth Report of 2002-03, *Pre-Budget Report 2002*, HC 167 paragraph 62

alter the structural economic incentives within the economy in such a way as to minimise our impact on the environment. Indeed, we agree with Professor Ekins' verdict that "*there is no serious challenge to the intellectual foundation of the economic and environmental case for environmental taxation in general or a green tax shift in particular.*" [16]

23. We questioned the Financial Secretary closely on this issue. At times, he appeared almost unwilling to accept that fuel duty was an environmental tax and his argument that it arose as a revenue-raising measure only supported our contention that environmental taxes can indeed serve this purpose. Moreover, as Mr Chaytor pointed out, we fail to understand the logic of why the Treasury consider it appropriate to raise revenue through taxes on capital and labour but not through taxes on our use of natural resources.

> **Q206 Mr Chaytor:** *Minister, can I come back to your opening remarks about the purpose of environmental taxation? You said the primary purpose is not to raise revenue. Could you tell us for which tax is the primary purpose to raise revenue?*
>
> **John Healey:** *The sorts of taxes that generally make a big contribution to the Exchequer range from income tax to national insurance, forms of corporation tax, and the excise duties in this country have traditionally contributed, under successive governments, to the public purse.*
>
> **Q207 Mr Chaytor:** *With the taxes on labour – national insurance and income tax—what is the logic of arguing that it is entirely legitimate to see taxes on labour as having the primary purpose of raising revenue, but not taxes on pollution? On other occasions the Government will constantly say, "We have to pursue a low-tax policy because we do not want to provide disincentives in the labour market. We do not want to provide deterrents to employers taking on labour". I see what you are saying, but I do not understand the logic of it.*
>
> **John Healey:** *Particularly with tax decisions, it is almost impossible to see them in simple, black-and-white terms.* ……

24. We also noted that, when the Government was considering the need to raise considerable extra revenue to finance health spending, raising environmental taxes did not appear to be an active option.[17] Mr Healey did finally acknowledge that the Treasury's approach to environmental taxes—and in particular its conviction that they should be revenue neutral through the use of hypothecation—was not necessarily consistent with its approach to taxes in other areas.

> **Q217 Chairman:** *It is curious because according to your logic … it could be considered that the tax on cigarettes was a health tax, but it is not defined as a health tax, is it?*

16 Ev58

17 QQ 209-210

John Healey: *Chairman, you are right. The debate about whether certain taxes, in general or specifically, should be hypothecated is quite widespread. We have chosen to take the approach with environmental taxation as I have indicated.*

Q218 Chairman: *Although that approach is not consistent with the approach in other areas of taxation. There is no logical thread running through this?*

John Healey: *Perhaps it is a special approach we have taken with environmental taxation. I do not know whether this Committee would agree with that approach or not and suggest they should be for revenue raising measures.*

25. **The Treasury has taken a special approach with regard to environmental taxation which we consider is both inconsistent and intellectually flawed, and for that reason we reject its argument that the percentage of revenues raised from environmental taxes is not a valid indicator. We see no reason why environmental taxes cannot be used, alongside taxes on capital and labour, to raise revenue—as indeed they do in the case of fuel duties. Indeed, it seems to us that the central premise of the Statement of Intent—the concept of 'shifting the burden'—is only intelligible in the context of a shift within the overall tax base. In this context it is worth reminding the Treasury that, while it claims to have an environmental tax strategy, there are no documented strategies underpinning other tax regimes and indeed no overall strategy underpinning the balance between different tax regimes.**

26. In commenting on the 2002 Treasury document, *Tax and the Environment*, Rebecca Willis of the Green Alliance, stated:

"…what it did not do is flesh out how the Statement of Intent would work in practice, and I think the simple reason for that is because they are now very worried about the central premise of the Statement of Intent—shifting the burden of taxation from employment to resource use, from goods to bads, and that it is moving in the opposite direction. They are now really worried about that, they know it has not happened but I think they are trying to keep a lid on it which is probably why there is no great strategic statement, because if there was a strategic statement it would probably have to say that they have not delivered on the Statement of Intent." [18]

We share Ms Willis' concerns but would go even further. It seems to us that the Treasury has since 1999 been trying to row back from the Statement of Intent, by emphasising increasingly that environmental tax decisions will be made on a one-off basis and not as part of any coherent strategy. Indeed, in commenting on *Tax and the Environment*, we pointed out that the Treasury had now put in place a rather more stringent set of criteria for environmental taxes than existed in other areas of taxation, and we expressed our concern that these may act as barriers to the introduction of other environmental taxes. Our fear, therefore, is that the Treasury will attempt to abandon the central principle contained in the Statement of Intent—namely, to shift, over time, the burden of taxation

18 Q 93

from ‘goods’ to ‘bads’—when it comes to reformulating its approach to environmental taxation early in the next Parliament.

27. **Following the forthcoming election, the Treasury must publicly re-affirm its commitment to the Statement of Intent, and in particular to the strategic aim of shifting the burden of taxation over time from ‘goods’ to ‘bads’. This should form the heart of a new environmental fiscal strategy in which the taxation of our use of natural resources is considered as valid a source of Government revenue as taxes on labour and capital. If the Treasury fails to commit itself anew in this way, its vaunted commitment to the environment will lose all credibility.**

28. This also has implications for the rather narrow view sometimes espoused by the Treasury and other organisations that environmental taxes must only be set at a rate to recover the environmental costs externalities associated with the activity. In response to a question specifically on this issue, Professor Ekins commented: “*I have been very struck in looking at environmental taxation right across Europe that in fact the UK is just about the only country that tries to levy environmental taxes in that way and that in fact there is not a single environmental tax anywhere, even in the UK (although we have tried), which has been levied on that kind of basis.*”[19] As we point out below, there are major conceptual and practical difficulties with placing a monetary value on environmental impacts such as climate change and the loss of biodiversity. Moreover, in the case of the Landfill Tax, the Treasury has itself abandoned such an approach, as in order to achieve its policy objectives it is now raising the rate of the tax far beyond the level required to meet the associated cost externalities. Interestingly, the Treasury has also decided not to proceed with an incineration tax—even though the range of cost externalities may well be somewhat larger than for landfill.[20] The Treasury claim this is because of uncertainty in the cost estimates. We suspect that the real reason is to avoid excluding any other approaches which might help meet the landfill directive targets.

29. Moreover, as various witnesses pointed out, there is considerable scope for the extension of environmental taxation—both in depth (eg by increasing fuel duties, VED differentials, and the rates of the Climate Change Levy) and in breadth (eg by considering taxes and charges in other areas such as water consumption, the development of greenfield land, and the use of pesticides and phosphates). We entirely concur with the view of Professor Ekins that, whatever else the Government does to promote environmental objectives, strong price signals are needed to achieve success. [21]

30. **There is considerable scope for the Treasury to pursue an environmental tax policy in the next Parliament. In taking forward this agenda, the guiding principle should be to use environmental taxation to achieve policy ends—rather than to perpetuate the illusion that it is possible to calculate precisely the associated cost externalities and levy a tax only to that extent.**

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19 Q159

20 See the C&E paper on the external costs of landfill and incineration (2004)

21 Q163

An environmental tax strategy

31. It is reasonable to ask whether the Treasury has an environmental tax strategy at all. In previous reports, we have welcomed the Statement of Intent as a strategic aim but criticised the Treasury for failing to put in place an adequate strategy to implement it —an omission which the Treasury's 2002 document, *Tax and the Environment: Using Economic Instruments*, signally failed to rectify.

32. We note that our view is widely shared. The Environment Agency commented:*"The Treasury has taken thinking forward with its 2002 publication on economic instruments and we would now be keen to see the development of a systematic strategy, based on substantial analysis and consultation, linked not only to its environmental Public Service Agreement objective, but its other objectives too."* Professor Ekins was rather more direct.

> *"I think it would be impossible to argue that a one page Statement of Intent can be viewed as a strategy. A strategy has to be a comprehensive setting out of options, a discussion of different pathways to different potential desired targets and then a choice of where you want to go, how far you want to go with milestones for review on the way. That is what I understand a strategy to be and I do not think we have ever had that from the Treasury in respect of environmental taxation, and certainly we did not get it in the tax and environment publication in 2002, which while it was a very great deal longer than one page a lot of it could have been lifted from a fairly elementary micro economics text book and did not really advance the political discussion of this at all."* [22]

Other organisations also highlighted the lack of a strategy and the *ad hoc* approach which the Treasury has adopted—reflected, for example, in the difficulty of knowing what research the Treasury is conducting, or what particular aspect it may decide to pursue from year to year. Even where the Treasury has publicly taken forward the debate, as in the case of the use of fiscal instruments to promote domestic energy efficiency (on which it issued public consultations in both 2002 and 2003), there has been considerable criticism of its failure to take any significant action.[23]

33. An environmental tax strategy needs to be based on an overall aim or objective, supported by specific targets and plans setting out how those targets are to be achieved. The Treasury's PSA does contain an environmental objective, though it is the last of the eight objectives listed—perhaps symbolising the priority accorded to it. The wording used —*"to protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies."*—fails to include any reference to, and indeed is far weaker than, the strategic aim set out in the Statement of Intent. It is also both vague and hedged around with qualifications. (What constitutes an "efficient" outcome? What if scientific evidence is not sufficient to constitute proof—as the Prime Minister has suggested is the case for anthropogenic climate change?[24]) Moreover, there is no target of any kind to support it—in stark contrast to most of the other objectives which

22 Q164

23 Q168

24 Speech at Davos (26 January 2005).It is available at:http://www.number-10.gov.uk/output/Page7006.asp

are either quantified themselves or are supported by 10 quantified targets and additional technical material. Some organisations also pointed out that the Treasury's environmental objective is not cross-related to its other objectives in any way or indeed to the objectives of other departments, and that it does not reflect the important role the Treasury should be playing in co-ordinating cross-departmental approaches to climate change, for example.[25]

34. **The Treasury has still not put in place any kind of environmental tax strategy to support the strategic aim of 'shifting the burden' set out in the Statement of Intent. Moreover, the environmental objective contained in its latest PSA does not contain any reference to that aim, and indeed is far weaker than it. In the context of the overriding importance of tackling the environmental threats we face—in particular, climate change and the loss of biodiversity—the Treasury's environmental objective must be strengthened and supported by specific targets.**

35. We also believe that the Treasury needs to adopt a more transparent approach to the development of such a strategy. Indeed, we originally recommended that the Government should set up a Green Tax Commission to help build a consensus on the measures which needed to be taken, and it was only in the face of complete intransigence on the part of the Treasury that we focussed more specifically on the inadequacy of the Treasury's own strategy. In commenting on the Treasury's opposition to such a Commission, Professor Ekins said:

> *"I think the arguments against it from Treasury, which always seem to me to be basically that it had no intention of even sharing the discussion of strategy in these areas, are probably still there in the sense that the Treasury wants to feel very much in control of where this agenda goes. My own feeling is that that is a great mistake because almost by definition that means that this debate will not be perceived as something that is in the broader public interest beyond the day to day issues of politics because the Treasury is always recognised as the body that is most interested in revenue and filling the Government's coffers. So unless the debate is taken away from that particular forum, it seems to me unlikely that we are going to get the sort of really in depth discussion of the sorts of things which Mr Thomas was talking about."* [26]

36. **The Treasury should take forward the environmental tax agenda by establishing an independent body to build a consensus on the fiscal measures needed to achieve our national environmental objectives. As the controversy over the fuel duty escalator demonstrated, it is vitally important to achieve cross-party agreement so that governments are able to pursue long-term environmental objectives even when this might incur a degree of short-term political unpopularity. We would therefore urge the Treasury to examine once again the concept of a Green Tax Commission.**

25 Ev 42ff, 104ff, 111ff

26 Q 163

Monitoring

37. Effective monitoring is an important aspect of any environmental tax and spending strategy. We have pointed out previously the need for improvements in this respect. Indeed, as long ago as 1999, the Government committed itself to carrying out regular *ex post* appraisals of the impact of environmental tax measures.[27] Similarly, in 2001, the Financial Secretary of the Treasury told us that the need to develop monitoring and appraisal systems was becoming increasingly important.[28] The information currently provided in the Pre-Budget Report and associated documents is in our view inadequate to enable us to assess environmental impacts. Indeed, even tracing outturn financial expenditure is difficult as we discuss below in the context of the 2004 Spending Review. Other organisations share our concerns. The RSPB, for example, stated:

> *"On international biodiversity, it is unlikely that the 2010 target to halt the loss of biodiversity will be achieved unless much more funding is transferred from developed to developing countries, a commitment clearly made in Johannesburg in 2002. Although it is quite clear globally that current funding is inadequate in relation to the scale of the problems of species and habitat loss, accurate assessments of current UK funding are not available and are extremely difficult to calculate from the data available."* [29]

The RSPB went on to point out that, while difficult, there was a need to structure accounting practices to track this expenditure.

38. The Confederation of British Industry also agreed that there needed to be much more monitoring and transparency. It echoed our own published views in stating: *"There has been little comparison of what environmental gains have been made through the use of different instruments. Without knowing, for example, how much greenhouse gas emissions have been reduced through the CCL, it is hard to judge whether the levy itself, the negotiated agreements or other initiatives like the Carbon Trust or enhanced capital allowances are the most efficient and effective way of meeting the government's objectives."* [30] Indeed, as we pointed out in our *Budget 2004 and Energy* report last year, the difficulty the Government has experienced in trying to provide reliable future energy forecasts partly relates to the weakness of monitoring procedures.

39. **Effective monitoring is an important aspect of any environmental tax and spending strategy. The information currently available in the Pre-Budget and Budget reports is inadequate even to assess outturn expenditure in specific policy areas, let alone overall environmental impacts. We would urge the Treasury, in the context of developing a more comprehensive environmental strategy, to provide an annual monitoring report. This could include data on financial expenditure in specific environmental policy areas**

27 EAC, Fourth Report of 1999-2000, *The Pre-Budget Report 1999*, HC 76, p. xlvii

28 Minutes of Evidence taken before the EAC on 14 March 2001, *Budget 2001*, HC 333 of Session 2001-02, QQ. 14; 101, 120

29 Ev111

30 Ev5

and analysis of performance against key targets, together with details of research commissioned and ex post appraisals conducted.

Appraisal and regulation

40. In 1997, as part of the new Government's commitment to sustainable development, the Prime Minister stated that "*Environmental must be integrated into all our decisions…..They must be in at the start, not bolted on later.*"[31] Indeed, mainstreaming environmental objectives within policy appraisal is of crucial importance if we are to make progress towards sustainable development, and it is therefore an issue which the EAC has pursued in various contexts since 1998.

41. Over the last four years, the focus has shifted from separate environmental appraisals to an emphasis on integrated policy appraisals. In April 2004, the Government moved beyond this and announced that Regulatory Impact Assessments should constitute the formal means for assessing environmental impacts. We therefore decided to examine the adequacy of the current approach to appraisal, in particular the reliance on Regulatory Impact Assessments, as a vehicle for capturing all environmental costs and benefits and for balancing these against economic and social impacts. We felt such a review was particularly apposite since this shift has occurred at precisely the same time as the Government has been placing renewed emphasis on deregulation through the creation of the Prime Minister's Panel for Regulatory Accountability.

The shift to RIAs

42. In 1999, the Government committed itself, in response to an EAC recommendation, to publishing all free-standing environmental appraisals. The following year, the Second Annual Report of the Green Ministers Committee required all departments to screen policies for environmental impacts, maintain a central list of such screenings, and carry out environmental appraisals where the results of the screening required it. We welcomed this commitment. However, as we have documented elsewhere, little progress was actually made.[32] Few departments other than DETR (subsequently DEFRA) conducted any environmental appraisals, while most departments were clearly flouting the requirement to maintain a central list of screenings and abide by the requirement contained in the Cabinet Office's Policy Makers Checklist.

43. Indeed, even the Government itself acknowledged that most departments were not fulfilling appraisal requirements in this respect. The 2001 Green Ministers Report stated that *"it is somewhat disappointing that, despite promotion of environmental appraisal, inclusion in the Policy Makers Checklist and screening systems put in place by departments, relatively few departments beyond DETR have produced published environmental*

31 See paragraph 1 above

32 EAC, Thirteenth Report of Session 2002-03, *Greening Government 2003*, HC 961, paragraphs 35ff.See also EAC's Thirteenth Report of 2003-04, *The Sustainable Development Strategy :Illusion or Reality?*, HC 624, paragraphs 94ff.See references in these reports for material quoted here.

appraisals." It also stated that: *"It is possible that departments are making progress, and building environmental considerations into other appraisals, but the extent to which this is happening is not clear."* It went on to make the following commitment: *"The reasons for the apparent lack of progress on environmental appraisal will be investigated as part of a review of progress with development of integrated appraisal systems in the next year."* This commitment was, however, never adequately fulfilled. Nor has the situation improved since then, and we have continued to point out important failures—for example, in respect of housing and aviation policy. Other organisations have reflected our concern: in their evidence to us, the CPRE for example cited the Government's failure to produce a sustainability or environmental appraisal prior to the publication of the Communities Plan 2003.[33]

44. Having failed to get departments to carry out separate environmental appraisals, the Government instead suggested that the emphasis was increasingly moving towards Integrated Policy Appraisal (IPA). In the context of a total lack of clarity as to where policy responsibility for this lay (whether it was with DEFRA or the Cabinet Office), DEFRA began to develop and pilot with some other departments an Integrated Policy Appraisal tool—though the "tool" was little more than a reminder to departmental staff to consider and, where relevant, carry out various other forms of appraisal. Moreover, as the flimsy environmental appraisal contained in the IPA of the Air Transport White Paper demonstrated, the use of such a "tool" will not of itself bring results: the quality of the product depends on the depth of the analysis undertaken.[34]

45. Finally, in the context of the need—which we ourselves first highlighted—to rationalise the plethora of guidance which was available on appraisal, in April 2004 the Government merged the IPA approach into the Regulatory Impact Assessment.[35] The RIA process has therefore become the primary and indeed only vehicle for assessing environmental alongside social and economic impacts. In commenting on this shift to RIAs, the Cabinet Office stated in its memorandum: *"In addition, with the IPA being voluntarily taken up by certain departments, there was no central requirement for policy makers to look at wider impacts, including environmental impacts. These issues restricted the take-up of tools to appraise environmental impacts."* [36] We find this comment astonishing as it appears to display no knowledge of previous Government commitments and requirements in this respect. And if it were true, it would constitute an admission that the Government had made no progress in greening policy-making procedures from 1997 to 2004.

46. **The shift to Regulatory Impact Assessments (RIAs) as the primary method of evaluating environmental, alongside social and economic, impacts has occurred in the context of a failure by departments to fulfil adequately previous requirements relating to screening and environmental appraisal. This is disappointing. We are also astonished that the Cabinet Office should claim that—until the incorporation of**

33 Ev47

34 The EAC examined this issue in its Third Report of 2003-04, *Pre-Budget Report 2003:Aviation follow-up*, HC 233

35 Ev91

36 *ibid.*

environmental impacts within the RIA procedures in April 2004—there was no central requirement for policy makers to look at wider impacts, including environmental impacts. If true, this would constitute an admission that the Government had made no progress in greening policy making procedures from 1997 to 2004.

Critique of the RIA guidance

47. Given the central importance which RIAs now play in the policy making process, it seemed to us important to examine the guidance available. We note that the Cabinet Office has not in fact republished the guidance despite the important changes in April 2004 when environmental issues were incorporated within the RIA process. Instead, the Cabinet Office has relied on the web-based version which has been updated to reflect this change, and our comments below are based on that version as at March 2005.[37]

48. The RIA guidance is written throughout from the point of view of *minimising regulation*, as regulation is seen in a negative light as something which puts burdens on business. In this respect, RIAs betray their historical origins—as they are developed from the Compliance Cost Assessment introduced in the early 1990s as a means of identifying the likely financial burdens of regulation on business and other sectors. There is no recognition anywhere in the guidance, as far as we can tell, of the huge positive role which regulation has played in delivering environmental and social improvements.

49. Reflecting its origins and primary purpose, the RIA contains various requirements such as the need to take account of small businesses (the small business test), equity and fairness considerations, and competitiveness issues (the competition assessment). Indeed, specific consideration has to be given to each of these—as is reflected by the high-level headings specified in the RIA template (see opposite). By contrast, environmental issues receive no specific consideration at the same level, but may only be considered within the sections on benefits and costs. The net result is that the RIA is not clearly structured at a high level into economic, social and environmental impacts in the way integrated policy appraisal was intended to promote.

37 On 4 April 2005, some changes were incorporated into the web version, though these would not appear to materially affect the main considerations raised in this report and the Cabinet Office's memorandum did not give any indication that the guidance was to be significantly revived. All quotes from the guidance in the following paragraphs are from the March 2005 version

Initial / Partial / Final RIA Template
1. Title of Proposal
2. Purpose and intended effect of measure
3. Options
4. Benefits
5. Costs
6. Equity and Fairness
7. Consultation with small business: the Small Firms' Impact Test
8. Competition Assessment
9. Enforcement and Sanctions
10. Monitoring and Review
11. Consultation
12. Summary and Recommendation
13. Ministerial Declaration

50. In the two sections on costs and benefits, departments are encouraged to analyse environmental, social and economic impacts separately. These two sections are, however, distinct from each other, and it is therefore unclear how costs and benefits are to be balanced against each other—particularly if they cannot be quantified. As the Aviation RIA demonstrates, they are also primarily narratival and discursive in nature (though they may include extensive statistics and financial costs)—and this does not help a decision-maker in trying to balance environmental considerations against economic and social ones. Indeed, to the extent that environmental impacts may be more one-sided (ie costs rather than benefits), they may only appear in one section rather than both and for that reason receive less coverage than economic or social impacts.

51. Moreover, while the guidance suggests that a summary table might be included (within section 12), wide discretion is accorded to departments as demonstrated by the following quote: "*It is helpful to summarise the costs and benefits of each option in a summary table. Regardless of the nature of the cost and benefit, for example if they are short term or long term, direct, indirect, the result of dynamic long-run impacts, unintended consequences or transfers, they can all simply be called "costs" and "benefits" in a summary table, although it might be useful where relevant to indicate whether they are economic, environmental or social.*" The concept of aggregating in financial terms all costs and benefits together—whether environmental, social or economic—demonstrates the extent to which the RIA process totally misses the fundamental point of integrated policy appraisal —which was to provide a vehicle for decision makers to balance environmental considerations against social and economic ones.

52. In these important respects, the formal structure of the RIA is far weaker than, for example, the single-page Summary Appraisal Tables which were developed in DETR in the late 1990s as part of its New Approach To Appraisal (NATA). The latter were developed specifically to enable policy makers to assess, on a single side of A4, a summary of all the impacts of a proposal and enable them to come to a decision about the balance to be struck

between environmental, social and economic objectives. They also included a break-down of environmental impacts into a number of different categories (eg climate change, biodiversity, landscape), but they did not attempt to provide monetary valuations and simply rated the impacts on a seven point scale.

53. Moreover, as we argue below, we believe that the emphasis throughout the RIA guidance (and indeed the Cabinet Office memorandum[38]) on quantifying in monetary terms environmental impacts is fundamentally mistaken and fails to take account of the overriding need to meet environmental policy objectives. Indeed, we would be interested to see how the Government's decision in 2000 to procure timber only from sustainable sources could have been justified within the framework of the current RIA guidance. At a technical level as well, the guidance fails to take account of wider issues. For example, in discussing the treatment of transfers, it specifically suggests that, if a policy will promote renewable generation but at the expense of older generating fossil-fuelled technologies which would be displaced, this should not necessarily be included in the RIA.

54. **"*Placing the environment at the heart of policy making*" receives very little emphasis within the current RIA guidance. Indeed, the fundamental structure of the RIA and the associated guidance is ill-suited to the overriding need for policy makers to be able to balance environmental impacts against social and economic impacts, and to assess the extent of any trade-offs which need to be made. In this respect, it betrays its historical origins which are more to do with minimising the impact of regulations than utilising the process to help achieve other policy goals. We do not see that the present RIA structure will do anything to address the failure by departments—which the Government has itself acknowledged—to improve their performance on environmental appraisal of policy measures.**

55. **We recommend that the Government considers restructuring the present RIA procedures by inserting a new higher strategic tier—to be named the Strategic Impact Assessment (SIA). This should separately identify economic, social and environmental impacts, and incorporate a summary appraisal table setting out these impacts on a single page for each policy option. Environmental impacts should be broken down and categorised in non-monetary terms on a plus/minus 7 point scale. In view of the huge challenges facing us in reducing carbon emissions, the impact on greenhouse gas emissions should be clearly highlighted and prioritised, as we have previously recommended. The SIA should also set out whether a Strategic Environmental Assessment is required.** A second order tier of the assessment—to retain the name of Regulatory Impact Assessment—could be largely based on the existing RIA procedures for assessing regulatory, competition and other equity issues.

Capturing environmental costs and benefits

56. We also considered in the course of our inquiry the accuracy of environmental costs and benefits included in RIAs. In their written and oral evidence to us, the Environmental

38 Ev90ff

Industries Commission (EIC) advanced a number of arguments on this score, and some of the views it expressed were supported by other memoranda we received.[39] The three main points the EIC made were that:

- RIAs often fail to capture certain kinds of environmental costs and benefits, in particular the wider benefits which high environmental standards can bring;
- RIAs specifically do not tend to take account of the benefits that high environmental standards can bring for environmental industries themselves; and
- industry groups have regularly exaggerated the costs of proposed regulations, sometimes so grossly that it has amounted to scaremongering.

57. With regard to the first of these arguments, the EIC suggested that—while RIAs were getting better in terms of including impacts on the environment—there were still significant categories of impacts which were often not included. They cited the benefits of high standards of regulation on health and tourism as examples of such costs or benefits. In commenting, for example, on the development of the Euro 5 vehicle emission standards, Mr Roberts of Johnson Matthey expressed his astonishment that the RIA failed to take account of health impacts on children.[40] Indeed, according to the EIC, the impact of PM10 particulates on mortality and morbidity was specifically excluded from this RIA, while it was also unclear to what extent the health costs of ozone and NO2 had been modelled.[41] More generally, the EIC cited various studies in support of its argument that wider benefits could be substantial. These included, for example, one study valuing the occupational health benefits of the new REACH proposals at 54 billion Euros, and another valuing the amenity benefits of the Water Framework Directive at £2 billion for England and Wales alone.[42] Similar points were also made by CIWEM.[43]

58. We fully appreciate that some of these wider costs and benefits can sometimes be difficult to quantify and, as we set out below, we have grave reservations about the use of preference based approaches. The Environment Agency expressed its concern on this score, while the IEEP commented:

> *"Environmental impacts are more difficult to capture in this way. For example, how can the potential impact of a project on a nature reserve be assessed, or the effect of better air quality on health? Even if impacts could be quantified, it is often difficult to attribute monetary values to them. In contrast, it is somewhat easier to quantify and attribute monetary values to the economic and employment impacts of policy. Consequently, there is a danger that environmental impacts, including the costs of inaction, receive less attention than should be the case in decision-making. In a political context where economic growth is becoming of even greater import EU wide, it*

39 The EIC memorandum is at Ev8.See also Ev42,108

40 Q 25

41 Ev27

42 Ev11

43 Ev95

is now, more than ever, critical that environmental considerations are not sidelined in assessments."

59. **If RIAs are to capture all the costs and benefits associated with policy proposals and new regulation, the Government cannot afford to ignore wider impacts—for example, on health and tourism. It must ensure that RIAs do indeed take full account of these wider impacts whether or not they can be meaningfully quantified in monetary terms. And where they cannot, it will be crucially important that adequate weight is given to them.**

60. The second main argument revolves around the extent to which RIAs take account of the benefits that high environmental standards can bring for environmental industries themselves and the economy as a whole. In his evidence, the Director of the EIC, Adrian Wilkes, pointed out that the environmental technology and services industries depended for their existence on Government regulation. He suggested that high environmental standards promote the growth of the environmental technology and services industry and result in economic benefits both nationally and internationally.[44] Other organisations also supported this argument. The Environmental Services Association (ESA) for example, considered that RIAs did not capture the full economic benefits from high environmental standards, and went on to recommend that the Government should establish a specialist unit to advise on economic and environmental impacts when drafting RIAs.[45]

61. We noted with interest the comments of Mr Evans (representing Johnson Matthey):

> *"We feel at the moment that Government is listening—it did an awful lot in the first term, but the message coming over in the second term is that it wants to reduce the burden on industry and therefore is less keen to promote environmental initiatives that it feels are going to be in any way a burden on industry. That is the feeling that we have and that is borne out by the evidence we see of policy development.*
>
> *… … we are a company that benefits from the innovation that regulation can promote. There are tougher regulations on vehicle exhaust emissions in other parts of the world such as California, so it is not as though the European market is disadvantaged because other markets have tougher regulations. We have a situation whereby regulations could be an opportunity to promote innovation and we see that as particularly beneficial for our sector…."* [46]

Indeed, Ms Aitchison later commented that:

> *"I have seen occasions where North Americans who have been seeking to invest in this country have been put off because of the lack of environmental regulation that they perceive this country to have, and they have come in and demanded very strong*

44 Q23ff

45 Ev101

46 QQ 52-53

contractual protection from the UK seller before they would take on board the potential or perceived liability associated with the company they were buying." [47]

62. With regard to the treatment of benefits to the environmental technology and service industry, the Cabinet Office position on this was briefly referred to above, but is worth considering in greater detail. Essentially the RIA guidance states that economic transfers between different sectors of the economy would not normally warrant consideration within an RIA as the costs and benefits on each side would cancel out. It goes on to state:

A policy can have 'displacement effects' within the economy, which is similar to pure economic transfers in that one group gains at the expense of another. For example:

– *An increase in the renewable energy target which results in more windfarms, solar power, bio-fuel etc, and hence more jobs in these areas, but at the expense of investment and jobs in fossil fuel power generation such as oil and gas plants.*

So, an RIA should not be biased by focussing solely on the gains to some sectors, whilst neglecting the losses to others. Hence it is not usually necessary to talk about job gains in an RIA. … … …

So, pure transfers (for example when one group is asked to pay for something and another group no longer has to) should be presented as a cost to one group and a benefit to another. However, it is not necessary to talk about the benefits of more jobs or increased consumer spending on a particular sector in an RIA as a result of a new policy when this is simply diverting resources from other areas of the UK economy. If you want to talk about these benefits in the RIA then make sure you also mention that some other groups will suffer corresponding costs, even when you cannot clearly identify who these are, for example when consumers' new spending patterns cannot be predicted.

63. Such a treatment of transfer or displacement effects may be technically correct from a narrow economic viewpoint, but there is a danger that it ignores the value of innovation. We therefore welcome the fact that the Cabinet Office memorandum confirms that such benefits should be identified. Even this, however, appears to us not to go far enough. We cannot help but recall that the wind industry in Germany now employs some 120,000 people, and we were reminded by the EIC of the fact that the UK is in danger of losing out in a global environmental technologies market worth $500 billion. Moreover, if we are to combat climate change, the UK needs to make far greater progress against the targets it has set itself for renewables and energy efficiency, and policy decisions therefore need to reflect the priority accorded to this agenda.

64. **As current methods of evaluating environmental impacts fail to give adequate weight to global threats such as climate change and the loss of biodiversity, appraisal processes must take greater account of strategic objectives and targets which the Government has set in these areas. In so doing, they must adequately recognise the**

47 Q 67

contribution which the creation of thriving environmental industries can make, and the RIA guidance needs to be strengthened in this respect.

65. The third main argument put forward by the EIC concerned the extent to which the costs of environmental regulation have been grossly exaggerated. In his evidence to us, Mr Wilkes provided two graphic examples:

- a recent review of the implementation of the Air Quality Strategy had been carried out for DEFRA by AEA Technology. This calculated the regulatory costs at £3 billion—far short of the £22 billion which industry had originally claimed.

- alarmist newspaper reports in 2003 had originally suggested that the EU Directive on Environmental Liability might cost £1.8 billion; whereas the actual costs had turned out to be only a small fraction of this (£52 million).[48]

66. We noted considerable support for the EIC's position. In particular, the *Cry Wolf* report published by the WWF in April 2004 documented many examples where industry had exaggerated the costs of complying with regulations. Moreover, the EU Competitiveness Report (November 2004) suggested that regulatory costs were not significantly high; while the Carbon Trust has also concluded that the EU Emissions Trading System will have little impact on competitiveness. Even the CBI, while claiming that the costs of implementing environmental regulation in the UK were £4 billion a year, acknowledged that: "*UK business has incurred relatively low direct costs associated with regulatory compliance.*" Indeed, its report went on to say:

> *Expressed as a share of GDP, business expenditure on environment in the UK during the 1990s compared favourably with all of our sample countries, apart from Italy. Just over half of such spending in the UK went on items to prevent, rather than to treat, pollution (in principle, a more favourable environmental and economic approach)—a higher proportion than in other countries.*[49]

67. **There seems considerable evidence that industry and trade organisations regularly exaggerate the likely costs of implementing environmental regulations. Government departments are not in a strong position to assess industry claims in this respect, as has been demonstrated by the difficulties DEFRA experienced in negotiating Climate Change agreements and in managing the allocation process for the UK Emissions Trading System. We are therefore concerned about how reliably departments can assess such costs for inclusion in RIAs.**

68. In this section, we have raised various concerns about the treatment of environmental costs and benefits within RIAs. While we feel strongly that the RIA appraisal process requires a major revision as we have suggested above, there is nonetheless a need to ensure that in the meantime departments have fully taken on board the changes introduced in April 2004. In the last two years, we have been working increasingly closely with the National Audit Office in order to extend the breadth and depth of our audit coverage. We

48 Q44

49 CBI, *UK Environmental Regulation*, July 2004

appreciate that the NAO regularly reviews a sample of RIAs, but—given the recent changes in the RIA guidance and the particular nature of the concerns we have raised—it seems to us appropriate for the NAO to investigate these environmental issues further. **We recommend that the NAO should carry out on our behalf an analysis of RIAs to assess how effectively departments have responded to the changes in RIA procedures from April 2004. The analysis should assess whether departments are accurately identifying and incorporating environmental impacts within RIAs in the light of the concerns we have expressed above. A supplementary objective might be to check that RIAs are in fact being completed for all significant policy proposals.**

Competitiveness and de-regulation

69. In considering regulatory costs and burdens, the issue of competitiveness was never far from the surface. In giving evidence to us, the Director-General of the CBI, Sir Digby Jones, began by setting out his "violent agreement" with us on the need for carbon reduction targets of between 60% and 80%, and he acknowledged the need for the UK to show leadership here. Yet he almost immediately contradicted himself by restating his belief that "*the UK Government risks sacrificing UK jobs on the altar of green credentials*" and setting out the view that unilateral action by the Government would damage UK competitiveness: "*I worry that we go into the ring of global competitiveness with one hand tied behind our back because we are one of the few nations that lead from the front and others do not and that renders us uncompetitive.*" [50]

70. Similarly, in a later exchange with Paul Flynn MP on the impact of high standards of environmental regulation, the Director-General stated:

> *Sir Digby Jones: "…can I just ask you, do you think it is the job of the government domestically to cause huge loss of production and mass unemployment through prosecution of extremely strict environmental rules and regulations?*
>
> *Paul Flynn: The job of the government is to save the planet initially.*
>
> *Sir Digby Jones: Even if that is sacrificed?* [51]

Yet when asked which British companies had relocated abroad purely as a consequence of environmental pressures, he admitted: "*In terms of they have left somewhere where there is a strict environmental regime and cleared off to a place where they can pollute, I would say nil.*" [52] The Director-General also denied that the setting of targets within Phase 1 of the EU ETS represented a 'race to the bottom' and claimed that the CBI stood for a *'race to the top'*. Yet almost immediately this was contradicted when Mr Roberts went on to argue that,

50 EAC, Fourth Report of 2004-05, *The International Challenge of Climate Change: UK Leadership in the G8& EU*, HC 105, Ev175, Q463 and Q459.All references in the following two paragraphs are to this evidence

51 *ibid*. QQ 510-511

52 *ibid*. Q470

if other countries did not adopt similarly demanding guidelines, the UK should not adopt a more stringent regime itself.[53]

71. Other witnesses also highlighted the extent to which the CBI had exaggerated concerns about competitiveness. In giving evidence on our recent inquiry on International Leadership on Climate Change, James Cameron of Climate Change Capital said of Sir Digby Jones:

> " *I think it is enough to say that there were a number of well quoted—because he is very quotable—statements about how this Emissions Trading Scheme is going to damage British industry for 40 years—that] was the time frame he offered—and that we would be put at a competitive disadvantage to our European allies, and that essentially we were taking on board too much pain here as compared to others in Europe. All three of those statements are inaccurate."*[54]

72. Moreover, as we have pointed out above, studies undertaken to date do not appear to support the view that environmental regulations were damaging competitiveness. The Green Alliance argued that, in the face of widespread industry lobbying and the propensity of the DTI to take on board the views of organisations such as the CBI, this was an issue which needed to be examined in depth and laid to rest. "*We have had the Wanless Review on Health, we have had the Barker Review on Housing so we think we need an equivalent on environmental competitiveness to actually try and nail that one once and for all.*" [55]

73. **We are sceptical about the extent to which environmental regulations damage competitiveness, and we reject the scaremongering approach which the Confederation of British Industry has often adopted in this respect. However, given the amount of industry lobbying and the extent to which it has been successful in weakening proposed environmental regulations, further examination of these issues is needed. We therefore recommend that the Government should commission an independent review of the impact of environmental regulation on competitiveness.**

74. We have one other serious related concern. In the context of 'better regulation' rather than 'more regulation' the Government has recently launched a major initiative to reduce regulatory burdens. Budget 2004 included a proposal to set up the Prime Minister's Panel for Regulatory Accountability to reduce the flow and improve the quality of regulation at UK level ensuring that regulation is used only where necessary. In addition, it commissioned Philip Hampton to lead a review into regulatory inspection and enforcement in order to reduce the administrative cost of regulation. The Prime Minister's Panel is now operational and there is an increasing drive to substantially reduce regulations across government.

75. This initiative is gathering pace. We note, for example, that the DEFRA's recent Five Year Plan includes as a target a 25% reduction for business and farmers. The Better

53 QQ 514-516

54 *ibid.* Q 314

55 QQ 110-111

Regulation Task Force, originally established in 1997, and the Regulatory Impact Unit within the Cabinet Office are now also at the centre of the deregulatory drive. Indeed, the Cabinet Office memorandum sets out the structures in place to facilitate the initiative—including the role of Regulatory Impact Units and Board Level Champions for Better Regulation within each department.[56]

76. **While we entirely agree with the need for better regulation, we are concerned at the potential conflict between the need to reduce regulatory burdens and the need to ensure that environmental objectives are fully incorporated within the policy appraisal process and given adequate weight. We therefore find it unsatisfactory that these divergent processes and objectives should now have been merged within the function of the Cabinet Office Regulatory Impact Unit. We are particularly concerned at this development as the Cabinet Office has still not set up a Sustainable Development Unit which might provide expert advice on environmental and sustainable development issues to the rest of the department.**

77. **Moreover, we are concerned about the role of the RIUs and Board Level Champions for Better Regulation within each department. The Government must clarify how these structures tie into existing initiatives for greening government—in particular what role the Green Minister and senior official for sustainable development has in all of this, and whether a duty to promote sustainable development has been incorporated within the remit of departmental RIUs and Board Level Champions.**

Postscript: placing a value on the environment

78. In previous reports we have expressed our concern about the emphasis which the Treasury has increasingly been placing on valuing environmental impacts in monetary terms.[57] Such an emphasis is reflected throughout the Cabinet Office memorandum and in the RIA guidance itself. Indeed, RIAs are based so fundamentally on the concept of financial valuation that no consideration is given to alternative methods of valuing environmental impacts.

79. In this context, we want to make here only three brief points. The first relates to scientific uncertainty and risk. With regard to climate change, there is now a growing consensus that an environmental limit exists, beyond which potentially catastrophic impacts might occur if greenhouse gas emissions are not reduced drastically by the end of this century.[58] However, the Government's valuation of carbon for appraisal purposes takes no account of the risks of catastrophic changes to the climate. Given the recent evidence that such risks might be more serious than previously anticipated, we await with particular interest the outcome of the inter-departmental review of the cost of carbon which is currently being conducted and is indeed overdue. With regard to the loss of biodiversity, the nature of any environmental limit is not yet clear. However, the recent UN

56 Ev90ff

57 See especially EAC's Ninth Report of 2002-03, *Budget 2003 and Aviation*, HC 672 (July 2003)

58 EAC, Fourth Report of 2004-05, *The International Challenge of Climate Change*, HC105, paragraphs 6-12

Millennium Ecosystem Assessment report suggests that the consequences arising from the catastrophic loss of biodiversity may be equally serious.

80. The second point relates to the fundamental tension between economic appraisal and the time spans over which environmental impacts occur. The time value of money and the discounting of future costs and benefits may be appropriate for business investment decisions spanning a decade or two. But beyond 40 or 50 years, uncertainty becomes so great that no meaningful appraisals can be conducted. How then is one to value a potentially catastrophic impact which might occur in 100 or 200 years time? Indeed, it is precisely because conventional economics 'runs out' that governments need to provide long-term policies and signals—such as the UK's adoption of a 60% carbon reduction target for 2050. It is a measure of how inadequate RIAs are in this respect that the guidance suggests a 10 year discount period is generally appropriate.

81. Our third point takes this argument further. We see fundamental problems in reconciling the short-termism implicit within economic appraisal processes and preference-based valuations with the long-term nature of sustainable development and the need to abide by environmental limits. There are major conceptual problems in relying on preference-based valuations and such values will in any case vary depending on the degree of knowledge and awareness of environmental issues. We would be interested, for example, to see what valuation the public might place on the possible extinction of a third of all species over the next hundred years. Moreover, as we have previously suggested, the preferences and valuations people express—whether directly or indirectly—could change dramatically as climate change bites deeper, with large increases in the associated environmental costs.[59]

82. For these reasons, we agree with FoE's verdict:

> *Future generations get an all round bad deal from appraisal such as RIA: longer-term, irreversible environmental impacts that will impact most on future generations are marginalized by the process; future generations are not considered in appraising social impacts such as on distribution; estimates of impacts on business routinely ignore the ability to innovate; and we still use a discount rate that institutionalises, as the Green Book puts it, the view that "society as a whole prefers to receive goods and services now rather than later, and defer costs to future generations".* [60]

Indeed, it seems to us that a blinkered focus on aggregating all impacts and balancing them in monetary terms represents a major step backwards in the development of integrated policy appraisal approaches. In this respect, we found the comments of the IEEP particularly apposite:

> *Therefore monetisation may create as many problems as those it may appear to solve. Perhaps the major challenge for both the UK and EU is how to ensure that qualitative information is given sufficient weighting in relation to quantitative data in policy*

59 *ibid.*

60 Ev108

appraisal/impact assessments. The use of other methodologies, such as critical thresholds as a way of limiting environmentally unsustainable trade-offs, should also be explored more fully. [61]

83. **The primacy which the Cabinet Office memorandum and the RIA guidance place on monetarising environmental impacts is fundamentally mistaken. It is simply not possible, for example, to quantify meaningfully in financial terms the value of the climate to us: in that sense, it is literally priceless. In reverting to a crude aggregation of financial values to decide between competing policy objectives, the Government has failed to face up to the challenge of developing an approach to integrated policy appraisal which places adequate weight on non-financial impacts and environmental limits.**

Spending Review 2004

84. In the past, we have been critical of the extent to which environmental objectives and targets have been mainstreamed within Spending Reviews. We have highlighted, for instance, the fact that, of the 170 targets contained in SR 2002, only 4 could be classed as environmental targets.[62] We also expressed concern at our lack of access to the sustainable development reports which each department was required to submit with its spending bid. And we have, in various contexts, highlighted the extent to which UK Government funding, in such areas as renewables and energy efficiency, lags behind our main competitors. We were therefore interested in the views on Spending Review 2004 expressed by those organisations which provided oral and written evidence to us.

PSA targets

85. A number of organisations welcomed the inclusion of some further environmental targets in the latest departmental Public Service Agreements (PSAs). For example, the RSPB commented specifically on the DEFRA target on international biodiversity and on the inclusion of the DfT in the target on carbon emissions. FoE likewise welcomed the DfT carbon target (while suggesting that it should apply to aviation too), and also cited the green spaces ODPM target.[63]

86. There was, however, a general feeling that more could have been done. The RSPB commented that "*the lack of targets on the marine environment, and water quality and resources, mean the coverage of key environmental priorities is not complete.*" FoE cited the need within the Treasury's PSA for a target for managing carbon across departments; while the ESA argued that a PSA target covering progress against the 2010 Landfill Directive target should have been included. [64]

61 Ev110

62 EAC, Thirteenth Report of 2002-03, *Greening Government 2003*, HC 961

63 Ev111ff, 104ff

64 *ibid*

87. In our recent report on *The International Challenge of Climate Change*, we highlighted our disappointment that the FCO's latest PSA does not contain an environmental objective of any kind.[65] In view of the important role which that department should be playing in international negotiations on climate change, we find the absence of an explicit objective astonishing. We are also disappointed that an operational target on all departments to reduce their emissions by 12.5% by 2010-11 (ie by 1% a year) has not been incorporated in every department's PSA. We see this as particularly important, not only because the latest Government data shows that emissions from civil departments (excluding MoD) have actually increased by 11% since the baseline year (1999-2000), but also because the inclusion of this target would help to increase the priority which senior officials might accord to carbon reduction issues.[66]

88. For this report, we have analysed the extent to which the environment is reflected in the objectives and targets contained in the latest Public Service Agreements. This updates a similar analysis we carried out of Spending Review 2002. The results are set out in the following table. This shows that, if DEFRA's targets are excluded, only 4 out of a total of 124 targets can be classified as environmental—and three of those are in fact shared with DEFRA. The analysis demonstrates forcefully the extent to which it is still the case that far less priority is accorded to environment issues than to social and economic ones.

Spending Review 2004: analysis of objectives and targets

Department	Total number of objectives	Total number of Targets	Environmental objectives	Environmental targets
CO	4	3	0	0
CPS	1	2	0	0
DCA	4	5	0	0
DCMS	4	4	0	0
DEFRA	6	9	2 (note 1)	6 (note 2)
DFES	5	14	0	0
DFID	6	6	0 (note 3)	0 (note 3)
DfT	4	7	1 (note 4)	2 (note 4)
DH	4	8	0	0
DTI	6	11	0	1 (note 5)
DWP	5	10	0	0
FCO	9	9	0 (note 6)	0 (note 6)
HMT	8	10	1 (note 7)	0
HMRC	3	4	0	0
HO	5	7	0	0
MoD	3	6	0	0
NIO	7	4	0	0
ODPM	5	8	1 (note 8)	1 (note 9)

65 EAC, Fourth Report of 2004-05, HC 105 paragraphs 87-92

66 In 2003-04, emissions from all departments were 3% higher than the base year (1999-2000).See the Sustainable Development in Government Annual Report 2004.

Department	Total number of objectives	Total number of Targets	Environmental objectives	Environmental targets
Criminal Justice System	1	3	0	0
Action against illegal drugs	4	3	0	0
TOTAL	94	133	5	10
TOTAL (non-DEFRA)	88	124	3	4 (note 10)

Source: *EAC analysis of SR 2004 Public Service Agreements Whitepaper*

Notes:

1. Objectives I and V. Not included here are Objectives III and IV (which include the term 'sustainable' but are primarily focussed on competitive markets), and Objective VI (which is primarily health related, though it has a strong environmental component).
2. Targets 1, 2, 3, 6,7,8. We have not included target 4 (productivity related), target 5 (primarily focussed on competitive markets), or target 9 (animal health and welfare). In this analysis, we have included target 1 as it has been extended through reference to the WSSD commitments. Target 2 is shared with the DTI and DfT.
3. The objectives and targets of DFID are primarily focused on poverty reduction and health improvements. While these are important components of progress towards sustainable development, they are not per se environmental.
4. Objective III of the DfT PSA is to "balance the need to travel with the need to improve quality of life by improving safety and respecting the environment." Target 6 is shared with DEFRA, and target 7 with DEFRA and the DTI.
5. Target 4 ("Lead work to deliver the goals of energy policy"). However, only two of the four specific sub-targets it includes relate to environmental issues, one of them being the carbon reduction target shared with DEFRA and DfT, and the other being the fuel poverty reduction target shared with DEFRA. The other two sub-targets relate to the reliability of energy supplies and to ensuring that the UK remains in the top three most competitive energy markets in the EU and G7.
6. Objective VI ("Sustainable development, underpinned by democracy, good governance and human rights") and target 8 ("To promote sustainable development, underpinned by democracy, good governance and human rights, particularly through effective delivery of programmes in these and related fields") have not been included as they do not contain any explicit environmental dimension and focus more on social and governance issues. Similarly, Objective VII ("Security of UK and global energy supplies") has not been included for similar reasons.
7. Objective VIII ("Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidenced-based policies.") See paragraphs 15 to 36 of this report for a discussion of the Treasury's environmental tax strategy and objectives.
8. Objective V. This relates to improving the quality and 'sustainability' of local environments, though the supporting target is primarily social.
9. Target 5. This refers to protecting valuable countryside and the sustainability of existing towns and cities, though the main emphasis is on achieving a better balance between housing availability and the demand for housing.
10. Of these 4 targets, three are shared targets with DEFRA (see notes 4 and 5 above), while the extent to which the remaining target can be classed as environmental is arguable (note 9).

89. **We welcome the extension of the DEFRA/DTI carbon reduction target to include the DfT. However, it remains true that environmental objectives and targets still receive far less emphasis in SR 2004 than that placed upon social and economic objectives. Indeed, if DEFRA's targets are excluded, only 4 out of a total of 124 targets in departmental Public Service Agreements can be classified as environmental—and three of those are in fact shared with DEFRA.**

90. **There is considerable scope for including in departmental PSAs further environmental targets relating, for example, to the marine environment and water resources. Moreover in view of the key role that the Treasury needs to play in combating climate change, we recommend it should take on the shared carbon target**

and be responsible for coordinating carbon reduction strategies across all departments. In addition, the operational target of reducing departmental carbon emissions by 1% a year should be included in each department's PSA.

Level of spending

91. *'Placing the environment at the heart of policy making'* in our view also entails a commitment to fund adequately the investment needed to achieve environmental objectives. There were a range of views as to the adequacy of the SR 2004 round, but the overall message emerging was that funding was still well below the level necessary. In the field of environmental education, for example, CEE argued that the level of spending was insufficient and had actually reduced; and that there was a clear lack of funding strategy across government and a wide range of funding sources.[67] The ESA argued not only that the level of funding made available for waste was a fraction of what was necessary, but also that the requirement on DEFRA to make efficiency savings of over £300 million in waste management services would actually hamper the development of those services.[68]

92. In late 2003, the Green Alliance—in conjunction with four other environmental organisations—commissioned the Policy Studies Institute (PSI) to carry out some research into UK government environmental targets and associated spending, in advance of SR 2004. The report analysed the spending needed in five major areas: sustainable energy; waste management; biodiversity; food and farming; and marine protection. It calculated the proposed additional spending required as amounting to between £1.7 and £1.9 billion.[69]

93. We asked Guy Thompson and Rebecca Willis of the Green Alliance whether the outcome of the review had matched their expectations. They commented: "*I think it is fair to say that our expectations were actually fairly low in the first place and the Treasury have perhaps done a fairly good job of managing our expectations given the broader context of the fiscal outlook. Given those low expectations, I was pleasantly surprised by the outcome of SR 2004.*"[70] They cited, for example, the real-terms funding increase awarded to DEFRA in place of the cut which it had been expecting; and the extra resources made available for waste and energy efficiency—not as much as the Green Alliance had asked for, but an increase nonetheless. However, they went on to qualify their comments by pointing out that, in some areas (particularly waste) not only were very high levels of expenditure required but departments needed to be far more holistic in their thinking if they were to avoid simply throwing money at the problem in an end-of-pipe solution.[71]

94. We have not ourselves had sufficient time or resources to conduct a thorough evaluation of the extra money made available in SR 2004. Tracing resource allocations and

67 Ev96

68 Ev101

69 Green Alliance, *Public Spending on the Environment*, November 2003

70 Q81

71 Q85

the extent to which funding announcements involve new money is particularly complex, as we demonstrated several years ago when we conducted an analysis of capital funding for renewables and energy efficiency.[72] In taking evidence from the Economic Secretary, John Healey MP, we asked how much money the Government was currently investing in renewables and energy efficiency, and we were somewhat surprised when he explained that the Treasury did not keep the data on such a basis. The supplementary information the Treasury provided on this point was disappointing.[73] It cited a figure of £500 million to help emerging technologies. But this related to a six year period (2002-2008), and it is therefore unclear how much has been spent, whether spending commitments from previous rounds have actually been fulfilled, and what the current budgets and forecast outturns are for 2004-05 and 2005-06.

95. **We are particularly interested in the extent of government R&D and capital grant funding available for renewables and energy efficiency, given the important role these must play in helping to reduce greenhouse gas emissions. In order to fulfil our audit role here, we recommend that the National Audit Office should conduct on our behalf a detailed analysis of financial expenditure and forecasts in these two areas in order to help us assess the effectiveness of departmental programmes. This would form part of the growing work programme which we are jointly developing with the NAO.**

The Climate Change Programme review

96. In our inquiry, we did not specifically invite evidence on the review the Government is currently conducting of its Climate Change Programme. However, we have regularly used our own series of budgetary reports to assess overall progress against the targets the government has set. Moreover, climate change and energy policy are issues which we have commented on extensively in various contexts, and we have therefore drawn upon that work in setting out below some of the key points we wish to make.

Performance against targets

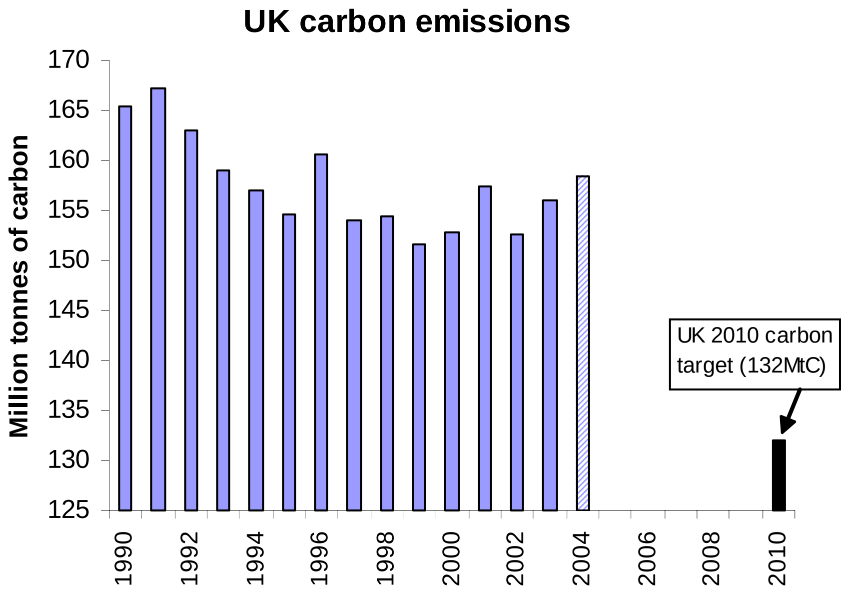
97. The UK's main targets in relation to climate change are set out overleaf:

72 EAC, Second Report of 2001-02, *Pre-Budget Report 2001: A new agenda?*, HC 363-I, paragraph 59-63 and Table 2

73 Ev88

Target	Performance to date [EAC comment]
Carbon / greenhouse gas targets • the UK's Kyoto target is to achieve 12.5% reduction in greenhouse gases over the Kyoto commitment period (2008 to 2012). [1990 baseline] • the UK's domestic carbon reduction target is to achieve a 20% reduction in carbon dioxide by 2010. This amounts to reducing emissions from their current level of between 153 and 156 MtC per annum to 132 MtC. • the Energy White Paper long-term target of a 60% cut in carbon by 2050 [equivalent to reducing carbon emissions to 65 MtC].	The UK met its Kyoto target by 1999 but has been struggling since then to reduce them any further. Emissions of the 'basket' of six greenhouse gases are provisionally estimated to have fallen by 14 per cent between the 1990 baseline and 2003. In relation to the UK carbon targets, estimated emissions of carbon dioxide in 2004 were only 4% lower than the 1990 baseline. Moreover, carbon emissions have risen in 4 of the last 5 years (2000 to 2004). Indeed, the 2004 provisional figure was substantially higher than the 1997 figure (158.5 as against 152.6 MtC).
Renewable energy targets • two long-standing targets to achieve 5% renewable energy by 2003 and 10% by 2010. • the Renewables Obligation target of obtaining 10.4% of electricity from renewables by 2010. Thereafter the target rises annually to over 15% by 2015.	The UK missed by a long way the 5% 2003 target, "all renewables" (ie including renewables not eligible for the RO) only amounting to 2.8%. Indeed, the percentage has barely increased since 1999 when it was 2.75%. In 2003, RO eligible renewables were 2.2%. While this was an increase over 2002 (1.8%) data from the DTI shows that much of the increase was due to landfill gas and refurbished large-scale hydro. Indeed, the percentage of energy from wind remained static in 2003 at 0.39%.
Other related targets • An aim (set in the Energy White Paper) to achieve a 20% improvement in energy efficiency by 2010 and a further 20% in the following decade. • A CHP target of 5,000 MWe by 2003, and 10,000 MWe by 2010.	The energy efficiency aim is to double the historic rate of annual improvement. In terms of carbon dioxide, it would contribute half of the 2010 target (ie half of the target reduction to 132 MtC – the rest being contributed by renewables. So far, there is little indication of substantial progress towards this target. CHP capacity in 2003 was just under 5,000 MWe. However, further investment in CHP has collapsed in recent years (apart from the very large Conoco scheme). Recent research suggests that capacity might increase to over 7GWe, but this still leaves a 3GWe gap.

98. In March 2005, the Government released updated figures for the Climate Change headline indicator. These showed that carbon emissions in 2003 were significantly higher than the provisional forecasts—and indeed higher than they were in 1997. Later that month, the DTI published provision data for 2004 which revealed that carbon emissions had risen by a further 2.5 million tonnes. The graph below sets out UK performance on reducing emissions since 1990, and compares it with the 20% carbon reduction target which the Government has set.



Source: DTI statistics
Note: The data for 2004 is based on DTI's provisional estimate (March 2005)

99. The latest data confirms what we knew already—that the Government is way off course in terms of meeting its 20% carbon reduction target (132MtC). We pointed this out in our *Pre-Budget Report 2002* (March 2003), while in our report on energy policy, *A Sustainable Energy Policy? Renewables and the PIU review*, published as early as July 2002, we flagged up our concern that increases in the use of coal-fired generation had led to electricity sector emissions rising rather than falling, in direct contradiction to the predictions contained in DTI's EP68 energy forecast. The Government consultation on the review of the Climate Change Programme, launched in December 2004, has finally acknowledged that the UK is likely to fall far short of its target and is only on course to achieve a carbon reduction of just over 14% by 2010.

100. As we pointed out last year in our report *Budget 2004 and Energy* (August 2004), the DTI's latest energy forecasts suggest that emissions will only fall to 141 MtC—leaving a substantial gap of 9 MtC against the 2010 target of 132MtC. This forecast not only takes account of all policy measures both current and proposed but also assumes that these policies will deliver their full expected benefits. We do not necessarily share such optimism, and the graph above would suggest that the extent of the shortfall could be considerably greater.

101. The difficulties the UK is experiencing in reducing carbon emissions are due to various factors:

- the use of energy is embedded throughout our economy in such an intricate way that it is difficult to address the scale of the problem through a limited number of policy instruments;
- governments have been unwilling to use the price mechanism as a means of reducing emissions because of other social, economic, and political concerns such

as fuel poverty, UK competitiveness, and public hostility to taxes on road fuels and aviation;

- some of the policy instruments the Government has adopted, such as the UK Emissions Trading System and the Renewables Obligation, are relatively untried instruments—in contrast to the feed-in tariffs which have been used successfully in other countries;[74]

- the focus on market mechanisms reflects a desire 'not to pick winners' and to minimise the costs to the taxpayer. This is shown also in the relatively low levels of Government R&D and capital grant funding which we have highlighted above.

102. **It is distressing that it has taken so long for the Government to acknowledge that its Climate Change strategy is so far off course, and that we are now struggling even to go beyond our Kyoto target. The difficulties the UK is experiencing in reducing its emissions reflect the need for far greater priority to be accorded by governments to mainstreaming environmental objectives. The various reviews which the Government is now undertaking provide an opportunity to put matters right, but in our view radical measures will be needed even to meet our existing UK targets.**

103. We set out below some key considerations we think the Government needs to take account of in its review of the UK Climate Change Strategy.

Departmental structures and joined-up Government

104. Despite the claims that government is now joined-up, there do appear to us to be serious ongoing problems of coordination between government departments. In the course of this inquiry, we noted for example the dispute over the impact of the new business rating system on renewable generators.[75] While the Treasury denied it had received any representations on this, it is apparent that DEFRA at least is concerned about it. Indeed, the EFRA Committee in its recent report on Climate Change,[76] concluded that this contradiction was a clear example of the lack of 'joined-up' Government. Similarly, the recent Ofgem proposals to introduce a new charging regime which would penalise remote generation such as offshore windfarms in Scotland would seem to directly conflict with the objective of promoting renewable energy. The Green Alliance emphasised the many barriers in the way of progress and illustrated it with a revealing example:

> *"A good example is that if you have solar panels on your roof you can actually benefit from the renewables obligation in that if you are generating power through solar you can get a renewables obligation certificate, but the fact is that you have to fill in a 19-*

74 Feed-in tariffs provide a powerful, flexible and direct way of promoting a variety of different renewable technologies, including wind and photovoltaics. Supply companies are obligated to purchase the output of renewable generators, and pay them a range of different tariffs dependent on the form of generation. The advantage of feed-in is that they provide investors with certainty. The disadvantage is that the consumer bears the cost (as indeed he does in the case of the UK Renewables Obligation).Feed-in tariffs have been used successfully in Germany since 1990 and in Spain.

75 QQ 270-277

76 Environment, Food and Rural Affairs Committee, Ninth Report of 2004-05, *Climate Change: Looking Forward,* HC 130, paragraph 78

page form from Ofgem and register as a supplier, go through all that process and you will probably get 50 quid per year."[77]

105. In other inquiries, we have also referred to more strategic examples of the failure to join-up policies. The forecast growth of aviation which the Government is now promoting will, for example, completely destroy any possibility of meeting the Government's 60% carbon reduction target. Similarly, the DfT's Ten Year Plan was predicated on a substantial fall in the real cost of road transport, and they appear to be continuing to plan on the basis of similar assumptions. Moreover, the ODPM is failing to address the challenge of climate change in various ways—in particular, the need to incorporate radical carbon reduction objectives in new development. Even government departments themselves are failing to put their own house in order and meet their carbon reduction targets—as the increase in carbon emissions across the Government estate since 2000 demonstrates.[78]

106. Several years ago, the PIU *Energy Report* concluded that the current allocation of responsibilities for energy policy across departments was incoherent, and it recommended drawing these together within a new department. As an interim measure, it proposed the immediate creation of a cross-departmental Sustainable Energy Policy Unit. It also recommended that the DTI should have a new energy objective which should place an overriding importance on environmental objectives in any trade-off with economic and social objectives. These recommendations received widespread independent support from outside organisations, and yet unfortunately none of them has been fulfilled.

107. **If climate change is indeed such an overriding concern, we would expect this to be reflected in organisational objectives and structures. The forthcoming election provides an opportunity for the Government to restructure departmental responsibilities and objectives in such a way as to align them with the need to address climate change. The Government should establish a Cabinet Committee for Climate Change to drive forward action; in addition, it should draw together responsibility for energy policy—including renewables and energy efficiency—within one department. It should also ensure that a primary duty to promote renewable energy and energy efficiency is incorporated within the remits of key organisations such as Ofgem.**

The cost of carbon

108. We welcomed the Government's Energy White Paper (February 2003) and the reliance it placed on renewables and energy efficiency as the cornerstone of a new energy policy. However, we have frequently pointed out in previous reports that, in practice, Government policy is vitiated by the desire to meet two conflicting objectives:

- to raise the price of fossil fuels in order to reduce carbon emissions and stimulate investment in alternative low-carbon technologies, and

77 Q99

78 Paragraph 87 above

- to keep fuel prices low in order to achieve fuel poverty objectives and to avoid damaging UK economic competitiveness.

The complexity of the policy instruments the Government has adopted partly reflect this contradiction. The Climate Change Levy, for example, was levied as a downstream tax to enable domestic consumers to be excluded, and more complex administrative provisions were therefore required in order to exempt innovative industries such as renewables and CHP.

109. The Government must acknowledge that in the medium and longer term, the price of fossil fuels must rise significantly if we are to move to an environmentally benign energy system. The comment which Dr Dieter Helm made to us several years ago still holds true: *"it is practically inconceivable that such a transition could be achieved on the basis of 'cheap' energy, as the Prime Minister's Foreword to the [PIU] report indicates is a priority".*[79] If there are relatively cheap technological alternatives available, industry and business will quickly move to exploit these. If, however, there are no such alternatives—as in the case of aviation—then rising prices will effectively become a demand management tool.

110. With regard to competitiveness issues, we have argued elsewhere in this report that they may not be as significant as some trade organisations claim. Moreover, if the developed world is even to meet its Kyoto targets, similar policies will need to be pursued by our competitors, and we have suggested in our recent published report on *The Challenge of International Climate Change* the need for the UK to promote a more systematic approach to the negotiation of post-2012 carbon reduction targets. With regard to fuel poverty, however, we recognise the serious impacts which rising energy prices will have— and indeed are already having. But the Government does have considerable scope within the social security system for balancing such increases through policy instruments such as winter fuel payments, child benefit, housing benefit allowance etc, or through the creation of a dedicated new allowance.

Other issues

111. The recent NAO evaluation of the Renewables Obligation confirmed the concerns we have expressed in previous reports. It demonstrated, for example, that the RO provides an incentive only for wind and does little or nothing to bring to market other renewable technologies which are more costly, partly because the Obligation was not banded in order to provide effective incentives for these other technologies.[80] Indeed, as far back as 2002, we raised concerns that the DTI had excluded the concept of a banded obligation even before issuing the Preliminary Consultation.[81] More generally, we are not convinced that the Obligation offers the flexibility and certainty of feed-in tariffs which have been applied successfully in Spain and Germany, and indeed the OECD have noted that its effectiveness has yet to be established.

79 EAC, Fifth Report of 2001-02, *A sustainable energy strategy? Renewables and the PIU*, HC 582-I, paragraph 77

80 NAO, *Department of Trade and Industry: Renewable Energy*, HC 210 of session 2004-05

81 EAC, Fifth Report of Session 2001-02,HC582-I, paragraph 84

112. **With regard to domestic energy efficiency, we are appalled that so little progress has been made—despite two Treasury consultations in 2002 and 2003.** We note that our views on this are shared by a range of external organisations and individuals, including the Energy Saving Trust and Professor Ekins. **It is a matter of particular concern, for example, that—more than five years after we highlighted the importance of creating an energy services market—the Government has made so little progress on this agenda. The Government needs to pursue far more radical policies here, not only in the domestic rented sector but in the privately owned sector as well where there may be even greater scope for carbon reductions.**

Formal minutes

5 April 2005

Members present:

Mr Peter Ainsworth, in the Chair

Mr Colin Challen
Sue Doughty
Mr Paul Flynn
Mr Mark Francois
Mr John McWilliam
Mr Malcolm Savidge
Joan Walley

The Committee deliberated.

Draft Report (Pre-Budget 2004 and Budget 2005: Tax, Appraisal, and the Environment), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 112 read and agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That The Chairman do make the Report to the House.

The Committee further deliberated.

[Adjourned to a day and time to be fixed by the Chairman.

Witnesses

List of written evidence

Past reports from the Environmental Audit Committee since 1997

2004-05 Session

First	Housing: Building a Sustainable Future, HC 135
Second	Corporate Environmental Crime, HC 136
Third	World Summit on Sustainable Development 2002: A UK Progress Report, HC 381
Fourth	The International Challenge of Climate Change: UK Leadership in the G8 and EU (HC 105)
Fifth	Environmental Education: Follow-up to Learning the Sustainability Lesson (HC84)
Sixth	Sustainable Public Procurement (HC 266)

2003-04 Session

First	Annual Report 2003, HC 214
Second	GM Foods – Evaluating the Farm Scale Trials, HC 90
Third	Pre-Budget Report 2003: Aviation follow-up, HC 233
Fourth	Water: The Periodic Review 2004 and the Environmental Programme, HC 416 *(Reply, HC 950)*
Fifth	GM Foods – Evaluating the Farm Scale Trials, HC 564
Sixth	Environmental Crime and the Courts, HC 126 *(Reply, HC 1232)*
Seventh	Aviation: Sustainability and the Government Response, HC 623 *(reply, HC1063)*
Eighth	Greening Government 2004, HC 881 *(Reply, HC 1259)*
Ninth	Fly-tipping, Fly-posting, Litter, Graffiti and Noise, HC 445 *(Reply, HC 1232)*
Tenth	Budget 2004 and Energy, HC 490 *(Reply, HC 1183)*
Eleventh	Aviation: Sustainability and the Government's second response, HC1063
Twelfth	Environmental Crime: Wildlife Crime, HC 605 *(Reply, HC 438)*
Thirteenth	Sustainable Development : the UK Strategy, HC 624

2002-03 Session

First	Pesticides: The Voluntary Initiative, HC100 (*Reply, HC 443*)
Second	Johannesburg and Back: The World Summit on Sustainable Development–Committee delegation report on proceedings, HC 169
Third	Annual Report, HC 262
Fourth	Pre-Budget 2002, HC 167 (*Reply, HC 688)*
Fifth	Waste – An Audit, HC 99 *(Reply, HC 1081)*
Sixth	Buying Time for Forests: Timber Trade and Public Procurement - The Government Response, HC 909
Seventh	Export Credits Guarantee Department and Sustainable Development, HC 689 (*Reply, HC 1238*)
Eighth	Energy White Paper – Empowering Change?, HC 618
Ninth	Budget 2003 and Aviation, HC 672 (Reply, Cm 6063)
Tenth	Learning the Sustainability Lesson, HC 472 *(Reply, HC 1221)*
Eleventh	Sustainable Development Headline Indicators, HC 1080 *(Reply, HC 320)*
Twelfth	World Summit for Sustainable Development – From rhetoric to reality, HC 98 (*Reply, HC 232*)
Thirteenth	Greening Government 2003, HC 961 *(Reply, HC 489,2003-04)*

2001-02 Session

First	Departmental Responsibilities for Sustainable Development, HC 326 (*Reply, Cm 5519*)
Second	Pre-Budget Report 2001: *A New Agenda?*, HC 363 (*HC 1000*)
Third	UK Preparations for the World Summit on Sustainable Development, HC 616 (*Reply, Cm 5558*)
Fourth	Measuring the Quality of Life: The Sustainable Development Headline Indicators, HC 824 (*Reply, Cm 5650*)
Fifth	A Sustainable Energy Strategy? Renewables and the PIU Review, HC 582 (*Reply, HC 471*)
Sixth	Buying Time for Forests: *Timber Trade and Public Procurement*, HC 792-I , (*Reply, HC 909, Session 2002-03)*

2000-01 Session

First	Environmental Audit: *the first Parliament*, HC 67 (*Reply, Cm 5098*)
Second	The Pre-Budget Report 2000: *fuelling the debate*, HC 71 (*Reply HC 216, Session 2001-02*)

1999-2000 Session

First	EU Policy and the Environment: An Agenda for the Helsinki Summit, HC 44 (*Reply, HC 68*)
Second	World Trade and Sustainable Development: An Agenda for the Seattle Summit, HC 45 (Including the Government response to the First Report 1998-99: Multilateral Agreement on Investment, HC 58) (*Reply, HC 69*)
Third	Comprehensive Spending Review: Government response and follow-up, HC 233 (*Reply, HC 70, Session 2000-01*)
Fourth	The Pre-Budget Report 1999: pesticides, aggregates and the Climate Change Levy, HC 76
Fifth	The Greening Government Initiative: first annual report from the Green Ministers Committee 1998/99, HC 341
Sixth	Budget 2000 and the Environment etc., HC 404
Seventh	Water Prices and the Environment, HC 597 (*Reply, HC 290, Session 2000-01*)

1998-99 Session

First	The Multilateral Agreement on Investment, HC 58 (*Reply, HC 45, Session 1999-2000*)
Second	Climate Change: Government response and follow-up, HC 88
Third	The Comprehensive Spending Review and Public Service Agreements, HC 92 (*Reply, HC 233, Session 1999-2000*)
Fourth	The Pre-Budget Report 1998, HC 93
Fifth	GMOs and the Environment: Coordination of Government Policy, HC 384 (*Reply Cm* 4528)
Sixth	The Greening Government Initiative 1999, HC 426
Seventh	Energy Efficiency, HC 159 (*Reply, HC 571, Session 2000-01)*
Eighth	The Budget 1999: Environmental Implications, HC 326

1997-98 Session

First	The Pre-Budget Report, HC 547 (*Reply, HC 985*)
Second	The Greening Government Initiative, HC 517 (*Reply, HC 426, Session 1998-99*)
Third	The Pre-Budget Report: Government response and follow-up, HC 985
Fourth	Climate Change: UK Emission Reduction Targets and Audit Arrangements, HC 899 (*Reply, HC 88, Session 1998-99*)

Oral evidence

Taken before the Environmental Audit Committee

on Wednesday 19 January 2005

Members present:

Mr Peter Ainsworth, in the Chair

Gregory Barker
Mr Colin Challen
Mrs Helen Clark
Paul Flynn
Mr John McWilliam
Mr Simon Thomas
Joan Walley

Witnesses **Sir Digby Jones,** Director-General, and **Mr Michael Roberts,** Director, Business Environment, CBI, examined.

Chairman: I am now opening the second part of the inquiry. We are very short of time. What I propose to do is to submit many of the questions we would like to have asked you in writing and merely focus on a couple of questions which touch on the issues we have just been talking about in some cases. I will hand over to Joan Walley for a couple of questions and then we will let you go.

Q1 Joan Walley: What we really just wanted to home in on is the issue of our current inquiry about the Pre-Budget Report and where that leaves us in respect of this whole issue of regulation and appraisal. We have touched on some of the issues already and new environmental technologies are part of it, but in your Environmental Regulation Report you acknowledge that UK business has incurred relatively low direct costs associated with regulatory compliance. I wondered if you had any hard evidence of any UK industrial sector whose competitiveness has been damaged by environmental protection measures. I know that we touched on that in some of the earlier discussion on the climate change issue but I just wondered if you wanted to flesh that out a little bit for us.

Mr Roberts: Perhaps I might as a preface to that mention that whilst historically we have flagged up that we do relatively well as a country in terms of the cost of regulatory compliance on the environment, if you look at the trends other countries seem to be moving towards our favourable position. What we articulate in the report is a need to maintain that competitive advantage by continuing to be effective and efficient in the way that we go about regulating on the environment. With regard to your question, at the risk of going back to the issue on carbon (but it is a useful example I hope for your benefit) when the Climate Change Levy was designed and introduced there was a recognition amongst policy makers, not just amongst industry, that there would be net winners and net losers. In a survey we carried out in 2002, one year after the introduction of the levy, we identified that the manufacturing sector had been a net loser, after taking into account the NIC reductions to employers, to the tune of £143 million in that year. That effect had been anticipated by policy makers but it was deemed desirable in the interests of pursuing environmental improvement. For a part of the economy—manufacturing—which is facing particularly tight margins, or has done over the last few years, taking a hit of £143 million has an impact on competitiveness. Different manufacturers will respond in different ways. They will absorb it into their margins, they will change behaviour (and indeed some have) but you can not deny that there is an impact. Whether that has material consequences depends very much on the individual circumstances of the firms.

Q2 Joan Walley: I think that is interesting because if you look at manufacturing as a whole sector, within that there will be companies that will be looking to move towards a non-carbon economy and get all the advantages that might come from that and that might in turn enhance those industries and businesses that are going down that route in terms of production and so on. Thank you for that. The other side of the coin of course is the benefits as well as the costs. I just wonder how much you think the Government makes sufficient attempt to assess these benefits in respect of the regulatory impact assessments. I think regulatory impact assessments are really key. I know I interjected earlier on in one of your comments but I think it is very important that we look at the whole cost of something and take the environmental costs into account as well. I just wondered what examples you had got of how higher environmental standards can give rise to benefits like that?

Sir Digby Jones: One thing I am concerned about on regulatory impact assessments—and indeed it is the perennial complaint from business about regulation—is in almost all of it what the real problem is not the regulation, it is the implementation of it.

Q3 Joan Walley: But regulation is there for the purpose of implementation, is it not?

Sir Digby Jones: No, I mean the way it is implemented. In other words, it is not whether regulation is a good thing and whether government has responded to a need or not, it is not that at all;

it is how is it implemented in a competitive environment comparative with other economies. That is the important thing that the regulatory impact assessment has to look at. You cannot just say regulation is good or bad, it will add or not add to cost; it is always about how a government insists on it being implemented.

Q4 Joan Walley: There are two issues there, are there not? One aspect is the mechanism by which that regulatory impact assessment takes place and the other aspect of it is the degree to which it is applied in a uniform way across whatever participating countries are taking part in it?
Sir Digby Jones: I agree, so in some European Member States and some regulatory environments compliance is a voluntary event and in others at the same time you get the man from the ministry here to help. We are trying to compete in a thing called the European Union and you have that happen all the time. The regulation is the same regulation but in certain parts it causes greater costs than in other parts, so when you conduct a regulatory impact assessment it is going to give an erroneous finding unless you look at the way regulation is implemented in a separate jurisdiction.

Q5 Joan Walley: Earlier on you said yourself, did you not, that regulation is important because it is the regulation which gives out the signal and it is the regulation that provides a certainty, which I think was your phrase?
Sir Digby Jones: I did not say regulation is important for that purpose. I did say a regime of certainty which can be achieved in ways other than regulation, certainty and transparency.

Q6 Joan Walley: Yes. There will be other benefits, will there not, for example, where you have a cleaner environment that is going to make an enormous difference to business, tourism, et cetera?
Sir Digby Jones: There is an even more obvious one in terms of a clean environment. The world at work has changed and the world of consumerism has changed from 30/40 years ago. People like buying products, goods and services from companies which have a track record of being sensitive to the environment in which they operate. People like working for companies that have the same and, thankfully we live in a Britain with extremely low unemployment and unhappily, with a skills shortage. If you have a need for labour and you have a need for skilled labour, these days those sorts of people are tending to say: "Can we have a look at what you do for the environment before I decide to come and work for you?". There is a huge win for business in stepping up to the plate on this. A member of mine in a city in the north of England manufactures paint. You cannot get much more environmentally unfriendly than that. They take water out of the river, they do amazing things with it, they put the water back and they put it back cleaner than they took it out. You cannot get many newspapers to write about that because it is good news, but, nevertheless, they do it all the time. They never have a problem in recruiting people because when applicants come they show them around and show them the water and, people go home and say: "I like working for companies like this". The one down the road probably is not doing that and has more of a problem. That is a huge added advantage in a company that invests in clean technology and in the DNA of the business, right the way through the business, everything and every way they do, they think "environment". That is a huge benefit to a country. You cannot quantify it, you cannot put a figure on it, but I can tell you in a competitive environment it is good.

Q7 Joan Walley: In respect of that increase in competitiveness, which we have got in UK industry, do you think the Government can be doing more in respect of how it carries out its Regulatory Impact Assessment?
Sir Digby Jones: Yes.

Q8 Joan Walley: If so, how should we be asking for it to be done?
Mr Roberts: One of the things we hear often as a complaint, a frustration with the way in which Government assesses regulatory initiatives, is the extent to which Government overlooks the degree of overlap, duplication and conflict between a new proposal with what already exists. That applies both to those who are regulated—and, if you like, therefore incur a cost—and those who might benefit potentially, there are various examples. The water industry is being asked to comply with higher water treatment standards and sewage treatment standards for the good of the environment and public health, but that implies a higher energy cost. Simultaneously, they are hit with a climate change levy from which they do not benefit from a discount, unlike other companies. For them, they are frustrated in the desire to do the right thing because the signals conflict. Alternatively, in the motor manufacturing community they have a commitment to deliver on fuel efficiency of every fleet and want to do the right thing in terms of reducing carbon emissions from new cars, but simultaneously are being told they have to improve safety standards, which makes vehicles heavier, therefore, less fuel efficient, therefore higher emitters. It is those interfaces, which do not work, which are deeply frustrating and are not properly assessed when policy-makers sit down to decide about the next regulatory initiative. That is critical way where we think Government can get its act together in terms of improving its assessment of where both the cost and the benefits lie.

Q9 Joan Walley: Are you in dialogue or have you got some means of communications with government departments about precise ways in which you think that can be done?
Mr Roberts: Yes. You mentioned our report from the summer and we have had a very active programme of follow-up. One element of which has been a quadrilateral meeting which we have with the Environment Agency, Defra and DTI, where we sit

down and we say what is coming up on the regulatory agenda, how can we learn the lessons of the past in terms of getting the enforcement and design of those regulatory items to be better than the way we have done them in the past. It is early days.

Q10 Joan Walley: That does not include the Treasury?
Mr Roberts: I think getting three departments plus ourselves around the table and keeping it manageable is challenging enough.

Q11 Joan Walley: I accept that, but if we are talking about a Pre-Budget Report and we are looking at tax levers and so on, there is an element of the Treasury which needs to be involved as well, is there not?
Mr Roberts: We do talk to the Treasury and have done.
Sir Digby Jones: They consult with us. From the top to the bottom of it they consult with us on the issue, but the implementation of the regulation, they do not, they consult more on, as you say—

Q12 Joan Walley: That is part of the Environment Agency. Finally, on this series of questions, do you think in the UK we are doing as much as we can possibly to take full advantage of the worldwide market for environmental technology?
Sir Digby Jones: No. One of the things we can do more—this should be seen in a wider context—is stimulate more investment in the research of getting there.

Q13 Joan Walley: Would some people not argue that there are many areas where research has been done already and it is simply a question of them not being added or the right signals or the right regulations which would enable full-scale production to go ahead?
Sir Digby Jones: The other thing we are not so good at is translating that research, be it there already or be it new, into capital investment. We can be so much better at that. That calls for three things: firstly, at the R&D end of it, it calls for better working between business and universities and it calls for more government money into that.

Q14 Joan Walley: Can I stop you there and ask you, in view of the recent debate about science and science at the universities, is that part of that?
Sir Digby Jones: Yes, it is. I was about to say it is in the wider context and I will come back to that. That is number one. Secondly, to get business itself voluntarily to start investing in more of this. You find your bigger companies do but your smaller companies do not, and I know why, because it is expensive, it is risky and they have to bet the ranch. A bigger business does not bet the ranch on something like this and a small one does. There is an effort there which is voluntary, which, at CBI, we can do more to help, I fully understand that. Thirdly, the question, to which I do not know an answer and I guess neither do any of you, at what point does putting more regulation on guide and force companies into doing number two, at what point do they respond accordingly, which is what we all want, in other words, if they do not do it on the carrot let us do it with the stick, at what point do they say: "This is not worth the effort, clear off"? I do not know the answer to that and neither does anybody else.

Q15 Joan Walley: There is some point at which they become uncompetitive if they do not go down that route?
Sir Digby Jones: Yes.

Q16 Joan Walley: It is in their own business interest to try and help the environment.
Sir Digby Jones: Some may become uncompetitive for many reasons—uncompetitive in recruitment, uncompetitive in consumerism and providing and competitive in being able to deliver because they cannot afford not to—but there is a point at which the atmosphere in which you operate becomes uncompetitive if you do. There is definitely a role for some stick in that, without a doubt, but at what point you get the balance between being voluntarism, changing DNA in a business and enforcing compliance, that mix is why we elect you, you make the difficult decisions in that. I am not sure you have got that mix right and, by the way, I am not sure business has either. Universities have got an enormous role in that because in the wider context—of which environmental compliance is only one—if everything we talked about right at the start, taking those jobs away and filling it with new, better and skilled jobs and your steelworkers going on to new things, if that has got to be right it has got to be based on modern technology and more skilled people. They are attracted to work in an environment which is cleaner, they are attracted to work with companies and universities who are up for that but, nevertheless, it does not have to be the environment they are researching in, the whole issue is an enormous one.

Q17 Joan Walley: If it is good for the environment, it is going to be good for business as well.
Sir Digby Jones: I do not disagree with that.

Q18 Mr Challen: Just one last question so I can sleep at night. Dealing with this inconsistency—which appears to me anyway—trade unions have a lot of fears about the outsourcing, off-shoring of jobs, call centre jobs have been mentioned. A recent report, I think last week, rather dented those fears saying this process is creating more jobs in the UK. Would you agree with me that possibly the approach we are taking to the environment might create more jobs in the UK, but every time the environment is mentioned, the CBI has a crisis of confidence and fails to provide leadership to business? It seems to me that is the case and this talk of flexibility is overriding in your mind and we must not back off from anything which reduces our alleged competitive role in the world.
Sir Digby Jones: To assist your somnolent posture. Point one, you mentioned call centres, the whole role of call-centres at an elementary level—I do not mean

specialised, very skilled call centres, I mean the general run-of-the-mill call centres—is a fabulous tool in an economy which is restructuring. You can see it has worked in parts of Britain very, very well, but any local economy which says: "We are going to rely on that for the next 20 years" will be making an enormous mistake. It will migrate, no-one should ever take that as a measure of failure in an economy, they should say: "We bought time". South Wales is a very good example, coming out of a coalmining economy and call centres have had a role to play in that. They will move on and, indeed, they are going to move on from India, they are going to go to Vietnam, and they will move on from Vietnam one day and go somewhere else. There is nothing wrong with that, we should not get alarmed with that as long as we concentrate, as unions and employers, in skilling those people into the next job. I invite you to come to any of the speeches I give about, what I call, "socially inclusive wealth creation". I give a lot of them because I believe in it passionately. Point two, at the end of the day, part of that social inclusion aspect of wealth creation has to reach out to not only the community affected by its actions but has to be sensitive to the environment and show by its actions, not its rhetoric, that it does so. I talk about this a great deal and make a lot of speeches on it and you would be very welcome. I do not think you and I would disagree on what I say on that respect. The CBI does not run scared from that environmental issue. Point three, as a nation we operate more than France, Germany, America or Japan in a very competitive globalised economy. We are a very open society in Britain. We do not have the tariffs, subsidies or the protectionism of America or France. The price we pay is we are more sensitive to the competitiveness issue than others. If this conversation took place in France or America, if it got to a certain point, they would just slap a tariff on it or just pass a law to stop it or politicians call chief executives "traitors", as they did in the presidential campaign in America or in France they put up barriers to entry. We do not, as a nation we just get on with it. That means you will find businesses and trade unions will say: "Is this going to hurt our competitors?" "Is this going to be a problem?". We start from the jittery bit as opposed to the kneejerk, slap a tariff on it bit. That shows why we tend to be more jittery, but does the average businessman or woman get up in a morning and think, "I know what I am going to do, I am going to pollute the planet and I do not give a damn", no they do not, they care about it enormously. Interestingly, I think you will find most businesses are so exposed to the globalised economy in this country—themselves or their first customer is on the tier—that they are as much aware of the behaviour of other nations in this than an American, French or Japanese business would be. Therefore, they are more aware of the "why are they not behaving" argument more, that means they get more sensitive to the competitive element. That is not an excuse for them not stepping up to the plate, I do agree, but it is a reason for why they behave the way they do.

Mr Challen: I will try to sleep well tonight.

Chairman: Perhaps those call centres, when they have left Vietnam will come back to Britain. On your analysis, environmental legislation will have reduced to the Stone Age. Thank you very much indeed, Mr Roberts and Sir Digby, for your time. It has been a very helpful session.

Memorandum submitted by CBI

1. *In 1997, the Treasury set out in its Statement of Intent on Environmental Taxation that it would seek to shift the burden of taxation from "goods" to "bads" in line with the polluter pays principle. But data from ONS suggests that, in percentage terms, the revenue from environmental taxes has fallen to its lowest level since 1993. In view of the fact that we are now approaching the end of the Government's second term, what overall progress do you think that Government has made against this agenda? What is the scope for further progress in next Parliament?*

2. *To what extent do you consider that the Statement of Intent, and the related document Tax and the Environment: Using Economic Instruments (2002), sets out a strategic aim rather than a specific strategy involving regular process of research, target setting and monitoring? How could the Treasury's approach be improved in this respect in order to underpin its environmental PSA objective?*

The CBI welcomed the Treasury's 1997 Statement of Intent on Environmental Taxation and its elaboration in the PBR 2002 paper, "Tax and the Environment: Using Economic Instruments", in particular the emphasis on policy-making supported by rigorous economic analysis and the commitment to well-designed taxes that meet objectives without undesirable side-effects. These documents outlined sound criteria for selecting and designing appropriate policy instruments, including assessment of:

- effects on the competitiveness of sectors which are subject to international competition;
- effects on competition within industry sectors;
- compliance costs of implementing and administering a measure, including cost to government and to business and other groups; and
- distributional effects of a policy on different groups within the population as a whole.

The Treasury also committed itself to reviewing policies over time in consultation with stakeholders. The CBI is aware that some progress has been made in this regard on individual taxes. For example, HMT commitment to flexibility in policy is evident in the:

— complete exemptions for electricity generated from CHP or coal mine methane, and certain recycling process, from the CCL introduced in PBR 2002, and

— widening of the criteria for access to Climate Change Agreements beyond IPPC sectors in 2004—although this does not eliminate all distortions in the CCL package, it does allow some additional energy-intensive sectors to access the discount on the CCL.

However, these changes to the CCL are largely in response to business lobbying and fall short of meeting the Treasury's stated aims, that is to review UK experience with environmental taxes and to show "how the Government can meet existing and evolving objectives in the most efficient way". There has been little comparison of what environmental gains have been made through the use of different instruments. Without knowing, for example, how much greenhouse gas emissions have been reduced through the CCL, it is hard to judge whether the levy itself, the negotiated agreements or other initiatives like the Carbon Trust or enhanced capital allowances are the most efficient and effective way of meeting the government's objectives.

The Treasury should review its overall approach to environmental taxes, in particular its monitoring procedures, to improve the transparency and effectiveness of such taxes and to amend where unintended consequences have occurred. Such a review should include:

— assessment of role of environmental tax within the broader policy context eg as move toward establishing a market for carbon under the EU ETS, what is the continuing role of the CCL?

— the effectiveness of taxes to-date, against the objectives they were designed to promote and compared with other policy measures;

— the lessons which can be transferred from experience of one tax to another;

— quantification of the level of environmental taxation in aggregate, within the broader context of UK taxation, now and in future years;

— justification of whether the balance of environmental taxes between business and non-business is appropriate;

— an assessment of the effectiveness in maintaining the government's commitment to revenue neutrality and how, in the event that revenue generated turns out to be greater or less than expected, it manages that commitment in practice over time.

3. *Is there inconsistency in the way in which the Government is implementing the polluter pays principle? The government is, for example, increasing substantially the rate of Landfill Tax, and yet appears to have rejected a tax on incineration—even though the environmental costs associated with incineration may be higher.*

Following the Cabinet Office's Strategy Unit 2002 report "Waste not, want not", Government commissioned two independent studies on the environmental and health impacts and costs of municipal solid waste disposal (a science study by Enviros and Birmingham University and an economic study by Enviros). The findings of these two studies were summarised by HM Customs & Excise in an attempt to value the impacts of different disposal options.

While the HM Customs & Excise summary valuation of costs shows that in the central case, environmental costs of incineration may be higher than the environmental costs of disposal to landfill, we believe that the Treasury's rejection of a tax on incineration is the correct one for the following reasons:

— the HM Customs & Excise study emphasised that there are significant uncertainties involved in measuring and valuing the environmental effects of different waste management options and that the estimates of the external costs of landfill and incineration have wide margins of error attached to them—sensitivity analysis shows that the external costs of landfill could be higher than that of incineration if alter assumptions with regard to fugitive releases of methane gases from landfill or to the benefits of displaced power generation;

— incineration is currently a relatively small component of waste management in the UK; and

— the increase in the rate of landfill tax aims to incentivise producers to minimise waste arisings and divert waste from landfill, helping Government to achieve its legal commitment under the landfill directive to reduce reliance on landfill—incineration has a role to play in achieving this commitment and a tax on incineration could confuse the economic signal to producers to divert waste from landfill.

4. *Should the level of environmental taxes be determined by the need to achieve policy goals rather than simply by the scale of environmental costs (as indeed is the case with the Landfill Tax, where the rate will increase far above the environmental costs associated with it)?*

The aim of environmental taxes is to internalise the environmental externalities, thereby encouraging an appropriate market response. Theoretically, therefore, the rate of environmental tax should reflect the scale of environmental costs, rather than policy goals. Where policy goals are not directly guided by environmental costing, the Government's criteria for assessing different policy options (outlined in point 2) are particularly relevant.

5. *Do you consider that, as in the case of fuel duty, there is greater scope to use environmental taxes as major revenue earners? What should the balance be here between environmental taxes and taxes on labour and corporate profits?*

CBI supports the Government's commitment to recycle revenue raised from some environmental taxes (eg CCL, landfill tax and aggregates levy) as a way of ensuring broad revenue neutrality, in keeping with the Treasury's intention to shift the burden of taxation from "goods" to "bads".

However, the rise in employers National Insurance Contributions, the primary means of recycling revenue from the CCL and the landfill tax, has knocked business confidence in future claims regarding revenue neutrality.

We recognise that there are practical and political difficulties in demonstrating revenue neutrality, but to gain business trust, Government must:

- elaborate how it aims to maintain revenue neutrality over time; and
- improve data and transparency of how revenue is being recycled to business.

6. *Do you accept that there will need to be large increases in the price of fossil fuel energy in order to address climate change, and that the significant fall in the real price of road transport and petrol over the last five years will therefore need to be addressed?*

There are a number of elements to the cost of road use, including vehicle, petrol and insurance. When dealing with environmental costs, Government needs to look at the effectiveness of the range of policy measures in place, and determine the aggregate costs to the motorist of these measures. The range of measures include:

- incentivising change of behaviour through price (for example, increase real price of petrol), however, road use emissions are sensitive to traffic conditions that vary by time and place, yet fuel duty is not particularly effective as a way of encouraging efficient driver responses to such conditions; and
- improvements in vehicle efficiency (through changes in company car tax and voluntary agreements)—changes in company car tax appear to be having some positive effect, but the thrust of the government's approach has been to increase the burden of taxation on use (eg fuel duty) rather than vehicle ownership.

Taxes paid by motorists raise approximately £38 billion per annum, yet only £6 billion of this is spent on transport—better targeted spend could reduce environmental externalities associated with transport.

7. *Evidence suggests that far more stringent national targets will be required for Phase 2 of the EU ETS in order to ensure that the EU meets its Kyoto targets. Would the CBI oppose the setting of more stringent targets in the absence of similar commitments by other industrialised countries outside the EU?*

Comparison of member states progress against their Kyoto targets demonstrates that many EU member states are far from achieving their Kyoto targets. The latest Commission progress report on the European Climate Change Programme identified that EU greenhouse gas emissions were only 2.3% below their 1990 levels, with 10 of the EU-15 "a long way off track from their agreed share of the EU greenhouse gas emissions target."

The EU emissions trading scheme requires that allocations are at least made in line with the traded sectors contribution to each member states Kyoto obligation. In Phase 1 of the scheme, indications are that allocations have been generous and that little progress has been made towards Kyoto. Far more stringent national targets will, therefore, be required for Phase 2 of the scheme.

However, in setting targets at the UK level, it is important to note:

- the UK is already on track to meet its Kyoto target and the overall cap set for UK business sectors in Phase 1 of the scheme goes significantly beyond the UK's Kyoto target (even with the revised cap);

- setting the target for the traded sector in Phase 2, should take into account:
  - the competitiveness impact of setting targets for the traded sector in the UK beyond those which have been set by other member states—the UK should not be required to significantly undercut its 12.5 per cent Kyoto emissions target in order to help the EU meet their Kyoto target; other member states must play their part in order to minimise competitive distortions; and
  - in setting the overall allocation for the traded sector, the UK government should also take into account action already undertaken and growth projections in the traded sector; technical and economic potential for further emission reductions by EU ETS sectors within the given timescale, compared with potential in other sectors; comparative cost of achieving reductions in these different sectors; and the impact on UK business competitiveness, including on a sectoral basis.

February 2005

Wednesday 26 January 2005

Members present:

Mr Peter Ainsworth, in the Chair

Gregory Barker
Mr Colin Challen
Mr David Chaytor
Mr John McWilliam
Mr Simon Thomas

Memorandum submitted by the Environmental Industries Commission (PB05)

1. Introduction

We wish to thank the Committee for undertaking an investigation of Regulatory Impact Assessments (RIAs) as we believe that the Government's objective of evidence-based policymaking is being undermined by inadequate RIAs that fail to properly assess the (economic) benefits of environmental protection whilst giving undue weight to the scaremongering cost/competitiveness arguments from UK (and EU) industry.

This has resulted in a widespread, but inaccurate, belief across Government (at the highest level) that environment and competitiveness are in conflict, thereby fueling the deregulation lobby and threatening new policy initiatives to tackle the growing environmental challenges that the UK (and EU) faces.

There is a clear need for RIAs to be reformed and improved so that Ministers can make accurately informed decisions that result in a net benefit for the UK's citizens, environment and industry.

2. Background

2.1 *The Environmental Industries Commission—The Voice of the UK's Environmental Technology and Services Industry*

The Environmental Industries Commission Ltd (EIC) was launched in 1995 to provide the environmental technology and services industry with a strong and effective voice with Government in the debate about to how to ensure that British companies succeed in rapidly growing worldwide market.

With over 250 company Members, EIC is the lead trade association for environmental technology and services industry. EIC represents the main environmental sectors (water, air, land, waste, transport, oil and marine, climate change, etc.

EIC obviously represents its Members interests. However we are not arguing for our interests to be placed above the interests of other sectors (except in the sense this is clearly an industry of the future which makes sense for the country to prioritise)—but to be properly factored into policy assessments. To date this has NEVER happened, thereby undermining the competitiveness of the UK's environmental technology industry.

2.2 *The Environmental Challenge and New Business Opportunities*

There is widespread concern at the highest levels of most governments around the world about the various environmental challenges facing the world in the 21st Century.

They include, inter alia:

— CLIMATE CHANGE: The UK is currently on track to meet its Kyoto target, but not its own tougher domestic target of a 20% cut by 2010.

— WATER POLLUTION: Recent work by the Environment Agency shows that over 90% of UK rivers are at risk of failing the requirements set by the EU's Water Framework Directive to achieve good ecological quality.

— AIR POLLUTION: Air pollution remains a problem in most UK cities. PM10 pollution, for example, was associated with around 8,100 deaths brought forward and 10,500 hospital admissions brought forward or additional in just one year (1996).

Pollution harms the poorer sections of society most (not least because many live so close to factories). It increases the burden on our health service. It drives up the cost of scarce natural resources. It damages a range of "third party industries", such as insurance and tourism.

These are just three examples—they alone pose very substantial challenges, particularly for industry as it transitions towards cleaner production.

However, tackling these environmental challenges will also create huge new business opportunities.

The world market for environmental goods and services is currently estimated at US$515 billion—comparable with the aerospace and pharmaceutical industries—and is forecast to grow to US$688 billion by 2010. Only the IT industry is growing faster.

The UK, with a trade balance for environmental goods and services of about £500 million, is in the race to win a significant share of these vast international markets.

But the UK is lagging well behind the USA, Germany and Japan—three countries who have implemented high environmental standards without damaging competitiveness in both their mainstream industry and so creating their world-leading environmental industries.

Nonetheless, the latest UK research shows that over 400,000 people are employed in the UK's environmental industry.

British political leaders are keen to promote this sunrise British industry.

Tony Blair has stated that "I want Britain to be a leading player in this coming green industrial revolution . . . I believe the role of Government is to accelerate the development and take up of these new technologies until self-sustaining markets take over".

Way back in 1992 Michael Howard (the then Environment Secretary) told the CBI's Annual Conference that "the impact of the environment on business today is complex, much more an ever widening horizon of [business] opportunities than a black hole of threats".

And in Europe, the Heads of State have enthusiastically endorsed the Commission's new "Environmental Technology Action Plan". And the Environment Ministers Council have backed the Dutch Government's initiative for a "clean, clever and competitive" industrial strategy that recognises that eco-efficiency will be a key element in future international competitiveness.

2.3 *The Key Role of Environmental Policy for the Environmental Technology and Services Industry*

Since the Industrial Revolution, industry has been allowed to pollute for free—because no one individual has (legally recognised) property rights to our communal beaches, rivers and air.

This is a massive market failure—and it is only Government action that can correct it.

But if Governments do not act (whether through regulation or, increasingly, market instruments), the environmental technology industry withers away.

This reality has now been recognised by policymakers.

As the DTI's Advisory Council on Science and Technology stated a decade ago: "the competitive status of the UK's environmental protection technology industry is dependent on the requirements and implementation of domestic legislation".

EIC, therefore, focuses its resources on representing the views of its 250 members to Government about environmental policy because it is Government action that creates the demand for our technologies and services. Only a tiny fraction of the money spent by British industry on environmental protection is "voluntary".

The sad, and harsh, reality for our industry is that when they knock on the door of a polluting factory they are told to "return when the regulator hassles us".

As an industry survey confirmed: "a staggering 90% of respondents, being purchasers of environmental technologies, stated that it is environmental legislation that drives demand".

3. The Government's Agenda (re RIAs, Better Regulation and Environmental Protection)

3.1 *In the UK*

Whilst pushing hard on implementing the UK and EU's Sustainable Development Strategies and the new EU "Environmental Technology Action Plan", the Government is equally committed to the "Better Regulation Agenda" and to the Lisbon Strategy of making the EU the most competitive and dynamic knowledge-based economy—and sadly, some Ministers and officials believe that there is an inherent conflict here between environment and competitiveness.

EIC does not believe that the facts support such a conflict—the right policies can create a win-win situation, benefiting mainstream industry, the environmental industry and our children's environmental inheritance.

We, therefore, fully endorse the thinking behind the recent Dutch (EU) Presidency's initiative aimed at achieving economic, environmental and social sustainability through a "clean, clever and competitive" EU economy—an initiative supported in the Environment Ministers Council by Defra Ministers.

The Environment Council concluded that "eco-efficient innovations make a positive contribution to the competitiveness of Europe . . . by being the most eco-efficient economy".

The EU's (then) Enterprise Commissioner, Erkki Liikanen, countered by warning of "regulatory optimism"—"the considerable and still rising costs [of environmental protection] cannot simply be ignored or downplayed on the basis of the argument that environmental policy will always create win-win situations".

EIC agrees with the Commissioner Liikanen that the costs should not be ignored, but believes that in truth "regulatory pessimism" prevails because of industry scaremongering and incomplete assessment of the economic benefits of environmental protection.

Hard evidence-based policymaking is surely the answer.

Similarly, EIC firmly endorses the Government (and the Environment Agency)'s "Better Regulation" agenda—we are advocates for high environmental standards (in line with our leading competitors) and the environmental protection they afford, BUT we are wholly against imposing unnecessary redtape and administrative burdens.

EIC wholly agrees that Government should seek the least burdensome option—in terms of administrative costs—for achieving the stated policy goal. The environment, not bureaucracy, should be the winner.

A modern approach to regulation requires that it be proportionate; accountable; consistent; transparent; and targeted.

EIC, therefore, supports the Better Regulation Task Force Principles of Good Regulation and the Environment Agency's "Delivering for the Environment: A 21st Century Approach to Regulation".

We would, however, add two other principles—first, that regulation should be based on a thorough (RIA) assessment of both the costs and ALL the benefits; and secondly that enforcement (notably by The Environment Agency) should be adequately funded so as to ensure consistency and thus a level playing field across the regulated industry.

It is, therefore, not the Better Regulation agenda that causes serious concern for our industry—but the inadequate way in which the Government's policy on RIAs is implemented in practice by economists in the Cabinet Office and DTI.

The Cabinet Office's "Better Policy Making: A Guide to Regulatory Impact Assessment, Cabinet Office" states that: "It is the anticipated stream of benefits that flow from regulation or other measures that may justify the costs that are imposed on the economy and society . . . The document should consider ALL costs and benefits including those on consumers, society and the environment."

The Green Book also contains an "RIA Checklist" which specifically states that RIAs should "list the sectors likely to be most affected by the proposal".

In the light of this official guidance how can the impacts on the UK's environmental technology industry be ignored? [See Section 6.2 for a fuller discussion]

3.2 *The Position in the Brussels*

EU policymakers have been equally concerned for many years about the same issues as a result of heavy lobbying by mainstream industry.

However the Commission's 2004 "European Competitiveness Report" not accept that any particular EU environmental laws are particularly problematic. And its specific assessment of Europe's car industry concludes that as the demands for more environmentally-friendly cars continues, the industry should innovate to gain "first-mover advantage".

The (high-level) Kok Report (an interim review of progress on the Lisbon Strategy) pointed out that additional new EU efforts to promote growth and employment "should not be seen as an intention to downgrade or disrupt environmental policy".

EU Commission officials (unlike Whitehall, which has not produced any significant research on the issue) have regularly tried to get at the facts and understand whether environmental protection and competitiveness are mutually exclusive.

Such analysis prompted EU Environment Commissioner Yannis Paleokrassis to proclaim that "the clash of environmental and economic development is a myth belonging to the past".

Would that this were so. The debate rages on as deregulationists continue the old arguments.

UNICE's 2004 status report claims that "Brussels has developed an infamous reputation among business people as an imposer of bureaucratic and costly rules, particularly in the domains of health, safety, privacy and the environment".

And at the end of 2004, Europe's biggest, most polluting industries formed a new coalition, "The Alliance for a Competitive Industry", to "improve the way it assesses impacts of proposed policy and legislation so as to reduce regulatory burdens on business and safeguard Europe's competitiveness".

European industry believes that EU Impact Assessments give too much emphasis to the environment and downplay competitiveness impacts.

This is absurd—it flies in the face of the facts. If there is a criticism to be made it is that the environmental benefits are downplayed, even overlooked.

An independent investigation into the quality of EU Impact Assessments was carried out in 2004 for the Commission by the Institute for European Environmental Policy concluded that "the quality of the 2003 extended assessments has been uneven, and several of them have been poor . . . the range of impacts assessed is limited [with] little explicit attention given to the issues of sustainable development".

Not one EU Impact Assessment has examined the impact on Europe's environmental technology industry. EIC's efforts to persuade Commission officials to do so have hit a brick wall.

Yet the new (October 2004) Commission "Staff Working Paper on Impact Assessment (Next Steps)" talks of "highlighting the main potential trade offs" and "inter-linkages"; and "impacts on specific sectors . . . in terms of jobs created or lost".

This surely means that assessments will look at impacts on the environmental technology industry—does it not?

EIC is therefore in the process of directly asking the EU's new Environment and Enterprise Commissioners Dimas and Verheugen whether they, like British Ministers such as Margaret Beckett MP, want a FULL picture of ALL the benefits so that they can reach an evidence-based decision about the net benefit of possible new environmental policies.

Furthermore, if EU Assessments are to focus more on competitiveness, why are they not going to assess the competitiveness impacts on Europe's environmental technology industry?! Some cynics would say that the competitiveness of the environmental technology industry does not count as much as that of the carmakers and steel producers.

4. Why RIAs Need Reforming

4.1 *To Recognise the ECONOMIC Benefits Created By Environmental Protection Policies*

The costs of environmental clean up to polluting industries is rightly a matter of concern to Government. But if Ministers are to properly balance the pros and cons of new policies, there must surely be a thorough assessment of the benefits.

In addition to the creation of an internationally competitive environmental technology industry, there are also many other ECONOMIC benefits for countries that clean-up.

These include, most notably:

— The Wider Economic Benefits to Society: Health

One significant study by the UK's Department of the Environment concluded that a 0.751 ug/m3 reduction in particles from the proposed additional [UK] measures is predicted to lead to a gain of 278,000 to 508,000 life years for the UK population over the years from 2010 to 2110.

And there are occupational health costs for workers in polluting industries. The Commission has itself calculated that the occupational health benefits of the new REACH (chemical control) proposals may amount to 54 billion Euros (over 30 years).

— The Wider Economic Benefits to Society: Quality of Life

One significant study on such benefits arising from the EU's Water Framework Directive for the UK's Department of the Environment concluded that amenity benefits might total as much as £1,929 million in England and Wales alone. Maximum total benefits amounted to £6,165 million!

— The Wider Economic Benefits to Third Parties

Higher environmental standards reduces the costs of damage to economically important ecosystems, damage to building materials (like rubber and painted surfaces) and cleaning up polluted air, water and soil.

A British Government report on the impact of VOC emissions found that the costs of damage to building materials (such as rubber and painted surfaces) alone ranged from £170 to £354 million a year. This was without considering costs to agricultural yields and forestry—let alone human health.

— The Wider Economic Benefits to UK Plc: Promoting Resource Productivity and Innovation in Mainstream Industry

Innovation leads often to lower costs of environmental protection measures, because once the innovation has become "state of the art", prices will go down.

This is the case right across the pollution spectrum. Since the Government started funding waste minimisation studies in the 1990s with the famous "Aire and Calder Project", it has become clear to all concerned that when a polluting company expertly examines its process efficiency "the financial case for adopting a philosophy of waste minimisation is so overwhelming that companies should need little further encouragement to save money and the environment".

4.2 *The Need to Balance Industry's "Scare-Story" Lobbying:*

Since the beginning of the Industrial Revolution, industries that have been able to dispose of their waste to air, the seas and rivers for free. It is, therefore, understandable that industry is reluctant to have to stop this practice by buying environmental technologies to control their pollution—suddenly "external" costs (borne by the public through polluted rivers, beaches and air) have to be "internalised" (and paid for by the responsible company).

With growing public and political concern about environmental quality, there has been a dramatic rise in the number of environmental laws over the past two decades. And private costs are, rightly, now no longer being borne by the public.

Some companies have responded in a constructive manner (and some, indeed, have sought to win competitive advantage from this), BUT many others have responded by lobbying Government to stop or weaken proposed new environmental protection policies—after all, it is far cheaper to lobby than it is to buy pollution control technologies.

"Tactic 2: Conduct and publicise an economic-impact study to dramatise the potentially devastating impacts to industry and consumers". American Chemistry Council

This tactic is the foundation of virtually all anti-environmental lobbying.

Consequently, there has been an endless stream of scare stories emanating from industry. Examples include:

— "[The EU Directive on Environmental Liability] will be the final nail in the coffin of manufacturing". Confederation of British Industry (2003). The CBI press release claimed that the cost to British business would be £1,800 million—however, DEFRA Minister Lord Whitty recently told the House of Lords that the actual costs would be between £18 and £52 million.

— "EU environmental regulations risk stifling industry . . . the volume of legislation is increasing without any genuine long-term strategic approach". UNICE (2003)

The scaremongering runs and runs.

The 2004 WWF Report, "Cry Wolf" provides an array of hard examples of scaremongering. For example:

— the EU car industry predicted that catalytic converters would cost £400–£600 per vehicle—the REAL COST was £50, and the net societal health benefits in the UK alone will be £2 billion.

— the UK's electricity industry predicted that EU laws to combat acid rain would increase the cost of electricity by 25–30%—the REAL COST was negligible.

These are just a few examples of a general trend. As the Economic Policy Institute concluded: "In every case we have found where researchers have calculated actual regulatory costs and then compared them to predicted estimates, the estimate exceeded the actual cost."

Across the Atlantic (where the "DeRegulation Lobby" is a dominant influence in the Bush White House) the US Resources for the Future Institute concluded that: "Our study of pre-regulation cost estimates in 25 cases of environmental regulation showed that in 12 cases regulators had overstated the total costs, in five cases they predicted accurately and in only two cases of comparatively minor regulations they had underestimated."

Or as William Reilly, the Former Head of the US EPA, put it: "An industry spokesman claimed that the EPA typically underestimated the costs when proposing new regulations. That is no doubt a widely held view. It is dead wrong. In fact, a review of some of the major regulatory initiatives overseen by the EPA since its creation in 1970 reveals a pattern of consistent, often substantial overestimates of their economic costs."

Mr Reilly cites the example of how the electric power industry calculated that the cost of eliminating one ton of sulphur dioxide would cost more than $1,300—but over the ensuing decade it proved to be less than $200 per ton.

5. Fact v Fiction: The Impact of Environmental Policies on Competitiveness

There is a substantial body of independent research that shows that environmental protection and competitiveness are not mutually exclusive.

As a World Bank paper, "Competitiveness and Environmental Standards", explained: "Contrary to common perceptions, higher environmental standards in industrial countries have not tended to lower their international competitiveness" and that "compliance with higher environmental standards is not a zero-sum game—countries that adjust early and invest in environmental protection technology can maintain and even create comparative advantage in environmentally sensitive industries".

In a similar vein, the OECD's 1997 report, "Environmental Policies and Employment" said that job losses since the 1970s due to environmental policies in OECD member countries had been "trivial" and that NET employment effects had been "neutral or positive".

Another OECD report (from 2002) on the regulatory framework (generally) in the UK concluded that businessmen face a better situation than in most other OECD countries.

In a similar vein, the recent high-level Hampton Review concluded that "on many measures of regulation and the impact of inspection regimes, the UK compares well with other OECD economies . . . the review believes the time is right for the Government to build on its leading position".

Most tellingly (as the CBI are the most vocal of the "DeRegulationists") two reports from the Confederation of British Industry totally undermine their scaremongering.

Their 1994 report, "Environment Costs" stated that: "We found no strong evidence that environmental regulation destroys jobs and businesses . . . with compliance costs averaging 1–2% of business turnover (although they are higher in the most environmentally sensitive sectors), such costs are unlikely themselves to shift competitive advantage significantly . . . [environmental factors] do not suggest that promoting lower standards at home would be to the competitive advantage of British business."

This 1994 CBI report went on to state that negative effects are most likely where a business is facing existing competitiveness weaknesses such as high labour costs, low capital investment and traditional technology, or is competing primarily on price and in local markets.

Furthermore, it concluded that positive effects are more likely where the business has a soundly-based strategy, exploits technology effectively, is able to promote product differentiation and to market green products. In these circumstances "the opportunity to gain first mover advantage from cleaner technology, process efficiency and product substitution may be of real value".

The CBI's more recent (2004) report, "UK Environmental Regulation", won substantial national press coverage (for example: "CBI says "sloppy" environmental laws are costing industry £4 billion a year", *The Guardian*; and "Green laws cost business £4 billion", BBC News), thereby, undoubtedly, worrying Ministers and MPs.

But whilst the press release quotes the CBI Deputy Director talking about "sloppy laws that are implemented poorly and enforced in an ill-considered fashion", the report itself is actually very balanced and accepts that "UK business has incurred relatively low direct costs associated with regulatory compliance", whilst recognizing that "rigorous enforcement is desirable to ensure proper protection of the environment".

It went on to acknowledge that "compliance with environmental regulation can generate other benefits to business. These include direct cost savings through operational efficiency gains, as well as wider benefits such as improved public health which in turn can help reduce employee absence".

And, in line with EIC's thinking and experience, the CBI report states that a "lack of coherence between the range of government policies on the environment has hampered the development of this [environmental technology] sector".

It was a huge shock to hear the CBI's Director General tell the Committee (on 19 January 2005) that sectors might be hurt by environmental laws and therefore "disappear" yet admit (on two separate occasions) that he did NOT actually know of any companies that had relocated away from the UK as a result of our environmental laws.

EIC could, in stark contrast, furnish the names of many air pollution control companies that have gone out of business because of weak air pollution regulation.

The worst example of how the "DeRegulation Lobby" damaged the UK's environmental technology industry concerns VOC emissions. In 1994 an array of industries lobbied hard to get the Department of the Environment to postpone the implementation of controls on the emissions of VOCS from some 3,500 factories. They failed to persuade the Commons Environment Committee, who dismissed, as unfounded, their claim that many British manufacturers would leave the UK.

However, in Cabinet the DTI prevailed and the original implementation deadline was postponed from 1995 to 1998—this destroyed the business and investment plans of many small British air pollution control companies—but not their competitors from Germany and the USA, where regulations had already created a home market on which to survive and then export—to the UK.

Another prime example of scaremongering arose in September 2004 at a meeting of The All-Party Parliamentary Manufacturing Group on the subject of climate change and the new Emissions Trading Scheme. The speaker from the glass industry stated that the burden of environmental laws was now raising the risk of the UK's only major glass manufacturing moving production overseas—yet minutes later he stated that two major international glassmakers were about to invest in production facilities in the UK, but they would not be investing without their City lawyers briefing them on the UK's environmental regulatory regime!

Governments' own expert reports are revealing, concluding that competitiveness concerns are overstated and that benefits greatly outweigh costs.

Defra's recent (December 2004) report, "An Evaluation of the Air Quality Strategy" contains two profound lessons. First, that the benefits are huge, with, for example, an annual reduction of 4,225 deaths brought forward and an annual reduction of up to 116,971 life years lost. That is a lot of extra life!

Total benefits (over the evaluation period of 1990–2001) were estimated as being as much as £18,370 million.

Secondly, and most pertinently, in terms of EIC's argument that costs are usually exaggerated. The real (ex poste) costs were £3,000 million—compared to original (ex ante) estimates that they would be as high as £22,807 million. That is sevenfold OVERestimation!

Another example is The Carbon Trust's 2004 report on the EU's Emissions Trading Scheme, which concluded that the scheme "will not damage the competitiveness of British industry, with virtually all sectors able to maintain profits, provided that the scheme is implemented in equivalent ways across the EU".

EIC's advice to polluting industries is that of the World Bank's "Competitiveness and Environmental Standards" paper: "Instead of lobbying for protection, industries struggling with environmental spending should lobby for better environmental policies—that is, policies and standards that encourage efficient abatement. Demands for protection are likely to be counterproductive and to retard adjustment toward a new way of competing".

There is a further issue—the costs on "non-environment", the costs of inaction. The European Parliament's Environment Committee has recommended (in 1993) that a thorough study should be conducted detailing the environmental, health and economic costs of inaction. They pointed out that such a study in the 1980 provided the intellectual underpinning for the Single European Market, and were convinced that a similar study would prove to politicians and the public that Europe needs to do more to protect its environment.

Interestingly, the idea has resurfaced. In April 2004 OECD Environment Ministers called for a study to quantify the costs of not meeting environmental challenges.

6. How RIAs Are Failing

6.1 *The Practice in Whitehall*

The astonishing fact is that NOT ONE RIA has ever included an assessment of the impact on the UK's environmental technology industry.

Some of the most blatant failures include:

— Partial Regulatory Impact Assessment of the WEEE Directive. Published by the DTI in March 2003.

This RIA does not cover significant factors which may reduce the costs of implementing the Directive and fails to properly assess the economic benefits the Directive will bring. This leads to the RIA estimating the costs to be in region of 100 times the benefits!

Furthermore, there is no attempt in the RIA to assess the benefits to providers of recovery and recycling technologies from the WEEE Directive who will see a greatly increased market for their technologies and services. Furthermore those countries that develop a successful WEEE recycling industry in their home market will also benefit from the export opportunities abroad. The UK has little or no presence in the (growing) market for recycling technologies.

— Partial RIA of Future Emission Limits for Non-Road Mobile Machinery. Published by the DfT in March 2003.

This RIA does not quantify the savings to society from reduced health and other costs, nor does it mention the market opportunities created by the new regulators for suppliers of environmental technology—such as after-treatment equipment. The UK has a strong market position in this area and is therefore well placed to exploit these both at home and in export markets abroad.

— RIA of Large Combustion Plant Directive. Published by DEFRA in June 2003.

As with other RIAs, the benefits to the UK's environmental technology industry and the benefits from resource efficiency and innovation are not considered. The UK has little or no presence in the (growing) market for power station air filtration equipment.

These are just a few examples.

There are other problems with current RIAs.

Firstly, it is unclear to what extent cost figures from polluting industry are subjected to independent assessment to prove that they are sound.

Way back in 1993 a Department of the Environment "Compliance Cost Assessment" (as RIAs were called in the 1990s) on an EC chemicals testing proposal stated that "the Chemical Industries Association has estimated that the total cost to industry lies in the region of £50–70 million. But using the data supplied by the industry, DoE has been unable to replicate this total".

And a 1994 study for the Department of the Environment concluded that the cost of VOC abatement was £54 a ton—not £1,400–1,500 as claimed by the UK Petroleum Industries Association.

Secondly, there are few examples of Government economists revisiting the figures in light of experience to see how the original (ex ante) cost figures actually work out in reality ex poste).

There are now positive signs that DEFRA are tackling this issue. The independent experts who researched its recent report, "An Evaluation of the Air Quality Strategy" found that , the real (ex poste) costs were £3,000 million—compared to original (ex ante) estimates that they would be as high as £22,807 million.

6.2 *EIC's Campaign to Improve RIAs—Hitting a Brick Wall?*

EIC and the environmental technology industry embrace the Government's Better Regulation agenda. What causes serious concern for our industry is the inadequate way in which the Government's policy on RIAs is implemented in practice.

The problem seems to lie with economists in the Cabinet Office and DTI.

DEFRA economists are now making efforts to produce more thorough RIAs that actually assess the impact on the UK's environmental technology industry (and have convened the first ever "stakeholder meeting" with companies that may gain extra business from the proposed changes to the EU's Groundwater Directive).

As DTI conducts many RIAs relating to industry and the environment (none of which have assessed the impact on our industry), EIC met (in March 2004) with DTI economists—the results were confusing and disappointing.

Notes of the meeting (prepared by DTI) stated that "because policies can have displacement effects within the economy, potential gains to, say, sectors supplying additional goods/services to those directly affected by the proposal are NOT included in the net cost and benefit to the UK as whole . . . where net indirect/ spill-over benefits to the wider economy can be identified, these SHOULD be included in the RIA".

EIC's disagreement (and indeed confusion) was noted and "it was agreed that this was a matter for the Cabinet Office/Treasury rather than DTI. . .if the EIC wished to pursue the exclusion of benefits to the environmental industry then they needed to raise it with the Cabinet Office/Treasury."

The DTI Notes also recognised that "it also emerged that the wording in the Cabinet Office guidance on the distributional impacts on business sectors could be seen as ambiguous".

EIC has been facing an even more confusing position with Cabinet Office economists. They told us in a November 2004 meeting that the financial boost to the UK's environmental technology industry is NOT relevant to RIAs (despite stating that RIAs are not an economic analysis but an "impact" assessment). They did, subsequently say that they would raise our concerns when they meet The Treasury to discuss evaluation issues generally.

This was all very confusing, but when we asked for a written explanation we were told that was not possible and that we should simply look at The Treasury's Green Book and the Cabinet Office Guidance on RIAs.

So what do the official documents say?

Most peoples reading of them would suggest the impact on the UK's environmental technology industry IS relevant to an RIA.

The Cabinet Office's "Better Policy Making: A Guide to Regulatory Impact Assessment, Cabinet Office" states that: "The purpose of cost-benefit analysis is to determine if expected benefits are sufficient to justify the associated costs . . . the document should consider all costs and benefits including those on consumers, society and the environment."

And, as regards "Economic impacts" it asks: will the proposal be likely to result in new technologies?"

Further detailed guidance is provided in The Treasury's "Green Book", which states, generally that: "In principle, appraisals should take account of ALL benefits to the UK. This means that as well as taking into account the direct effects of interventions, the wider effects on other areas of the economy should also be considered. . .In all cases, these wider effects should be clearly described and considered."

In the light of this official guidance how can the impacts on the UK's environmental technology industry be ignored?

DEFRA economists believe that such Treasury/Cabinet Office guidance embraces impacts on the environmental technology industry and DTI and Cabinet Office economists do not—BUT it is clear to EIC that Ministers and senior policymakers DO want to know what these impacts are.

Way back in 1996 the Environment Minister James Clappison wrote to EIC stating that "I recognize the economic and employment advantages of having a strong domestic environmental technology industry. We need to look for ways of reflecting in our analysis the economic effects on that sector of our environmental measures."

More recently, Secretary of State Margaret Beckett told the All-Party Parliamentary Environment Group in November 2002 that RIAs should assess such impacts, and she reiterated this at EIC's National Industry Conference in November 2004 when she said: "as you know, benefits are often more difficult to quantify than costs, and not everybody has the same interest in quantifying them as perhaps you [the environmental technology industry] and I do; but I do therefore ask you, challenge you if you like, to help us weigh the benefits more clearly in the scales".

And at a meeting between leading EIC member companies and the then DTI Minister Stephen Timms MP, he indicated support for our case. And in a reply to a follow-up letter to Mr Timms we were told that "we [DTI] would welcome any help you can give us in the future in obtaining the data required to make an assessment of the impacts on the environmental technology and services industry".

Secretary of State Patricia Hewitt's Special Adviser told EIC that "clearly RIAs should fully and accurately reflect ALL benefits, otherwise you get only half the picture".

Nobody in favour of intelligent policymaking could argue with that, surely?

With the full facts on the table, Ministers could then perform their role of balancing the needs and responsibilities of different sectors of society.

The Government's initiatives on Better Regulation and RIAs reflect a growing (now almost overwhelming) concern about redtape and the "burden of regulation". EIC does not dissent from this.

The 2004 Pre-Budget Report argues that the Government will take a lead on regulatory reform, and emphasises that "overburdensome regulation poses a significant cost on business". Amongst a number of deregulatory proposals, it proposes a feasibility study of a "one in, one out" model of "compensatory deregulatory and simplification measures".

This is a sound policy ONLY IF the full range of costs and benefits have been properly assessed in the first place—and in the environmental arena, they NEVER have been.

The Pre-Budget Report also states that it wants "effective implementation of competitiveness testing to ensure that the implications of proposals for business and the wider European economy are fully taken into account".

EIC fully recognises the need to consider competitiveness impacts—but the environmental technology sector is an industry whose competitiveness is totally disregarded—why are polluting industries considered and our industry overlooked?

7. Solutions/The Way Forward

7.1 *Improving Regulatory Impact Assessments*

EIC believes that the evidence is that RIAs, as currently conducted, are providing an incomplete assessment of all relevant impacts and thereby undermining the Government's objective of "evidence based policymaking".

EIC, therefore, suggests a number of improvements in both the UK and Brussels:

Recommendation 1: RIAs should take into account the benefits to the UK's environmental technology industry of environmental protection measures.

Recommendation 2: RIAs should take full account of the economic benefits of high environmental standards to the UK health services through reduced health costs and to the health of the workforce.

Recommendation 3: RIAs should take into account the economic benefits of high environmental standards to third party industries such as tourism, agriculture, and forestry.

Recommendation 4: RIAs should seek to assess the costs savings to mainstream industry from resource productivity and innovation (that high environmental standards have been shown to drive).

Recommendation 5: Independent studies should assess the ex poste costs and benefits in the light of the experience of implementing the new environmental protection standard.

Recommendation 6: Independent studies should assess the costs on "non-environment", detailing the environmental, health and economic costs of inaction.

7.2 *Measures to Help Industry Move To Sustainability*

Whilst it may be perceived to beyond the remit of the current EAC Inquiry, EIC would like to draw attention to a range of policy measures that exist (in part) in the UK and overseas to help industry move to a sustainability and thus create, in the words of the Dutch EU Presidency, a "clean, clever and competitive" European economy.

The UK (and Brussels) need to focus on making environmental and economic/industrial policies mutually reinforcing. The debate needs to move beyond "Environment V Competitiveness" to "Environment AND Competitiveness", recognising that environmental quality is crucial to both competitiveness and our quality of life and that environmental policy is a transitional measure that will boost the UK (and EU's) long-term competitiveness.

Helpful policy measures that would assist this transition to an internationally competitive eco-efficient economy include:

— clearly defined regulatory timetables that tie in with an industy's investment cycle;

— investment incentives (such as the Treasury's Enhanced Capital Allowances—first proposed by EIC back in 1995); and

— adequate levels of support for R&D and innovation.

24 January 2005

Witnesses: **Mr Adrian Wilkes,** Chairman, EIC, **Mr Merlin Hyman,** Director, EIC, **Ms Karen Aitchison,** Commercial Director, Enviros, EIC member and **Mr Robert Evans,** Public Affairs Manager, Johnson Matthey, EIC member, examined.

Q19 Chairman: Good afternoon, welcome to the Environmental Audit Committee. I think you have sat in on some of our evidence sessions and certainly Mr Hyman has been a regular attendee over the years, but I think this is the first time that you have actually given evidence, is it not?
Mr Wilkes: It is, yes.

Q20 Chairman: Would you like, just for the record, to tell us a little bit briefly about the Environmental Industries Commission, its work and the nature of your members?
Mr Wilkes: Gladly. Firstly, thank you for inviting us to talk on this important issue. The Environmental Industries Commission (or EIC as I will call it) was set up 10 years ago because it was becoming very clear that there was an exciting new industry growing up in this country and worldwide and that is the environmental technology and associated services industry. It was growing up as the world and this country started to take policy measures to improve the environment and it was creating a demand for pollution control technologies and the relevant associated services. This industry absolutely lives by what Government does in terms of environmental protection policy measures, whether that is strict regulation, tax incentives, green taxes or indeed voluntary agreements with industry. So this industry actually needed to talk to Government. So we were set up to provide a conduit between our industry and Government. Our industry comprises quite a wide range of suppliers of technologies to combat, firstly, but in no particular order, air pollution from large industry or indeed small car paint-spraying facilities—for instance, local authorities regulate some 18,500 factories and the Agency currently regulates something like 2,000 under the IPC, and that will be extended under the IPPC option—water pollution control technology companies, land remediation—the clean-up of dirty land—marine pollution control, onshore oil spill control, climate change technologies and transport pollution control technologies. We have one of our leading members here today from Johnson Matthey, a company you may well know of, and I draw attention to Johnson Matthey not only as a world leader but probably the biggest company in our industry, and there are not many large companies in our industry, it is important to make the point that they are all very small.

Q21 Chairman: So the majority of your 250 member companies are small companies?
Mr Wilkes: Yes, they are.

Q22 Chairman: How small?
Mr Wilkes: The majority have a turnover of under £10 million. That is down to a number of factors, regrettably one of which is that in the Seventies and Eighties and until John Gummer and then Labour ministers got into power we were lagging behind the leaders in terms of environmental protection, particularly Germany and America, which created home markets for those industries.

Q23 Chairman: Can you just pause there? You said something at the very beginning which I thought was very interesting, that essentially you are entirely a Government-dependent industry and that without Government intervention, regulation and so on you would not exist. This is an odd thing to say, is it not, because it implies that your products bring no additional benefit to the people who buy them. In other words, that in a completely free market nobody would bother with them.
Mr Wilkes: The problem is—and I think this is a challenge for policy-makers and ministers and the country as a whole—that actually the environment—water, beaches or whatever—has been a free resource to industry, in particular manufacturing industry, and of course indirectly their consumers. It has been free to pollute for a couple of hundred years, so if there is no price put on pollution there is no driver to actually limit it. That is one part of the answer to your question, and the other is to actually admit that companies—and you will hear from one of our members, Karen, a little later, she is an expert in the whole area of advising companies on resource productivity and waste minimisation—can indeed by looking at their individual resource productivity and process efficiencies make huge savings that will boost their competitiveness. The reality of life is that if you look at the waste minimisation schemes that DTI and the Department of the Environment have been promoting for 10 years or more, they are not widely taken up, certainly not in terms of the number of companies across industry that could employ those waste minimisation techniques. Prior to that, of course, we had the Government pushing energy efficiency—very relevant in terms of your inquiry into climate change—and it was startling last week

when I heard you question Digby Jones that there was actually no discussion about the fact that climate change is a result of excessive use of energy.

Q24 Chairman: There were a number of startling outcomes to our discussion with Digby Jones last week, and they will no doubt be reflected in our later report. Can we focus in on Regulatory Impact Assessments, of which you are particularly critical? You say that at the moment they fail to take proper account of economic benefits which may arise from regulation; is there any evidence that you have that the inadequacies of the RIAs are leading to weaker policies or weaker regulation?

Mr Wilkes: The first general comment to make is that they are sustaining this mood of concern which reaches up to 10 Downing Street and 11 Downing Street, equally over in Brussels where there is a new group of Commissioners concerned about the competitiveness agenda. This general atmosphere is that actually environmental protection undermines industrial competitiveness, but from our point of view it should not be seen as a conflict and you should be aiming for policies that ensure that we achieve environmental protection and industrial competitiveness. In terms of specific RIAs, maybe I should bring Robert in, because when I met him outside he was just going through one. May I bring Robert in?

Q25 Chairman: Of course you may, yes.

Mr Evans: As the Transport Working Group we supply products and services in three areas: we supply technologies for both new and existing vehicles, we supply cleaner fuels and fuel additives and consultancy services. At the moment we are struggling because one of the policy mechanisms that supported our sector, that of transport energy and grant funding incentives, has been taken away, and reliance is therefore placed greatly on what regulation will deliver, and this Government is looking particularly at what regulations on new vehicles can deliver to help meet very challenging air quality targets that we have. We have just recently been issued with a copy of the Regulatory Impact Assessment for those Euro standards—this will be Euro 5 Standards for Passenger Cars coming in in 2010. It is a laudable document, it is a very thorough document and it is very, very helpful for industry as we look to spend our development money by understanding where Government sees priorities, but it does not meet the recommendations that we make, it is missing all six recommendation areas and it does not include the benefits to the environmental industries sector, it does not take into account the full benefit of health costs. For example, in the annexe it does not include chronic mortality health effects on children—that it does not include health effects on children is hard to believe. We will write to you on this, but it also does not value a whole range of environmental things.

Q26 Chairman: That would be very helpful, thank you.

Mr Evans: Effectively, how this is interpreted, it is missing all of these various factors, it is underplaying the costs on the environmental side. Consequently, when the minister makes his decision he may be aware of those, he may be aware of the assumptions behind it, but at the end of the day his decision will be political and it will relate to him only having part of the information.

Q27 Chairman: The question I put was whether this is actually leading to weaker regulation. Let me turn it round and ask you are you in fact arguing for tougher regulation of industry?

Mr Wilkes: I will answer that very important question in just one second, but Merlin knows a lot about the RIA that was done on the Waste in Electronics Directive.

Mr Hyman: Yes, this is an RIA done back in 2003 of the WEEE Directive when it was still going through debate in the EU—increasingly RIAs are done early and the idea is that they are done earlier in the policy process to inform debate within the EU by the UK. That calculates the cost to be 100 times the benefits and I think it clearly misses out a whole range of environmental benefits from reducing landfill and it does not take into account the impacts on our industry either. There are a number of failings which we responded to in the consultation. The UK was a leading player in trying to water down and weaken the WEEE Directive—that was the position of the UK Government negotiating the WEEE Directive—and I remember bumping into a Foreign Office official in reception there and he was saying that we had won on the WEEE Directive, on the debate, we had got the point we wanted. What he meant by that was that he had successfully lowered some of the standards that are other countries in Europe were pushing for on that directive. That was a specific example where the figures, 100 times the cost, were reverberating through the system and influencing the UK's negotiating position. Just to give a flip side, recently a very good Impact Assessment was done on the PRO4 programme which I know this Committee has done an inquiry into by the Environment Agency where they made a number of proposals of measures that should be funded under that; they did an excellent impact assessment—it still did not include benefits to our industry, but on the other issues it was probably the leading piece of environmental economics done in the country. That I think gave Margaret Beckett the ammunition to stand up within Cabinet and say to Mr Blair and Mr Brown, who were concerned, inevitably, about the political impact of rising water costs, we have got some really hard figures that stack up on the costs and benefits. So there is a flip side where a better-done RIA can have a real impact.

Mr Wilkes: In terms of the way you flipped the question, I think that as a country we need to be considering where industrial competitiveness and environmental protection are going, and I refer immediately to the Dutch Government's concept of a clean, clever and competitive European industrial base. If one assumes that the whole world as it gets richer in the first place, and the citizens of the world as they get richer, are going to require higher standards in terms of quality of life and environmental protection, then standards are going to rise. The question is then which countries are going to supply the technologies and services to meet that demand. Traditionally, the leading countries have been Germany, Japan and America, because they created through regulation and other policy measures in the early Seventies and Eighties, a home market from which they export. That is in terms of quality of life. Secondly, in terms of where is the future of industry and industrial competitiveness going, I will bring Karen in after this if I may, with your permission. She is an expert in advising what I would call loosely 'polluting industry'. If one assumes that resource efficiency is going to become a big issue in the future, if we assume that we are going to have to be incredibly careful about energy use, if we assume that raw material prices will be going up—look at the price of oil and mining companies' share prices have been rocketing over the past year or two—resources are becoming more scarce, inevitably if the whole world is consuming more, demanding more. The question then will be is our industrial base eco-efficient? Because that is what we perceive the future is going to demand of any country's industrial base. We need a country with a strong manufacturing base which is alert to that future challenge.

Q28 Chairman: All I asked was whether you are arguing for tougher regulations?
Mr Wilkes: We get accused of being self-interested and in a way we are self-interested.

Q29 Chairman: I was coming to that.
Mr Wilkes: We are self-interested, like any other lobby group, like the CBI—with no disrespect to them of course. Our industry, on the other hand, is an industry that has been ignored in this whole process of deciding on what is best for the country in terms of competitiveness and environmental protection. So that is our main thing, we want to be at the table. Secondly, we would argue that actually if you take an intelligent look into the future, the future is eco-efficient economies and environmental technology industries. Maybe Karen could come in here.
Ms Aitchison: I may be able to help answer your question about tougher regulation or higher environmental standards. To give you an example of where we are seeing the success of that it would be Integrated Pollution Prevention and Control regime that was entered into in 2000. The Environment Agency recently carried out a study on the effectiveness of that regime on resource efficiency, and what they found is that the companies who are newly regulated, i.e. prior to coming under PPC they have never been regulated through industrial empowerments or whatever, the improvements there have been dramatic in terms of their resource efficiency. The reason behind that is that there has not been really sufficient awareness on their part before because they have not been regulated by the Environment Agency. Resource efficiency is also being driven by competition and that is forcing companies to make cost savings, but it is also being caused by legislation such as the Landfill Directive. What the Environment Agency has found is that those sectors which are showing growth in the reduction of waste disposal, are solely attributed to improved resource efficiency. I think that does indicate that setting high environmental standards can promote that.
Chairman: Thank you. Greg Barker.

Q30 Gregory Barker: Can I pick up a point Mr Wilkes made; you said you see a great future for eco-industries. Do you mean industries or do you mean services? Is it all consultancies and services, paper-pushers?
Mr Wilkes: Fortunately it is not in this country, we have a fair bit of manufacturing of actual technologies—membrane technologies to put on water treatment works, filtration systems to put on factory chimneys and power station chimneys.

Q31 Gregory Barker: Of your members how many are actually in the creative sector? I do not mean to disparage people in the service industry, but you know the point I am making.
Mr Wilkes: Actually, I would say that 60 to 70% of our members make kit, technologies. On the other hand it is fair to say that the most profitable bits of our industry are consultants because they are the people who are called in in the first place. We have been going through what I call an eco industrial revolution over the last decade or so, and as industry starts to get to grips with the challenges of environmental protection and eco-efficiency, the first people they bring in are the consultants. A final point on self-interest and the quest for high standards—and certainly we hear this thrown at us within Whitehall quite a lot—is that what we are actually calling for is for ministers to make decisions in the public interest. What we are saying is that they are being misinformed because they are only getting part of the evidence, they are not getting sufficient evidence because RIAs fail to look at the benefits to our industry and the benefits to public health, to occupational health, the indirect costs on third party industries, the insurance industry, the tourism and agriculture industries. Ministers are therefore unable to make an intelligent decision because they are only given half the picture. That is our case. Ultimately, ministers may decide that actually a standard is too damaging to British industry, mainstream manufacturing industry. We are not out to destroy manufacturing industry, they are our customer base, but we are out to destroy the scaremongers in polluting industries who have captured the debate and distorted an intelligent discussion.

Q32 Chairman: It must be hard though, you presumably accept, to quantify any impact on, say, tourism. It is not easy to pin down, is it?
Mr Wilkes: No, it is not. If we had been having this discussion five years ago we would have probably complained quite a lot about the fact that

economists in Government failed to calculate the impacts of environmental improvements, but they have made a lot of headway on that and it is not one of our main criticisms or recommendations. We are in an area where economists are having to rethink and relearn their methodology, so they are in transit. I take your point that it is a complicated area, but even if they could not actually come up with a figure, at least put it in front of the minister to say there will be some impact. I remember 10 years ago when I first started looking at RIAs they were then called—with all respect to the chairman of this Committee and the last Government—compliance cost assessments, and that was where they were focused, they were focused on the costs and there was very little work done on the benefits. That is slowly changing and I would have thought that intelligent, evidence-based policy making should incorporate the whole range.

Q33 Mr Chaytor: You are critical therefore of the inadequacy of the economics of these Regulatory Impact Assessments.
Mr Wilkes: Yes, but it is more the methodology. The economists who are hired by the Department have not traditionally been asked to put a figure on our industry or on the impact on the tourist industry, that is the problem, not the directive.

Q34 Mr Chaytor: Would it not be the case that some of the people who are carrying out these RIAs are consultants who are members of your organisation?
Mr Wilkes: Indeed, and I have a fascinating one that has just come out from DEFRA by one of our leading members, AEA Technology, which actually—going back to the issue of costs and exaggerations—shows that the costs of the national air quality strategy have been £3 billion whereas originally they were predicted at being £22 billion.

Q35 Mr Chaytor: So it has come down by £19 billion. Over what period of time?
Mr Wilkes: The costs were originally calculated, I think, about six or seven years ago, but I would have to come back to you on that.

Q36 Mr Chaytor: To put it in a more aggressive way, is the ball not in your court really as the relevant trade association to establish models of good practice for conducting these RIAs and having some system of licensing or registration whereby consultancies have to comply with the code of practice. Somebody somewhere must have a model of good practice.
Mr Wilkes: Absolutely.

Q37 Mr Chaytor: So there is an opportunity for you to take the lead on this one.
Mr Wilkes: That is the second challenge, absolutely. The first challenge is for ministers, and they have indicated—and our evidence is clear from people like Margaret Beckett and I think if she were here she would endorse our case—the problem is that civil servants are not requiring consultants in the first place to do this. I cannot understand why because I have looked at and members look at the guidance in the Treasury's Green Book, and we do not understand why. The first thing we need is a clear political message and that is why we welcome this Committee looking at this question and we hope that you will send a clear political message to essentially civil servants saying RIAs should cover these issues. Then, certainly, our industry and our consultants would come in and help on that.
Mr Hyman: A lot of them are done internally by officials; probably less than half are done by consultants.

Q38 Mr Chaytor: But the best part of 50% is done by external resources and there is no code of practice for consultants carry out RIAs. The example that Robert mentioned of the failure to include health costs in terms of the assessment of the Euro 5 standard for engines, that is a fairly basic issue to exclude from any assessment of motor vehicles I would have thought.
Mr Hyman: The code of practice is provided by the Cabinet Office who have a fairly detailed Better Regulation guide.

Q39 Mr Chaytor: Does that include a code of practice for Regulatory Impact Assessments?
Mr Hyman: It is a guide about Regulatory Impact Assessments.

Q40 Mr Chaytor: Have you been engaging with the Cabinet Office about their guide?
Mr Hyman: Yes.

Q41 Mr Chaytor: What kind of response have you got?
Mr Wilkes: Not a very helpful one to be honest. We seem to be going round in circles. We did detail at length in our evidence the discussions we have had with DEFRA, DTI and Cabinet Office economists. DEFRA have I think bought into this and recognise that there is a need for improvement. DTI in our meeting last year indicated that we should go and talk to the Cabinet Office, and when we talked to the Cabinet Office they said "We do not agree with your case and we are not putting that in writing. If you want anything, look through the Green Book." The Treasury do not actually have a unit of economists that cover how this is all done, so there is some guidance in theory and we would, in interpreting it, argue that it embraces all the issues that we would like to see embraced within it, but in practice it is not happening.
Mr Hyman: That is on the impacts on our industry, but we did respond to the consultation draft of the Cabinet Office guidance back at the beginning of 2003 and they did toughen up within that the guidance on all the other benefits, the benefits to the tourism industry, the health industry and although we might like to see it more in bold, it is all in there.
Mr Wilkes: It is in there but it is not put into practice.

Q42 Mr Chaytor: This is the document you have written to us.

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Mr Wilkes: Yes, it is, and it states the names of these documents.

Q43 Mr Chaytor: In these issues are there often examples of academics beavering away in certain universities who are particular experts? Are there any universities are pre-eminent in this field of eco-economic analysis that you would recommend?
Mr Hyman: The leading person over the years has been David Pearce who wrote some of those books back in the Nineties on a blueprint for a green economy.
Mr Wilkes: If you would like us to come back we can ask some of our members—

Q44 Mr Chaytor: It would be useful information if any work is being done in university departments at the moment. Can we just move on from the RIA question and ask about businesses' general approach to environmental regulation. What do you think of the approach that mainstream businesses or mainstream business organisations take to this in terms of the figures that they come up with? Are you content with the methodology they use there?
Mr Wilkes: Absolutely not. It is interesting that you have got Green Alliance coming because they published a fascinating book about a year ago called *The Private Lives of Public Affairs* which puts together a convincing argument that trade associations put forward to Government when they are lobbying Government, which is the lowest possible argument and the fact that it ignores very often companies who have been very progressive when it comes to environmental, resource productivity and innovation. We are very concerned generally that certain organisations such as, dare I say, the CBI do try to scare ministers and policy-makers with startling figures. In 2003 there was a headline in various papers entitled "[The EU Directive on Environmental Liability] the final nail in the coffin of British manufacturing". In it there was a figure of £1.8 billion a year as the cost of this directive on British industry; Lord Whitty told the House of Lords a few months ago that the maximum cost would be £52 million per year, so that is an exaggeration of three hundredfold or something. If you talk to WWF in Europe who produced a report called "Cry Wolf" they found a fascinating quote from the American Chemistry Council which was spending $50 million lobbying around the Reach Directive. That is a lot of money. One of their tactics is to "Conduct and publicise an economic impact study to dramatise the potentially devastating impacts to industry and consumers", and our written evidence contains a number of examples, and we can provide many more, and the WWF report has got many. I would come back to this recent DEFRA report: the original costs of our air quality strategy were put at £22 billion and they turned out to be £3 billion. The benefits to health and the environment—I do not really understand that there are no benefits to our industry—have come to £18 billion. So we have £3 billion of costs and £18 billion benefits.

Q45 Mr Chaytor: This is an imprecise science.
Mr Wilkes: Yes, but from industries that are having to clean up there is always imprecision in their favour to scare you guys.

Q46 Mr Challen: Can we return to this subject of the Cabinet Office and RIAs? Obviously, you have had discussions with Cabinet Office officials and reading the written evidence they said that they would raise your concerns when they met with the Treasury. Did anything come of that?
Mr Wilkes: Not yet. We met with them in November, they sent us an e-mail saying that they were actually going to move on this in the last few weeks, and I suspect that it was because this Committee announced in December that it was looking into this issue. They are also blessed with a kind of trouble-shooter who has come in from outside industry to the Cabinet Office to look at issues of regulatory barriers to industries and he is helping our industry in various areas. He is planning to pull together a meeting of DTI, the Treasury, the Cabinet Office and DEFRA economists, so we are hoping that some progress will be made. I think a clear signal from this Committee would be incredibly helpful and powerful.[1]

Q47 Mr Challen: Have you had any direct discussions with the Treasury?
Mr Wilkes: They do not actually have a unit that covers Regulatory Impact Assessments. We have been in touch with the head of their environment tax team.

Q48 Mr Challen: It sounds to me slightly Kafkaesque, you are going through these various doors but the final door is always shut, even if you know it is there. I am wondering whether the economists, who are no doubt both internal and external people hired in—they look to the Treasury presumably for their real guidance. Is that your impression?
Mr Wilkes: Yes.

Q49 Mr Challen: It is not something that they are responsible to the Cabinet Office for. I am just wondering if they actually get the message that you are trying to get across, whether they have had that message and have never projected it, or whether they got it in the first place.
Mr Wilkes: I think they would have got it very clearly because we have been pushing this message for several years and there have been letters to various ministers. I know that civil servants are very good at passing memoranda of meetings around, so I think they have got the message, but we seem to have hit a brick wall for some reason.

Q50 Mr Challen: You have mentioned ministers in the written submission and they obviously must take responsibility. Are you aware of any discussions they might have had in three ministers forum, for

[1] This answer was amended by Mr Wilkes in his answer to Q 64.

example, which I know are not public meetings, but might send out signals that would make up joined-up Government?
Mr Wilkes: I am afraid on this I do not know anything. I cannot explain it, it is baffling. It has been baffling me for a year or more. I am sorry I cannot be more helpful.

Q51 Mr Challen: That is alright. Can I ask Mr Evans, obviously you are probably in a very good position to assess the impacts of UK policies on competitiveness of environmental technology and the environmental services industry. Do you think the Government is doing enough on this subject, putting aside for one moment the question that we have been focusing on there?
Mr Evans: I think the answer is that it could do more, it certainly could more. We feel at the moment that Government is listening—it did an awful lot in the first term, but the message coming over in the second term is that it wants to reduce the burden on industry and therefore is less keen to promote environmental initiatives that it feels are going to be in any way a burden on industry. That is the feeling that we have and that is borne out by the evidence we see of policy development.

Q52 Mr Challen: Are there any examples of things that might have been considered but then fell foul of that kind of approach?
Mr Evans: The evidence that we see is a moving away from the Government providing policy measures such as incentives for the environmental industry sector to get their products out to the consumers in the public and private sector who wish to involve themselves in environmental initiatives and a falling back on pure regulation as the tool, hence the concern over the Regulatory Impact Assessments because if that is all you rely on and then you do not present the full case for the environmental, it becomes very problematic. So that is as we see it at the moment and we see that directly in policies such as transport and energy.

Q53 Mr Challen: As you know, we had the CBI here last week and they clearly feel that what they describe as "excessive" regulation—I am not quite sure what they mean by excessive—harms British competitiveness. As a multinational company is that the view that you might take?
Mr Evans: No, we are a company that benefits from the innovation that regulation can promote. There are tougher regulations on vehicle exhaust emissions in other parts of the world such as California, so it is not as though the European market is disadvantaged because other markets have tougher regulations. We have a situation whereby regulations could be an opportunity to promote innovation and we see that as particularly beneficial for our sector and we have a track record of delivering lower cost solutions to our consumers: cars are so much better, so much bigger than they ever were and without a significant increase in cost.

Q54 Mr Challen: We tend to think of and concentrate on big directly environmentally-enhancing products or services, but are there spin-offs as well which in themselves might have been borne out of this regulatory drive but then become independent from the original focus?
Mr Evans: I think it is in employment probably. I will hand over to Adrian but I will just make one point on the employment side. If you look at the motor industry, for example, the jobs involved in the environmental control of emissions are high value jobs, both on our side but also on the side of the people who work within the industry, and those are the kind of high value jobs that you want to have rather than metal bending or bashing jobs which could be conducted anywhere else in the world. Consequently, if there was not a regulatory push there would not be those people within the motor industry, it would all gravitate back to a single research centre somewhere in the States or somewhere in Germany and the UK would lose out.
Mr Wilkes: If you do not mind I would suggest that Karen, who is the real expert in this area, could actually add to that.
Ms Aitchison: In terms of opening up the market for opportunity and innovation, there are some examples of those kinds of opportunities. Certainly within our consultancy we are looking at significant cost savings in energy and utility bills and yet it is still a hard sell for us. We are working with major multinational companies who on average we are helping save five to twelve% of their utility bills, helping them to achieve higher green targets and gain significant rebates, but it is still very difficult because industry is reluctant to put out that cost. So what we are saying is that it is through very negligible costs that you are actually bringing about these massive savings. I would say that in my view there is still a very reactive rather than proactive approach, certainly in my industry, and I think as Robert mentioned at least we have got the fallback of having high environmental standards imposed through regulation, otherwise I think in the case of self-regulation companies would remain in general quite complacent.

Q55 Mr Challen: How well placed do you think we are in this country to exploit this great market in environmental products and services? Are we getting ahead of the crowd or are we falling behind?
Ms Aitchison: I think the current estimate is that we have around about five% of the market share which is valued at something like £500 billion.

Q56 Mr Challen: Million or billion?
Mr Wilkes: The total market is currently valued at about £515 billion worldwide.

Q57 Chairman: I thought that was dollars not pounds.
Mr Wilkes: Dollars, that is right.
Ms Aitchison: Clearly, therefore, we can up the ante there.

Q58 Gregory Barker: Where is that market?
Mr Wilkes: Primarily of course in North America, Europe—

Q59 Gregory Barker: Do you know what percentage is in North America?
Mr Wilkes: Of that market I think it is about 20%.

Q60 Gregory Barker: Pro rata to the world economy it is not that huge.
Mr Hyman: It is similar to the aerospace or pharmaceutical industries.

Q61 Chairman: Does it include things like cleaning up nuclear waste?
Mr Wilkes: I think the Dutch Government is about the only Government that actually collect hard figures, so if you went to the official statisticians you would not get a figure for the precise size of this industry. It ought to embrace nuclear clean-up, yes.
Mr Hyman: It is worth saying that the last DTI report quoted in terms of our share of the world market 4.7%, and I think they concluded we were falling behind our main competitors.
Mr Wilkes: In Europe.

Q62 Chairman: We are falling behind.
Mr Wilkes: In terms of trade surpluses, yes. We have got a bit better in terms of our market share worldwide, but that report particularly highlighted that our competitors France and Germany are moving faster in terms of grabbing world market share.

Q63 Mr Challen: Yet our perception is that these are countries, perhaps, which do not go and pledge regulations in quite the same way as we do in the UK, so there is some curious mismatch there.
Mr Wilkes: Would you like us to comment on the whole issue of gold-plating?

Q64 Chairman: I do not think we have time, I am sorry. If you want to send us a note on gold-plating that would be helpful.
Mr Wilkes: I was unduly unkind to the Treasury officials. I have now found the date of their e-mail where they said they would convene a meeting, it was November 18. It is now two months on and we actually have not heard anything further. We met them on 9 November and then they sent us an e-mail nine days later saying they would talk to the Treasury. I said it came after the announcement of this Committee, but I was being unduly harsh.

Q65 Mr Challen: Lastly, Digby Jones told us that he could not think of any companies that had left this country because of environmental regulations, but could it not be that some companies may choose not to relocate here or set up here because they think that we have too many regulations?
Mr Wilkes: I will let Karen come in, but I will just make a general comment: where is the evidence? This is what we are getting at; maybe everything we believe and argue is wrong but let us have the evidence in front of the ministers. All these scare stories come up—I mean, I was absolutely shocked, I have to say, that last week we heard there were no companies that the CBI could name that had left this country. That is unbelievable, that an organisation with their research facilities can be scaring politicians and not being able to back it up. Let us have the facts; maybe that is right, maybe companies are not investing here, but it is very interesting that at the Parliamentary Manufacturing Group meeting on the European Emissions Trading Scheme in September a spokesman for the glass industry said "Our major manufacturer [I think he meant Pilkington's] is thinking of leaving because of the extra costs of environmental measures, particularly the Emissions Trading Scheme." Later on, under questioning from me, he acknowledged that there were two major international companies, not British companies, in glass-making who were going to invest in this country.

Q66 Mr Challen: Some of your members must be members also of the CBI.
Mr Wilkes: We have never done that analysis. Possibly.
Mr Challen: I will not pursue that.

Q67 Chairman: I imagine Johnson Matthey is a member of the CBI.
Mr Evans: I would have to check, but I do not believe we are.
Mr Wilkes: Karen had one other comment to make in response to your question.
Ms Aitchison: My training is that I am a solicitor but I have moved into environmental consultancy from private practice; in my time in my private practice I have seen occasions where North Americans who have been seeking to invest in this country have been put off because of the lack of environmental regulation that they perceive this country to have, and they have come in and demanded very strong contractual protection from the UK seller before they would take on board the potential or perceived liability associated with the company they were buying.

Q68 Mr Challen: That is very interesting, thank you.
Mr Wilkes: Did you want to comment on this issue?
Mr Evans: Only to say that where you have a market for environmental technology you are getting international competitors coming into that market. We have seen that in the UK with the very competitive position with our major rivals from North America and Germany coming into this market when there have been schemes or when there has been the basis of those markets, as we saw with the measures that John Prescott and other initiated in terms of greener vehicles for the public sector. We saw a lot of technology providers coming into the UK market in order to supply that, so when there is a market the environmental industry sector is very agile.
Mr Wilkes: I think it really goes back to what I was saying earlier about looking to the future. If we slow down in this country and lag behind the leaders in terms of environmental protection, then what we

will do when we decide to catch up—and this is basically what we have been doing over the last five or 10 years, there has been a lot of environmental protection policy implemented to correct inadequacies in terms of under-protection in the Seventies and Eighties. What we then do is we import the technology because other countries have led the way. Look at the fridges debacle, if I can put it that way—sorry Michael Meacher, not that I believe for a moment that it was his fault actually, despite some criticism in that direction—we are buying German fridge recycling technologies.
Chairman: Okay. Greg Barker.

Q69 Gregory Barker: Thank you, chairman. Progress in Government in implementing the resource productivity agenda has been very slow. Would you like to comment on its effectiveness and how it could be made more effective, and I am thinking particularly in terms of saving money through greater resource efficiency and innovation. Some quick, sharp suggestions would be appreciated as to how implementation of Government policy could be more effective.
Ms Aitchison: That is an interesting one. Regulation is obviously a key driver, but I think that voluntary initiatives and tax incentives are some of the various tools that seem to encourage industry to respond. I am a great believer in having the underpinning regulation.

Q70 Gregory Barker: Why do you think progress has been slow?
Ms Aitchison: I think there has had to be catch-up. Through the involvement with Europe there has been an awful lot of legislation to do with the thing and there has been a huge flurry of activity. We have had a very radical piece of legislation in the form of the PPC regulations and we implemented the contaminated land regime in the last four years. There is only so much that we can deal with, if you like, so people are becoming more and more sophisticated—
Gregory Barker: Dealing with contaminated land—I am not quite sure why that stops you promoting greater resource productivity.

Q71 Chairman: I think you may not have heard Mr Barker's original question which was about resource productivity.
Mr Wilkes: Just while Karen is getting her thoughts together—

Q72 Gregory Barker: I am talking about saving money through greater resource efficiency and innovation.
Ms Aitchison: Why it has not taken off?

Q73 Gregory Barker: Yes, that is across the industry. Dealing with contaminated land affects certain people a great deal and a lot of people not at all.
Mr Wilkes: It will affect all the IPPC regulated factories, so that is the largest factories, because they have to consider it as part of their permitting process. I think what Karen was saying is that because we have been catching up over the last five to seven years—
Ms Aitchison: There has perhaps not been as much of a focus on the resource aspect.

Q74 Gregory Barker: What do you think we need to do now, set targets? Sector initiatives? What?
Ms Aitchison: I think we are beginning to see a lot more focus on innovation and we are seeing the regulators leading the way on that. I think we have to get a mixture of both regulation and initiatives, voluntary incentives—

Q75 Gregory Barker: But is there anything specific? That is a commentary on what is happening, I am asking you for your recommendations as to specifically what Government should be doing.
Mr Hyman: One clear set of policies is getting the prices right and how they then drive people. That is about the environmental tax reform agenda and moving taxes onto the bad use of resources and away from labour. There have been a number of tax initiatives put in place: the Landfill Tax which was introduced some time ago has had a significant impact but Government now is starting to drive that up at £3.00 per tonne a year. We have argued and a number of other people have argued that that should go up.

Q76 Gregory Barker: How will that create greater efficiency?
Mr Hyman: What the Landfill Tax does is it says your waste is starting to cost you more money, and companies start to look at it and they think why am I paying for throwing this away, I had to buy it in the first place, and then they start to think a bit. So of those kinds of measures the Landfill Tax is probably the best exemplar at the moment. There have been a lot of heavyweight thoughts come out of Government—the Performance and Innovation Unit produced a report back in 2001. What struck me out of all of those is that—there is a sustainable consumption and production strategy coming out of DEFRA at the moment—I am not sure that the parts of Government pushing all that have really managed to get the Treasury involved, because the Treasury has a lot of the levers to drive these things that come under their control.
Mr Evans: I think in answer to the question you asked about why it has taken such a length of time to get started, one of the important points to note is that, as has been mentioned, there is a set of regulations that have come primarily from Brussels because the UK was behind. Those regulations have empowered people within the companies, within the environmental health and safety area, and a second phase has come in which we saw a lot of in the first term, the use of economic instruments to then build a differential benefit for resource efficiency. So first of all you have to empower someone to have power in their organisation to be able to do something within their organisation, and then you give them

additional measures in terms of grants and support, particularly in the area of carbon emissions. Low carbon transport has had differential taxation.

Q77 Gregory Barker: So you are happy with where we are?
Mr Wilkes: No.

Q78 Gregory Barker: It sounded more like a justification of where we are.
Mr Wilkes: One radical idea—and I am speaking more as an individual who has been concerned with environmental issues for 20 years or more—is that when the environmental management audit scheme directive was first drafted by officials in Brussels in the mid-Eighties they proposed making waste minimisation or eco-efficient audits mandatory across industry. Of course, industry then went and lobbied very heavily, saying oh no, more red tape, we do not need to do this, we do it anyway, but in fact industry is not doing anything and that is a prime example of where the Government stick can actually help as much as a carrot, because if you go and talk to the officials who have been responsible for driving the message of waste minimisation—it boosts your profits, energy efficiency boosts your profits—they keep hitting a brick wall, you get five or 10% of industry interested and the rest are not interested because it does not get up to board level. Even the CBI recognise in one of their reports that environmental costs are about one to two% turnover, so why pay real attention to that at board level?
Gregory Barker: Thank you.

Q79 Chairman: Thank you very much indeed. I think that pretty well wraps it up; we may have some further questions for you and there are a couple of things to follow up anyway. May I just ask you, before you leave, Mr Wilkes, we know that you are the chairman of this organisation.
Mr Wilkes: Yes.

Q80 Chairman: Is that a full-time job or do you have a business of your own in the sector?
Mr Wilkes: I used to run a small public affairs consultancy called Environmental Policy Consultants, but I basically ran that down to set up EIC which was quite an investment of time and money back in the mid-1990s. In a way I am a consultant in the sector, but now I am a part-time chairman and Merlin is the full-time director.
Chairman: Thank you very much indeed, all of you.

Supplementary memorandum submitted by the Environmental Industries Commission

1. *[Q27] To what extent has the UK Government specifically sought to weaken EU regulations or directives? What specific examples would EIC cite? (Please provide details in each case of the manner in which regulations were weakened.)*

The conclusions of Regulatory Impact Assessments on the net benefit of proposed new EU legislation play an increasingly important part in Ministers' decision making on the UK position in negotiations.

We consider, therefore, that an RIA which overestimates costs, or underplays benefits will have an effect on UK negotiating in the EU.

It is difficult, however, to relate the conclusions of a UK RIA to specific clauses of EU legislation which are agreed following negotiations between all Members States, the Commission and MEPs.

One example where the UK negotiating position was to weaken requirements was the WEEE Directive. The RIA published by the DTI in March 2003 estimates the costs to be in the region of 100 times the benefits. This would clearly have had an influence on Ministerial decision making on the UK negotiating position.

The current initial RIA of the proposed new EU emission standards for light duty vehicles (see attached EIC response to the RIA, annex 1) provides an example of where, if the RIA is not improved, Ministers will be presented with overestimates of the cost figures and underestimations of the benefits.

2. *[Q63-64] Please provide written comments on the issue of gold plating.*

EIC believes the UK should look much more closely at the most economically advantageous way of implementing EU environmental policy measures. At present the view is simply that it must not be "gold-plated". This tends to mean we do the least possible thing at the last possible minute, with key detailed guidance coming out, at best, close to the wire.

By taking a more proactive approach to implementation Government can enhance competitiveness in three ways:

(a) Innovation: it is widely accepted the earlier it is clear to business exactly what it has to achieve (in terms of environmental outcome), the more a regulation will encourage innovation.

(b) Environmental Technologies: early implementation of new environmental policies can give a first mover advantage in developing solutions to UK environmental technology and services providers.

An example where the UK has looked for first mover advantage is in Emissions Trading by setting up a UK scheme first. This approach was endorsed by a National Audit Office report.

An example of a major Directive currently being implemented is the Water Framework Directive. This will create demand for, inter alia: diffuse monitoring technologies; membranes to remove organics and nutrients from sewage; and technologies to deal with VOCs and PCBs. Those countries who start implementing the "programme of measures" required under the Directive earliest will get first mover advantage in these areas.

However the recent Periodic Review of water prices explicitly ruled out investments which are specifically towards meeting the requirements of the Water Framework Directive.

(c) Implementation of Further Measures: there will be cases were a proper cost-benefit analysis will show that setting higher environmental standards than the minimum in an EU Directive will be economically beneficial. Currently it is assumed anything more than the minimum would be negative for the economy.

The consultations on implementing the Water Framework Directive, for example, simply stated that the additional measures listed in the Directive were gold-plating, rather than analysing their cost benefit.

3. *[Q69ff] On resource productivity, does the EIC have a view on whether meaningful resource productivity targets could be set at a national level or for particular industry sectors, and whether this would be beneficial in terms of stimulating the market for environmental technologies?*

Please see attached EIC paper on Resource Efficiency (annex 2).

4. *[Q25] Please provide further written information on the deficiencies in the Euro 5 Standards for Passenger Cars RIA.*

Please see attached EIC response to the initial RIA of proposed new Euro standards for light duty vehicles

5. *[Q35] Please provide some more details on the Air Quality Assessment and the original forecasts of compliance costs.*

The Defra report "An Evaluation of the Air Quality Strategy" published in December 2004 provides extensive details. It concludes:

> "It has often been suggested that in 'ex ante' studies, costs are systematically overestimated and the benefits underestimated. The analysis here, summarised in the table above, provides evidence to back this up for the two sectors considered [electricity and transport]. The analysis of individual ex ante and ex post costs has shown that in most cases, ex ante costs were over-estimates. In many cases, these over-estimates were very significant. Note this also leads us to the conclusion that legislation itself acts as a spur to research and innovation."

For more detail see www.defra.gov.uk/environment/airquality/strategy/evaluation/pdf/exec-summary.pdf

6. *[Q43] EIC agreed to let the Committee know of any academic experts it was aware of in relation to RIAs and the evaluation of environmental impacts.*

RIA itself is too applied for most academics. However there are many academics looking at whether and to what extent environmental effects can be monetised.

High profile and well respected ones include David Pearce (UCL); Nick Hanley (Stirling); Kerry Turner (UEA); Ken Willis (University of Newcastle); Anil Markandya (World Bank / Bath University).

7. *[Q61] Please provide more details of the DTI report alluded to [and any other relevant reports] in relation to the UK share of the world market for environmental technologies.*

The two key reports are "Global Environmental Markets and the UK Environmental Industry: Opportunities to 2010" published by the DTI/Defra Joint Environmental Markets Unit in 2002 and "Mapping The UK Environmental Goods and Services Sector: The Environmental Industry Unit's Analysis of the Sector in 2004 in conjunction with the English RDAs and Devolved Administrations".

Both of these can be obtained from the DTI/Defra Environmental Industries Unit.

8. *[Q67] Could the EIC could confirm whether or not Johnson Matthey is also a member of the CBI?*

Johnson Matthey is not a member of the CBI.

Annex 1

Chris Parkin
Cleaner Fuels and Vehicles Division
Department for Transport

Dear Chris,

Re: Initial Regulatory Impact Assessment Issue 1a-29/10/04 on Emissions Standards for New Light Duty "Vehicles"

Thank you for the opportunity to comment on the initial Regulatory Impact Assessment (RIA) concerning the forthcoming proposal for a European Directive concerning emissions standards for new light duty vehicles (Euro 5).

The Transport Working Group of the Environmental Industries Commission (EIC) contains a number of companies actively involved in developing emissions control solutions for light and heavy duty vehicles, both for retrofitting to current in-service vehicles and for use on new vehicles to help meet emissions legislation.

The TransportEnergy Programmes administered by the Energy Savings Trust have, for the last several years, been an important tool in the effort to achieve air quality targets under the EU First Air Quality Daughter Directive. The funding for these programmes has recently been cut. Given that the rationale for this decision lay, in part, in the Department's commitment to the use of emissions standards for new vehicles to help meet air quality objectives, EIC Members are particularly keen to see that the Department supports demanding emission standards. We believe that a rigorous cost benefit analysis will show the net benefit of high standards.

The initial RIA is very detailed and thorough document and in many respects it represents a good example of current practice in the implementation of RIAs across Government Departments. However, EIC Members are concerned that the conclusions and future action presented are conservative, do not fully represent the severity of the environmental problems identified in the report and believe that the RIA would benefit greatly from additional analysis in line with the recommendations in EIC's recent "Position Paper on Regulatory Impact Assessments".

Our recommendations and rationale follow, whilst additional feedback on detailed aspects of the report are also included for your information.

Yours sincerely,

Robert Evans, Chair
EIC Transport Pollution Control Working Group

Recommendation 1: A complete RIA should take into account the benefits to the UK's environmental technology industry of environmental protection measures.

The RIA notes that "medium size businesses are likely to supply the technology to deliver the emissions control necessary and a proposal could therefore be a positive advantage for these bodies." However, it does not quantify these benefits, or offset them against the costs it reports for the UK motor industry.

In recent testimony to the House of Commons Environment Audit Committee, Treasury officials accompanying the Economic Secretary to the Treasury clarified that RIAs must look at the "net impact over the entire economy", and that diversions from one industry sector to another that is less polluting or has greater export potential should be regarded as positive.

Recommendation 2: A complete RIA should take full account of the economic benefits of high environmental standards to the UK's health services through reduced health costs and to the health of the workforce.

The RIA focuses on particulate matter (PM) and oxides of nitrogen (NOx) as the two pollutants forecast not to meet UK air quality targets. It includes a quantification of health costs but has some specific exclusions that currently detract from the RIA. These exclusions include:

- Chronic mortality health effects from PM10 on children[2]
- Chronic morbidity health effects from PM10[2]
- Morbidity and mortality health effects from chronic (long-term) exposure to ozone[2]

It is also disappointing that the cost values for NO_x do NOT include ozone formation and effects and it is not clear as to how many of the health costs of ozone and NO_2 have been modelled.

Transboundary effects are also excluded for the RIA. This represents another notable omission. Exposure of the population to NO_x, PM and ozone pollution is a continuing source of concern for environmental and health reasons. The UK is not the only country in the European Union (EU) where the EU's binding targets for these pollutants will be exceeded.

There is also concern about the rising levels of tropospheric backgrouind ozone. The importance of this is that there will be a time in the mid-term future when the background level by itself will exceed levels currently considered to be health thresholds. The principal driver for this will be NO_x emissions and early action on the major sources, including vehicles will be the most cost effective response.

Road transport is the main or a major contributor to the totals of these pollutants, within which the light-duty vehicles sector (cars and vans) is a major contributor. Consequently, the benefits of tougher regulations will be seen both in improvements in local and national (via transboundary) pollution levels.

Recent trends in the vehicle parc include a more rapid than expected growth in light duty diesel and in the heavy passenger car, particularly Sports Utility Vehicles (SUVs). These tend to exacerbate the problems with PM and, especially NO_x.

Further work on health costs needs to be undertaken in further iterations of this RIA.

It should be noted that whilst the environmental modelling used in the report is credible, it is based on a number of assumptions and historic data that are no longer correct and which have a significant effect on the severity of the predicted outcome and, therefore, measures required to combat the effects. Specifically, it uses out-of-date forecasts for diesel penetration. This is critical because the population of diesels in the fleet is growing rapidly with high rates of diesel penetration at Euro III and IV. This is particularly critical given that diesels are currently much higher polluters (for PM and NO_x) than petrol equivalents. To underestimate diesel penetration is to underestimate the health costs from PM, NO_2 and ozone.

Recommendation 3: A complete RIA must take into account the economic benefits of high environmental standards to third party industries such as tourism, agriculture, and forestry.

The NO_x modelling assumptions do not take into account values for the effect of ozone formation, or non-ozone effects on the ecosystem.

Key exclusions include the effects of pollutant on:

— [3]ecosystems (acidification, eutrophication, etc)[4]

— [3]cultural or historic buildings[4]

— [3]change in visibility (visual range)[4]

— [3]effects of ozone on materials, particularly rubber[4] [5]

— [3]non-ozone effects on agriculture[4]

Recommendation 4: A complete RIA needs to make clear that innovation can have a substantial downward impact on costs of meeting high environmental standards.

The scenarios modelled all assume costs are zero or higher. EIC believes that maintaining NO_x limits for petrol cars at the current 80 mg/km would in fact result in negative costs, recognising the motor and emissions management industries' continual drive for resource productivity and innovation, directed both at performance improvement and cost reduction.

Many motor manufacturers were able to move directly from Euro II to Euro IV for petrol cars, clearly illustrating the cost effectiveness of Euro IV compared with Euro III, as early as 2000. It is inconceivable that the cost of Euro IV technology will not be driven down further over the next decade, just as it is inconceivable not to seek lower emissions from such a large segment of the vehicle fleet between 2000 and 2015.

The RIA notes (page 21) that "the potential for tightening the diesel NO_x limit to levels as envisaged in Scenarios C (ie 50% to 125 mg/km) may be feasible by 2010 and one manufacturer maintains that it is; other manufacturers, however, question this." EIC members join the manufacturer in believing that 50% reduction in NO_x emissions from diesel passenger cars is feasible and believe this kind of target is required to drive innovation.

Developments in cleaner diesels will occur to some extent due to competitive forces and the wish by some companies to pursue the sale of diesel engines into the US market where emission regulations for diesels are already much more severe than those proposed for the future in Europe. However, in order to encourage development and to ensure European industry continues to be competitive in the global diesel engine market, clear requirements need to be set for low diesel NO_x emissions in Europe.

EIC believes the report is generally too pessimistic as to the capability of future NO_x control technologies and uses current cost estimates. For all previous European emission legislation the predicted costs have always been too high and the technology capability has always performed better than expected.

Conclusions

EIC believes the RIA is very conservative and doesn't fully address the challenge of improving air quality such that everyone in the UK can breathe healthy air.

The RIA concludes (page 11) that the reductions in pollutant emissions "would not be fully realised until some time after the new standards are introduced and would not help attainment of air quality objectives in 2010. This is because only new vehicles will be required to meet the tighter standards and it will therefore take some years for these vehicles to permeate the fleet." The RIA continues by noting that the scenarios modelled are insufficient to ensure air quality targets will be met by 2020.

There is already a significant "latent" problem for the UK in not achieving national and EU 2005 and 2010 air quality targets, not helped by the Department for Transport's decision to cut grant funding support for TransportEnergy programmes. To set out to fail to achieve air quality targets out as far as 2020 shows a lamentable lack of ambition.

The EIC believes that more aggressive scenarios should be modelled, especially for ultra low petrol NO_x emissions, in order to try to reach air quality targets.

EIC believes the RIA underplays the economic benefits of emissions standards for the environmental industries sector.

There are a number of UK-based companies with world-leading expertise in low emission vehicle technology, both within the environmental industries sector and additionally with the motor industry. The RIA doesn't quantify the economic benefits to these industry sectors.

EIC believes the RIA underplays the cost to the environment and health associated with not meeting tougher emissions standards.

For diesel cars the RIA modelling is based on out of date figures for diesel penetration and does not fully quantify a number of environmental consequences associated with NO_x and PM emissions and additionally excludes other harmful pollutant emissions (carbon monoxide and hydrocarbons) from the cost-benefit analysis.

EIC believes the RIA overstates the difficulties and costs to the motor industry of implementing the proposed emissions legislation.

Petrol

The RIA concludes that "we are still considering whether tighter petrol NO_x limits are feasible and would deliver cost effective, real world emissions savings."

For petrol cars, the RIA analysis should better recognise the capabilities of lambda 1 gasoline engines for exceeding Euro IV NO_x levels at very low additional cost and to realise these benefits during real driving.

For lean burn (PDI) cars the RIA argues that low NO_x levels aren't achievable when there is strong evidence to conclude that they are.

Diesels

Diesel cars are currently allowed to be higher emitters than equivalent petrol equivalents (250 mg/km versus 80 mg/km NO_x) and this gap needs to be closed in order to improve air quality but not by holding petrol standards stationary.

The EIC rejects the RIA recommendation of "a 20% tightening of diesel NO_x limits as an interim position." This is a very conservative position, consistent with the RIA's very pessimistic assessment of the capability of future NO_x control technologies, despite evidence from the motor industry arguing to the contrary. It is also disappointing that the report favours the use of current cost estimates rather than anticipating cost savings potential.

EIC believes the cost effectiveness of fitting diesel particulate filters is clear and welcomes the modelling of scenarios that focus on low PM emissions consistent with fitting diesel particulate filters.

For all previous European emission legislation the predicted costs have always been too high and the technology capability has always performed better than expected. Realisation of these new technologies does, however, require a strong direction from legislation to enable the levels of innovation and development required from industry.

EIC believes the RIA underestimates the importance of legislation as a driver for innovation.

The RIA's weak conclusions regarding reductions in diesel NO_x emissions do not provide a clear enough direction for European companies to invest in engine development and design and integration of emissions control devices. Without a clear lead from the legislators the need to meet tough US levels will dominate development programmes in companies trying to sell diesel engines into the US market while other companies will develop products purely for market competitiveness, rather than emissions. A clear indication that low NO_x diesel engines will be required is needed to promote development to achieving this goal.

DETAILED FEEDBACK

Petrol Emissions Control

EIC is disappointed that three of the four scenarios modelled (A, C and E) do not require a reduction in petrol NO_x emissions. This runs counter to the evidence of air quality problems associated with NO2. It is also a concern that scenario H combines a reduction in petrol NO_x emissions with the most challenging scenario modelled for diesel emissions control. EIC believes petrol NO_x emissions is the most cost effective means of reducing vehicle emissions and therefore the benefits of reductions in petrol emissions should be modelled in scenarios C and E.

Lambda 1 Petrol

Three way catalysts with lambda 1 engines and control systems are the most developed form of mobile source emission control.

The report mentions real world operating conditions. Current VCA data shows both a significant number of gasoline cars being certified at emission levels significantly lower than Euro IV requirements. Recent data presented by the Association of Emissiions Control by Catalyst (AECC) indicates that these vehicles continue to be low emitters over more transient cycles such as those developed in the Artemis programme. This is in direct contrast to diesel vehicles using EGR to meet NO_x emission requirements where vehicle emissions are very test cycle specific. In our view there is little, or no doubt that further limit reductions in NO_x from this sector would result in real world emission savings and that this is the most proven, and cost effective method currently available to help reduce road transport NO_x emissions.

Petrol Direct Injection

EIC does not agree with the RIA's assertion that "for petrol direct injection (PDI) vehicles the NO_x limits would probably be difficult or impossible to achieve." For NO_x, current experience shows that with the latest generation engines and emission control Euro IV petrol levels are achievable, with the appropriate safety margin. It is reasonable to assume that with a further period of development further NO_x reductions would be possible.

These vehicles run lean at speeds up to around 90 kph and are essentially equivalent to lambda 1 vehicles for gaseous emissions at higher speeds. When operating under lean conditions, our experience with current engines indicates that these vehicles may have difficulty meeting more stringent hydrocarbon limits due to high engine out levels and relatively lower exhaust temperature, compared with lambda 1 engines. These engines, especially in lambda 1 form, are currently under development at all major European motor manufacturers and we might expect some progress in decreasing engine emission levels to be achieved in the next few years. The development of the lambda 1 form of these engines is due to the increase power available from direct injection allowing either "sports" type vehicles, or, increased fuel economy through use of a smaller PDI engine to replace a conventional (lambda 1) petrol engine with the same power output. Due to the absence of tax incentives for CO_2 emissions over the drive cycle through most of Europe and little customer benefit obtained by running lean at low speeds, vehicles with lean running calibrations are only in limited development. Keeping both Euro V hydrocarbon and carbon monoxide levels equivalent to Euro IV for petrol vehicles would encourage lean PDI vehicle development.

Particulate emissions from PDI engines in the lambda 1 mode are essentially equivalent to conventional petrol engines. When running lean we have measured values between 14 and 4 mg/km with the current particulate mass method. This would appear to present a difficulty in meeting a 2.5 to 5 mg/km standard, but a number of factors should be taken into account. Firstly, that the range of values measured from current lean vehicles, and the different composition of the particulates between engines, suggests that differing combustion technologies give different results, for example air guided or wall guided spray systems, side or top mounted injectors. Secondly, in the lower particulate emitting engines the particulates have a relatively high VOC fraction that may decrease the value when using the Particulate Measurement Protocol (PMP) mass measurement method. The PMP method also typically returns a lower mass value than the current method. Further developments of these engines may allow power particulate levels to be achieved.

DIESEL EMISSIONS CONTROL

EIC welcomes the RIA's conclusions in favour of stringent controls on PM emissions but additionally believes that low diesel NO_x emissions are achievable.

Certification data suggests that small and medium diesel vehicles can, today, meet a NO_x emission value of around 150mg/km, at a competitive CO_2 level. Further developments in injection technology, some Homogeneous Charge Compression Ignition (HCCI) operation and trade-off associated with fitment of a particulate filter indicate NO_x emissions approaching 100mg/km are not unreasonable for a number of vehicle types by 2010. This leaves only a small requirement for post combustion emission control through hydrocarbon SCR, NO_x traps, urea Selective Catalytic Reduction (SCR) or some other form of NO_x emission control to meet a 80mg/km NO_x emission. While these technologies are currently in the development stage, this low level of conversion will be available by 2010 if development is encouraged and at a low risk if the system fails. Also, if NO_x sensors are fitted, emission control malfunctions will be easily detected. Then by 2015 technology will have been developed with operating experience enabling robust systems to be used to decrease diesel NO_x emissions further through post combustion emission control, perhaps enabling further benefits in fuel economy through engine calibration. With this in mind we feel the case for NO_x abatement is understated and the difficulties overestimated. EIC members also feel that the use of catalytic after-treatment for emissions control would result in additional benefits by ironing out the real-world variability in the diesel NO_x emissions clearly illustrated when testing current diesels on the artemis, as compared with the current MVEG test cycle.

Annex 2

DRIVING RESOURCE EFFICIENCY

1. INTRODUCTION

1.1 *The Policy Background*

In May 1999, the UK Government published *A better quality of life, a strategy for sustainable development for the UK*. This set the aim of meeting four objectives at the same time:

— social progress which recognises the needs of everyone;

— effective protection of the environment;

— prudent use of natural resources; and

— maintenance of high and stable levels of economic growth and employment.

Key to any hope of reconciling these objectives is major improvements in the efficiency with which we use resources.

There are initiatives at global, EU and UK level to improve the efficiency of resource use. At a global level the World Summit for Sustainable Development (WSSD) held in Johannesburg in 2002 agreed that countries should start work on sustainable consumption and production strategies.

At an EU level eco-efficiency is seen as an important key part of the EU's core Lisbon strategy and the Dutch Presidency has led the start of an initiative on a "Clean Clever Competitive Europe" to promote eco-efficient innovations.

In the UK the Government published in September 2003 "Changing Patterns: UK Government Framework for Sustainable Consumption and Production".

Whatever the terminology, there is clearly widespread agreement on the objective—we must gain more economic benefit from less environmental/resource input.

1.2 *The Environmental Industries Commission (EIC)*

EIC was launched in 1995 to give the environmental technology and services industry a strong and effective voice with Government.

With some 240 Member companies EIC has grown to be the largest trade association in Europe for the environmental technology and services industry. It enjoys the support of leading politicians from all three major parties, industrialists, trade union leaders, environmentalists and academics.

EIC Members in the environmental consultancy sector led the way in the 1990s on pioneering projects on waste minimisation. This started with the famous Aire Calder project which concluded that when a polluting company expertly examines its process efficiency "the financial case for adopting a philosophy of waste minimisation is so overwhelming that companies should need little further encouragement to save money and the environment".

2. Opportunity for Resource Efficiency

There is a great deal of evidence of the opportunities for resource efficiency—and the benefits it can bring to businesses. Just a few examples include:

In 1998 the book "Factor Four: Doubling Wealth, Halving Resource Use" detailed many case studies of businesses cutting the amount of resources they used whilst increasing profits.

In the UK the Government funded Envirowise best practice progamme has helped business save £800 million through resource efficiency.

And in April 2003 a study from the Environment Agency "The Benefits of Greener Business" concluded that £2–£3 billion is lost each year by manufactured industry in wasted natural resources—equivalent to about 7 per cent of total manufacturing industry profit.

3. Government Initiatives to Drive Resource Efficiency

There are already a number of legislative and fiscal drivers towards resource efficiency.

— Integrated Pollution Prevention and Control Directive.
— Packing Regulations.
— Producer responsibility requirements including packaging; WEEE, RoHS, ELVs.
— Landfill Tax (which increases the cost of waste).

There are also a number of Government-funded programmes attempting to drive resource-efficiency, many funded by the revenue raised from the Landfill Tax, for example:

— WRAP Waste Minimisation initiatives, with a focus on real nappies, home composting and retailer innovation in packaging and other goods and services.
— The National Resource and Waste Forum, Household Waste Prevention Toolkit for Local Action.
— Envirowise extended services for SMEs and support for regional business programmes, made possible through £12 million of Defra funding for 2005.
— Carbon Trust activities, including ActionEnergy support for business, climate change agreements and tax breaks (ECAs).
— The Constructing Excellence programme for the construction sector.
— The Market Transformation Programme initiative on product improvements and other product policy activities within Defra (eg ACCPE) and the Environment Agency.

However it is clear that improvements in resource efficiency are much slower than required to tackle challenges such as climate change and the every growing amounts of waste produced by society.

For example the Government's "Changing Patterns" report concluded that "In terms of energy required and waste produced, the UK is significantly less efficient than some of its key trading partners".

4. An Agenda for Driving Resource Efficiency

Making progress on this huge agenda requires not just one or two policies but a wide ranging strategy. As noted above there are many existing Government policies and initiatives in this area. However progress is slow and there is an urgent need for an acceleration of these policies.

4.1 *Indicators*

In order to be able to monitor the success of policy measures we need to be able to measure resource efficiency.

In 2001 the Prime Minister's Strategy Unit (then called Performance and Innovation Unit) produced a report on "Resource Productivity: Making More with Less" which called for indicators and indicative targets on resource productivity.

Alongside the "Changing Patterns" report the Government produced a consultation on indicators on sustainable consumption and production.

However there is still no framework for measuring progress towards resource efficiency.

Once such a framework is in place it is then possible to set targets for resource efficiency. EIC considers these would be more meaningful if done on a sectoral basis, rather than an overall target for the economy.

RECOMMENDATIONS: The Government should put in place a framework of indicators on resource efficiency, including indicators for each industrial sector.

The Government should introduce sectoral targets for resource efficiency to give industry clarity as to the ends Government wishes to achieve.

4.2 *IPPC Directive*

The EU IPPC regime puts obligations on regulated installations to use Best Available Techniques to minimise the environmental impacts of their process—this includes resource efficiency. By 2007 it will apply to some 5,000 installations in England and Wales.

A recent review by the EA of IPPC as a driver for resource efficiency measures recommended increasing the emphasis on resource efficiency in the licensing and inspection processes, through better staff training and improved guidance.

RECOMMENDATIONS: The Government should ask the European Commission to insure the IPPC Best Available Technique Reference documents (BREFs) drawn up in Seville benchmark resource use for each regulated sector.

The Government should require the Environment Agency to put a high priority on resource efficiency under IPPC—and to publish a regular report on the resource efficiency gains achieved.

4.3 *EMAS*

When the EU Eco-Management and Audit Scheme was first proposed MEPs called for a mandatory scheme which would have required companies to do eco-audits which would have identified resource efficiency opportunities. The voluntary scheme actually put in place has achieved very limited take up across the EU and improvements in resource efficiency have been patchy.

The current Dutch Government focus on eco-efficiency provides an opportunity to look again at mandatory mechanisms for pushing resource efficiency out beyond a relatively few business leaders.

RECOMMENDATION: The UK should press the EU to look again at ways of requiring larger companies to do audits of their resource use. One possible way of starting this would be to put greater focus on resource productivity under the IPPC Directive.

4.4 *Operating and Financial Review*

New changes to company law will require the largest public companies to publish an Operating and Financial Review.

Currently the draft Regulations leave this up to companies to decide if environmental issues are significant to the company and, should, therefore, be reported on.

RECOMMENDATION: The Government should require reporting on environmental issues in the Operating and Financial Review and include resource efficiency as one of the areas that must be reported on.

4.5 *Landfill Tax*

The scheduled increases in Landfill Tax are forcing companies to give increasing priority to waste reduction measures by increasing the cost of waste disposal. The Landfill Tax is set to increase by at least £3/tonne/year until it reaches £35/tonne. A faster rate of increase would be a more powerful driver for waste reduction as well as for the development and deployment of technologies that divert waste from landfill. It would also raise more revenue to recycle into schemes to encourage and support resource efficiency.

RECOMMENDATION: The Government should increase the Landfill Tax by £5 a tonne a year until it reaches £35 a tonne (when the impact of the rate should be reviewed).

4.6 *Support and Advice*

The Government funded Envirowise programme has already had considerable success in promoting resource efficiency. The scheme is an important complement to the stick approach of regulation and fiscal measures. The Government has recently announced an increase in funding as part of the recycling of Landfill Tax receipts. However to penetrate more than a small proportion of business the programme needs expanding further.

RECOMMENDATION: The Government should use the receipts from a faster increase in the Landfill Directive to increase funding to Envirowise.

4.7 *Tax Incentives*

The Enhanced Capital Allowance (ECA) Scheme to incentivise energy efficient technology has now been running for some time. EIC was instrumental in promoting the introduction of fiscal incentives for companies purchasing environmental technologies.

The Government has widened the scheme to water saving technologies and has announced it will consult on extending to waste minimisation and recycling technologies.

While the scheme has had some success, there are several problem areas: the incentive amounts, in monetary terms, to only about 7% of the cost of the product, which can be significantly higher than less efficient models. The chain of authority in purchasing decisions can by long and convoluted, and the procurement decision maker can be some distance from the person claiming tax credits. As it is based on a tax break, the ECA scheme holds no incentive for non-tax paying bodies, particularly the public sector, which is a major purchaser of energy-using equipment.

RECOMMENDATIONS: The Government should increase the allowance for the most environmental products to 150%. This will undoubtedly stimulate end users much more to insist on ECA listed equipment being used.

The Government should provide an Inland Revenue certificate to accompany sales of ECA registered equipment to be sent to the building owner in order to address the problem of information being transferred along the sales chain by simplifying the documentation required.

The Government should incorporate a requirement to use the ECA registered equipment (where relevant) into public procurement policies.

4.8 *Energy Efficiency Policy*

A key Government scheme to encourage energy efficiency is the Climate Change Levy and the associated Climate Change Agreements (CCAs) which set sector-by-sector targets for energy efficiency gains. EIC welcomed the announcement that the Agreements will be extended to other energy intensive sectors. However our Members consider the levels at which they are set is too weak.

The new EU Emissions Trading Scheme also has potential to drive energy efficiency. In this context it is extremely disappointing to see the weak National Allocation Plan which the UK is proposing.

RECOMMENDATIONS: The Government should tighten CCAs to provide a real driver towards energy efficiency

The Government should abandon efforts to submit a weakened National Allocation Plan to the European Commission.

4.9 *Innovation Policy*

Government puts significant levels of support into innovation by business—for example through the Technology Strategy. This gives it leverage to encourage innovation in resource efficiency.

RECOMMENDATION: The Government should require all projects applying for support under its Technology Strategy to demonstrate a contribution to resource efficiency and use this as part of its selection criteria.

4.10 *Public Procurement*

A wide range of Government and stakeholder reports have set out the huge potential of public procurement to play a leading role in sustainable development in general and resource efficiency in particular.

Government policy has responded slowly to this challenge. However in 2003 the Government published the "Report and Recommendations of the Sustainable Procurement Group" and followed this with a revised "Joint Note on Environmental Issues in Purchasing" and a list of "Quick Wins" issued by the Office of Government Commerce (OGC). There has also been a handbook developed by the European Commission to clarify EU rules in this area.

EIC, therefore, considers most of the required policy is in place. However the problem is with implementation which is still very patchy.

In particular our Members report that equipment purchased in PFI projects is still overwhelming specified on least capital cost rather than whole life costing.

RECOMMENDATION: The Government needs to give political momentum to integrating resource efficiency considerations into public procurement.

The Government should urgently undertake an audit of energy efficiency in recent PFI projects and issue clear instructions that all PFI projects must meet high resource efficiency standards in the future.

February 2005

Witnesses: **Mr Guy Thompson,** Director and **Ms Rebecca Willis,** Associate Director, Green Alliance examined.

Q81 Chairman: Good afternoon and welcome to you both. Thank you very much for coming and thanks also for the information you provided to the Committee. I notice that you have commissioned some consultancy work from PSI for the last Spending Review, in which you came up with some interesting thoughts on imagined additional spending that might be needed in some areas. This may be a silly question, but did the outcome of the Spending Review match your expectations?

Mr Thompson: It is not a silly question. You are absolutely right, Green Alliance played a role in convening a joint initiative with eight other environmental NGOs to assess the level of environmental spending we thought was required to meet Government targets under the exist public service agreements, and we commissioned the Policy Studies Institute to produce the report that you referred to. In terms of expectations, I think it is fair to say that our expectations were actually fairly low in the first place and the Treasury have perhaps done a fairly good job of managing our expectations given the broader context of the sort of fiscal outlook. Given those low expectations, I was pleasantly surprised by the outcome of SR 2004, I have to say. Our key demands coalesced around five key areas—high spend on waste and energy efficiency, for any reallocation of spending within DEFRA not to undermine the gains made for new spending on agriculture and rural development at the last spending round, for new targets on fisheries and marine sites and for DfT to be brought into the shared PSA targets for climate change and, fifthly, for the reallocation of transport spending. Certainly, three of those objectives were met and we were delighted by the 1.2 real growth increase given to DEFRA. We were fully expecting DEFRA's budget to be cut, so we thought that was not bad given the fiscal context. It is certainly also the case that DEFRA's spending bid contained a high emphasis on new money for waste and energy efficiency—not as much as we were asking for, but certainly an increase. We were also delighted that the DfT was brought into the climate change PSA, which we thought that was highly significant politically. On the down side we did not see any movement on fisheries or the marine environment and I am not best qualified to comment on the ins and outs of the DfT settlement, but I think it is fair to say that we did not see the reallocation of spending to meeting social and environmental objectives that some of the NGOs were calling for.

Q82 Chairman: So a mixed picture but a not altogether bleak one.

Mr Thompson: No, not entirely bleak. There was also the odd surprise; we focused our collaborative work largely on DEFRA and environmental spend in Government, but in terms of the sustainability picture across Government we saw, for example, the Department of Health given a new commitment on child obesity and a new PSA on child obesity. ODPM is now committed to new build at higher environmental and social standards, but to an extent that reflected the work that the Treasury put in to integrating sustainability to departmental spending bids. So there were one or two bonuses as far as we were concerned as well.

Q83 Chairman: Of course, making it happen in practice is the difficult bit.

Mr Thompson: Absolutely, that is the real challenge.

Q84 Chairman: We have a report on housing coming out quite soon, which will have something to say about the quality of building and what is really happening. It was also the case that for SR 2004 the Treasury did not require departments to submit separate Sustainable Development Reports on the grounds that sustainable development is so well bedded into the departments that these were no longer necessary. Do you think that is fair, true, accurate?

Mr Thompson: Again, I would give you a mixed response to that. It is true to say that they published the guidance that they were giving to the departments—I think they made a copy of that available to this Committee—and I think the process that they established over the last Spending Round certainly integrated some sustainability considerations into some of the departmental bids. But it is hard to say, it is impossible for us to judge given the fact that they were so reluctant to publish the outcomes, and we pushed them on that throughout the process. They seconded a person from English Nature into the Treasury and that secondment was certainly helpful to ensure that there was sustainability expertise residing in the environment team at the Treasury. I have got a slight concern that the learning that that secondment generated through the Spending Round will have dissipated now that that person has moved on, the continuity will not be there to flow over into the next Spending Round. So we really can only rely on anecdotal evidence which was that the Treasury team took the sustainability appraisal process very seriously and that this certainly resulted in the positive outcomes, like the DfT being brought into the shared climate change PSA for example. Too much, I think, rests at the end of the day on the political horse-trading that we see during the close of the settlements, towards the end of the process. Overall it would be extremely useful to have at least an overarching assessment published of the process and to what extent the Treasury feels that it met its aims.

Q85 Chairman: Your feeling is that some departments could clearly have done more.
Mr Thompson: Yes, the Department for Transport would be a case in point where I think it is fair to say it had to be dragged kicking and screaming into that shared PSA and it showed every sign of simply not understanding what it was being asked to do in terms of the sustainability obligations.
Ms Willis: One thing I would add is that when we look at the way the Treasury approached the Spending Round process there are still some people who think it is a nice little issue that you can parcel up and tackle as though that bit is environment, but if you look at something like waste, it is absolutely obvious that that is not the case. Our PSI research showed that it is actually pretty uncontroversial that you need to spend £1 billion a year extra on waste to get it right. The reason that the spend is so high is because things are going wrong at every stage of the chain beforehand in terms of the way the products are designed. I do not need to tell this Committee this, but that is the reason the waste ends up there and costs a billion pounds to deal with. What we are not seeing from the Treasury is any real push on getting departments like the DTI to think through what they could do in order not to have to spend that money further down the line, and I think at the moment that is a degree of sophistication too high for them.
Mr Thompson: I think it is fair to say that what we are seeing are barriers to integrating sustainable development that this Committee sees across Government in all of its inquiries in close focus. More work is needed to be done by Government if it is going to integrate sustainable development effectively through the spending process. That might include more emphasis on shared PSAs dual PSAs and perhaps looking at the budgetary arrangements, for example.

Q86 Chairman: There is a feeling around that the DTI in particular, having made a reasonable start a few years ago on sustainable policies, has actually been rowing backwards quite hard, would you share that view?
Mr Thompson: I think we are both desperate to answer that question.
Ms Willis: I was interested to hear the debate just now about resource productivity because resource productivity was our great hope four or five years ago as an issue that the DTI would be able to own and make real progress on. We have seen incredible foot-dragging and equivocation since then and I cannot quite decide if it is just a weakness of that bit of the DTI or whether it is purposeful obstruction. The fact is that we still do not any indicators, let alone targets, for resource productivity, although we were promised them four years ago; it is still the case that the bit of the DTI that deals with productivity thinks they are dealing with labour productivity, that is what their computer models are designed to show, and there is no attempt to put resource productivity in there. We have seen very little progress and this is something that we have taken up with DTI ministers in the intervening four years, but we have not seen any progress. So it is not surprising that the DTI continues to be a problem on later policies coming up like the Emissions Trading Directive, for example.
Chairman: Thank you. Colin Challen.

Q87 Mr Challen: There have been a number of reports of late, and I mention the DTI/Carbon Trust Renewables Innovation Review, which have suggested that the level of UK Government funding for environmental objectives is less than other developed countries like Germany or Japan. Given the scale of the problem, do you think that we should maybe be spending a lot more?
Mr Thompson: That is a hard question to answer actually. We had a crack through the PSI work at quantifying environmental spending across Government and we found it incredibly hard to do, and it is very hard to quantify what funding streams you are looking at when you talk about a high level of expenditure. I certainly think that there is a role for market incentives like the renewables obligation that can actually bring in investment that is not necessarily direct public investment. So we would not regard it necessarily as a straight numbers game in that sense, there are other measures and other ways of investing in the environmental. It is certainly fair to say that in overall expenditure terms DEFRA as a spending department is clearly small fry and in terms of the Treasury's approach environmental expenditure is on the periphery of its critical priorities. I guess the obvious contrast, just in respect of the previous conversation about the DTI, would be the level of investment and the scale of investment going into renewables, which as clearly been a high priority for the Government and has increased over the last couple of years, but is still peanuts when you compare it to the level of investment that goes into just propping up ongoing public liabilities associated with existing nuclear plant.

Q88 Mr Challen: Interestingly, yesterday, what I describe as the Byers' Report—which is the International Taskforce on Climate Change—called for a doubling of expenditure by 2010. I notice in your PSI report, just looking at the renewables, what you are saying is that we should spend £10 million extra a year on that. The BWEA had a report produced which suggested that £130 million or thereabouts should be spent on renewables and so on. The Government has actually provided £60 million over three years and you have £10 million a year, and this like a telephone directory, is it not? Is it a more refined science than that basically?
Mr Thompson: Part of the rationale for the work we commissioned from PSI was that it was more focused than a wish list. What we have tried to do

with the PSI report is assess what spending is required to meet, as I said, existing PSA targets, but in view of the step change that is required to meet, for example, the 2010 carbon reduction targets, one can accept that level of investment is still not sufficient and simply will not meet the kind of shortfall that we are likely to see at the moment in meeting that target.
Ms Willis: I also think that the reason the estimates are all over the place is because it depends where you start. If you only look at the spending then you are going to have to spend quite a lot, but to take an example, something that the Government is going to be more interested in is small-scale renewable energy, and the BWEA is supporting this. If all you did was to throw money at a problem it would be very expensive. If all you do is spend lots of money on solar panels and small scale wind projects, you are going to have to spend a huge amount of money, but if you use all the options at your disposal, if you look at the way that building regulations and planning regulations at the moment work against small-scale renewables and you try and make the policy environment a lot more conducive to small scale solutions, you will find actually that they are happening far more cheaply because it becomes in the developer's interest to put some kind of energy generation in the building because that way they do better through the planning system, for example. So there is a huge amount that can be done to bolster up that spending, it is not just a case of throwing money at it, I think.

Q89 Mr Challen: Following on from that, what do you make of the Treasury's view that the Government only has money to back winners; is that an impediment to actually getting more research and development money into the renewables sector?
Ms Willis: It is strange this aversion to picking winners because what they are actually doing with small-scale renewables at the moment is picking losers in that what they are saying is that they do not believe that small-scale generation is a cost-effective way to meet our renewables targets at the moment and they are therefore ruling it out. They see it as possible for the 2050 goal but not for the 2010 goal, so by doing that it becomes a self-fulfilling prophecy, that that is a losing technology because none of the policy and none of the attention is going to promoting it. If they made the effort there it would not be picking winners, it is just making the environment more conducive to these sorts of technologies and if they did that then they might say that actually they become a lot more cost-effective in the Treasury's terms.

Q90 Mr Challen: In the way that the Government announces its spending we have re-announcements and repeat announcements and all sorts of different things happen, money can be vired from one pot to another. Do you think there should be a lot more transparency in the way that money in this sector is actually given? Would that give a clear lead to investors and other people to actually make the decisions?
Mr Thompson: I think more transparency would be helpful, but it does come back to my earlier observation that it is very hard to quantify what we are talking about in the way of environmental expenditure. I agree with your objective but I think it is very hard to achieve in practice and not necessarily a priority.
Mr Challen: Thank you.

Q91 Mr Thomas: Turning now to the Treasury in particular, I just wondered whether you could say whether you think what the Treasury has is in any shape or form an environmental tax strategy? Have you been able to discern any strategy in what has been happening in the last few years?
Ms Willis: They have a tax strategy—on paper anyway it is the Statement of Intent from 1997 and followed up with the Tax and Environment document in 2002, but we do not see an obvious link between the very good Statement of Intent and their kind of patchy policy that is in place at the moment and we do not think the Tax and Environment document really helped to shed any light on that.

Q92 Mr Thomas: Are you aware of anything that the Treasury has done since—I am not, that is why I am asking you—the Tax and Environment document to push this forward in any strategic way? Is there anything you can point to?
Ms Willis: They are doing their own assessments of policy, as was mentioned in the pre-budget proposals and Cambridge Econometrics are doing an analysis of the Climate Change Levy, and we would support that.

Q93 Mr Thomas: That is a bit backward-looking for a strategy, is it not, looking at what you have already done and analysing it?
Ms Willis: I think tax and the environment is about the process by which they would make policy, which is fine, but what it did not do is flesh out how the Statement of Intent would work in practice, and I think the simple reason for that is because they are now very worried about the central premise of the Statement of Intent shifting the burden of taxation from employment to resource use, from goods to bads, and that it is moving in the opposite direction. They are now really worried about that, they know it has not happened but I think they are trying to keep a lid on it which is probably why there is no great strategic statement, because if there was a strategic statement it would probably have to say that they have not delivered on the Statement of Intent.

Q94 Mr Thomas: The reasons for that failure—because as you intimated environmental taxation as a proportion has fallen rather than increase as you would expect it to with the polluter pays principle plus the challenges of climate change—to my mind the only one I can think of that has done that is climate change, with the shift from employment onto direct resource use. What sort of signs therefore can you discern about preparation for the future, because some of the good things that the

Government can point to, the Climate Change Agreements being part of them and Emissions Trading as well, are fairly short term in terms of what we are trying to tackle here over the next 20, 30, 40 years, to be able to come to a natural end. That failure to shift will be even worse if you like, it will need even more movement in terms of having a taxation system that penalises the bads and rewards the goods. Can you see anything developing in the Treasury's agenda that suggests there might be something coming post these ideas if you like?

Ms Willis: My immediate answer is that I cannot see that but I am hoping for it and I can see ways in which they are going to have to start thinking in those terms. Take climate change for example, the Emissions Trading Scheme is not going to deliver the sort of carbon price that would drive action, it might have an effect on energy-intensive industries, but for a large part of industry and the domestic sector the change in the price of carbon will probably be negligible and it will not be enough to drive carbon abatement. So we have that on the one hand, but on the other hand you have the Prime Minister's wish to be a world leader on climate change, which is great, but you are going to see more and more discrepancy between the diplomatic position and the delivery at home, so they are going to have to look at what sort of join-up they can get, what sort of strategy they are going to have.

Mr Thompson: I was just going to add, I think there is some scope for optimism, there are one or two reasons to be cheerful. I think Treasury has certainly started to recognise, at least in private, that it needs to look again at what its strategic approach to this agenda is, albeit not recognising or wanting to recognise that it is not delivering the shift in the burden of taxation that was set out in the Statement of Intent. So I think we will see, post the election, if we are able to refer to such a thing—

Mr Thomas: Such a time will come.

Q95 Chairman: You are not allowed to make assumptions about the outcome.

Mr Thompson: We will see at some point in the next 12 months the Treasury, probably in preparation of the next pre-Budget Report, wanting to look again at the Tax and Environment document and setting out what its next steps are in a more strategic context. As part of that I see Treasury interest in the traditional eco-tax agenda withering, it has waned, but I do see there is still interest in the potential for the flexible, soft regulatory measures such as the renewables obligation. For example, in the energy efficiency agenda there is interest in looking at incentivising the existing energy efficiency commitments, introducing a tradable element to the EEC and also strengthening aspects of the climate change framework post emissions trading. I think there is even some scope for optimism that the Treasury might move forward on some aspects of waste policy, but I certainly think it needs addressing in the strategic context as Becky has pointed out.

Q96 Mr Thomas: Having made those comments would you describe yourselves, as the Green Alliance, as having good relationships with the Treasury on these matters, or do you find it difficult to get the information out of them on these sorts of things?

Mr Thompson: We have a good relationship with the environmental parts of the Treasury, both in terms of the ministerial team and in terms of officials. Where we struggle is with those other parts of the Treasury that drive macroeconomic policy and have a view of productivity that does not necessarily accord with our objectives and mitigates against our objectives. I think more remains to be done, but we have recently carried out a project on the PFI and our experience there was that in building bridges to new parts of the Treasury that might not traditionally see the environmental NGOs as part of their stakeholder community, there was an initial sense of suspicion and a sense that what we would be bringing to them would be academically dubious, intellectually dubious. Over time we actually built up a good relationship and a good understanding and I think it is probably incumbent upon us and the NGOs to build bridges with other parts of the Treasury, but that is not an easy process and requires time and resources.

Q97 Mr Chaytor: I wanted to ask specifically about energy policy and taxation. So far we have talked at quite a general level really, and a little bit in the abstract, but I want to ask you specifically what are the three most important things Government could do in terms of energy policy designed to make the shift to a low carbon economy? If you were the Chancellor preparing your budget for 8 or 15 March or whatever, what would be the three top liners in terms of energy and tax?

Ms Willis: Just three?

Q98 Mr Chaytor: Start with three.

Ms Willis: Okay, if I can have a preamble, which is just to say I think what is needed is not wholesale reform but actually much more stimulus and strengthening of the policies we have in place and a clear articulation of why they are there. I think one of the problems at the moment is that everyone is scurrying around searching for a magic policy bullet, or three bullets, and hoping we can do a climate change policy that we can get to 60% CO_2 reduction and nobody will notice, it will just happen. It is not like that, a low carbon economy is very different to the one we have now and people will notice the transition, believe me. It does not necessarily have to be really painful, but it is a change to the way we do things, so I think a lot more Government honesty about that would be really welcome. That is quite a preamble, but if I had to pick three I would say for the UK and the Chancellor to really get fair and square behind the second phase of emissions trading and argue as hard as they can within Europe to make sure that phase 2 results in a workable price for carbon and a workable carbon market. It will not happen without countries like the UK fighting for it, so that would be number one. I think number two would be to tackle the domestic sector and look at a whole house approach, look at a package which included Stamp Duty and VAT differentials and other energy efficiency schemes, to really try and incentivise the domestic sector. I think the third thing would be on small-scale renewables, really trying to change the way that we think about energy, to get people think about energy being generated in our homes and offices and buildings, and not as something out there far away that we never think about.

Q99 Mr Chaytor: You said earlier that the Government had decided to pick the losers by not investing in small-scale renewables and micro-generation, but in fact there is a significant slice of incentive in there through the Clear Skies programme, is there not? People can apply for grants for micro-generation projects now; they may not be huge amounts but it is not as if the Government is abandoning that.
Ms Willis: They can apply for grants and we welcome them, we are arguing for an extension of those schemes, but the fact is that you have to be pretty dedicated and environmentally motivated,, not financially motivated to do this. A good example is that if you have solar panels on your roof you can actually benefit from the renewables obligation in that if you are generating power through solar you can get a renewables obligation certificate, but the fact is that you have to fill in a 19-page form from Ofgem and register as a supplier, go through all that process and you will probably get 50 quid per year. The system, believe me, is not designed for people to do that; yes, people do that but they do it because they are really dedicated to the cause and because they are willing at the moment to lose money over it.
Mr Chaytor: That is a good example. In your list of three you have not mentioned transport. Transport accounts for 25% of total CO_2 emissions. You have not said anything about the Fuel Duty Escalator or vehicle excise duty.

Q100 Chairman: Perhaps we should have given Guy Thompson three as well.
Ms Willis: It is not the fact that we do not welcome transport policy.

Q101 Mr Chaytor: It is a huge gap, is it not?
Mr Thompson: I am happy to take a stab at answering that question, although it is not our area of expertise. It clearly does need to be an important part of the piece and the fact that the DfT is now part of the shared climate change PSA means that they will start to engage with it in a way that, institutionally, the department simply has not been willing to until now. It is clearly disappointing that the fuel duty has been frozen, but given the outlook for global oil prices, to an extent I can understand and appreciate why that decision has been taken, but at some point we need to have a clear signal from them that that is not something that can remain the case in perpetuity. My comments earlier that we need to introduce new, flexible statutory instruments may equally apply to the transport sector, for example the opportunity for a fuel obligation on fuel-efficient technologies would be one example. So we fully recognise it as an important part of the overall picture.

Q102 Mr Chaytor: My concern I suppose is that it is very easy for green NGOs to say we welcome the fact that the Department for Transport is now in the shared PSA, but in terms of the public out there they have not a clue what that means, and what I am looking for is for NGOs to stand up and stick their head over the parapet and say to the public you have to understand that over the next decade and beyond the price of carbon fuels will go up year on year on year, but nobody has got the courage to say that. We have not got the courage because we are up for election in a few weeks time, but what is the constraint on you?
Mr Thompson: There is no constraint on us. Some of this responsibility probably falls to the mass membership NGOs of which we are—

Q103 Mr Chaytor: You are there to give intellectual leadership to the mass membership NGOs and yet you are still backing off these hard messages to the general public.
Mr Thompson: I recognise some of your critique and I think the NGOs are starting to wake up to the fact that there is a big job to be done in communicating and raising awareness over the challenges of climate change, and we are starting to work together more effectively in trying to do that but it is still early days.

Q104 Mr Chaytor: Leaving the public aside, in terms of industry one of the problems about any aspect of environmental taxation is that industries and businesses frequently see taxation purely as a burden and see regulation as a burden and as a cost, rather than as an opportunity to improve efficiency and thereby introduce cost savings. How do you think we can shift this whole frame of reference round so that they instinctively see that environmental taxation can be used to improve efficiency and thereby reduce costs?
Ms Willis: I am not actually sure I agree with you that business thinks that way, I think they take that rhetorical position and trade associations think that way, but the work we did on trade associations that your previous witnesses referred to showed that if you dig below the trade associations and look at individual companies and you look at not just the environmental industry sector, but you look at forward-looking companies across the piece, they do see the advantages in good environmental regulation. So I think we have to be careful about taking that rhetoric at face value. What they tend to say and what the CBI says in its more reflective moments is we do not oppose environmental taxation, we just oppose badly designed environmental taxation. It is rather strange that according to them there has never been a piece of well-designed taxation, but to the extent that it is badly designed most of the reason for that bad design is the endless compromise and horse-trading that has had to go on because of that rhetorical

position, because of the fights in the headlines about it. We saw this over the climate change levy, we see concession after concession and the policy is watered down to the point at which it becomes barely workable.

Mr Thompson: I would hate to throw this ball back to you, David, but I think part of this is about political leadership actually. We are here to talk about the Treasury and the Chancellor is due to make an important speech to the G8 ministerial roundtable in March; it would be nice if he took that as an opportunity to start transforming the political narrative around this whole agenda and to start to see politicians like the Chancellor and the Treasury as a whole, both institutionally and probably the DTI, if I can extend this to the DTI, starting to talk up the economic opportunities around this agenda and transforming the narrative around climate change, and start to communicate the economic advantages of a stable climate—that is what we are talking about.

Chairman: This Committee did produce a report in the summer that advocated increasing fuel duty, but I will not mention that in David Chaytor's constituency.

Mr Chaytor: I tell my local newspaper all the time.

Q105 Mr Thomas: If I could put one thing to you, I would say there is one environmental tax that was not compromised on and has proved to be an enormous success and that is the congestion charge in London. Would you agree that that was political leadership of the best order?

Mr Thompson: Political accident would be my interpretation of that.

Ms Willis: Look at what happened in the lead-up to that. We were promised revolution in London, we were promised people storming the barricades, quite literally.

Q106 Mr Thomas: Actresses not being able to get to the theatre and cleaners not being able to clean offices and so on.

Ms Willis: Yes, and actually people like it. It was really undramatic.

Q107 Mr Chaytor: One final point on the Climate Change Levy, you talked about the compromises that led to the watering-down of that, but in your selection of three improvements the first one was really ramping up the criteria in Phase 2 of the Emissions Trading Scheme. Does that make the CCL obsolete? If we had a stringently constructed Phase 2 of the Emissions Trading scheme, do we need the Climate Change Levy in addition?

Ms Willis: Yes, we do. We have just actually done some research on this which we will be publishing in a couple of weeks which specifically looks at what the EU Emissions Trading Scheme means for domestic policy both in the short term—when the scheme is not working very well—and in the longer term when we hope it will work well. We say that it is important to have a higher price of carbon, but that is not enough. We also need policies which will directly engage with business, so what we see is the Climate Change Levy turning into an energy efficiency tax effectively. It is the only way of getting to non-energy intensive businesses, it appears on their electricity bills, so we would emphatically say that we need to keep it. We do think that there is some scope for more discussion about how businesses cope with that tax and a greater role for the Carbon Trust, for example, in helping businesses to not pay the tax if you like, to suggest things like perhaps payment holidays from the levy where they could have two years off paying it in return for certain energy efficiency improvements, so we think it could be badged a lot more as an opportunity for business, but we definitely want it in place still.

Q108 Mr Chaytor: Should nuclear power stations be eligible for the Climate Change Levy given that they are not supposed to produce any carbon?

Ms Willis: The decision at the time, which we supported, was that you should not exempt nuclear from the CCL because of its other environmental externalities and we hold to that position.

Q109 Mr Chaytor: It is nothing to do with climate change though.

Ms Willis: But if you want policy in the round, we do support that position. There are other reasons as well, we think that if we have a policy that supports large scale nuclear new-build, you cannot have that concurrently with a policy that supports small-scale renewables and energy efficiency, we do not see those two as at all compatible and so that would be the reason why we would not be suggesting that you should exempt nuclear.

Q110 Chairman: I think that concludes our questions. Is there anything else you would like to say?

Mr Thompson: I would just like to add something, if you would not mind, on one issue relating to the competitiveness debate. We just wanted to get one message across to you, and this came up at the end of the last session. We would just observe that there seems to be a real problem running around the rhetoric that we hear from the business lobby on the competitiveness impact of environmental regulation. We have seen it through the REACH proposal on chemicals in Europe, we have now seen it apply to the EU Trading Scheme. There is one thing that we think the Committee might push for in this regard and that is looking across Government departments to pull together a robust evidence base to take a good hard look at this issue. We believe that environmental regulation can stimulate innovation in the way that your previous witnesses were advocating, but we are up against a very strong business lobby which is actively mitigating and watering-down instruments like the Emissions Trading Scheme on the basis of high level rhetoric. It causes a lot of grief.

Q111 Mr Challen: Who are the main offenders in that business lobby, can you name any of them?

Mr Thompson: The difficulty is that this is partly about the propensity of the DTI and the Treasury to take the trade associations' word as the gospel truth on the business agenda, and particularly the CBI clearly is responsible. That is what trade associations are there to do, they are by definition going to represent the most common denominator opinion, but the DTI and Treasury could be more clever at going to progressive businesses who take up a different position in the debate, because they see the economic not to mention the environmental and social benefits of the kind of measures that we have been talking about.

Ms Willis: We have had the Wanless Review on Health, we have had the Barker Review on Housing so we think we need an equivalent on environmental competitiveness to actually try and nail that one once and for all.

Chairman: A very interesting idea. Thank you for that, and also for your evidence.

Wednesday 2 February 2005

Members present:

Mr Peter Ainsworth, in the Chair

Gregory Barker	Mr Mark Francois
Mr Colin Challen	Mr Simon Thomas
Mr David Chaytor	Mr Malcolm Savidge
Mrs Helen Clark	Joan Walley
Paul Flynn	

Memorandum submitted by the Campaign to Protect Rural England (PB08)

INTRODUCTION

1. The Campaign to Protect Rural England (CPRE) welcomes the opportunity to contribute to the Audit Committee's inquiry into three issues relating to integrating environmental concerns across Government. We submitted written evidence to the last Committee's report on the Spending Review (3rd report, HC-70) and maintain a close interest in how effectively the Greening Government initiative is delivering its objectives. Our evidence addresses the particular areas identified in the terms of reference for the inquiry.

PRE BUDGET REPORT 2004

2. The Pre Budget Report (PBR) contains a number of explicitly environmental initiatives. CPRE welcomed in particular the re-confirmation of the priority given to reducing greenhouse gas emissions, and the promise of a review by Defra and HM-Treasury into energy efficiency innovation. There are few new measures, however, in PBR-04. The fact that the PBR-04 is not as ambitious as previous reports is perhaps a reflection that it has been produced in the run up to a general election year. While environmental measures are unlikely to be free from such political influences, it is a sign that the Government does not feel in a position to robustly defend its environmental tax measures against the accusation of stealth taxes. This is regrettable and is likely to undermine the ability of the Treasury to take a more strategic approach.

Fuel Duty

3. CPRE is disappointed that the Chancellor chose not to increase fuel duty. The arguments for and against increases in fuel duty have been well rehearsed, and we believe such decisions completely undermine the Government's strategy for tackling climate change (see paragraphs 39-40), as well as weaken its ability to argue for challenging positions in international fora. The stance taken by the official opposition has exacerbated this position. Tackling the falling cost of motoring and fuel duty in particular has become a political football, when—as a crucial part of reducing greenhouse gas emissions, it should enjoy cross party support.

The Government's move towards supporting road user charging (some time in the future) does not excuse decisions made on fuel duty which will influence emissions from transport today.

Other measures

4. In addition to our concerns expressed above, CPRE would highlight our disappointment that:

— the discussion surrounding the Renewable Transport Fuel Obligation has not given sufficient attention to the impact on the landscape of introducing such an obligation, or the dangers of inventing a new form of "coupled" agriculture for biofuel which could be just as damaging and crude in its effects on the landscape as the coupled system was for food production;

— the failure to go beyond statements on greenhouse gas emissions in the Air Transport White Paper, or to indicate what action would be taken domestically should the Government's efforts to include certain flights in the EU Emissions Trading Scheme not succeed; and

— the momentum behind introducing economic instruments to encourage the urban renaissance has stalled. It was the Urban Task Force chaired by Lord Rodgers which proposed a green-field tax in 2000. More recently, CPRE has recommended that VAT should be applied at the full rate on green-field development, with incentive differential to encourage development of brown-field sites. Other ideas for using economic instruments to bolster the urban renaissance and to protect the countryside are contained in a report by Europe Economics, The Taxation of Property, published by CPRE recently.

Appraisal

5. The PBR-04 notes that "the Government is committed to appraising the environmental impact of Budget measures". While a thorough assessment of the effectiveness of likely environmental measures is important, CPRE places particular attention on the need to consider potential adverse environmental effects from non-environmental measures in the Pre Budget and Budget reports. It is this which will be critical if we are to move beyond seeking end of pipe solutions. Despite the statement, there has not been evidence of systematic appraisal of the environmental implications of all the measures contained in PBR-04. Table 7.2 does indeed contain a number of measures which are not specifically environmental in purpose—and the inclusion of this data on the Treasury's website is generally welcome.

According to PBR-04 the estimates of environmental impact are "subject to a wide margin of error". There appears to be an acceptance of such margins of error. This undermines the ability of the appraisal to then influence decisions on tax and spend.

6. Yet the list of measures appraised is not comprehensive and, according to PBR-04 the estimates of environmental impact are "subject to a wide margin of error". There will undoubtedly be uncertainties when assessing the environmental implications of economic measures at such a strategic level and this is accepted by CPRE. However, there appears to be an acceptance of such margins of error. This undermines the ability of the appraisal to then influence decisions on tax and spend. The Treasury should be aiming to reduce this margin of error, as far as is possible. We speculate that such uncertainties would not be tolerated in other aspects of economic policy. The Government should refrain from making decisions which will lead to damage to the environment where the magnitude and importance of these effects are not understood.

7. It is CPRE's contention that this appraisal activity has, infact, not been undertaken in many cases. CPRE will shortly be writing to the HM Treasury requesting, under the Freedom of Information Act 2000, the environmental appraisal of principally economic measures included in the Pre Budget Report 2004. We hope that the Committee will want to see substantial evidence to back the claim made in the Pre Budget report. In the absence of such evidence we can only conclude that such assessments are not undertaken.

Spending Review 2004

8. How the Government allocates funding through the Spending Review, and the targets it sets itself through Public Service Agreements (PSA) can have a significant effect in terms of environmental protection and the promotion of sustainable development. We have generally welcomed the progress which has been made from the first Comprehensive Spending Review. In 2001 we published a report, *Spending Review 2002 and our Quality of Life*, with Green Alliance and the IPPR which stressed the need for assessments to be made of each departments bid against sustainable development indicators. The Treasury appears to have embraced a number of the recommendations in this work, and is prepared to learn with experience from each spending review. We do believe that there are improvements which could be made in relation to the guidance issued, capacity within the Treasury, and the transparency of the process.

Guidance

9. HMT produced guidance on sustainable development to Government departments as part of the spending review process. We welcome the fact that the Treasury has made this publicly available, and the emphasis on seeing this as a core part of the Spending Review, rather than as an add on.

10. The Guidance states that "the agreed work programme should set out how and in which particular areas the three pillars of sustainable development impacts—social environmental and economic—will need to be considered by the department in defining its priorities and developing proposals . . .". We are concerned that this could have the effect (whether unintentional or otherwise) of encouraging departments to focus on just one or two of the pillars. The greening of Government requires all departments to consider the effects of all their priorities and proposals on the environment. It would be unacceptable if the guidance led to a situation, for example, where the Treasury and DTI focused on the economic pillar, the DWP and DoH covered social and Defra covered environmental concerns.

Ensuring that Government departments, between them, have covered all the pillars, is not the same as ensuring each government department is contributing to sustainable development through integrating the environment into their policies, spending programmes and activities.

11. The Treasury guidance refers to the fact that the headline sustainable development indicators are not exhaustive, and are supplemented by a wide range of other indicators in the document, *Quality of Life Counts*. CPRE believes that in future, there should be a bigger role for these other indicators. These have been clustered in "families" which draw out important trends. The set of headline sustainable development indicators have been produced to provide an overview of our progress towards sustainable development, of the sort which could be presented on evening news programmes. They are not, in themselves, comprehensive and certainly not sufficient a basis for ensuring Government spending programmes are sustainable in environmental terms.

12. While we do not for one minute recommend that the success or otherwise of integrating sustainable development into the spending review be measured on the basis of page length, we find it difficult to see that such an important part of the process can be properly explained in 501 words.

Capacity

13. The human capacity within the Treasury to assess each departments bids against environmental and wider sustainability criteria is limited. It has been customary for HMT to second someone from outside of Whitehall to assist with this task. They have worked to support the Chief Secretary, and clearly the relationship built between these two individuals is important to the overall success of the exercise. CPRE is concerned, however, that the secondee is frequently released soon after the Spending Review has been announced. This assumes that the process is over once the statement has been made to Parliament. In practice, though, much work still needs to be done:

— by individual departments to establish plans to deliver their PSA targets; and

— by Treasury to ensure the actual delivery mechanisms are consistent with sustainable development, and compatible with the information which was provided prior to the SR-04 announcement.

14. It is unclear what measures and personnel are available to ensure these later tasks are also consistent with environmental protection and sustainable development objectives. We believe that the contract for the secondee should be lengthened to cover more of the SR process—including the post announcement phase. And although responsibility should rest within individual departments for their environmental performance, we hope the Committee will consider whether there are sufficient Treasury staff devoted to scrutinising the environmental impact of departmental bids. We are aware, for example, that officials had only a fortnight between the departmental bids being submitted to the Treasury, and providing the briefing on these to the Chief Secretary.

Transparency

15. A long standing concern of NGOs has been the lack of transparency within the process. CPRE recognises that it is not possible to publish the assessments which relate to individual departments bids for funding. However, there is information which we hope will enter the public domain. In particular, the use of Integrated Policy Appraisal enables data to be readily available on departmental bids and how they compare with factors included in the Sustainable Development Assessment tool (such as landscape, or climate change). CPRE hopes the Committee will wish to explore:

— which departments decided to produce stand alone Sustainable Development Reports or annexes as part of the Spending Review process, and why?

— How many positive (green), neutral (blue) or negative (red) assessments were made for each category included in the Sustainable Development Assessment Tool?

16. Our concerns over transparency were heightened in SR2004 when the Regional Development Agencies were asked to provide Regional Emphasis Documents, setting out their priorities for investment. The process of scrutiny of the REDs was unclear and did not benefit from formal public consultation.

Outcomes

17. The Environmental Audit Committee will have received evidence from others who have undertaken broader assessments of the outcomes of SR-04, and we do not intend to repeat this material here. However, in summary, CPRE welcomed:

— the long over due inclusion of the Department for Transport in the Climate Change PSA;

— the increased funding for providing genuinely affordable housing;

— commitments to higher environmental standards in new housing;

— the new Safer and Stronger Communities Fund; and

— maintenance of spending commitments to implement the Curry report's recommendations for farming and food.

18. The Treasury points to the inclusion of a number of PSA targets which embrace sustainable development headline indicators. And in responding to the Environmental Audit Committee's 8th report Greening Government 2004, the Government says, "as a result of the Spending Review all 15 of the headline indicators of sustainable development are now reflected in PSA targets spanning ten government departments". We would draw the Committee's attention to the fact that no PSA target exists on reducing traffic levels. CPRE believes this is currently an omission, and will not be addressed by targets set for inter-urban congestion, or reducing traffic intensity.

The Treasury's Fiscal Strategy

19. The Environmental Audit Committee has provided close scrutiny of the Treasury's performance over the years, upon which we will not add, except to make some broad observations. The Treasury has a dual role, of:

— integrating sustainable development into its own policies, priorities and activities; and

— encouraging other departments to do likewise through supporting the development of economic instruments and the issuing of guidance (eg on the Spending Review).

20. Arguably, the Treasury has focused its attention on the latter of these two roles. Following the Spending Review, the Treasury's eighth objective is to "protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies". The Treasury's website contains details of each PSA target and how it will be measured. These technical notes are available at: http://www.hm-treasury.gov.uk/performance/index.cfm and should be helpful for auditing processes. It is interesting to note, however, that there is no information available in the Technical Note for HM-Treasury as to how this objective is to be delivered. Information on seven of the 10 objectives is provided.

21. The relationship between the Treasury and other departments is important in terms of how new economic instruments are progressed. On occasions, the Treasury has emphasised its dependence upon the department with the policy lead. While undoubtedly a partnership is required, we hope the Treasury will be more proactive in future. We believe the Treasury should be in the driving seat, rather than the passenger seat when it comes to identifying potential economic instruments to deliver environmental benefits. This should involve encouraging departments to be more proactive in supporting the development of economic instruments.

We believe the Treasury should be in the driving seat, rather than the passenger seat when it comes to identifying potential economic instruments to deliver environmental benefit.

22. An amendment to the Treasury's departmental aim occurred in Spending Review 2002. For the first time, the aim of the Treasury included to improve "quality of life". It is not clear, however, what changes have occurred within the department to give meaning to this change and we hope this will be explored in the course of the Committee's inquiry.

Environmental Appraisal and Regulatory Impact Assessments

23. CPRE agrees with the Committee that we have witnessed a move from individual environmental appraisals, towards the use of Regulatory Impact Assessment. This is also reflected in the increasing focus of Green Ministers on green housekeeping matters, rather than issues of policy. In response to the Environmental Audit Committee's report on *The Greening Government Initiative* in 1999, the Government made the appraisal requirement quite clear. It said:

> "Government will from now publish all free-standing environmental appraisals of policies unless there are overriding reasons for not doing so (for example, security or commercial sensitivities), and will also encourage publication by departments of broader appraisals which consider the environmental dimension alongside other issues".

24. CPRE welcomed this commitment which represented a significant step forward in both the use of environmental appraisal, and transparency. We were hugely disappointed, however, by the failure of Whitehall departments to live up to this commitment. There are likely to be a number of reasons for this. In part these may have been political obstacles, or inertia within Government. However, CPRE recognises that the profusion of requirements upon civil servants to produce multiple appraisals was, itself, unsustainable. Our concern is to see that the degree to which the Government, its Agencies and non-departmental public bodies consider the environmental implications of their policies and activities is not diminished as a result.

25. We believe that it is too early to tell what effect the inclusion of environmental concerns into the RIA process will be. The Government is likely to point to it being mandatory for a range of decisions, which extend beyond new regulation, and to be systematic in its approach. Our view is that this change is likely to mean that environmental concerns will indeed be covered more often than in the past. Despite a strong commitment to undertake specific environmental appraisals—this remained largely a paper commitment. It is unclear, though, how robust the environmental analysis will be. We are concerned that it could be quite superficial. In particular, second order effects may not be picked up by the standard questions posed in the IPA. An example of inadequate treatment of effects is contained in the appraisal which accompanied the *Future of Air Transport White Paper*. In addressing the issue of loss of tranquillity caused by a massive increase in aircraft movements, the Integrated Policy Appraisal simply said, "loss of rural tranquillity on some locations is inevitable". Effective appraisal demands breadth (ie ensuring all Government decisions consider their environmental effects) and depth (ie the key documents benefit from more detailed assessment).

26. The extent to which IPAs are screened for their quality is unclear. We believe there would be value in Defra commissioning a review of IPA documents, to evaluate how thoroughly potential environmental impacts were identified, and measures put in place to avoid (rather than just mitigate) adverse effects.

27. We urge the Committee to investigate:

— how many times the undertaking of an IPA has led to the department undertaking more detailed environmental appraisals?

— how many times an alternative option has been presented to Ministers or for public consultation because of the environmental effects identified in the IPA?

— how the statutory environmental bodies are involved in the IPA process?

28. Given the complexity of different appraisal mechanisms, we believe it would be helpful if the Cabinet Office, working with the Sustainable Development Unit, could provide a diagram illustrating when environmental concerns will always, or may be considered before key decisions are taken within Government.

Strategic Environmental Assessment

29. Under EC Directive 2001/42/EC, public bodies are required to undertake a Strategic Environmental Assessment (SEA) for certain plans and programmes. CPRE welcomes the SEA Directive, and campaigned for such a measure for many years. The Directive has a number of benefits which makes it relevant to the Committee's current line of inquiry. The provisions:

— are mandatory for a range of public plans and programmes;

— require alternative options to be considered;

— involve the public and statutory environmental bodies;

— are comprehensive in the information which is to be identified; and

— require transparency through the publication of an SEA Report.

30. CPRE and the European Environmental Bureau (of which CPRE is a member) have argued that the Directive should apply to Government policies, as well as plans and programmes. Unfortunately, the Council of Ministers rejected such calls by the European Parliament when the draft legislation was being debated.

31. CPRE has been closely involved in monitoring the implementation of the SEA Directive within England. Implementation has been undertaken through the publication of *Environmental Assessment of Plans and Programmes Regulations 2004*. The Government has been keen to also see the SEA requirements incorporated into wider Sustainability Appraisals which take account of economic and social concerns as well. While CPRE supports the promotion of sustainable development, we have been concerned by significant differences in the interpretation of this term. We have seen the concept of sustainable development used to justify some damaging proposals: the Government's Communities Plan and Air Transport White Paper being two notable examples. The press release which the Office of the Deputy Prime Minister issued on 7 September 2004 to launch consultation on the Government's guidance on sustainability appraisal for regional and local planning documents was ominous in its wording. It said, "*a key aim of sustainability appraisal is to put the prediction of social and economic effectives on a comparable basis to environmental effects*".

32. With a wider range of issues being considered, there is a danger that it will be easier for an authority to refer to the need to "trade-off" different factors, with the environment invariably losing out. Indeed, the Royal Commission on Environmental Pollution (RCEP) warned the Government of this danger in their report, *Environmental Planning*, March 2002. They said:

> "We recommend that the Government, if it wishes to retain sustainability appraisal, strengthen the environmental component so that it will satisfy the legal requirements of the European Directive on strategic environmental assessment. We do not consider that sustainability appraisal as currently undertaken is adequate for this purpose".

33. The Government's response to this report indicated that it felt confident that the new arrangements would avoid this situation occurring. CPRE is concerned to see that the use of Sustainability Appraisal does not lead to environmental concerns being sidelined in the pursuit of short term economic benefit. It is worth remembering the objective of the Directive, which is "to provide for a high level of protection of the environment and to contribute to the integration of environmental considerations into the preparation and adoption of plans and programmes with a view to promoting sustainable development" *(Article 1)*. Verifying assurances from Government that a high level of environmental protection will be attained, will require careful scrutiny of early sustainability reports which are produced. We hope the Environmental Audit Committee may consider itself to have a role in this regard.

34. We also wish to draw the Committee's attention to the fact that, it is our belief, that the Regulations are not consistent with the full requirements of the SEA Directive. The definition of which plans and programmes require SEA is complex. However, under Article 3(4) of the SEA Directive, Member States are

required to ensure all plans and programmes which set the framework for future consent of development, should be screened for their potential to create significant environmental effects. We believe this requirement has not been reflected in the Regulations covering England.

35. CPRE believes that SEA provides a more robust process for considering the environmental implications of Government policies, plans and programmes. We hope that the Committee will investigate the extent to which it is being used, outside of the process of spatial planning, and ensure that both the spirit and the letter of the SEA Directive are being applied.

Appraisals are missing for key policy decisions

36. We have been concerned that commitments to integrate sustainable development into policy making have not necessarily been fulfilled in practice. In March 2004 the Department for Transport published a *Sustainable Development Policy Statement* by the Permanent Secretary and Transport Minister Tony McNulty MP. This said "in developing major policies, we will assess their potential impact across a range of economic, environmental and social factors using appropriate policy appraisal methodologies such as Regulatory Impact Assessment and the Integrated Policy Appraisal tool". Yet, despite this welcome commitment, CPRE has not seen evidence that *The Future for Transport White Paper* 2004—the flagship document for the department—has benefited from such an appraisal. We are also aware that both the Department for Transport, and the Highways Agency are resisting undertaking an SEA on the Government's Targeted Programme of Improvements.

37. There is also no evidence of a sustainability or environmental appraisal having been produced prior to publication of the Government's Communities Plan 2003. Although a research report was commissioned to consider the environmental implications, this was instigated by Defra (rather than ODPM) and undertaken only after the Plan had been published.

38. The Barker Report, *the Review of Housing Supply*, will have significant implications for the environment, yet has not explicitly considered what these are. The author notes, frankly that such issues are for Government to resolve. We welcome the Committee's recent report, *Housing: Building a Sustainable Future 2004*, and share the astonishment at the failure to tackle the environmental implications of what is proposed. We believe the proposals in the Barker report should benefit from a full Strategic Environmental Assessment (which is compatible with the requirements of the SEA Directive) before the Government issues its response.

Climate Change Review

39. We note that the terms of reference for this inquiry covers the Government's Climate Change Programme review. CPRE will be submitting a full response to the current consultation in due course. At this point in time, we would like to make the following points.

Status of the strategy. While the Government's consultation paper sets out an impressive array of measures, it does not add up to a strategy which will yet deliver the long term targets advocated by the Royal Commission on Environmental Pollution (RCEP), and set by Government. The Strategy has been pre-empted by White Papers on Energy, Air Transport, surface transport, the Communities Plan, and the soon to be published Sustainable Development Strategy. The extent to which the current review will be able to open up for debate policy decisions made in the recent past will be key.

A Carbon Tax. We believe the Government should seriously investigate introducing a Carbon Tax. This would address the particular problem of CO_2 emissions, where progress has been slow, and embrace a wider range of sectors than current measures. It would also be a more targeted measure and avoid the "rebound effects" of improving energy efficiency, whereby lower costs lead to increased consumption (which can be as much as 30% in the case of improved fuel efficiency).

Contraction and convergence. The concept of 'contraction and convergence' relates to how global emissions of greenhouse gas emissions (GHG) can be reduced to acceptable levels, in an equitable manner. It requires developed nations to reduce their emissions to ensure global environmental limits are not breached (contraction), while allowing less developed nations to increase their emissions from current levels (convergence). We believe the Government should support this concept, which is not referred to in the consultation document, and apply it to its own Climate Change Programme.

Transport emissions. It is unacceptable that emission savings achieved in other sectors have been swamped by rising emissions in transport. While the inclusion of the DfT into the PSA target is a welcome start, we have not seen this translated into decisions over new road building. We believe sectoral targets should be established in the new Climate Change Programme, which include those for transport. Government transport policy should be geared around decoupling economic prosperity from emissions. And where a Minister, regional body or local authority promotes new road building which will add to GHG emissions, they should be required to establish commensurate emissions reduction elsewhere over and above those programmes already identified. Only then, should the value of building the new infrastructure be considered against the Government's five criteria for transport (economy, environment, safety, accessibility and integration).

Energy Conscious Planning. We believe the Government should make a clear commitment to Energy Conscious Planning. This would embed considerations of energy much deeper into the planning process, at all levels of government. It would mean, for example, that the total amount and the location of new housing development was strongly influenced by the resulting GHG emissions—rather than simply using the planning system to improve the design of new build. The ODPM should be charged with reviewing regional and county policies and decisions to ensure they promote energy conservation. A Climate Alert Direction should be introduced to enable Government Offices to intervene when development proposals are considered to cause unacceptable emissions of GHG. The Defra assessment of the Communities Plan and Barker Report on the *Supply of Housing* concludes that the environmental impacts of future housing development are "severe".

Better understanding of the effect on the Countryside. There has been significant work undertaken to examine the effects of climate change on sea level rises and flooding, and on biodiversity. In contrast, however, there is far less known about how the effects of climate change will alter the very character of the countryside, or productivity of the soil. These issues are not addressed in the Government's consultation paper, and currently represent a knowledge gap. CPRE believes the Government should commission work to better understand how climate change will effect the character of the countryside. It should also review the existing land classification system (based on Best and Most Versatile BMV land) in the light of climate change. This should be updated on the basis of the land's ability to be resilient to climate change impacts. This will be increasingly important as major shifts occur in the distribution of land which is productive for food and other crops.

40. Finally, we believe that the Chancellor should be required to set out what the net balance of carbon dioxide, and overall greenhouse gas emissions will be from the measures contained in the Budget. The release of GHG emissions is a consideration in the Integrated Policy Appraisal, and given that the Treasury should be already using the tool, we believe it should be possible to estimate a range, following implementation of the Budget measures.

1 February 2005

Witnesses: **Mr Paul Hamblin,** Head of Policy, Transport and Natural Resources, and **Mr Tom Oliver,** Head of Policy, Rural Policy, The Campaign to Protect Rural England, examined.

Q112 Chairman: Good afternoon. I am so sorry to have kept you waiting. Thank you for coming and can I also take this opportunity to thank you for your supportive remarks about our recent report on housing, which we have noticed with appreciation, and also to congratulate you on your excellent report on Housing and Sustainable Communities: Mind the Gap Between Rhetoric and Reality, which we think is a very intelligent contribution to a debate which is raging around us even as we speak. You have also given us a very helpful memorandum in the course of this inquiry in which you say, amongst other things, that you very firmly support an increase in fuel duty. How do you square that with the fact that amongst those who are most angry about the fuel price escalator are people living in rural areas of the country, those areas which obviously you are in some ways there to represent?

Mr Hamblin: Well, certainly the needs of those in rural communities is extremely important for CPRE. We do believe the Government needs to tackle the strategic problem, whereby the cost of motoring is falling in comparison with public transport and other alternatives where prices are increasing. That is a significant issue which needs to be tackled. We do think that the Government needs to do more in relation to improving both rural public transport but also in recognising that the needs of people in rural communities are very different. Those in deepest Northumberland, for example, have very different needs to those in Essex or other areas in terms of their travel needs. Therefore, it is important that taxation policy is able to reflect those different needs and it may be that road user charging can provide one mechanism for that. At the moment we have fuel duty, but it is a rather blunt instrument and we would want to see more money going into rural public transport. We would also like to see investigations made as to how rebates could be made for those living in deep rural communities where there are not alternatives to the car.

Q113 Chairman: In your memorandum you are very clear that you think they should actually be racking up fuel duty. I just wonder how many of your members would clap their hands with enthusiasm at the prospect of paying more for petrol, particularly if they live in rural Northumberland.

Mr Hamblin: We have said that we want to see the price of motoring increase and we have made that quite clear in position statements which are available on CPRE's website and are available to our membership. But we want to ensure that the needs of those in deep rural communities are met too and that is why CPRE has been engaging with the Department for Transport on the Local Transport Plans guidance, to ensure that alternatives are made available to people in rural communities. One of the things we need to recognise is that as rural shops are closing one of the reasons for that is because it is economically viable to have out of town supermarkets with large car parks which are reliant on people driving long distances on cheaper fuel.

Q114 Mr Thomas: I represent a rural constituency and I look at the fuel prices in my constituency and they are often several pence a litre more expensive than they are in London. So in many senses rural road users have to have a car in order to access jobs and services and they are already paying more for their fuel duty. Are you right to concentrate so much on fuel duty, although I accept the principle on which you are doing so? What about other aspects of the cost of motoring? You have mentioned road pricing but you have also got the road licensing scheme, insurance can be varied, and you can have taxes as well. Have you looked at other aspects of how we can have a more equitable system which does indeed penalise people for car use which is certainly non-essential, which does encourage people to use public transport but does not end up keeping the rural poor at home on benefits?

Mr Hamblin: I think we need to remember that about 30% of the rural population do not have access to a car and their needs are not being met properly at all at the moment. The changes which the Government has introduced in relation to Vehicle Excise Duty will help those on lower incomes so we support those sorts of changes. The point we are trying to make is that as a nation we are seeing rising emissions of greenhouse gases from transport and we need to change that trend, and the cost of fuel is an important indicator. But that cannot be done in isolation from land use planning policies, investment in public transport and protecting local services. That has all got to be part of the package.

Q115 Gregory Barker: Just two points. Are you honestly saying that you favour supporting village shops, which everybody does, by raising the cost of fuel so extensively that by comparison Tesco with all their financial might are unable to compete on price with your local village Spa? That sounds a ridiculous thing to suggest.

Mr Oliver: We are not suggesting that—

Q116 Gregory Barker: But that is what Mr Hamblin said.

Mr Oliver:—but I am grateful for the question because it allows us to put that to rest. We regret the context in which the question is asked in the sense that, as we have said and as has been acknowledged by the Chairman, it is a very blunt instrument and a very crude way of managing demand, but since it is an issue which is uppermost in many people's minds it is one which needs to be addressed. We are acutely aware—and I speak as somebody raised in the countryside and having lived in the countryside most of life—that there is a huge need for flexibility when it comes to genuine rural road users. The other thing is that the question has got to be seen in the context of the change in the relative cost of motoring over the last fifty years, and that is a very significant context in which to observe any change from now on because as the cost of motoring in relative terms has gone down and the length of journeys has gone up that has had a very damaging effect on the importance, the significance and the use of local facilities, whether it is a village shop or a small town. An area I know well, Battle, Sedlescombe, Whatlington, that area particularly has suffered very much from people driving further to go to larger centres to do their shopping.

Q117 Gregory Barker: To suggest that you are going to put up fuel duty though to try to interfere in that market is surely far too blunt a way to actually manage that and you would never be able to do it? You would have to go up to such a prohibitive level before it became economically effective that you are just never going to get there. All you will do is just penalise people. What I also do not understand is exactly what is your motivation for hitting motorists? Is it climate change? In which case, why could you not focus not on people using their cars but people using the wrong type of fuel or the wrong type of technology? Why are you so focused exclusively, it seems, on the use of the car, which for most people in the countryside is a life-enhancing measure and actually it is rural isolation and people who are disconnected from the opportunity to travel which means they cannot get out, they cannot work and they have to move to town—for most people in the country the car is a liberating thing which enables them to live in the country rather than a negative thing.

Q118 Mr Hamblin: There is a variety of effects which may come from any one instrument which the Government may use. What CPRE is not saying is that we should be using fuel prices nationally as the instrument to protect local services. The point I was trying to make was that there are side-effects from the decrease in cost overall of motoring and that those have positive and negative effects in rural areas. We want to see measures put in in order to reduce overall greenhouse gas emissions, and the Government's strategy to try to tackle the wide range of implications and negative effects from rising traffic levels. We are seeing traffic rising faster in rural than urban areas. That is a trend which has continued for many years because of already congested towns and cities and that is having a huge impact on the character and tranquillity of the countryside in addition to all the other concerns which have been raised previously.

Q119 Chairman: Could we move on to look at another aspect of this because your memorandum is equivocal, I think it is fair to say, about the possibility of a Renewable Transport Fuel Obligation. Do you not accept that biofuels may have a part to play in solving some of the problems we have just been talking about?

Mr Oliver: Yes, we do. That certainly is the case. There are, however, some important considerations along the way, one of which is the urgent need to avoid recoupling agricultural activity, having just successfully decoupled it from production, and the risk of coupling production to energy crops rather than to food production is something which we have drawn attention to in many responses and are concerned to avoid.

Q120 Chairman: But surely there is a world of difference between decoupling the over-production of food from agriculture and the possibly new relationship between agriculture and non-food uses of crops. It is a completely different issue. One of the reasons for the decoupling of food is that we are producing too much of the stuff and it is grossly inefficient. If there is a new market opening up for biofuels it is something which agriculture can helpfully provide, I would have thought?
Mr Oliver: Absolutely! We agree that if there is a new market agriculture should respond to it, but it should not be on the basis of a subsidy, which is just as inefficient or can provoke just the same market inefficiencies as the food production subsidy system did. So the same logic applies. You do not want farmers following subsidies, you want them following markets. If I may just add, however, you do want to encourage the development of technology and we do need to be positive about how best to achieve efficient renewable energy. One of the things which is so very difficult about renewable energy of that kind is the diffuse nature of it. We have been in discussions with various academics about this and we are told that if all the arable fields in Norfolk were deployed solely for biofuel it would not produce enough biofuel for the cars of Norfolk alone. So you do see there is a huge question about the diffuse nature of production and, if you like, the relatively insignificant nature of it by comparison with other means of delivering renewable energy.

Q121 Mr Chaytor: You are weaving together two separate objections here, I think, are you not?
Mr Oliver: There are two, yes.

Q122 Mr Chaytor: One is the objection to subsidising an industry where the consequence of the subsidy leads to inefficiency and distortion and the other is the objection about the reality of the potential for biofuels and the impact on the landscape. I can see there is a concern about the impact on the landscape if we produce a national mono-culture, and I can see that is a genuine issue, but surely that is dealt with by other forms of restriction on the percentage of land which is used for biofuels? But in terms of the subsidy and the inefficiency, I am sure it must be that any emerging industry, if it is going to reach maturity, needs some kind of financial incentive?
Mr Oliver: I think there need to be incentives and leadership when it comes to technology, and I think that previous experience of Eggborough and other places shows how important it is for that to be of a very high quality and very well led, and with a very high calibre of people doing it. I think we are quite nervous about the track record in many cases of leading technology with investment, but I recognise there is a need there. What we are very much not keen on doing is reintroducing the idea of a sort of acreage-led policy where a subsidy per acre for biofuels or biomass leads to farmers making decisions about land use. However, going back to your point about the landscape, which I am very grateful to you for raising, yes, there are some concerns there but I am actually much less worried about the landscape implications of biofuels and biomass than I am about the distortion of the market and the over-reliance on a fuel which is of relatively little significance. That is because it is very important to recognise that farmers must be free in many places to diversify their crops and we must be realistic about that, and we will have a future countryside which is different from the present one. I am very keen, as the head of rural policy at CPRE, to lead that debate from a positive, embracing perspective and not from a negative one. So I am anxious not to say that we are so worried about the landscape implications of biofuel that we want to resist it; rather, I would rely on intelligent dialogue and landscape character assessment, which is already in place, to help farmers make wise decisions, together with other agencies such as the Integrated Agency we expect will soon be in place.

Q123 Mr Chaytor: But are you opposed to all subsidies on alternative fuels?
Mr Oliver: No. No, we are opposed to the idea of coupling acreage payments for the production of bio crops.

Q124 Mr Thomas: Just to clarify on the biofuels issue, and I was interested in the Norfolk example you gave of not enough biofuel for all the cars in Norfolk, is that at a five% mix within diesel or at a hundred%?
Mr Oliver: I do not know, I am afraid, and I am quoting from Tim O'Riordan's figures, which I do not have, but we can furnish the Committee with those.
Mr Thomas: If we could have a note just to clarify that.

Q125 Chairman: Yes, if you could let us have a note.
Mr Oliver: Certainly.

Q126 Mr Thomas: The second point on the issue which you have just addressed to Mr Chaytor—the cross-compliance issues within the single farm payment and the need to maintain the farm—whether you are taking subsidy for biofuels or not, you will still have a single farm payment presumably, which is the new replacement for agriculture subsidies? There is a need within there about cross-compliance and maintaining good husbandry. Surely that rules out a mono culture appearing on these farms anyway? That just gives scope for farmers to go after a new market, which is biofuels, and surely we do need some incentives to develop that market, albeit over a period of time then the incentives are withdrawn and we have a viable free market existing in those fuels themselves?

Mr Oliver: I think I agree with your analysis, but I think the critical point is that you do not lead farmers with a acreage payment because the problem with the rendering of the landscape through subsidy from a layman's perspective is that you see farmers doing things because they are paid by the acre or by the head of livestock to do them and for no better reason than that. It is entirely different to encourage a technology to become cleaner, more efficient, more competitive and more effective and within that, if we are going to grab the bull by the horns, there is the issue of genetically modified crops as well, which we do not entirely reject for the very reason that it does help, one can argue, in terms of efficiency of biofuel production. We do not have a position on it yet, we do not know the facts, but we are certainly aware of the importance of such issues. When it comes to a single farm payment, of course you are right that the single payment allows a degree of flexibility of response from January this year onwards. However, I think we should be realistic about the length of time the single payment will be in existence and its scale. We very much expect there to be reductions in the single payment and a fundamental political desire to end it for all the obvious reasons which have been very well rehearsed on previous occasions.

Q127 Mrs Clark: Before I go to the question I was going to ask, I just want to take this debate about biofuels a little bit further. For the past seven and a half years I have been arguing the case for this Government to actually be more proactive in terms of biofuels, and I have been doing that alongside British Sugar, which is just outside my constituency. I am surprised and a little discouraged that you have used the word "insignificant" in relation to biofuels, bioethanol, etc., particularly when we see in Germany that the government there is very much actually putting its full fist behind biofuels. How can we encourage it? Warm words are not going to do it, are they? What is CPRE going to do in terms of really getting this on the map?

Mr Hamblin: I think the debate we have been having is about the way in which that sector can be supported and making sure that through that support we are not generating other adverse effects. One of the other issues which we have not touched on, but which is important, is looking at the overall carbon balance from the use of biofuels, where for some it is positive and for others it is less positive. We would expect all these sorts of issues to be addressed in the Treasury's assessment of that programme.

Mr Oliver: It is a question of value for money as much as anything else and I think I used the word, I hope I did and I certainly meant to use the word, "relatively" insignificant rather than insignificant when compared with huge changes which are required of society in order to reduce carbon emissions overall. Also, if I may say so, with regard to British Sugar, I think it is a very interesting case where the industry is doing a good job to try and see whether it can make a positive contribution, but I think again we would be keen on that not being led by an acreage subsidy.

Q128 Mrs Clark: Okay. You have actually stated quite openly that you would like the Department for Transport to set a target for reducing traffic levels. You will probably, like myself, remember the *furore* in 1997 when John Prescott actually said that he wished to reduce the number of car journeys. I believe it made national coverage and the Government has since refused to set a target. Do you honestly think they are going to go back to that and that sort of bad coverage, particularly before an election, and taking on board the comments which Mr Barker has made about people living in rural areas actually regarding their car as a bit of a lifeline, etc?

Mr Hamblin: Well, we were talking then about a national target and forgive me if I do not comment on the comments of the Deputy Prime Minister. I think what we are trying to say in our submission is that traffic levels are a very important indicator of a wide range of effects from transport on people's quality of life. And we have been deeply concerned by the way in which the Government has lurched towards seeing congestion as almost the single most important issue to be addressed. Congestion is important, it has environmental, social and economic downsides, but there are a wide range of other effects which need to be captured. We do have traffic as a headline sustainable development indicator. We have got various PSA targets for a whole range of sustainable development indicators. We do not have it for traffic, but what we are promised in July is a number of congestion targets. There is a big debate about how you measure congestion meaningfully, but our locus on this is very much to say that congestion is only part of the bigger jigsaw.

Q129 Chairman: It is one thing to set a target for reducing traffic, but how would you actually do it, ban people from using their cars on certain days of the week, or close the roads? How do you actually do it?

Mr Hamblin: In the same way that a range of other Government targets are set, you establish the target, it provides the aim around which you then set the framework in order to deliver that, and you measure the variety of different proposals coming out of the Department for Transport, and I would also argue out of the Office of the Deputy Prime Minister in terms of the communities plan, against whether it is going to move towards it or move away from that target. I would remind the Committee that the Government's Commission for Integrated Transport, which looked at this issue, did actually recommend that the Government establish an aspirational target of zero traffic growth by 2010. We are some way on from when that report was published now so that might need refining, but the Commission for Integrated Transport has made that recommendation to the Government.

Chairman: The Government may feel, with some justification, that it has already broken enough of its targets without the need to set another one, which frankly would be impossible to meet.

Q130 Mrs Clark: What is CPRE's view on developing a national road charging framework? Is that a good thing or a bad thing? Is it possible? Would you accept that in reality it might be much more of a sort of blunt instrument for tackling environmental impacts than the current structure we have got of VED and differential fuel duties? Is it capable of greening it?

Mr Hamblin: There are a lot of questions in there. First, I would say CPRE supports in principle the introduction of national road user charging. We do have a more detailed position statement, which I am happy to make available to the Committee on the whole issue of charging. Our concern is that the Government is looking at this again principally as congestion charging rather than road user charging and that has some potentially quite significant downsides in relation to encouraging traffic on to less congested roads at less congested times of the day. Indeed, that is the objective of the measure. Our concern with that, though, is that it is not addressing the wider effects of traffic on people's quality of life and indeed it could even undermine policies to try and encourage an urban renaissance. So we need to approach the whole issue around charging very carefully, but we think it has a very important role to play. It need not be blunt because it could comprise a number of different factors in order to come to your final charge, if you like, based on distance, based on place, which again we would argue needs to be varied to take into account the needs of those in deep rural areas compared with urban areas and elsewhere. So there are a lot of issues still to be resolved. I think the package that we have at the moment with VED is important in terms of influencing choice of vehicle or choice of fuel but what it does not do is address overall traffic levels or journey lengths where they have been increasing over time, and that represents a significant problem.

Q131 Joan Walley: Sustainable development and sustainable communities is very much the key phrase at the moment in view of the conference in Manchester, which finishes today as we speak. Could I just ask you first of all, in terms of taxation on property and the role of taxation in all of this, how do you think the Government should square the circle between the need for affordable homes in the south-east and providing a protect and provide approach? How does it, by the same token, ensure the urban renaissance in the northern areas where we have communities that are not quite there for the purposes for which they were originally built? What is the role of taxation in assisting the squaring of the circle on those issues?

Mr Oliver: To give a top-line answer first, demand management is fundamental and we have set out our arguments in a document, which if the Committee wishes, we could provide, which we launched last week entitled Building on Barker to address the premise that Kate Barker sets up that supply side management is the solution to the housing shortage in general and we come to the conclusion that although there are some supply side issues, particularly and crucially with affordable housing, the wider question of the provision of housing and its location is something which requires demand side action as well as supply side action. When it comes to the role of tax the Committee may be familiar with the fact that we have recently published a document entitled The Taxation of Property, which we commissioned from Europe Economics, which is not our policy but which I think provokes quite useful discussion, and to answer your question concerning the role of tax we would say that there are some serious points worth making. The first one is that the issue of mobility and economic competitiveness is an important one that we recognise and therefore we wish to reduce the effect of any taxation mechanism on that. We observe from a report commissioned for the Council of Mortgage Lenders that stamp duty does not seem to have reduced the number of transactions which take place, despite the fact that total sums have of course gone up because property prices have risen. We raised the question that perhaps sellers should be taxed rather than buyers when it comes to stamp duty. We observe that the Treasury has observed itself that property investment is relatively lightly taxed and we recognise that if capital gains tax were to be imposed on the disposal of property there are important qualifications for that, the principal three being getting relief on establishing the need to move for economic reasons, which to some extent answers the question I have previously raised, that there might be the possibility of relief on moves which were happening less frequently than every five years, and that there would be very important relief on any expenditure made on improving the property.

Q132 Chairman: Why should anyone move if they do not need to? I mean, it is not a pleasant experience. They do not do it for fun.

Mr Oliver: No. That is entirely true. However, there is evidence that not all moving is entirely down to economic justification and is partly down to the cost of travel.

Q133 Chairman: It would be very hard to make it stick in law.

Mr Oliver: Yes. That is a fair point. We are merely raising the issues which we think are important in engaging with this matter and we are not, as I said earlier, making a point of policy. But it is important that the question is faced as to whether housing is an investment or a basic necessity and the inevitable answer is that it can be both, and as a result our consultant suggests a policy where there is a recognition that some element of property value is down to basic necessity and some of it is down to the opportunity to benefit from investment and that might be a means of addressing the question of taxing fairly and effectively. We subscribe entirely to Kate Barker's suggestion that second homes should be subject to the full rate of council tax, as she suggests herself, and when it comes to a property tax instead of a council tax we recognise the interesting question of whether this might reduce the volatility of the housing market by encouraging the better use of existing stock as the market becomes more buoyant rather than only that happening as the market declines and owners seek other means of securing income than simply owning a house singly. So those are some of the issues which we hope are germane to your question.

Q134 Joan Walley: Just before we come on to the contentious tax issues there, could I just press you a little bit further on the Building on Barker report which you referred to and just ask you whether or not, in the light of that report, you feel there is further work by way of environmental impacts, etc., which needs to be embedded into the basis of the Barker Report in respect of building in the south-east?
Mr Hamblin: Absolutely. We have been very concerned by the way in which the Barker Report came on the scene. As part of the report, was the clear statement that environmental implications were not properly considered and that this was the role for Government. Well, now we need to see how the Government is going to actually respond to that and we have advocated in our evidence that a full strategic environmental assessment be undertaken, because although Defra has done a *post hoc* analysis of the Barker Report and the Communities Plan it is after the event, obviously, and it does not address some key issues such as transport and consequently overall greenhouse gas emissions.

Q135 Joan Walley: In respect of that, could I then ask you to wed that approach that you would like to see from where Barker leads us to the Treasury and to the opportunities that there might be through taxation to try and deal with some of these perversities, if you like, and to ask you particularly about greenfield development. You are advocating, presumably, that we get a level playing field? It just seems to me, representing a northern area, a former manufacturing area where we have so much brownfield—why should we have these huge incentives to build on greenfield land? How do you think the Treasury could really play a part in all of that?
Mr Oliver: I think that the Office of the Deputy Prime Minister has an important role to play in raising the brownfield target.

Q136 Joan Walley: But should that be done through the tax system, VAT?
Mr Hamblin: In terms of the Treasury's role, we have said that we want to see changes to the VAT regime so that there are incentives provided for brownfield development and urban regeneration and moving away from greenfield housing development.

Q137 Joan Walley: You have said that and the Richard Rogers Report said that. Do you see any signs that that is now being understood, acted upon and implemented by ODPM in conjunction with the Treasury? Have we made any headway on that?
Mr Hamblin: Well, I think I would step back from the immediacy of that issue to where the Government strategy is going in terms of taxation. Our concern has been that one never knows from year to year what the next measure might be. Is it going to be a little more tinkering on company cars? Is it going to be a plastic bag tax? Is it going to be measures to try and encourage an urban renaissance? Since the Lord Rogers Report came out we have seen very little evidence of the Treasury really taking that message on board and that is something we want to see coming forward in the next Budget.

Q138 Joan Walley: Do you think that you see little evidence of it because it might be too contentious an issue, or do you feel that there are, as we speak, people working behind the scenes, looking at ways of getting that level playing field and getting the 17% VAT on a level playing field?
Mr Hamblin: I think there has been quite a lot of work done in the Treasury on looking at how you can create incentives for better design of new housing. Whether there is more work being undertaken to look at the overall location and amount of housing, we do not have those signs yet.
Joan Walley: Thank you.

Q139 Gregory Barker: Could I just come back to this taxation issue. You are a campaigning organisation with a mass membership that is very well respected and does very important work, but the notion that you could associate yourselves with putting capital gains tax on to housing is politically contentious and widely unpopular, while at the same time being somewhat equivocal to the extremely common sense and urgent issues which Joan raised about greenfield and brownfield. Do you not think you are sort of losing your political antennae as to what is possible, what is achievable and what is desirable? It sounds to me as though you are tilting at the most extraordinary target and saying, "Put capital gains tax on homes," which right the way across the political spectrum people will just think is barking mad because often the home, for very good reason, is people's largest single asset and there is a whole argument there, yet I cannot understand your being very conservative (with a small 'c') about the types of areas of taxation which are realistically under debate and where people do want to see progress. Have you not got your priorities wrong?
Mr Oliver: I think it is important to re-emphasize—and I know you understand this but it is important as a matter of record—these are not policy recommendations by CPRE.

Q140 Gregory Barker: No, but you have commissioned a report at great expense and you have publicised it?
Mr Oliver: We have commissioned a report, yes, from a think-tank which is well-respected in market-orientated circles and why we have done this is because in our view the whole ground on which the debate about housing and land relief, homelessness and affordability of housing is debated is hugely under-informed in all sorts of different ways. Kate Barker's Report was a very helpful initiation of that debate recently and our response to that we hope is similarly helpful. We are interested in broadening the debate to the widest possible boundaries in order to have an informed and balanced judgment at the end of it. So in terms of our political antennae, I would say that we recognise that, unlike a political party, we are luckily able to raise contentious, difficult and unpopular questions when the need arises and we are committed to maintaining, if you like, a leading role in that dialogue despite the fact that on occasion there is the risk that we are seen to be delving into dangerous waters. When it comes to the question of greenfield and brownfield land –

Q141 Gregory Barker: But what is the purpose of raising something which is never going to be accepted? I know you are not a political party and you have a valuable role –
Mr Oliver: I do not think we would accept that the benefit of the debate is solely down to whether or not a particular proposal is one day accepted. I would imagine you would appreciate the point that by debating the options the scale of the question and the best solutions become clearer over time. So it is not simply a question of backing different horses but it is looking at the whole spectrum of possible solutions to what everyone acknowledges is a very difficult problem. But when it comes to the greenfield question I think there are no flies on us when it comes to the development of arguments in favour of a greater use of brownfield land and we continue to be thoroughly committed to developing that case further in all sorts of different directions, whether it is to do with taxation or planning policy.
Gregory Barker: I just want to ask you a couple of questions about the Strategic Environmental Assessments, the SEAs. You are obviously concerned about how the UK is implementing the SEA directive and you suggest that the UK definition of "plans and programmes" is not consistent with the SEA directive. This is pretty complex stuff for most people, but could you just briefly summarise for us in layman's terms what your key concerns are?

Q142 Chairman: As briefly as possible, please.
Mr Hamblin: Certainly. I wondered whether the Committee may examine this part of our evidence. I have produced a diagram which, if I may, I will just circulate, which will save probably many words.[2]

[2] Ev 57.

Q143 Gregory Barker: That is clear then!
Mr Hamblin: The legislation was subject to very lengthy debate within Europe and lots of compromises were made and so it is a complex piece of legislation, I would entirely agree. Basically, in order to determine whether a government or public plan or programme requires Strategic Environmental Assessment (SEA) you need to determine whether it is defined as a plan or programme under the directive, whether it is covered by the different sectors which are included in the directive, and then whether there are going to be significant environmental effects, and there are criteria included to help establish that. Our concern, as set out in our evidence, is that the regulations do not fully comply with the directive and I have highlighted on that sheet the area which we think has not been addressed. For the record, it is the requirements under Article 3.4 of the directive which we do not think have been covered, but perhaps more significantly is looking at how this is being –

Q144 Joan Walley: I am sorry, I cannot quite see it under Article 3.4. Could you just show me that?
Mr Hamblin: Sorry, Article 3.4 is the reference from the directive and relates to the shaded box on the left. I have not included all the Articles on that diagram for means of, hopefully, simplicity, but I am happy to elaborate at another time. Our concern in addition to the specifics of the regulation is the extent to which the Government is embracing this new tool, which is a very powerful tool for ensuring that the environment is integrated into decision making at national, regional and local levels, and we believe it will be of significant interest to a committee such as yours. We are particularly concerned that we have seen no Strategic Environmental Assessment for the Communities Plan. We have not seen a Strategic Environmental Assessment for the Transport White Paper which came out. We are aware that neither the Department for Transport nor the Highways Agency are, shall I say, keen on undertaking a Strategic Environmental Assessment of the roads programme.

Q145 Joan Walley: Does that apply to the M6 road widening proposals as well?
Mr Hamblin: We have seen no detailed information on the M6 expressway and we are deeply concerned about and indeed opposed to that concept. We would expect the SEA to cover the entire roads programme, including committed schemes and those ideas which may be being consulted on.

Q146 Gregory Barker: Good. Thank you for explaining that. Finally, you refer at the end of your memorandum to the need to develop a better understanding of the effect of climate change on the countryside. Do you think that the full economic costs and other long-term costs (i.e. in terms of the impact on the countryside) of inaction are really fully appreciated? We hear a lot from witnesses and from Government about the costs of taking action

to combat climate change, but do you think the costs of inaction are really fully appreciated by people, particularly in relation to the countryside?
Mr Oliver: I agree with the question, that they are not. I think possibly the single most important issue is the effect of climate change on the productivity of the land in the longer term, particularly with regard to land which is reliable for versatile use or highly productive use, which is likely to change as climate changes.

Q147 Gregory Barker: Could you be a bit more specific, because some people say, "Well, if we have milder weather and a bit more rain surely that is helpful?"
Mr Oliver: Yes. The Committee will appreciate that agricultural land in England is classified under the system set up in 1966 and that there has been for a very long time, since at least 1975, understanding in planning which can still be found in a much reduced fashion in PPS7 that land which is either the best land or most versatile land should be protected from development for its use for production. CPRE is very concerned that there is no thorough understanding of the likely effects of climate change on the productivity and versatility of land and there are common nostrums about the ability to grow red wine in Kent or the ability to have alpacas in Northumberland. But the truth of the matter is that in order to have a coherent and strategic approach to the likely effects of climate change on land which we should rely on in the long run for production of some kind, policy is very behind hand and relying on a system of classification which dates back to 1966 and a planning context which is always weakening when it comes to the need to protect land of versatile use in the future, is of great concern to us.

Q148 Gregory Barker: But what are the key threats? Obviously you say there could be change, but what is it that you see as the threat from climate change?
Mr Hamblin: Well, clearly the countryside is subject to change all the time and farmers and land managers try and manage that change. Our concern is that climate change could have a profound impact on the character of the countryside and the landscapes and that this is not currently being part of the debate.

Q149 Gregory Barker: Could you just be a little bit more specific so that people can visualise what you are talking about?
Mr Oliver: A very specific example would be the effect on beech wood, where the Woodland Trust has done very good work on plotting the likely effects on its woods of different projections of climate change, and other work has been done by other bodies.

Q150 Gregory Barker: But what are those projections?
Mr Oliver: The projections are in that case that there will be a substantial shift of the area of England where the beech tree will be able to grow successfully, and that will mean that large sections of the south-east will no longer be able to sustain beech trees. Very specifically, as a means of illustrating this vividly, the Chilterns will become an area where the beech tree will be very hard pressed to survive to maturity. That is an example of a fundamental change in the character of landscape, which will have considerable economic consequences and cultural consequences, which would be considerable for very large numbers of people. Beech trees are an easy icon, but of course this affects a much wider range of species and a huge range of habitat types, which in turn have very considerable landscape implications. It is quite possible to develop scenarios of different levels of change and the different change in pace of climate change which give very different answers and we and other organisations involved in this are the first to acknowledge that we cannot be certain about these things, but we agree with the premise of the question that the potential costs to the landscape in terms of its amenity, its attractiveness, its viability, its risk of fire, all sorts of things that we are all familiar with being problems in the southern Mediterranean, putting it crudely, are likely to increase in England and that those need to be taken into account together with the importance of production should other places cease to be able to produce commodities on the scale, efficiency and reliability that they presently can and where our own ability to produce commodities may become increasingly significant in world terms.
Mr Hamblin: Perhaps I may just add, in order to answer your question in more detail, that this is work which we at CPRE hope to commission in the coming year, should we be able to find funding, in order that we can have a greater public understanding and awareness about these sorts of issues which at the moment are not being addressed in the climate change debate.
Gregory Barker: Thank you.
Chairman: Very good. We look forward to reading that. Thank you very much indeed for your time with us this afternoon.

Supplementary memorandum submitted by the Campaign to Protect Rural England

CALCULATION OF BIOFUEL PRODUCTION: MATCHING CULTIVATED AREA TO CONSUMPTION IN NORFOLK

by Susan Pollard, BA, MsC, associate of the Department of Environmental Sciences, University of East Anglia

This calculation is made using the following figures and assumptions for 100% biofuel use:

Yield

Two figures for yield are considered: those from Sheffield Hallam University and BABFO.

- Sheffield Hallam: 1 tonne or 1,100 litres of biodiesel/hectare.
- BABFO: 1.5 tonnes or 1,650 litres of biodiesel/hectare.

County of Norfolk Statistics

- Population of Norfolk: 820,000.
- Arable land available in Norfolk 323,082 hectares.

Vehicle Statistics

- Assumption of 0.5 vehicles/head of population in Norfolk.
- Assuming average annual mileage of 10,000 miles/vehicle.
- Using two levels of vehicle fuel performance.
  - Used Ford Mondeo: 8.4 miles/litre.
  - Advanced car performance: 11 miles/litre.

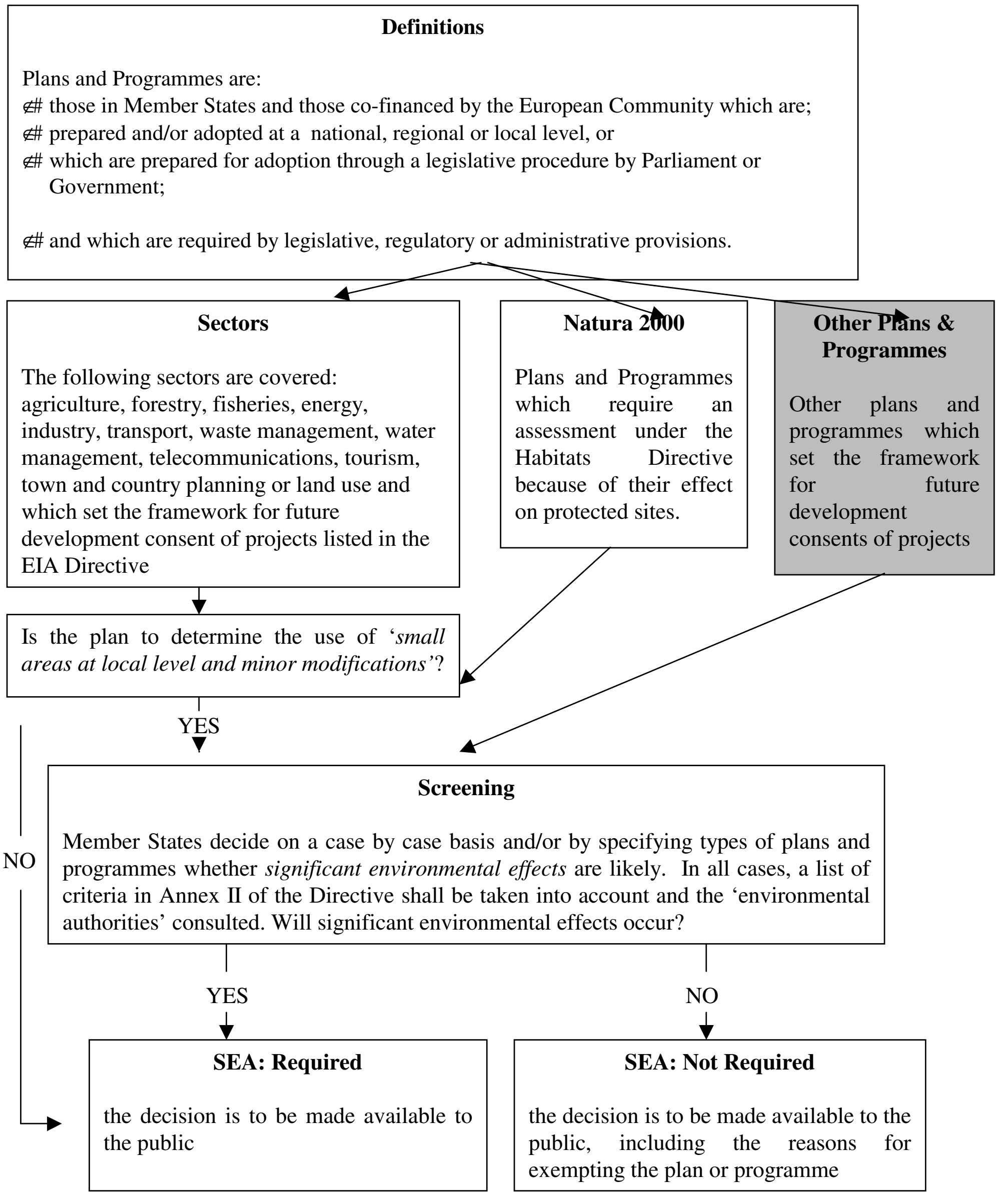
Scenarios

- 410,000 vehicles at 10,000 miles/year, achieving 8.4 miles/litre equivalent to: 488,095,238 litres used/year.
- 410,000 vehicles at 10,000 miles/year, achieving 11 miles/litre equivalent to: 372,727,272 litres used/year.
  - At yield of 1,100 litres/hectare, total annual yield in Norfolk: 355,390,200 litres.
  - At yield of 1,650 litres/hectare, total annual yield in Norfolk: 533,085,300 litres.

Thus, using the Sheffield Hallam figures, even with highly fuel efficient vehicles universally in use, Norfolk could not support all Norfolk's vehicles at 100% biodiesel use.

Using the optimistic BABFO figures, on present fuel performance figures, Norfolk could barely produce enough fuel for all Norfolk's vehicles at 100% biodiesel use.

A diagram to illustrate when a plan or programme produced by Government or other public body will require Strategic Environmental Assessment (SEA) under Directive 2001/42/EC.



14 February 2005

Memorandum submitted by Professor Paul Ekins, Head, Environment Group, Policy Studies Institute, Professor of Sustainable Development, University of Westminster, Specialist Adviser, Environmental Audit Committee

Background

In the early part of 2004 Professor Paul Ekins, a Specialist Adviser to the Environmental Audit Committee (EAC), prepared a report at the request of the EAC Secretariat on the EAC's inquiries over the period 1997–2003 into the Treasury's Budget and Pre-Budget Reports. The Executive Summary to this report (hereafter called the Ekins Review) is appended to this note.

With no major new developments in this area in the Budget and Pre-Budget Reports of 2004, the conclusions of the Ekins Review are still robust. The purpose of this brief note is to highlight the main implications of these conclusions as an input into the EAC's considerations into how it might like to take forward this aspect of its work.

Conclusions of the Ekins Review

When the Labour Government was elected in 1997 it produced almost immediately a Statement of Intent on Environmental Taxation, which seemed to promise a shift in the balance of taxation onto pollution and the use of scarce environmental resources. The EAC broadly welcomed this prospect, and in its first few reports in this area made a number of suggestions as to how it could be brought about, as well as investigating the measures that were proposed by the Treasury. The EAC also made a number of other suggestions as to how the Budget and Pre-Budget Reports could give a profile and importance to environmental and natural resource issue that better seemed to match their importance to the economy and to human welfare more generally.

As the Ekins Review makes clear, after 1999 the government's resolve to make strategic use of environmental taxes seemed to disappear. Policy in this area consisted mainly of nominal freezes (and therefore real reductions) in the rates of the major environmental taxes (for example, fuel duty and, from 2001, the Climate Change Levy) and ad hoc proposals for relatively (or very) minor measures (for example, after two full consultations on the possible use of fiscal measures in relation to household energy, Budget 2004 announced three measures—enhanced tax allowances for landlords on energy efficiency investments, and reductions to 5% in the VAT rate on ground-source heat pumps and micro-CHP—which will have the most minimal, if any, impact on the household use of energy). As a result the revenues from environmental taxes in 2003 were a lower share of both total tax revenues and GDP than they were when the Labour Government first took office (although the shares of both had increased to 2000). Over the two terms of office of the Labour Government it will certainly be the case that no green tax shift will have materialised. On broader issues, while it is true that the Budget and Pre-Budget Reports now have their own chapters on environment and natural resources, these are largely a review of existing Government policies in these areas, and there is still no treatment of such issues as resource productivity or resource accounting that is in any way commensurate to the attention given to their mainstream economic counterparts such as labour productivity. It is hard to avoid the conclusion that, despite the best efforts of the EAC, environmental issues are still marginal to the way the Treasury thinks about, and manages, the economy.

Implications for a New Parliament

It would be idle to pretend that the environmental tax agenda is not politically fraught. Two of the big popular protests of the last decade (those against VAT on household fuel and against fuel duty), under Governments of different parties, have been against taxes that were at least presented (though not always with great conviction) as environmentally motivated. Those protests have certainly cast long shadows over future environmental tax initiatives in these areas.

At the same time, there is no serious challenge to the intellectual foundation of the economic and environmental case for environmental taxation in general or a green tax shift in particular. Environmental taxes remain, for many issues, the most cost-effective way of increasing social welfare through environmental improvement. Seeking to achieve such improvement against the price signal is likely to be both expensive and ineffectual. And using the revenues from environmental taxation to reduce taxes on labour and capital is likely to increase economic output as well as reduce environmental damage—one of the rare opportunities for the fabled win-wins that sustainable development is supposed to be able to produce.

It is of course not yet clear what the attitude of a new Government will be to environmental taxation, but it is likely that the intellectual case for it will mean that it will not be against it in principle. There will, in my view, be a major and continuing role for the EAC in challenging the Government to be more ambitious in finding ways of raising environmental taxes that are politically acceptable, and suggesting ways in which this might be done and in which economic management might take more account of the environment more generally.

To be effective, environmental tax policy cannot shy away from the big issues, especially the use of fossil energy, because they are also the big sources of revenue which will allow a green tax shift to occur. This means getting existing transport taxes (for example, fuel duties, aviation duties) back onto a rising trend, as well as looking at new areas of transport taxation (for example road user charging and aviation air emission charges); increasing taxes on the household use of energy while protecting poorer households; and increasing the Climate Change Levy while continuing to promote ways in which business can become more energy efficient.

These taxes could be supplemented by a whole range of taxes in other areas, some of which could also raise substantial revenue (for example, a greenfield development tax), some of which would be mainly aimed at behavioural change (for example, a tax on plastic bags). With all such taxes, good design is imperative to avoid unintentional consequences and, of course, to mitigate the losses or ease the adjustment of losers from the tax (and there will always be losers). The EAC has an important role in the future, as it has in the past, to scrutinise environmental tax proposals in order to make them as effective as possible.

Perhaps the EAC could also take up with the new Government its old proposals for a Green Tax Commission (GTC). Given the political difficulties of environmental taxation, it is hard to see how any party in government will persevere with proposals that may be unpopular in the short term, unless there is a level of public and cross-party political support for such proposals. A GTC could help create that support.

EXECUTIVE SUMMARY TO THE REPORT THE ENVIRONMENTAL AUDIT COMMITTEE (EAC) AND THE BUDGET PROCESS, 1997–2003

A Review by Professor Paul Ekins, Policy Studies Institute, and Specialist Adviser to the EAC

This review discusses the role of the House of Commons Environmental Audit Committee (EAC) in reporting on the Budgets and Pre-Budget Reports (PBRs) from 1997–2003. It examines each of the Budget documents, picking out the major proposals, and the reports and recommendations of the EAC in response to these documents and proposals. It follows the issues through from these reports, through the Government responses, and subsequent proposals from the Government in respect of the same issues. The review takes as its starting point, as the EAC did, the Statement of Intent on Environmental Taxation, which the Government issued in July 1997 shortly after being elected.

The responses and recommendations of the EAC to Budget documents can be grouped into three basic areas: strategy, information and targets, and specific measures. The strategic issues considered by the EAC in relation to the Budget documentation were the extent to which Government was achieving its objective of "environmentally sustainable economic growth"; the extent to which the Government treated SD issues as mainstream; the concept of resource productivity, in comparison to labour productivity; the extent to which the Government included SD considerations in its consultations; the strategic consideration of environmental tax issues, which the EAC repeatedly recommended would be best carried out by a Green Tax Commission (GTC); the need for a consistent approach to the evaluation of environmental taxes; the need for a comprehensive approach to environmental taxes, ensuring that they were considered for all important environmental issues; the need for a more systematic approach to green procurement.

The two strategic issues on which it is clear that Government practice has evolved in the direction recommended by the EAC are the need for consultation and the need for a comprehensive approach to environmental taxes. SD issues are now routinely included in consultations, and environmental taxes are now considered (though not always implemented) in all major environmental policy areas. Otherwise the Government has tended not to respond positively to the EAC's specific strategic recommendations.

The issues related to information and targets were the need for environmental appraisal in Budget documentation, not just of specifically environmental measures, but also of mainstream measures; the need to relate the environmental appraisal to the Government's SD indicators; the need for long-term environmental goals and targets; the need to adopt both an indicator and target to show whether the tax shift objective was being achieved.

Environmental appraisal is the issue to which the EAC returned probably more than any other. It is also the issue on which it probably exerted the greatest influence. In PBR97 (and earlier Budget documentation) there was no environmental appraisal of Budget measures. By the 2001 Budget (B01) it had become standard practice to report not just on the anticipated environmental impacts of Budget measures, but also on the SD indicators likely to be affected and the other policy instruments and wider context related to the environmental issue concerned. Again, this was a major innovation on the introduction of which the EAC had a great influence (as the Government acknowledged on a number of occasions). However, the Budget appraisals were not further developed as far as the EAC recommended.

On specific issues and measures the EAC has paid attention to all the measures introduced or suggested by the Government but has perhaps been particularly concerned with pesticides; VAT on energy-saving materials; vehicles and vehicle use; fuel duty levels and differentials; incentives for Green Travel Plans. In general, there is no doubt that EAC scrutiny has been influential in keeping environmental tax proposals on the table longer than they might otherwise have been, and in ensuring that when they are dropped from consideration, this is made explicit and noted, rather than the proposals just fading from view. There have also been some notable occasions when EAC recommendations have been subsequently reflected in major Government policy measures (for example, on VED and company car taxation reform, VAT on energy-saving materials, the increase in the landfill tax and the development of an Alternative Fuels Framework).

In terms of the extent to which the Government has achieved its environmental tax objectives, Table ES.1 shows that it has certainly not achieved a shift of taxation from ‘goods’ (such as employment) to “bads” such as pollution, which was the key objective articulated in the Statement of Intent. Table ES.1 shows that environmental tax revenues have rather fallen since 1999 as a share of total tax revenues and as a proportion of GDP.

Table ES.1

UK ENVIRONMENTAL TAXES, 1994–2003

Tax/£ billion	*Introduction date*	*1994*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
Energy									
Duty on hydrocarbon oils	1928	14.0	18.4	21.0	22.4	23.0	22.0	22.1	22.5
VAT on duty	1973	2.4	3.2	3.7	3.9	4.0	3.9	3.9	3.9
Fossil fuel levy	1990	1.4	0.4	0.2	0.1	0.1	0.1	0.0	0.0
Climate change levy	2001	—	—	—	—	—	0.6	0.8	0.8
Road vehicles									
Vehicle excise duty	1921	3.8	4.3	4.6	4.9	4.6	4.1	4.3	4.6
Other environmental taxes									
Air passenger duty	1994	—	0.4	0.8	0.9	0.9	0.8	0.8	0.8
Landfill tax	1996	—	0.4	0.3	0.4	0.5	0.5	0.5	0.6
Aggregates levy	2002	—	—	—	—	—	0.0	0.2	0.3
Total environmental taxes[1]		**21.8**	**27.4**	**30.7**	**32.6**	**33.2**	**32.0**	**32.7**	**33.6**
as % of total taxes and social contributions		9.3	9.5	9.8	9.8	9.3	8.7	8.8	8.6
as % of GDP		3.2	3.4	3.6	3.6	3.5	3.2	3.1	3.1

[1] Totals do not sum due to rounding
Source: UK Environmental Accounts: Autumn 2004, ONS
http://www.statistics.gov.uk/downloads/theme_environment/EANov04.pdf

Table ES.2 shows that it is now not even clear that the Government is proceeding systematically in environmental taxation according to the polluter pays principle. Rather Table ES.2 suggests that measures in B2000, B01 and B02 contained substantially more subsidies and tax giveaways than taxes and charges.

Table ES.2

PREDICTED NET YIELDS FROM ENVIRONMENTAL BUDGET MEASURES FOR THREE YEARS, 1998–2003

£million	*1998–99 indexed*	*1999–2000 indexed*	*2000–01 indexed*	*2001–02 indexed*	*2002–03 indexed*	*2003–04 indexed*	*2004–05 indexed*	*2005–06 indexed*
B98	1,102	1,400	1,750					
B99		1,750	3,365	6,440				
and before		1,845	3,465	6,540				
B2000			−310	−455	−250			
and before			−135	−160	185			
B01				−890	−845	−845		
and before				40	550	585		
B02					−565	−675	−700	
and before					−30	−100	−140	
B03						−165	135	385
and before						−140	225	480

Source: Budget publications, 1998–2003

With regard to the way that the EAC might now pursue its scrutiny of Budget measures, it is suggested that the EAC combine a number of approaches. First, it should continue to monitor Budget and Pre-Budget proposals and implementation of measures, pinpointing strategic issues from time to time, especially where they could be tied to relevant current proposals or policy developments. This should be supplemented with more in-depth appraisals of particular policy areas of current relevance, setting out the potential role of environmental taxes and other Budget measures in addressing perceived environmental problems. Specific areas suggested were waste, household energy use and water. In this way the EAC could seek to develop a consistent and comprehensive approach to environmental taxation, issue by issue, as it has recommended that Government should do.

Finally, the EAC could seek to take forward its strategic agenda by focusing on one or two big themes, such as the more systematic appraisal of the effects of economic growth on the environment (perhaps in the context of the Government's review of its sustainable development strategy in 2004, or the Government's commitment to the polluter pays principle. The EAC could ask for evidence for areas in which this principle was not currently being observed and for suggestions as to how the situation could be remedied through Budget measures.

By combining these approaches such that they reflected current policy developments, the EAC could build on what it has successfully achieved in the past in terms of scrutiny of Budget measures, while also breaking new ground.

27 January 2005

Witness: **Professor Paul Ekins,** Head of Environment Group, Policy Studies Institute; Professor of Sustainable Development, University of Westminster, examined.

Q151 Chairman: Good afternoon, Professor Ekins. Thank you very much for joining us and also for the work which you do on behalf of the Environmental Audit Committee behind the scenes. We are extremely grateful to you for your support, which we value very highly. Can I begin by asking you for a brief assessment of the extent to which you think the Treasury has been successful or otherwise in shifting the balance in environmental tax from goods, or from good to bad, as it were, particularly bearing in mind that the revenue from environmental taxes is now at its lowest level for the last twelve years.

Professor Ekins: Well, on the basis of that indicator it has not been successful at all. In terms of shifting the balance of taxation one would be looking at the share of taxation that was being borne by environmental taxes, and the share too is lower now than it was in 1994 and lower than it was when the Government came to power in 1997. So I cannot say that that objective has been met in any way.

Q152 Chairman: Why do you think it has not been achieved?

Professor Ekins: Well, I suppose the easy answer is that environmental taxes have proved to be politically more fraught than people had either thought or hoped. The Statement of Intent on Environmental Taxation, despite its brevity, I think was in many ways admirable and it was admirable that it was brought out so soon after the first Labour Government was elected and for a couple of years there was an enormous amount of creative thinking going on in the Treasury about the way in which it could be applied. We then had the difficulty in implementation of the Climate Change Levy, and it was a difficult process. I continue to think that its implementation was entirely right and justified and I think all the evidence on energy use and carbon emissions from that particular sector bears out that perception. The fuel duty protests in 2000 also changed the climate significantly, although I think it is worth noting that it was in fact in the Pre-Budget Report in 1999, before the fuel duty protests, that the Treasury signalled its determination to abandon the road fuel duty escalator, despite the fact that it had been due to go through to 2002. So while the fuel duty protests in a sense were the nail in the coffin, a few other nails had gone in before that and in a sense the argument for that particular kind of instrument seemed already to have been lost before the protests took place.

Q153 Chairman: What do you make of the argument the Treasury sometimes deploys, which is that it is wrong to take as a measurement the value of an environmental tax as a percentage of the total because if an environmental tax is successful it is a declining number because it is discouraging bad behaviour? Do you follow me? That is an argument they use, that actually the more successful this tax is, the less it raises. Do you think there is any validity to that?

Professor Ekins: I think there is a little validity to it but that overall it is simplistic and flawed as an argument. To some extent it depends what you mean by "successful" in environmental tax terms. In an economy which is growing one will expect, other things being equal, the use of environmental resources to grow and for issues like transport, waste and energy use this is clear, these things do grow along with economic growth; sometimes not as fast as economic growth, but nevertheless they grow. Now, it would be perfectly possible to argue that the purpose of an environmental tax was actually to slow the rate of growth rather than bring about a precipitate decline and there is some evidence that the road fuel duty escalator was in fact doing that in the mid to late nineties—as shown, for example by estimates of traffic growth in the early nineties which did not materialise—and it is perfectly possible to argue that the road fuel duty escalator played a role in that. I would certainly agree with that analysis and say that therefore in that sense the road fuel tax was successful in curbing the rate of growth. Clearly, because revenues equals tax rate times resource use (whatever it is that the tax is levied on), the revenues in those circumstances will actually have grown substantially rather than shrunk, despite the fact that the tax has been successful. If you are thinking of a tax the purpose of which is actually to completely reduce to zero the use of a particular environmental resource (perhaps like plastic bags, if you want to move entirely away from plastic bags to paper bags, which may or may not be a good thing) then clearly you are not going to be regarding those as revenue-raising taxes in the first place. So I think you need to make a distinction between those two different kinds of environmental tax and then recognise that the purpose of environmental taxation is not very often to reduce resource use to zero. In fact, with regard to transport, there is no earthly reason why one should want to stop driving entirely. There is no reason why one should want to stop, in fact it would be very silly to try to stop energy use entirely. We can envisage fossil-based energy use at a very substantial level for the coming decades. There will therefore always be a substantial tax base and there is no reason why the revenues from that tax base should not continue to be very significant.

Q154 Mr Chaytor: There may well be certain forms of behaviour that Government wishes to eliminate completely over a period of time. I suppose the analogy with health would be tobacco consumption or the consumption of foods with excess fat. There is an objective of Government policy to raise the health of the nation and part of that objective implies a reduction close to zero of the consumption of substances which work against that. Are there no environmental equivalents there?
Professor Ekins: There are.

Q155 Mr Chaytor: Would you argue for that as a legitimate use of environmental taxation? Are you sharing the view of the Treasury or do you have a different view to the view of the Treasury, and do you think it is legitimate to have environmental taxation which does not really change demand as well? Is it equal and legitimate to have a form of environmental tax which does reduce demand and change behaviour completely? I am not clear what you think the basic principles are.
Professor Ekins: Well, I said that I thought there was a little validity to the Treasury argument and I think if one looked forward to 2050, were we to arrive at a situation where we would be using sixty% less carbon in our fuels and were that to be the basis of taxation because of its undesirability, then clearly that would have an impact on the revenues that would be obtained from energy. So that as an indicator does not tell the whole story. In addition to revenues, if you know that revenues are going down you do need to ask, is this because tax rates are going down or is it because behaviour is being changed and therefore we can argue that the tax is being effective? So you are not going to get the whole story from that single indicator, but that is not unusual; it is very often the case that single indicators do not give whole stories. I think, looking at the table in the evidence which I have presented, it is quite clear that the fall in the share of environmental taxes since 1999 has not been due to environmental improvement in the sense of a fall-off in traffic miles, for example, but due to the fact that the tax was frozen at nominal levels. So we can be quite clear about the interpretation of that table in this instance and I think that, therefore, is quite clear. One is always going to have to interpret that number in a reasonable sort of way in the light of other issues, such as the relation between tax rates and environmental use, or indeed, if you are looking at the share of taxes, what has happened to other taxes. If the overall tax take has increased very greatly for various reasons, then obviously that share is going to be telling you a different kind of story.

Q156 Mr Chaytor: Do you think it is legitimate to argue the case for environmental taxes purely as a revenue-raiser without any judgment as to the impact upon behaviour, and are there such taxes which could be used purely as revenue-raisers?
Professor Ekins: Well, if you were to say, given that the Government needs revenue and given that the major sources of Government revenue (labour and capital) are acknowledged to have undesirable disincentive effects—they discourage people from employing people or being employed and they discourage entrepreneurship—given that we know there is a negative on that side of the argument if you are saying that you know there are environmental resources which you could tax and get revenue from which are also associated with negative environmental effects, I would say it is most unlikely that the elasticity in respect of those environmental effects is zero and that therefore if you were to tax them and the price was to increase it is most unlikely that nothing would happen. But even if nothing happened you could say, "Well, at least we're getting some revenue from the taxing of that bad, which means that we can reduce revenue in other areas where we know it has disincentive effects." That is obviously the pure argument for the tax shift, that even if you leave the environmental benefit out of the equation (which I would not want to do in any kind of full analysis, but if you were to for the sake of an intellectual argument) then you have got a tax which is having no incentive effect, which is better than a tax which is having a disincentive effect on things that you actually want.

Q157 Mr Chaytor: What do you think of this debate about the capacity of predicting or calculating exactly the monetary value of

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environmental taxation and weighing up the rate of the tax to be levied as against the monetary cost of the damage? Do you think that is a precise science?
Professor Ekins: It is certainly not a precise science, it is an extremely imprecise technique.

Q158 Mr Chaytor: Is it even worth pursuing, or is it so imprecise we should abandon it?
Professor Ekins: Well, I think it varies from issue to issue. It is probably worth trying to do it and in some instances by the very process of trying to do it you do get insights into the effects that you are trying to analyse which you would not otherwise get. But where you are talking about having to value health effects, and indeed human life effects, values of statistical lives that come into this, especially when you are having to do this internationally across countries (as you have to if you are trying to estimate the cost of climate change, for example) then my own assessment of it is that the numbers that come out have such a wide error bar that they are not a great deal of use for policy and that policy is much better pursued through the political process of discussing the kinds of environment that one wants, that one wants to live in, obviously being informed by such cost estimates as are available, both on the environmental damage or benefits side and also the costs of achieving that environmental improvement, that ultimately it is most unlikely that your environmental valuation figures will be sufficiently precise (in fact they will not be precise at all), or even within a sufficient confidence interval for one to be able to make robust policy.

Q159 Mr Chaytor: So the idea of somehow trying to match the rate of tax applied to the assessment of the cost of environmental damage is a complete non-starter?
Professor Ekins: It is a nice intellectual construct and it is one which we are all taught when we study economics, of course, and as an ideal it is useful to have it in mind that that is what we would like to achieve. There is very little point in levying an environmental tax if you do not expect to get an environmental benefit. The next question is obviously, well, how big is that environmental benefit and how far should we go in terms of trying to get it? But I have been very struck in looking at environmental taxation right across Europe that in fact the UK is just about the only country that tries to levy environmental taxes in that way and that in fact there is not a single environmental tax anywhere, even in the UK (although we have tried), which has been levied on that kind of basis. That, to me, says that actually policy-makers, while some of them I know (because some of them are trained economists) are convinced by the logic, they are deterred by the impracticality and that even in a country like this one where our Treasury is very committed to this kind of principle, the Landfill Tax was brought in at £7 per tonne in, I think, 1996 on the basis of these kinds of calculations and we know that that rate did not last very long because it was not perceived to be doing the business and was very soon raised and, as we know, it is now heading for £35 or £33 per tonne, whatever it is, because that is perceived to be what is necessary to drive the kinds of environmental changes which are perceived to be desirable. To me, that is a very much more satisfactory way of proceeding in this area.

Q160 Mr Thomas: I think we will explore this in more detail again now, looking particularly at the transport sector, because you have already mentioned the effect of the abandonment of the road fuel duty escalator and what we have seen since then, of course, is that motoring in real terms has got even cheaper and the price of petrol in real terms has certainly held steady if not got cheaper, yet the perception of the public, of course, is that motoring is more expensive and fuel in particular is more expensive and that the Chancellor is trying to hammer the motorist, which makes it politically difficult for any Chancellor to go back to a road fuel duty escalator or some kind of significant rise in fuel tax. I have two questions in a sense. Why do you think the public remains wedded to this concept even though any independent analysis shows that they are wrong and the work of this Committee also, our little contribution, has also shown that? If that is the case and we are unable to get the public to shift their perceptions, what is the best way forward to tackle road traffic emissions, which I know in Wales have gone up and probably throughout the United Kingdom as well? Is it through going back to something like the road fuel duty escalator, or is it for the Chancellor to re-think that aspect of taxation, perhaps looking at road pricing in the round or some other way forward? What is the way forward, in your view?
Professor Ekins: I am a mere economist and not a politician—

Q161 Mr Thomas: That is one up on me anyway!
Professor Ekins:—and the politics of this is obviously difficult in the sense that all the evidence suggests that people value driving very greatly and as they get richer and richer they would like to do more and more of it. It is not helped, I think, by the fact that historically the road fuel duty escalator was and was perceived as a revenue-raiser and that during the good years from 1993 to 1999 very little was done actually to explain the rationale behind that tax as an environmental tax, and certainly nothing was done to explain the fact that the reductions in income tax, which happened at the same time through that period, were very largely made possible by the fact that very large amounts of revenue were coming from road fuel duty. Had all that explanation, the environmental benefits of the road fuel duty escalator, been explained, and just as much had people been told that one result was that they had more money in their pockets because they or their employers' rate of tax had been reduced, and therefore if they chose not to drive as much but pursue activities which did not emit as much carbon or use as much energy, they would actually be better off in real terms—that argument was sort of still-born. Why that was, I can only imagine, was that the

whole political awareness in the political culture within Westminster and outside, in the media and all that just did not allow those arguments to circulate. Of course, it is much more difficult to take up those issues now when there is all that history to be gone through. I honestly do not think there is any alternative to doing that and I think the very serious concerns about climate change, which undoubtedly the public is now latching on to (quite rightly because the science has become scarier day by day), do give an opportunity to try to explain some of these things. The great benefit of a tax shift, which is why I think the Statement of Intent was so right back in 1997, is that although you are paying more tax for something, you are paying less tax for something else and it is the paying less tax for something else which never seems to get into the equation. It is entirely right that people should pay more tax for activities which inflict serious social harm and climate change is a serious social harm. I think arguing for more tax on that basis would be understood if people recognised that that means we are paying less tax in some other way. Obviously the balance of that and how the shift is presented and what the less tax is will obviously be different for the business community vis-à-vis people and personal taxation and all that kind of thing, and that is obviously a very difficult and sensitive political matter. I get the sense that the Treasury is not really engaged with that level of the issue at all and I think it is in order to try to de-politicise some of that that I, and indeed your predecessor committee, have argued very strongly for a kind of non-partisan body like a Green Tax Commission which can really scope out the options and try to get this debate going in that sort of frame, rather than inevitably having it characterised almost from day one in that unhelpful way as a sort of 'war on the motorist', which is obviously complete nonsense. No one is saying that people must not drive at all, it is just that given the realities of climate change and limited space a situation where increasing incomes means that everyone drives further and further year after year is clearly not sustainable and not possible, and the tax system has an important role to play in remedying that situation.

Q162 Joan Walley: I want to pick you up on the Green Tax Commission because, as you have said, our previous committee did come up with very strong recommendations indeed along those lines. It is really through this whole arena of education and awareness and how we can make a political imperative if something needs to be done simply because of the whole challenge that we face in respect of climate change. I really want to ask you whether or not you think that opportunity for a Green Tax Commission has now gone since 1997, or do you think that it could be reinvented? Is there any possibility of it, or has the moment gone and we have got to think of a new way of doing it?
Professor Ekins: Well, the Green Tax Commission is just a name. I think what one is talking about is trying to find a way of re-starting a very important public debate.

Q163 Joan Walley: But is the time more right now to come up with something similar?
Professor Ekins: I think the arguments against it from Treasury, which always seem to me to be basically that it had no intention of even sharing the discussion of strategy in these areas, are probably still there in the sense that the Treasury wants to feel very much in control of where this agenda goes. My own feeling is that that is a great mistake because almost by definition that means that this debate will not be perceived as something that is in the broader public interest beyond the day to day issues of politics because the Treasury is always recognised as the body that is most interested in revenue and filling the Government's coffers. So unless the debate is taken away from that particular forum, it seems to me unlikely that we are going to get the sort of really in depth discussion of the sorts of things which Mr Thomas was talking about. I think there may be an opportunity for it now because frankly I think the Government is very committed to the whole climate change issue. I think the reality of the way carbon emissions are developing towards 2010 and thereafter is very far from the targets that it has said it would like to meet and it will therefore have to do something. I do not think the price mechanism is the only instrument it will need to use, I think it will need to do lots of things, but I am quite certain that if it does not do something in respect of the price mechanism whatever else it does is not going to be terribly effective, and it will not be able to do that until we have had this broader debate because we are talking about not only transport, of course, but about the two other areas of very vexed issues of household energy and the Climate Change Levy and of what do we do about business and commercial energy use, those three great chunks of energy use and carbon emissions. Unless there is a way of having a mature discussion which is, in a sense, beyond the day to day needs of Treasury, and, because public perception is terribly important in this area, beyond the public's perception of the day to day needs of Treasury, I am afraid we will not have the kinds of debate and political cultural shift in this area that we need.

Q164 Joan Walley: Back in 1997—and you mentioned 1997—we did have from the Treasury a commitment to giving us a Statement of Intent. Would you say that that really does fall short of a proper strategy then, in view of what you have just said?
Professor Ekins: Yes. I think it would be impossible to argue that a one page Statement of Intent can be viewed as a strategy. A strategy has to be a comprehensive setting out of options, a discussion of different pathways to different potential desired targets and then a choice of where you want to go, how far you want to go with milestones for review on the way. That is what I understand a strategy to be and I do not think we have ever had that from the Treasury in respect of environmental taxation, and certainly we did not get it in the tax and environment publication in 2002, which while it was a very great deal longer than one page a lot of it could have been

lifted from a fairly elementary micro economics text book and did not really advance the political discussion of this at all. Yet, as we know, it is the political discussion of this issue which is the one that we so urgently need to have.

Q165 Joan Walley: So if the idea of a Green Tax Commission is an idea whose time still has not time, I am just wondering how we really get it on to the agenda. Just by chance I had a business breakfast with the Governor of the Bank of England this morning and I was interested to explore the extent to which the Monetary Policy Committee is really looking at the whole issue of sustainable development. Is this something which needs to be injected not just in the Treasury but right the way across government and addressed through those who are involved with the economic agenda as well, and what role do you think your role as a professor of sustainable development has to try and get those ideas accepted so that we can have this, if you like, look at the options so that we can then have a political debate within that framework and within that frame of reference?
Professor Ekins: I think academics have a very important role in terms of continuing to test the intellectual validity of these ideas and that can never be taken for granted, and that is a role that I have tried to play. I continue to be very persuaded, as I have written in my evidence, of the intellectual validity of this whole area and in fact of its essential nature if we are to grapple with these fundamental structural issues like climate change. Thereafter, I think one has to push at any door that one thinks might be remotely open in the recognition that very often change comes about in unexpected ways. It would be a great surprise if it was in fact the Monetary Policy Committee which did something in this area which actually provided the political impetus for people to begin to be able to shift alliances and for there to be a new sense of urgency and importance behind this agenda, but stranger things have happened.

Q166 Joan Walley: It is not in their remit, though, it is?
Professor Ekins: No, it is not in their remit, but if people perceive things to be important they sometimes say things which are not particularly in their remit and then perhaps the issue is taken up by others. So I am keen in my own academic work to explore ways in which these ideas can be developed and I am talking to people about ways in which one could do that, and one knows that other people are too. I think obviously the political arena such as this Committee is another very important place whereby these ideas can continue to be aired and at some point I think politicians who are in charge of delivering on things like climate change will recognise and say, "We need to grapple with this issue because we can't achieve what we want to achieve without it," and perhaps a new government, if that is what we are going to get this year, of some kind will provide an opportunity for that kind of reassessment.

Q167 Joan Walley: Just finally, do you think that the Office for National Statistics could play a bigger role in developing and implementing an environmental tax strategy, or do you think the Met Office could do it? Who else do you think could be part of changing the framework?
Professor Ekins: I do not think politicians can get away from the fact that tax strategy is a pretty important part of politics. All sorts of other people can make inputs into that. The ONS has a hugely important role in its stewardship of the environmental accounts and there has been an enormous development of those, of course, over the last 10 years and people like myself enormously welcome that. I think the fact that the ONS took it upon itself to publish figures about the share of environmental taxes in overall taxation—no one asked it particularly to publish that, in fact I think there would have been some members of the Government who rather wished that it had not published that—has shown that it is alive to these sorts of issues, but they are and need to remain mere statisticians, producing data which is useful, robust and rigorous, and I do not really think one can expect that the political leadership is going to come from there. I think that is going to have to come from other politicians who are interested in these issues.

Q168 Chairman: Are you involved in any way in advising the Government in this field at the moment?
Professor Ekins: Not directly, no. I keep in reasonable touch with the green tax team at the Treasury and I know them personally, when they do not change their personnel too quickly and then one has to get to know them again, and every now and again I do a piece of work. I have just done a piece of work for the Energy Saving Trust on whole house fiscal measures, fiscal measures for encouraging whole house energy efficiency, which I daresay the EST will publish sometime, and we had the odd seminar with Treasury officials and I was able to tell them how disappointed I had been at the result of the two consultations they had had on fiscal measures for household energy use. I mention that in my evidence. If ever a consultation produced three mice when one might have expected something a little more substantial, that was it, and I was very disappointed with that, having made some input into it.

Q169 Joan Walley: So Westminster University is not planning a summer school for the Treasury?
Professor Ekins: No, not at the moment. I think actually they do not need to learn very much about this because they are all extremely bright, but there is certainly, I think, a lack of ambition there to do what needs to be done with the tax system.

Q170 Mr Thomas: I want just to go back to one sector which you mentioned there which I do not think we have quite touched on in so much detail, which is the industrial sector, because we are looking now to the Government's review of the Climate Change Strategy and we have touched on the Climate Change Levy and you have said how strongly you supported that. Of course, it has been frozen in effect as well as part of environmental taxation. The evidence we have had as a committee from business is that you cannot do too much or penalise business too much as regards climate change and the environment because this will affect competitiveness. As an economist rather than a politician, how do you view that argument?

Professor Ekins: Well, it is obviously an argument which needs to be taken seriously. At the same time, it is an argument which needs to be evaluated empirically; it is not a theological issue. Competitiveness is again quite a difficult concept because are we talking about the competitiveness of a particular firm or are we talking about the ability of the UK generally to earn money from exports? The two are very different. I know you have had two rather different points of view presented as evidence from both the CBI and the Environmental Industries Commission. From one perspective you may say that the environmental industries will become more competitive if you both regulate and tax pollution and other environmentally damaging activities. The issue is whether the environmental industries can then go off and sell their wares abroad in order to get exports to compensate for any losses in sales which the regulated industries might experience. If they can, then we are likely to experience a win-win, because we will get environmental improvement from the environmental tax or regulation, whatever it may be, and at the same time will be selling clean technologies abroad and getting the exports from those sources. But that cannot be taken for granted and sometimes I think one can go too far in imagining that all regulation is going to lead you to these sorts of innovations and marvellous new technologies and stuff. Clearly regulation has to be there for a purpose. Regulation and taxes have to be there to improve the environment, but it is not at all the case that just because you have an impact on one or a few firms that is necessarily bad for competitiveness in the wider sense of the ability of UK companies generally to be able to earn a living. I said one needed to look at the evidence on this. I know of no evidence at all that the Climate Change Levy has had any impact whatever on UK competitiveness, in fact I think the fact that it was allied with the climate change agreements—which appear to have led to enormous savings in energy use from those sectors, which presumably will have been cost-effective, they will have done it and they will have saved money as well—means that there is a very strong argument to be made that the Climate Change Levy has probably greatly improved the competitiveness both of the energy-intensive sectors (who are the ones you might have expected to be badly affected) and is marginal for the rest of business because, to be honest, the share of energy in their turnover is so small as to be barely noticeable, and in fact quite a lot of businesses have not noticed that they are paying the Climate Change Levy.

Q171 Mr Thomas: It was linked, if I recall, with a small cut in National Insurance as well, was it not, the Climate Change Levy?

Professor Ekins: Absolutely! It was a classic tax shift, an absolutely explicit tax shift, and that again—and I am very pleased that you have mentioned it—is something which often is not mentioned because that will have had an impact on the service sector and its ability to employ people, because in companies which employ lots of people despite the fact that there was only a 0.3% cut in Employers National Insurance that nevertheless is a significant sum of money if you are employing lots of people and immediately then you are beginning to evaluate differently your employment and labour costs. So we have got very much an example of the kind of reduction of basically undesirable taxation that one was talking about.

Q172 Mr Thomas: So what kind of lessons can we draw from that experience and any other similar experiences for the review now of the Climate Change Strategy, because you have already expressed your disappointment with some previous Treasury reviews and the results of those reviews? What sort of hope or ideas can you hold out for this particular review now? You have said the Treasury are very bright, there is no doubt about that all, but how can we give them that ambition to make this review and to actually make those changes on the ground which will lead to the sort of shift in taxation that we have been discussing in this session?

Professor Ekins: Well, I think we can be clear that the Climate Change Levy has been a success. I mean the whole Climate Change Levy package has been a success. I think it is clear that we have to continue the process of de-carbonising industry, of getting it to look beyond the use of fossil fuels. The technologies to enable them to do that are improving the whole time and to me the way to engage their attention for the next round would be to say that we imagine that the Climate Change Levy is going to be increased—not increased by huge amounts all at once because that leads to adjustment problems which are quite undesirable, but that over the long-term it will be increased substantially and that businesses which are keen to really improve their competitiveness in the future therefore need to consider alternatives to fossil fuels and of course the wide range of energy efficiency technologies which can still be implemented and which will be developed in the future, which businesses have already been implementing quite fast if the evidence on the climate change agreements is anything to go by.

Mr Thomas: Thank you.

Q173 Paul Flynn: Do you think the reason why the Climate Change Levy has made very little difference in the competitiveness of British industry is because they are not really paying it? It was reduced, I know, in the case of the steel industry to a much lower level than one anticipated and the people who are actually paying the levy are pensioners because what happened is that there has been a reduced take into the National Insurance Fund and the principal beneficiaries of that are pensioners. We have seen a bit of chicanery, I believe, in this, in the presentation, and very few people realised. The Climate Change

Levy was very successfully opposed by business, to their great advantage, and the level was reduced and it was transferred in a way that is understood by practically nobody by making a reduction in the National Insurance Fund. Do you see this as the way forward or a surrender and a lack of courage by the Government in opposing what was an important change?
Professor Ekins: I think there are two issues there. The first one is the fact that yes, energy-intensive industry did get an eighty% reduction in the Climate Change Levy. At the time I was against that and I still think it was probably an excessive reduction. At the same time, these are energy-intensive industries. They do stand to be hardest hit by a levy of that kind if they are trading in international markets, as the steel industry, for example, very much is and I think that the performance of those sectors against the climate change agreements which they undertook in return for that rebate shows that in fact they did look at their energy use very carefully and they have saved quite a lot of energy and quite a lot of carbon. So I think to some extent that does vindicate the policy.

Q174 Paul Flynn: Was it for economic reasons they wanted to reduce their energy use, or that –
Professor Ekins: But there is a lot of business and commercial energy use that was not covered by those rebates which is paying the full one hundred% whack on the Climate Change Levy and I think smart business people in those circumstances will be contacting the Carbon Trust to see how they can save energy and end up paying probably lower energy bills than they were when they started. So I think that the basic way that package was structured, with hindsight, was sound. On the National Insurance Fund, it is my understanding that National Insurance contributions do not go into a special fund, they go into taxation revenues generally, and the fact that the money was coming in from another source (i.e. the Climate Change Levy) meant that this was more or less a revenue-neutral measure and that therefore there is no reason at all why the pensioners should have suffered, and indeed I think the pension has been increased significantly in recent times. So I am not sure that I would agree with that comment.

Q175 Paul Flynn: The money does go into the National Insurance Fund. It is not a fund in many senses but it exists and is drawn on and we have a figure every year of the surplus that is in the Fund. The other point was the unfairness of the scheme was that those who had the advantage of this were big employers, who were not the aluminium industry or the steel industry but a company like Marks & Spencer, or something like that, which employs a large number of staff. But it seemed to be a way which was not related in any way to energy savings. It gave the advantage to big employers and not to the steel industry itself. It went down eighty% but they were not employing large numbers of staff, therefore they did not get the advantage of the lower National Insurance Fund.
Professor Ekins: I would put it a slightly different way, which is that rather than giving Marks & Spencer the advantage I would say you were lifting what is actually a very unfair disadvantage to them. The fact that they are large employers does not seem to me to be a justification for them to pay very large amounts in tax. Being a large employer that means –

Q176 Paul Flynn: It was an insurance scheme.
Professor Ekins: Well, it is a taxation scheme in truth and if we can get our revenues from other sources then it seems to me that it would be desirable to get it from other sources and reduce the kind of penalty that you are giving large employers for employing people, given that employing people is a good thing.

Q177 Paul Flynn: I will not pursue this, but I disagree profoundly with what you have said. But I agree entirely with the points you make in your document, which is rather a gloomy one. You rightly say that the whole process seems to be stagnating. But now what you say in your oral evidence is that there is an opportunity because of the way that we are all alarmed by the effects of global warming—and those who know most about it are the ones who are most terrified on this—and if this percolates down to the brain-dead readers of the *Daily Mail* then it might become a political imperative and there is some hope there. Most of the environmental taxation seems to be to do with fuel and energy. You have mentioned a few other areas. Could you enlarge on that? Are there areas where we could in fact impose such taxes? You have said that you regard this Committee as having a role in these areas and I think it is something that we would like to fulfil if we can expand it beyond the fuel and energy field.
Professor Ekins: Yes. I think the other two areas where we have had action, which have been extremely important areas, have been both the Landfill Tax and the Aggregates Tax. That covers the great majority of the kind of large-scale resource throughputs through the economy, if you like, apart from water. Water is another very interesting and important issue. We in this country, in my view, lag very far behind other countries in that we do not even bother to measure the household use of water in the great majority of cases and therefore clearly we cannot manage it. I think in those parts of the country that will be water-short in the future that will be perceived to be a completely untenable state of affairs. When we do start to measure it and when we need to manage it, then I can imagine that the use of economic instruments, the use of taxation, in order to discourage excessive water use may well be an important use for taxation. I was engaged in a research project just recently which has been published, which was funded by the Joseph Rowntree Foundation, as to how that kind of measure could be implemented in a way which did not impact on lower income households because that would obviously be an absolutely essential issue given that water is a basic need. But there are other countries which do charge for water use on the basis

of volumetric measurement and they manage to do so in a way that does not impact on low income households.

Q178 Paul Flynn: There are people like Lester Brown, who does quite fairly raise the spectre of the need to manage water in the same way as we needed to manage land after the end of the War and that if we do not do this we are looting the fossil aquifers in Mexico and elsewhere and what we are actually doing by trading with countries like China with one tonne of grain needing one thousand tonnes of water is that we are actually exporting water, and that there is a crisis on water which is going to affect us very much and there are crises in other areas as well as far as water is concerned. That is an interesting point that you have raised.
Professor Ekins: I would just say that the former UN Secretary General, I think, was on the Today programme this morning talking about precisely those international issues, but the south-east of England and the east of England are going to be very water-short areas indeed given the population pressures in those areas and we will need to find ways of managing people's water use far better than we currently have if those challenges are to be met.

Q179 Paul Flynn: There are two members of the Committee who are from Wales, which exports water without charge to England. We very much welcome that idea. It is not so warmly welcomed in England. What about fiscal incentives as opposed to taxes to promote environmental objectives? Enhanced Capital Allowances are available for certain kinds of investments now. Do you think that is a good idea? Could we go beyond those?
Professor Ekins: I think language is important and to me incentives are given by taxes as well as subsidies. So when you say "incentives" I include taxes in that. If you are talking about subsidies, which is what I understand you to mean, I think subsidies need very, very careful justification because once introduced they are often very difficult to get rid of because the people who receive them get very happy with them. In the environmental field, of course, they are against the "polluter pays" principle, which was something we thought we had established way back in the 1970s. At the same time, they can be useful when there is a clear justification for them. For example, if you are talking about energy efficiency technologies where there are clearly barriers to their take-up, there are all sorts of information barriers, all sorts of other barriers in firms, then introducing well-targeted subsidies such as the Enhanced Capital Allowances I think can be justified. I am not aware that they have been terribly successful yet in getting a stampede of take-up for these technologies and I think there is a definite argument that the climate change agreements linked to the Climate Change Levy have been more successful in getting companies to look seriously at energy efficiency opportunities and I think generally if energy use is a very small part of your business perhaps you are going to be more inclined to look at a potential increased cost than take up an opportunity for a rather complicated subsidy with huge lists of technologies that you have to wade through and wonder if that is going to be appropriate for you, and all that kind of thing. So I am by no means ruling them out conceptually, but I think there are lots of practical issues to do with their implementation and in principle I think subsidising people not to destroy the environment is the wrong way round.

Q180 Paul Flynn: Do you think there is any opportunity to alter people's behaviour through changes in personal taxation? Is there any scope there?
Professor Ekins: In direct personal taxation I think that is extremely difficult. The essence of an environmental tax is that it is supposed to be as close as possible to an environmental effect and direct personal taxation, of course, is nowhere near an environmental effect. I think there is definite scope for doing it by making products clearly differentiated in terms of price depending on their environmental impact and then making people absolutely aware of why those differentials do occur. I think that a very interesting example of that which is going to come about is when household energy bills have to be properly labelled, if you like, in terms of where the electricity is coming from, in terms of the source of the electricity, and the carbon emissions associated with that electricity. That will then enable governments to tax that energy use differentially and householders will actually begin to see a direct kind of link between price and the commodity they are consuming. I think that would be effective in behavioural terms, especially if the information was there to link the energy bill to climate change, to their use of resources. But we know at the moment those links are very far from being made in the minds of the public and so there is a huge information task there in order to get that across.

Q181 Mr Francois: Professor, it looks like I am tail-end Charlie, so could I ask you one very general question to conclude. If you were Chancellor for a day and you could alter one tax to really benefit the environment, what would it be, how would you alter it, and why?
Professor Ekins: That is a very unfair question to an academic who likes to sit and weigh options in a considered fashion!

Q182 Mr Francois: Professor, if it is any consolation, we get asked unfair questions every day of the week!
Professor Ekins: I am quite sure you do, but that is the job you have chosen.

Q183 Mr Francois: Touché!
Professor Ekins: I would very much hope that one would not get a Chancellor making a decision of that kind off-the-cuff, the one that he first thought of, but I think in terms of its potential impact for the future I would want to rip up the 1944 Chicago Convention—

Q184 Chairman: Hear, hear!

Professor Ekins:—and I would want the European Union to put a realistic tax, as it could then, on aviation fuel. In the absence of that, I would want the European Union to put a realistic tax on the emissions from aviation, which it could do even with the existence of the 1944 Chicago Convention, and that would apply to all airlines, both EU-based and non-EU-based, anything entering EU airports. That, I think, would send a very, very strong signal that the climate change impact of aviation which is projected into the future is absolutely unacceptable.

Chairman: I think you know that we very much share your views on that subject. Thank you very much for this afternoon. It has been extremely helpful and interesting. We are most grateful.

Wednesday 9 February 2005

Members present:

Mr Peter Ainsworth, in the Chair

Mr Colin Challen
Mr David Chaytor
Paul Flynn
Joan Walley

Witnesses: **John Healey,** a Member of the House, Economic Secretary, **Ms Fiona James**, Head of Environment Branch and Environmental Policy, and **Mr Paul O'Sullivan,** Head of Environmental and Transport Taxes, HM Treasury, examined.

Q185 Chairman: Thank you all very much for coming. We are always pleased to see you, Minister, and we are grateful for your time. Can I begin by asking some questions about the "shifting the burden" agenda and, in particular, whether you think the fact that revenue from environmental taxes, which has now fallen to its lowest level for 12 years, suggests that the "shifting the burden" agenda has not worked terribly well?
John Healey: By all means, Chairman. Can I just introduce Fiona James, who is head of our environmental branch of public services within the Treasury?

Q186 Chairman: Whom we have met before.
John Healey: And Paul O'Sullivan, who I think the Committee may also have met before, who heads up our environmental and transport taxation team. If one wants to make some sort of judgment about the seriousness with which the Government takes the use of economic instruments, including taxation, to help the environment, or indeed the progress that the country is making with these, I am not sure that a crude measure of the burden of taxation that is derived from those taxes that are classified as environmental taxes is the best way of measuring that. I say that for two principal reasons. The primary purpose of environmental taxation is not to raise revenue. The principal purpose of environmental taxation is to change behaviour or to provide certain strong signals to the markets because we will get a response from that. That means, in some ways, quite evidently if an environmental tax is successful then you would expect the revenues from that tax base to decline over time. A measure that simply looks at the burden of taxation also fails to pick up some important uses of fiscal measures, such as duty differentials, which we have used to encourage, for instance, the universal adoption of ultra-low sulphur diesel, or indeed what we are now putting in place on biofuels. So I think that it is a starting point, but a measure of the burden of taxation down to environmental taxes actually raises more questions than it settles; although it is perhaps one way into a broader discussion about the use of environmental taxation as part of the range of economic instruments in which we in the Treasury are interested.

Q187 Chairman: We are familiar with this argument. It is one that is described as simplistic by other organisations. Obviously the logical conclusion of that is that if you have a really successful environmental tax, it yields nothing. I am not sure that we are wholly convinced by your argument.
John Healey: I might say that the environmental organisations could put this point to you. Simply looking at the burden of taxation of those taxes that fall into the category of environmental taxation is simplistic in itself. It does not, for instance, capture any of the reforms we have made to company car tax. That is a fiscal reform directly designed to achieve an environmental end; in other words, reduce the contribution of emissions from that form of road transport. It is a form of income tax, in effect—company car tax does not fall into this category of environmental taxation—yet we reckon that last year it probably delivered about 0.2 million tonnes of emissions savings of carbon. In those terms, I would suggest to you, Mr Ainsworth, that there is not a simple and easy measure of this. It is quite a sophisticated and complex area; but one needs to be aware of just what is left out from any picture that is painted by what is designated as environmental taxes.

Q188 Chairman: I think that is a fair point, but the fact that you get £31 billion a year from fuel duty suggests that it is not the whole story, does it not?
John Healey: If one wanted to look at the proportion of total taxation that fuel duty contributes to, in a sense that is another question. If one is interested in the effect and the impact, the environmental benefits that come from any particular measures, including in taxation, then I think that the focus for attention needs to go beyond those fairly simplistic measures.

Q189 Chairman: Do you think that the fact that we have higher fuel duties here than they do in, for example, the United States has any effect on the choices that people make when they come to buy cars? We have more fuel-efficient cars in Britain and in Europe generally than they do in the States, where fuel duties are much lower. Do you think there is a cause and effect there?
John Healey: It is difficult to be categorical about the causation in fields like this, because people's purchasing decisions, particularly with something like a car, are made up of a number of different factors. However, I suspect that there is a greater degree of awareness about the environment; a greater degree of awareness about the value of fuel-efficient engines in cars; and probably a combination of being aware of the costs of running a car. Certainly in this country the modifications that many manufacturers

9 February 2005 John Healey MP, Ms Fiona James and Mr Paul O'Sullivan

have made to engine technology that is producing more efficient engines and cars is probably part of the picture as to why, in this country, we perhaps tend on average to have more fuel-efficient cars than they do in the States.

Q190 Chairman: So it is having an environmental effect; it is having an environmental benefit, and yet it is yielding £31 billion. This seems to me to drive a coach and horses—no pun intended!—through the argument that environmental taxes, if successful, reduce to nothing. Or is fuel duty not an environmental tax?
John Healey: According to the Office of National Statistics, fuel duty is one of the six principal taxes. It is classified as an environmental tax, which adds to the figure of £33.6 billion in the last year which is the take from so-called environmental taxes. Clearly the fuel duty has been around for some time, probably before the notion of environmental tax was actually invented. It clearly makes a very significant contribution to the overall public finances. However, if one looks at some of the other environmental tax measures that are part of the definition, things on which I think this Committee and the Government would have no disagreement are specifically environmental taxes—climate change levy, aggregates levy. Those are indeed designed for environmental purposes, not to raise revenue. The revenue that we are raising from those has been redistributed so that they are broadly neutral to the Treasury.

Q191 Chairman: Let us step back a little and look at where we go now with the statement of intent. That was published some time ago. You have done a number of things, and we have commented on the success or failure, in our opinion, of those to date. Do you have any new initiatives in mind to take forward that agenda, or has it run its course?
John Healey: Where are we going? You are quite right: the statement of intent was published in 1997; the framework or the principal approach we take to the economic instruments was published alongside the Pre-Budget Report in 2002. What both stressed was that the development, introduction, and then review of environmental taxes and economic instruments have to be a process. The first point to make is that we are following that sort of approach, so that we now have thoroughgoing reviews of some of the most significant environmental programmes since the climate change programme—the renewables obligation, the climate change levy, the aggregates levy. I think that this Committee would expect us to do that, having put these quite significant policy measures or tax measures in place—to try to assess the impact. On the latter two—the climate change levy and the aggregates levy—we will be publishing the major results of the evaluations alongside the Budget, as a sort of progress report. That may or may not throw up issues that we may want to consider, or other policymakers such as yourselves may want to consider, about reforming those. Then specifically in the pipeline there are a series of other environmental-related fiscal measures that we are developing: the green landlord scheme; the biofuels obligation as a potential contribution to raising the levels of biofuels in this country; enhanced capital allowances for waste; and the options that may be available to us to deal with some of the problems caused by diffused water pollution. Those are four specific examples of economic instruments that are indeed under consideration or in the pipeline.

Q192 Chairman: At some point do you think it would be worth pulling all this together and having a statement of intent revisited, to capture it and, from the Government's point of view, to explain what it has achieved? At the moment it seems that it is progressing, but it is progressing on a lot of different fronts that are not being pulled together into a coherent re-statement of intent.
John Healey: One of the first things I started work on—and I had a heavy hand in the drafting of the PBR 2002 document—was very much an update of the 1997 statement of intent. Whether or not there is a case for something similar to that in the near future—I am open to hearing the arguments on that—but in many ways the format we have now established, particularly for the Budget documentation in the main Budget book, and the Pre-Budget Report, devotes a whole chapter, Chapter 7, to precisely that sort of progress check and reporting twice a year. In many ways, that perhaps serves the sort of purpose which I think you are seeking for such a report.

Q193 Mr Challen: Looking at the percentage fall in environmental taxation in the last five years, it seems mainly due to the freeze on fuel duties, and we are continuing with that freeze. Do you accept then that petrol prices are now substantially lower in real terms than they were five years ago?
John Healey: They are lower in real terms, I believe, compared to the year 2000, yes.

Q194 Mr Challen: Has any kind of formal appraisal of the costs and benefits of this reduction taken place, in environmental terms?
John Healey: We have some estimates of the broad impact on emissions from road transport, given price and duty changes. Broadly speaking, an increase of $\frac{1}{2}$p per litre above inflation would see a reduction in emissions of around 35 kilotonnes of carbon.

Q195 Mr Challen: We have also seen a freeze on the climate change levy in the last five years. Has that been kept down, as it were, for competitive reasons, or because of a fear of another public outcry, or at least a lot of squealing from business?
John Healey: The climate change levy was only introduced in 2001, of course, so it has not been in place for five years. In the early years, we took the view that it was sensible, as a new measure, to let it settle down. What happens in every Budget is precisely what happened last year, namely that the Chancellor, when he comes to take these decisions finally, tries to weigh up a balance of competing

pressures and factors. In this case it may be arguments that are put by some for raising or revalorising the rate of the climate change levy; on the other hand, there are those who say, "This could have an effect on the competitive position of some of our industry, and we are concerned about that". Those are judgments that the Chancellor has to make on a Budget-by-Budget basis.

Q196 Mr Challen: Do you think we are getting the message across that prices have, in real terms, come down—to the public or to business? I know that in some cases businesses do feel that prices have gone up considerably but, at least with fuel duties, are we getting the message across that in fact prices have come down in real terms?
John Healey: I think that if you and I were in a pub on the outskirts of Leeds, chatting to people we came up against in a bar there, there would probably be very little awareness of that. I think the perception generally is—erroneously—that the cost of motoring has continued to rise, as has the real cost of fuel. The general cost of motoring has been broadly constant for nearly a quarter of a century, and has edged down recently. I think that, despite the decisions that the Chancellor has taken specifically on fuel duty since the year 2000, there would probably be a perception generally that it continued to go up.

Q197 Mr Challen: It sounds a bit like the Government is leaving getting the message across to chance. Testing the water to see how something might go down in public and, on this highly sensational topic—from the fuel protests—we test the water and, if it seems too hot, we immediately remove our toe. What is the difficulty? What is holding us back from getting the message across?
John Healey: I am not sure that it is a question of getting the message across. I am not sure that there is much more we can do to get the message across and the facts about the decisions the Chancellor takes in the Budget, other than a full statement in the House of Commons, the very clear and voluminous documentation that is published alongside it and, normally, acres of coverage and significant air time in the media on the main decisions that he takes. The nature of public interest is that Budget decisions on things like fags, booze and fuel tend to be given a lot of prominence. It is very difficult to deal with public perceptions if that information is not actually registering with people.

Q198 Mr Challen: We have got the message across that taxes on tobacco go up regularly because the Government does not approve of smoking. The Government also says that climate change is the world's number one problem. Surely the Chancellor should be saying that these taxes, like the taxation on tobacco, do have a greater good? Why can we not make that kind of comparison? If we do not start doing that, is somebody else going to do it for us?
John Healey: In fact, we only revalorised—in other words, put up by the rate of inflation so that it kept pace—tobacco duties in the last Budget. Similar problems or discrepancies between the fact and the perception, therefore, are evidenced in that sort of excise region as well as fuel.

Q199 Mr Challen: I know a lot of people who smoke who still vote Labour. Perhaps they do not vote Labour as long as they might do if they did not smoke! However, that is because people now accept the argument, and it is backed up by scientific evidence. Surely the Treasury, with its huge power in government, should be taking a lead on these fiscal measures, explaining to the public why they are so important. We have to change people's consumer behaviour—as we have in reducing the number of people who smoke.
John Healey: I do not know whether they have a stronger interest in a better Health Service and therefore, as smokers, are voting Labour or not. But, to make this a non-party issue and to pay due credit to the previous Government, with tobacco duty and the prices of cigarettes there has been a deliberate policy for more than two decades to keep prices high as a way of discouraging people from taking up smoking, and encouraging people to give up. That has led to a long-term trend in the overall smoking rates, and that has played a part in the case of tobacco.

Q200 Mr Challen: Looking at the problems created with this freeze for introducing a differential for sulphur-free fuel, has the impact of that been evaluated for lost environmental benefits?
John Healey: We remain committed to the principle of a differential for sulphur-free fuels. Having had the experience of using such a device to move the market very rapidly to the adoption of ultra-low sulphur road fuels, this seems to us a useful way of trying to get a rapid and widespread switch to the provision of sulphur-free petrol and diesel. It was simply that in the context of the Pre-Budget Report, where the Chancellor decided not to press ahead with the inflation increase in main road fuels, it seemed sensible therefore not to proceed with the original plan to introduce a differential for sulphur-free.

Q201 Mr Challen: In our last report on these issues we said that you should consider increasing the differentials in Vehicle Excise Duty. I think that your response was somewhat equivocal at that time. In this latest PBR, have you considered increasing those differentials, and has that been formally appraised?
John Healey: It would be in the Budget rather than the Pre-Budget Report in which decisions about any changes to the Vehicle Excise Duty rates or categories get taken. That will therefore be a matter for the coming Budget rather than the Pre-Budget Report that has just gone. We have been interested in whatever evidence and analysis are emerging on the impact of the restructuring of the Vehicle Excise Duty. We have looked at the current number of

vehicles in each of the seven categories and the projections in those categories for a couple of years' time. Despite the Mori opinion poll that the Department for Transport published, which I think we discussed last time we met, there is some evidence that, perhaps at the margins, the Vehicle Excise Duty categories and rates which clearly incentivise more efficient engines may have some effect. There seem to be some spikes in the profile. Certainly it does appear, in the projections of the number of vehicles we see in the AAA, AA and A categories over the next two years and the increase we would expect of those, that it may play a part; but certainly those projections confirm a trend towards more widespread use of more efficient cars.

Q202 Mr Challen: What kind of percentage share are these AA and AAA categories getting at the moment, and how far do those projections show them going?

John Healey: As you will be aware, the AAA are those that emit less than 100 grammes per kilometre, and the numbers are small at the moment—somewhat over 500. In a couple of years' time, we reckon that will reach perhaps closer to 22,000. In the A category there are almost three million cars, and we are looking at numbers almost double that over the next couple of years—which suggests, I think encouragingly, that we are looking at a shift to more cars using more fuel-efficient technology and engines.

Q203 Mr Challen: We are introducing this 20p differential in favour of biofuels from April; but you have also chosen to consider a renewable transport fuel obligation. Is this a little inconsistent?

John Healey: No. We have had a 20p differential for bio-diesel in place for a couple of years and, for bio-ethanol, the 20p differential came in on the first of last month. The 20p per litre duty differential is one part of a set of policies that I would argue are necessary to encourage greater use of biofuels, a greater share of the market and greater production in this country. As your colleagues on the EFRA Committee concluded, if you simply look to the duty system and a bigger duty discount to do the heavy lifting to try to develop the biofuels market and biofuels consumption, the risk is that you simply suck in imports of biofuels. In those circumstances, it seems to me sensible that we have the headline discount for biofuels per litre on the duty rates, but we are looking to put in place tax breaks for those biofuel plants that are the most energy efficient—the greenest—and alongside that also to look at other mechanisms, in this case the possibility of an obligation, so that a particular proportion of all fuel that is supplied by the fuel suppliers to our markets in the UK should be biofuels. We have yet to do the analysis to be sure—which is why we are doing the feasibility study and having consultations with those with an interest in this—but I think that is likely to have a much greater impact on the future take-up of biofuels, and the readiness of those companies that we need to invest in this sort of plant to produce biofuels, than simply saying, "We will look afresh at the discount".

Q204 Mr Challen: Could you say a little more about that consultation process? For example, what kinds of targets are being discussed and so on?

John Healey: It is very early in the process, and therefore too early for the question of what sorts of targets are being discussed. At the moment, the stage we are at is that we have a high-level group across government that is charged with steering this project and making sure that the work is being done. They are in the process of commissioning the study work that needs to be done and, within the next fortnight or so—although they have already started informal discussions—they will go out more formally to those various interest groups in the industry and others, to start discussing what sorts of features any particular design of obligation might contain, in order to assess whether it is an option that we should pursue.

Q205 Mr Challen: Moving aside from transport where this concept of differential taxes is now obviously well established, are the Treasury looking at other areas? One example is that the Energy Savings Trust has suggested a tax on the old-fashioned light bulbs, to try to reduce the number of those that are sold so that we increase the sales of CFLs. At the moment I think that CFLs account for only one or two% of the market, even though it is a tested technology that has been around for 15 years. Does the Treasury consider those other areas, where there is a tested technology that is simply not getting the lift in sales that it needs to deliver an environmental benefit?

John Healey: We have indeed, and we continue to look at these sorts of questions. On this particular issue, Mr Challen, not least because you have personally been promoting it. The question that underlies this area is can you, through government intervention in some way, either through some sort of surcharge or perhaps some sort of reduction or relief in tax rates, create a price differential that is (a) sufficiently strong to change consumer behaviour and (b) does it in a way which, for a Government that is also concerned about the potential impact of policies differentially on the poor, avoids what might be seen as undesirable social consequences? With your particular proposition, we are not yet persuaded that, when you try to balance up those factors, that is the right thing to do. What we have said, however—and we are arguing this case hard in Europe through the reduced rates of VAT review that is going on there—is that we want to be able to have in this country the flexibility that we do not have at the moment, to introduce a reduced rate of VAT on appliances in the home that are energy efficient. We have also said, in a similar way, that we want the freedom because we think it will help with the concerns that we have about climate change. We want the freedom to be able to have a reduced rate of VAT on those sorts of materials that people can install for themselves as part of their DIY work, that will help insulate their home, reduce the energy consumption, and therefore make their household energy use more efficient. That is an indication of the consideration we have given to the general and particular policy questions that you raise.

Q206 Mr Chaytor: Minister, can I come back to your opening remarks about the purpose of environmental taxation? You said the primary purpose is not to raise revenue. Could you tell us for which tax is the primary purpose to raise revenue?
John Healey: The sorts of taxes that generally make a big contribution to the Exchequer range from income tax to national insurance, forms of corporation tax, and the excise duties in this country have traditionally contributed, under successive governments, to the public purse.

Q207 Mr Chaytor: With the taxes on labour—national insurance and income tax—what is the logic of arguing that it is entirely legitimate to see taxes on labour as having the primary purpose of raising revenue, but not taxes on pollution? On other occasions the Government will constantly say, "We have to pursue a low-tax policy because we do not want to provide disincentives in the labour market. We do not want to provide deterrents to employers taking on labour". I see what you are saying, but I do not understand the logic of it.
John Healey: Particularly with tax decisions, it is almost impossible to see them in simple, black-and-white terms. If you take the national insurance payments, there is the offsetting, recycling, of revenues from the introduction of the climate change levy and the aggregates levy. Both contributed to—in the first case 0.3 and in the second case 0.1%—a reduction in national insurance. That was essentially because encouraging employment and employers to employ people is obviously something that, as a Government, we want to encourage. However, a couple of years ago we faced the challenge in this country of an NHS that has been historically hugely under-funded. We needed to find a way of putting the funding of the huge increase in investment required for the NHS on a secure basis, and we made the judgment—again a balance of judgment, because it cannot be a clear-cut, black-and-white on this—that raising the rate of national insurance and PAYE by one% for those employed and those employing was the fairest way to do it.

Q208 Mr Chaytor: There is an element of fairness there.
John Healey: Just let me finish. Similarly, when we are looking at questions of environmental taxation, we may have a primary purpose of having a beneficial environmental impact, but there are other considerations that we of course need to take into account. Sometimes that will temper what ought to be considered, in simply narrow environmental terms, a clear-cut decision. Those other factors include, as I indicated in response to Mr Challen, a concern about the differential social impact. Clearly, particularly from the Treasury point of view, we have to take into account the affordability and value for money for the sort of impact we are achieving. As you would expect, we take into account whether they are likely to have an impact—and we try to assess this—on business, jobs, the general economic competitiveness and state of the country.

Q209 Mr Chaytor: Did the Treasury consider or conduct an assessment of the possibility of raising the funding for the NHS—which was done through national insurance—through fuel duty or increasing the climate change levy? Was that an active option?
John Healey: At the outset, once the case was clear that the NHS historically had been severely under-funded and that it required a large and sustained increase in investment over at least five years, which is what we have committed to, then we needed to find a way of funding that. Our judgment, looking across the piece, was that that was the best way to do it.

Q210 Mr Chaytor: I cannot speak for all of my colleagues, but the suspicion of some of us is that this distinction between taxes that have a primary purpose of raising revenue and taxes that have another objective is a fairly spurious distinction. At the end of the day, it is what you can get away with, is it not? It is what politically you can get away with.
John Healey: With respect, the climate change levy raises close to £1 billion for the Exchequer. We could have chosen to help ourselves to that and use it to swell the coffers. In fact—

Q211 Mr Chaytor: You chose to balance it with reductions in national insurance.
John Healey: As a trade-off, we decided to try to make it revenue neutral. Likewise, as you are aware, with the increase in the rate of the landfill tax—which, from April this year, will go up by £3 rather than £1. That is not money that makes the balance of the finances of the public exchequer any healthier, because we have made a commitment that we will recycle those back to business and back to local authorities.

Q212 Chairman: I think that is understood. Forgive me if I am wrong, but—
John Healey: If our purpose was to raise revenue, we would not make that accompanying decision.

Q213 Chairman: The question is why, when you are considering an environmental tax, do you consider the effect on the environment to be pre-eminent and not its ability to raise revenue? That is the question, is it not?

John Healey: I suppose.

Q214 Mr Chaytor: It does not appear to be the case in the form of any other sort of tax where the object of the exercise is to raise revenue. Why is the environment different?
John Healey: You mentioned the statement of intent in 1997 and the 2002 document which is generally the approach we try to take with new environmental taxes.

Q215 Mr Chaytor: Why? I think we have a good argument for having a revised document? There are taxes on capital, income, labour, land and property.
John Healey: Mr Challen pressed me quite hard on the question of public perception and understanding of what we were doing and why. I would suggest to you if we were introducing a new environmental tax, for the purpose which we set it out to serve, in other words to have a beneficial impact on the environment and we simply decided that the revenues which flowed from that tax would go into the general coffers of the Government and work for a specified other purpose then I think, pretty quickly, people would say: "You are not interested in the environment, the purpose of this tax is not to try and improve the environment. This is a fig leaf to hide what is in fact a revenue raising measure". In those circumstances, I think it distracts attention and clouds the understanding of the public of the sort of purposes we consider and in some cases introduce these measures.

Q216 Chairman: Is fuel duty not an environmental tax? That is precisely what happens with a fuel duty.
John Healey: As we have gone over already this afternoon, fuel duty is officially classified as an environmental tax. Fuel duty predates and has served a purpose other than its environmental impact for years and decades. It happens to be classified as an environmental tax according to the Office of National Statistics' definition. Some of the real gains through the fuel duty system have been precisely the differentials we have been able to use in the general fuel duty system to achieve some significant environmental gains, both on CO_2 greenhouse emissions and particulates. I do not want to repeat myself, but those are measures for environmental purposes which do not figure in this crude measurement of environmental taxation.

Q217 Chairman: It is curious because according to your logic—I am sorry, we are going down a tributary here, it could be considered that the tax on cigarettes was a health tax, but it is not defined as a health tax, is it?
John Healey: Chairman, you are right. The debate about whether certain taxes, in general or specifically, should be hypothecated is quite widespread. We have chosen to take the approach with environmental taxation as I have indicated.

Q218 Chairman: Although that approach is not consistent with the approach in other areas of taxation. There is no logical thread running through this?
John Healey: Perhaps it is a special approach we have taken with environmental taxation. I do not know whether this Committee would agree with that approach or not and suggest they should be for revenue raising measures.
Chairman: It has been interesting exploring it.

Q219 Mr Chaytor: Can I ask one further thing on this issue before moving on to the wider question of taxes. I understand the timidity of the Government in confronting the fuel duty problem, particularly at a time when the price of bus travel and rail is increasing and yet the price of motoring is constant. I understand the timidity, what I do not understand is the timidity of the Government in looking for ways to introduce environmental taxation which is more popular and more redistributive. For example, in response to Colin Challen's question, you referred to Vehicle Excise Duty and the slight increase in the numbers of cars purchased in the lower bands, but the differential in Vehicle Excise Duty between the lowest band and the highest band is derisory. Surely what is driving change in the car market is the impact of competition in the retail trade, where prices of new small cars are now hundreds if not thousands of pounds cheaper than two or three years ago and whether the cost of running a small car is less because of fuel consumption. Whether the Vehicle Excise Duty is £50 a year or less than £60 a year is irrelevant if you are paying £6,000 to buy a new small car. Yet here, with Vehicle Excise Duty, there is a possibility to redistribute the burden of environmental taxation in a wholly popular way because the overwhelming majority of the population run small to medium sized cars. There is no great breadth of political support for sports utility vehicles and the larger executive cars. Why are we not bolder and more redistributive in the use of Vehicle Excise Duty to incentivise the shift to more fuel efficient methods? My question is, is this not something which would be politically popular as against a flat rate increase of fuel which we understand has its political difficulties?
John Healey: I am not certain, if the price of a new lower range car is around £6,000, the lowest category of VED is £65 and the top rate is £160, clearly in those circumstances that sort of differential and factor is not going to be decisive in the choice of model at the initial purchase. It is not clear to me how much you would have to increase the VED in order for it to become a decisive rather than an irrelevant or a very marginal factor.
Chairman: Should it not be clear, Minister?

Q220 Mr Chaytor: The purpose of the design of a tax is to make it clear.
John Healey: The restructuring of VED was in part to make it more reflective of environmental performance, in part to give out, as I started by saying earlier on, particular market signals about

what we support or approve. I would accept the weight of the evidence so far, such that it is, is that the VED restructuring is not a major factor in changing behavior. If that was our principal purpose, clearly we would have to consider a completely different range and level of VED duty.

Q221 Chairman: We are not trying to change behavior?
John Healey: I think with this particular reform we are realistic enough to recognise that its impact is likely to be marginal rather than central to purchasing decisions of new vehicles, as I have explained.

Q222 Mr Chaytor: In other European countries the differentials are much larger, therefore the impacts on the purchasing decision is not marginal?
John Healey: I will undertake to have a look at that evidence and perhaps I should take this as a Budget representation?
Mr Chaytor: I think I am right in saying that I have just written to you on behalf of a constituent of mine who has written to me arguing very similar points to this and arguing the case for a form of Vehicle Excise Duty, that is directly proportionate to the CO_2 emissions from vehicles. I hope you will look at that very carefully.

Q223 Chairman: We have made recommendations on this to you in the fairly recent past. If you want to take those as forms of Budget recommendations, please do.
John Healey: What is the level of Vehicle Excise Duty this Committee is recommending?
Mr Chaytor: That is your job, is it not?
Chairman: We merely said you should widen the differentials, top and bottom, in both directions in each section.

Q224 Mr Chaytor: Minister, can I move on and ask about energy taxation generally. Historically the Government, and the DTI specifically, is trying to keep energy prices in the lower quartile of European Union countries. Given the Prime Minister's commitment during his G8 Presidency and given the advice of the Chief Government Scientist on climate change and the efforts of Defra to hit the Government's co2 reduction targets, do you think it is sustainable that our prices for fossil fuels should remain in the lower quartile of the range of the European pricing system?
John Healey: The range of measures we are bringing in is likely to raise the price of fossil fuels and is likely to raise the cost to those who use it. That is a consequence of some of the environmental policy measures we are bringing into place.

Q225 Mr Chaytor: A supplementary is do you think this should happen by default or is there not a case for a more proactive approach by Government to explain to the general public why there is an inevitability about an increase in fossil fuel prices?
John Healey: If you look at the measures we have put in place, it is not the objective of the policy measure and it is not the objective of the Climate Change Levy, for instance, that is to encourage greater energy efficiency, it is not the objective of the European Union Emissions Trading Scheme, that is to encourage the reduction of direct emissions, both will have consequential effects on the price of different forms of fuel and different forms of generation. For me, the priority is to try and concentrate the attention on what we have designed the policies to try and have an impact on in the first place.

Q226 Mr Chaytor: On the Climate Change Levy, do you have an assessment or a figure for the impact of the Climate Change Levy on CO_2 reductions so far?
John Healey: We have a provisional estimate. We will be publishing more of this data at the Budget. Our latest figures suggest that the Climate Change Levy alone should deliver estimated savings of three and a half million tonnes of carbon by 2010. You may remember when we introduced the Levy, we anticipated two million tonnes.

Q227 Mr Chaytor: Is that in advance of your original expectations?
John Healey: It is ahead of our original expectations. We anticipated a contribution alone from the Climate Change Levy of around two million tonnes of carbon per year.

Q228 Mr Chaytor: In terms of the Government's overall targets for CO_2 reductions, were you behind the 20% target that was originally established? Are we on track for a 40% reduction overall? The Climate Change Levy is making its contribution in excess of the prediction, but elsewhere we are facing huge shortfalls.
Mr Healey: The Climate Change Levy does appear to be making a contribution ahead of its expectations, as do the climate change agreements that are linked to it. The provisional figures for 2003 suggest that by 2010, on the current trajectory, there will be a shortfall on the 20% UK target, although we will well exceed the Kyoto targets that this country has signed up to. That is one of the principal reasons for the review of the climate change programme that is underway at the moment.

Q229 Mr Chaytor: Could you tell us what the Treasury's input to that review is? Presumably there is now some feverish activity within the Treasury to find alternative measures to make up this shortfall.
Mr Healey: Our input, as you would expect, is pretty central, both on the group that is responsible for overseeing the review and on the group that is doing all the analytical work to support that review.

Q230 Mr Chaytor: Could you give us some indication of the sorts of ideas that have been injected into the review?
Mr Healey: We set these out, I think, in November, when the framework and approach for the climate change review exercise was published. Do you have the details of those here?
Mr O'Sullivan: I do not have the details, but certainly with existing measures one is looking at how much further you might go with it; what we are doing with duty differentials; what you might do with bio-fuels; what might be done with energy efficiency and things like partly-funded services. But I think quite a bit of this was put out in some of the material around the analytical work for the climate change programme review.
Ms James: We issued the terms of reference for the review back in the autumn. On 8 December the Government launched the consultation document. This is a very extensive piece of work. We will be looking at all the measures in the existing climate change programme—and some of those are economic instruments, some are regulatory, some are voluntary—carrying out some analysis of what is working, potentially what is not working, and so evaluating what has happened and appraising what could happen in the future. The intention is that a revised programme will be introduced later on this year, and alongside that there will be a sort of synthesis report which will present the information that is being put together at the moment. That is very much an across-Whitehall effort, with Defra, the DTI, ourselves and the departments of the devolved administrations all involved in that.

Q231 Paul Flynn: You have talked about £1 billion coming in from the Climate Change Levy. The Climate Change Levy was introduced, there was a fuss from the high energy users, it was reduced then by 80%, with a reduction on it, and what was left there was more money given to industry by a change in the national insurance fund which amounted to a loss of the national insurance fund of, again, you mentioned £1 billion a year. The loss every year to the national insurance fund, because of a reduction in the employers' contribution, is about £1 billion a year. That is a loss that is being suffered by the principal beneficiaries of the national insurance fund, pensioners and people who are sick and so on. So really there is very little as a cost to industry of the Climate Change Levy. We have had evidence that it has made no difference to their competitive position and made no difference to the ultimate cost. Really what has happened is the Government retreated and reduced it enormously in the first stage and then in the next stage transferred the cost from industry to pensioners. That is precisely what happened. It is a question of retreating twice on this environmental tax.
Mr Healey: I do not accept that, Mr Flynn. The introduction of climate change agreements for 44 sectors—

Q232 Paul Flynn: Can you confirm the loss to the national insurance fund of £1 billion? It might be a lot more, but it is certainly £2 or £3 billion since it was introduced.
Mr Healey: It is certainly true over the early years of the Climate Change Levy that what the Climate Change Levy yielded was slightly below the reduction in the national insurance contributions because of the 0.3% cut in employers' contributions to the cost of employing workers—not just in industry, by the way, but right across the board. If the Committee wants the precise figures, I am happy to supply those. We published in the budget the yield from the Climate Change Levy but I am quite happy to confirm those figures for you.

Q233 Paul Flynn: Would you give us a net figure on the cost to the industry and how much of a disincentive it is to be profligate with energy? It is a tiny disincentive.
Mr Healey: I can certainly provide a comparison between the annual yield of the Climate Change Levy since it was introduced and the cost of the 0.3% reduction in NI.

Q234 Joan Walley: Moving slightly on from revenue raising to how we change behaviour. I think the Treasury announced fairly recently a step-change in behaviour when it came to energy efficiency. Could I ask you first of all about the money that is being made available to the research and development fund in terms of how much funding the Treasury is putting into the research and development fund for the Carbon Trust Fund?
Mr Healey: Fiona has these figures.
Ms James: There was an announcement in the PBR in November of an additional £20 million for the Carbon Trust.

Q235 Joan Walley: Was that £20 million on top of what was already there?
Ms James: That is on top of their existing budget.

Q236 Joan Walley: Where did that existing budget come from?
Ms James: The Carbon Trust are funded mainly through Defra. They get a little bit of money from the devolved administrations as well. I perhaps ought to confirm this with you. I think their budget is about £50 million a year.
Chairman: A bit more, we think.

Q237 Joan Walley: The Treasury said it would be providing £20 million. But in fact it is not £20 million, is it, it is £10 million?
Ms James: If we are talking about the same thing, which is the PBR announcement in November, that was for an additional £20 million.

Joan Walley: Per year?

Q238 Chairman: All from public funds?
Ms James: Yes.

Q239 Joan Walley: So we have £20 million per year from the Treasury. My next question is: If we need that step-change, if it is just so important, why is that not going to be available to the Carbon Trust until 2006/7? I have constituents in many factories now desperate to have that kind of investment to bring about that step-change that we need. Why are we having to wait so long if we need that step-change?
Mr Healey: The big increases in the budget provision for a whole range of energy efficiency, including the Carbon Trust, came not in the pre-budget report in late autumn but in the spending review in July. I have a constituency which has many of the same sorts of challenges in industries as you do, Ms Walley, and, where the Carbon Trust has been involved, they have been very valuable and have led to some really significant energy efficiency savings in those companies. There is also the question—and certainly this is the view that we have discussed with the Carbon Trust themselves—that, because they are a relatively new organisation—unless they are saying different things to the Committee from the things they have been saying to us and the Treasury—they have a constraint on how much additional funding they can effectively deploy in terms of developing the capacity and what they can deliver, and so, the sort of increases that we are keen to give and have committed to give the Carbon Trust are not all immediate.

Q240 Joan Walley: So they cannot go to the extra amount until 2006/7 because of the capacity issue. That £20 million, when it does step in, is wholly Government money, not in any way made up of private money.
Mr Healey: I think we have to let you have chapter and verse on this because I think just focusing on the £20 million announcement in the pre-budget report is the minor part of what the Carbon Trust is set to receive and the increase of activity that you are looking for over the next spending review three-year period. As I say, the more significant increases in investment were set out in the spending review. If it is helpful, I think we should set that out for you, so that you can get the £20 million in perspective.

Q241 Joan Walley: Included in that, given that the existing funding that is there for the Carbon Trust, you say, came from Defra, is that Defra money continuing—so that what has been announced is on top of and supplementary to what comes from Defra—or is it that the Defra money will be phased out and the additional money that you have announced will come forward? Would you let us have those figures?
Mr Healey: Certainly, but it was not the intention of the announcement in the pre-budget report that somehow that would replace the existing increase in investment for the Carbon Trust.
Mr O'Sullivan: My understanding is that we gave the additional money to Defra, who then passed that on as an additional contribution to the Carbon Trust. So it is additional money on top of the existing Defra money.

Q242 Joan Walley: Could you let us have that clarification, as to whether it is £10 million or £20 million of public money. With all the work that the Government did in respect of the Energy Efficiency Implementation Plan—and now we have a further Energy Efficiency Review taking place—why do we need this review? When is it going to report?
Mr Healey: I believe you are referring to the Energy Innovation Review.

Q243 Joan Walley: I understand it is the Energy Efficiency Innovation Review.
Mr O'Sullivan: The Energy Efficiency Innovation Review is being done across ourselves and Defra, working with people like the Carbon Trust and the Energy Savings Trust, and I think it is building on some of the progress made in the Energy Efficiency Implementation Plan that was published last spring/early summer. I think it is in areas where we thought there may be the potential for further progress—particularly things like how we can maybe develop an energy services market, and actually get a market where companies provide energy services rather than electricity, so that there is scope for people to get energy efficiency measures, insulation and things like that, and pay through an ongoing charge rather than facing upfront cost. It is those sorts of area where we thought there might be possibilities for developing new ways of tackling energy efficiency and overcoming some of the barriers. This was fruitful ground for us to take forward between ourselves and Defra and the other people involved in this, and we were wanting to do some quick work on this which we could then feed into the conclusions of the Climate Change Programme Review.

Q244 Joan Walley: When do you expect it to report?
Mr Healey: I think it will report through the Climate Change Programme Review which is due to come out in early summer, although we do not have a final timetable for that yet.

Q245 Joan Walley: Could I move on and ask whether or not you have any idea or if you could give us the precise figure of the total amount which the Government is now investing each year in renewables and energy efficiency. I think the concern is that the amount we are providing does lag behind European competitors, and we want to be on a par with them, and we want to be at the forefront really, at the cutting-edge, of new technology and so on. It seems that we are lagging behind. I wonder if that is borne out by the figures, and, if so, whether that is a matter of concern.

Mr Healey: We will have to produce the figures for you. I only hesitate because, if you are looking for the full range of figures relating to renewables and energy efficiency, we are looking at a range of measures that generally we do not calculate together for the value of the exemption of the Climate Change Levy for renewable generation to the £150 million a year we put into the Warm Front programme. So it is a wide range of potential measures and the funding that goes into that, but I am happy for us to try to pull that together to provide to the Committee.

Joan Walley: I think that would be helpful, because the way you have responded to my question really makes the point I was trying to make, that there is not a transparency and about all the different funding streams that there are. Were that transparency to be there, we could have a much better idea as to whether we are perhaps leading rather than having the impression that we are lagging behind. That transparency and that information would be much appreciated.

Q246 Paul Flynn: The last time you spoke to this Committee was last summer. You were adamant that the fuel prices were going to increase in the autumn. Emboldened by this, we published a report defending the Government's position on this. Of course it did not happen, and the Government retreated from this. On this issue, can you tell me who the Government is listening to? Are they listening to the Chief Scientist or to the man in the pub on the outskirts of Leeds?

Mr Healey: The Government and we in the Treasury listen to the widest possible range of different views which have a bearing on the decision that we need to take. When I came before the Committee last summer I explained that we had made the decision in the budget that we would delay the introduction of what was the inflationary increase in the main fuel duty rate to September 1. You will be aware, Mr Flynn, of the volatility, as well as the high prices in the oil market, and, in view particularly of the volatility of those prices, we took the decision, first of all, to postpone the 1 September increase, review it in the pre-budget report and then not go ahead with it at that time.

Q247 Paul Flynn: It always seems in these cases, when it comes to a crisis decision, that the tabloids win and the environment loses.

Mr Healey: I would not accept that at all. You rather vividly exemplify the competing viewpoints and pressures clearly on Government when we have to face up to these sorts of decisions. The range of the conversation and the different fiscal measures that we have discussed this afternoon demonstrate that there are some significant gains being made in environmental terms because of the tax and wider economic instruments that we have put in place.

Q248 Paul Flynn: The huge profits of Shell and BP, £8 billion, have you given any consideration to the possibility of making those companies reinvest at least a portion of their profits into carbon technologies?

Mr Healey: Some of these companies are doing things like that at present. We have no plans for any form of windfall tax on the fuel companies.

Q249 Paul Flynn: It is a question of polluter does not pay.

Mr Healey: When one looks at these international corporations and the profits they are reporting, first of all, from a British government and fiscal standpoint, probably a little over 10% of the increase in those profits comes from the UK operations, the rest are worldwide. If you look at the source of the relative increase and what has generated those profits, it is largely downstream: it is refining and it is chemicals. In those circumstances anyway, where companies are more profitable they pay more corporation tax. Our oil companies that exploit the national natural resources we have in the North Sea also pay a particular form of taxation which we have, petroleum revenue tax. As a result of the higher oil prices, they will be paying more during this current year than we originally anticipated at this time last year in last year's budget.

Q250 Paul Flynn: If we cannot use the stick, then can we use the carrot of possibly giving them some tax breaks, with the oil companies, in relation to carbon sequestration. We know this has been used in Norway. At the moment, there is a very narrow window of opportunity to do this in the North Sea because it has to be done when the oil wells are closing down, it cannot be done later on. We understand that two years ago there was an urgent six month review in the White Paper of the possibility of using this. The Government have said this is a useful thing to do. What is the position now? Are we doing this? The opportunity will not be there for much longer to encourage them to use the closing oil wells for carbon sequestration.

John Healey: These sorts of arguments are being made to us at present, in this Government, as part of the programme of reviewing the climate change. As those arguments are put to us in the context of that review—

Q251 Paul Flynn: It was not the arguments being put to you; you put the arguments in the White Paper of February 2003 which announced an urgent six month research project—that is a year and a half ago, not now—suggesting this was a good idea.

John Healey: Whether or not there is a case for carbon sequestration and the use of some of the wells in the North Sea, is likely to be a factor because the argument is still being made to us that we will consider as part of the Climate Change Review Programme.

Q252 Paul Flynn: In relation to the Emissions Trading System, a number of expert witnesses have told us that UK power companies are likely to make substantial windfall profits from Phase 1 of the ETS. We could be talking here of as much as £500 million extra revenue each year. If that is to happen, what action do you think you should take? This is a windfall profit they are likely to make. Are you going to do anything in the way of encouraging them to reinvest those profits into low carbon technology or can they just pocket them?
John Healey: The potential for windfall gains from the generators under EU ETS comes from the fact that we have allocated the allowances free of charge to those incumbents in the field at the moment. We have taken the view that, given the wider concern about seeing levels of investment in power generation and supply raised in the future, to levy a tax on those allowances is not a sensible thing to do.

Q253 Chairman: Have you allocated the allowances yet?
John Healey: As you know, we have submitted our plan for allocating those allowances to the European Commission. We are still discussing the detail of those at the moment and hopefully we will be able to confirm to the sectors and the particular installations the allocations of those allowances shortly.

Q254 Chairman: What about those press reports that the Government is threatening to sue the European Commission over its refusal to accept our proposals for a National Allocation Plan, are they true?
John Healey: At the moment, we are continuing what are very tough discussions with the Commission because we have submitted our allocation plan with some revisions to the provisional one which we submitted much earlier last year. At the time we made it clear that it was likely to be subject to particular data revisions. We are arguing and making the case to the Commission that they should give us the go ahead on the plan we have submitted.

Q255 Chairman: You would not rule out legal action?
John Healey: We are not at that stage at the moment.

Q256 Paul Flynn: On the question of climate change, we have a lot of evidence about what is likely to happen with the Emissions Trading Scheme. One analysis produced by Enviros has suggested that the carbon prices might rise from the current level of seven euro a tonne of carbon dioxide to over 30 euro a tonne at the end of Phase 2. Have you explored what impact this might have on UK industry and domestic consumers?
John Healey: In many ways we are all entering into a system which is innovative, new and to date has been unpredictable. If one looks at a base level of carbon traded at five euro a tonne, the likely effect on power prices for consumers is around three% for domestic and six% for industrial. Clearly if the price of carbon rises, then there may be an increase in the follow-on effect of prices for consumers.

Q257 Chairman: Can I return, briefly, to our old friend, aviation, because there has been a recent development which has been brought to my attention. The European Commission has published a Work Programme 2005, in which they indicate that during the British Presidency they are going to publish a communication on the subject of aviation and the EU Emissions Trading Scheme. What are your objectives now, within the context of the Presidency in the EU, in relation to including aviation within the Emissions Trading Scheme?
John Healey: Rather simple, that in this first phase we want the European Union Emissions Trading Scheme to be up and running and functioning properly. We are doing work already on seeing that we can include aviation in the second phase of the scheme when that comes along. That is our objective, to see the inclusion of aviation in the second phase.

Q258 Chairman: Is our case hindered at all by the fact that we are not part of the Emissions Trading Scheme at the moment because we have not agreed a National Allocation Plan? Surely that weakens our negotiating position?
John Healey: We are very much a part of the European Union Emissions Trading Scheme and are determined to be so. We led the way in setting allocation plans which are absolutely within the spirit of the Trading Scheme and, whilst protecting the interest of our business here, designed to have an impact on the environment which is ahead of most of the other European Union states. I think our position, potentially to lead this sort of argument, particularly during our Presidency in the second half of this year, is very strong, but clearly we want to settle the outstanding discussions we have with the Commission over the commencement of the first phase.

Q259 Chairman: Would you be hoping for a draft directive on including aviation by the end of this year?
John Healey: That is probably a question which is a bit premature. We are not quite at that stage at the moment.

Q260 Chairman: You can still hope even if you are not at that stage?
Mr O'Sullivan: If one is able to get the communiqué early on in the UK Presidency—certainly we have been talking to the Commission and there is a lot of agreement between us, the Commission and some of the Member States on this way forward—it is a possibility that one will be able to get a proposal for a directive out towards the end of the UK Presidency. A lot depends on how other Member States react and how some of the analysis on the details of how you bring aviation into the Emissions Trading Scheme pans

out. There are quite a lot of complicated issues about linkages between aviation emissions and the existing Emissions Trading Scheme. It is certainly something that, if it is going well, we will be aiming to do.

Q261 Chairman: The communiqué is supposed to be out in July or possibly September, is it not?
Mr O'Sullivan: Yes.

Q262 Chairman: It envisages taking forward discussions about aviation fuel taxes, emissions charges and the inclusion of aviation in the Emissions Trading Scheme as the third of those three options. This suggests there is still a very live debate going on within the European Union as to the best way to tackle the growing climate change contribution of aviation and that the Emissions Trading Scheme route is only one option which is under consideration. That does not look terribly hopeful, does it, in terms of getting resolution on this issue by the end of the year?
John Healey: I think resolution by the end of the year is a tall order. As Paul O'Sullivan has indicated, it is possible and we will be pressing for that. In many ways, if we were focusing all our attention on taxing aviation fuel or aviation, we might be setting ourselves a more difficult challenge given all the complex web of legal agreements and conventions which govern that. The fact that a, we are giving such prominence to the general question of aviation, doing more to pay its way for the environmental costs it imposes, and b, giving particular prominence to seeing its inclusion in the second phase ought to be a source of encouragement to those who are concerned about these environmental challenges which we face. My own view is to make headway on this, like any other international discussions and agreements, the wider the interest in this, the stronger the pressure—not just the arguments which can be made by governments—the more likely we are to see progress.

Q263 Chairman: We heard the President of France talking about a tax on airline tickets in a speech in Davos. One of the German ministers told Margaret Beckett that he was in favour of taxes rather than the Emissions Trading Scheme as a way of dealing with this. It seems to me you are a very long way from making the argument. There is a danger that if you fail to close this down and get a resolution, the debate will roll on into discussions about Phase 2 of the Emissions Trading Scheme and complicate that at a time when I think we all agree we need to have much tougher targets in Phase 2, making the whole future of the scheme much more difficult. You do not disagree with all this?
John Healey: I think that is a reasonable concern.

Q264 Chairman: Do you have a plan B?
John Healey: If we cannot achieve the Emissions Trading Scheme inclusion of aviation?

Q265 Chairman: Yes.
John Healey: That is our primary objective. I think, as I have indicated to this Committee before, following the last Budget, we are also considering the case and ways in which existing taxes, which relate to air travel, might be made more finely focused on environmental tax ends.

Q266 Chairman: Emission charges, is that what you mean?
John Healey: No, I am referring to a conversation we have had in this Committee before about air passenger duty, where it is not an environmental tax.

Q267 Chairman: It is not in the communiqué. It is not under debate in the discussions at the moment. As I say, it is aviation, fuel tax , emission charges—
John Healey:—that is UK tax. What I think you are reading from there is essentially—

Q268 Chairman:—the Commission Work Programme.
John Healey: Exactly; the conversations and policy areas that are rightly matters for discussion across the European Union. Certainly air passenger duty is not it is a UK domestic matter.

Q269 Mr Challen: We are seriously considering taking more unilateral action in the absence of bilateral or multilateral agreements?
John Healey: We are recognising, as we did back at the Budget, that the most effective action we can take here is multilateral. We are focused particularly on the Emissions Trading Scheme in aviation, but we have recognised that we need also to be prepared to do other work if that becomes necessary.

Q270 Mr Challen: Can we move on to wind energy and renewables. According to the British Wind Energy Association, the new business rates system coming in this year is going to lead to something like a wind farm windfall for the Government, with bills going up 700%, in their estimate. They say this could lead to a one third reduction in development of wind energy. In other regards, the President of the Renewable Power Association has predicted the new biomass energy developments, affected by this new business rates system, could be stopped in their tracks. Does this not show that we have got different government departments working together to ensure our big push for more renewables is not reduced by this other action?
John Healey: The first thing I would suggest is these bodies, if they anticipate problems, ought to be making representations to us and as far as I am aware they have not. The second thing to say to this Committee on the question of business rates, as far as I am aware renewables are not being singled out for particular treatment under the changes in the system, nor are conventional generators, by comparison, in some way getting a softer ride. As I understand it, the changes that are coming in are part of wider rated changes which are

made across the energy sector, bringing the energy sector more in line with the conventional business rating system. Again, as I understand the position, some transitional arrangements will be put in place to smooth the changes where there are significant effects for existing projects and companies.

Q271 Mr Challen: Regardless of any absence of representations from the renewables sector, a disproportionate and damaging effect on them as compared with conventional generators who, they say, is going to be benefiting from this system?
John Healey: Without having seen the representations it is quite difficult to make that assessment.

Q272 Chairman: Can I suggest you look at *The Sunday Telegraph* business section of about 10 days ago.
John Healey: I would rather hear directly from the associations concerned than a *Sunday Telegraph* journalist.

Q273 Mr Challen: Would you be concerned enough to look at it to see if this effect is taking place now you are aware of it?
John Healey: Certainly, as with any organisation with any issue, if they make representations to me I will give them careful consideration.

Q274 Mr Challen: They have done their calculations, I am not saying whether they are correct or not, but perhaps they can only do their calculations once the Government has said what it is going to do. Obviously the Government consists of huge departments and some of these fairly new bodies, like the British Wind Energy Association, perhaps do not have the same resources to figure out things like this all on their own at a suitable time to get the changes in place that they need to prevent this damage from happening. Is it not fair to say this is something which needs to be looked at whether or not you get representations?
John Healey: It is difficult to look at it if we do not get the representations. My experience of renewables, operators and associations is that, generally, on matters of concern they are not slow in coming forward.

Q275 Chairman: This is a business rates change and they may well have made representations to the Office of the Deputy Prime Minister. Ms James, have you received any representations from the Office of the Deputy Prime Minister about this issue?
Ms James: I have not personally.

Q276 Joan Walley: Is it not an issue where maybe we would expect the Treasury to be proactive in all of this, rather than just sitting back waiting?
John Healey: If there is a problem for particular operators in sectors we would expect them to draw our attention to it. Without that being done, it is quite difficult to argue that there should be an expectation that somehow the Treasury should anticipate something like this. I do not think that is unreasonable.

Q277 Mr Challen: The Treasury is responsible, through all sorts of ways, for driving forward our renewables commitments and perhaps these people have made representations to the ODPM, but nobody here is aware of any representations coming to the Treasury from the ODPM or these organisations.
John Healey: Chairman, perhaps you will allow me to check whether there have been representations to the Office of the Deputy Prime Minister. My experience, generally, of this sector is that it is not slow in making representations generally across Government.

Q278 Mr Challen: Can we have a quick look at resource productivity, an agenda which has been rolling on for quite a number of years. We had the DTI issuing a strategy, the PIU did a report in 2001 and some other reports have been produced, but the Pre-Budget Report still did not include any overall targets for resource productivity. Why was that? What can we expect to see emerging in the next Parliament in concrete terms?
John Healey: This is an area of technical work. Perhaps I can ask Paul O'Sullivan to answer.
Mr O'Sullivan: I think the whole question about resources and targets is a lot more complicated. In energy we have clear objectives. This is something which I know Defra are thinking about in terms of things like their sustainable development strategies and sustainable production and consumption. As things stand, this is an area where exactly what the market failures are, in terms of using resources, is still quite a complicated issue. You can see market failures in environmental objectives and energy where you want to achieve things. In terms of developing a policy, this is something where Defra are considering alternative measures and it is an important part of the work they are doing on sustainable development. They have not got to the point yet where, beyond protection of natural resources and some of the targets you have in Defra's PSAs, they have targets of what would be a desirable level of useful resources for particular materials. Dealing with it practically, this is something they are considering for their work through sustainable development.

Q279 Mr Challen: I recognise it is a very complex area, but surely by now, after all these various reports and the work of six years, we should be able to put something in a Pre-Budget Report?
Mr O'Sullivan: In terms of what goes into the Pre-Budget Report, we look at a set of environmental objectives against which we have particular targets. We want to be able to report on that and say whether policies, which are particularly relevant to the Treasury, impact upon these, so things like the aggregates levy which is obviously relevant to some of these resources. Until we have PSAs which have more specific targets across Defra, it is difficult for

us to have a specific objective which we would be reporting against in the Pre-Budget Report. Obviously, as that work develops, if we start to get those targets, we will want to start feeding that into what we are reporting against and thinking about in terms of the Pre-Budget Report.

Q280 Mr Chaytor: Minister, in the last few months there has been an increasing debate about deregulation and a new movement towards deregulation. The Regulatory Impact Assessments, which the Treasury is now starting to use, have been the subject of some criticism to the Committee. I wonder if you can say something about how you feel these Regulatory Impact Assessments are starting to work? Are you satisfied with the methodology? In terms of environmental impact, is it scientifically sound (that is not the way to put it) is it a precise science to try and capture environmental impacts in monetary terms? These are the issues I think we would like to tease out from you.

John Healey: First of all, the Regulatory Impact Assessments are the best tool we have at the moment for the purpose we have designed them. They are not particularly a Treasury device, they are across Government. In a sense, they come under the responsibility of the Cabinet Office to see that they are properly developed and that the departments are using them. Their purpose, before any significant legal regulatory change, is to try to produce an assessment of the likely cost and benefits and some of the consequences of doing so. They are something of a new science and they are something inevitably of a best estimate. The fact that they are a required discipline is an important step forward and the fact that they are published for consultation is an advantage because it gives those who may be affected by a particular measure, either for good or ill, the chance to scrutinise our best assessment of what is proposed. I think the step forward which we took, from April last year, in acquiring the potential cost of benefits to the environment alongside the economic cost and social cost and benefits, was an important step forward. It is assistance within Government to getting better policy making and assistance to bodies outside who take an interest in what we are doing. It gives them something to bite on, as it were, as the underpinning for the particular proposals we are introducing.

Q281 Mr Chaytor: That is a fairly pragmatic answer. You are not saying that we have got a precise science of accounting for environmental impact here. Is this a best estimate rather than an absolute?

John Healey: I think this Committee knows better than anyone else in this House how assessments in environmental impact, particularly if one wants to attach an economic cost or benefit to them, are an approximate science affected by the quality of the data available and by the nature of assumptions which are made. I think it is important that we try and make the best assessments we can. It is important that we are prepared to explain the basis on which those are made, but it is also important to understand that it cannot be a precise science. Therefore, what I think is important is what the Government has started to do systematically now—we are doing this in the tax area, for instance, the areas which I am directly responsible for—we are going back after the implementation of particular legislation and regulation and doing an assessment, at an appropriate time afterwards, of whether the impact, which we had anticipated in the Regulatory Impact Assessment before the change, is born out by the results after. That is an important systematic discipline for the Government to undertake and in turn will improve the quality of the RIAs which we produce in the future.

Q282 Mr Chaytor: One of the precise criticisms we have received is that the methodology does not take account of the economic benefits which new environmental industries would generate. Is that something which has been put to you or is it an issue open to debate?

John Healey: Indeed, it has been put to me. I was fortunate enough to be invited, as a speaker, to the reception of the Environmental Industries Commission held in the House last month and certainly they put that argument to me. Partly as a result of that, I had a look at the question of RIAs, the Green Book guidance which the Treasury issues. Fiona, would you like to explain how this can take its place within the Green Book guidance and the RIA process.

Ms James: Both the Green Book and the RIA guidance, which the Cabinet produce, are very clear that we should be taking into account the economic, financial, social and environmental cost of benefit for policy proposals. It is important to distinguish between benefits to the environment and benefits to one particular sector of industry. If those benefits are very significant, then yes, I would expect them to be flagged up within an RIA. However, I think we need to bear in mind also that there might be a diversion, if you like, from one sector of industry to another and what the RIA needs to be looking at is the net impact over the whole economy. Another thing you want to think about is the benefits of innovation more generally. In some areas that might be environmental, it might not be in others, but there is scope certainly within both the Green Book and the RIA guidance for those issues to be brought out. As the Minister said, we consult on our RIAs, so there is an opportunity for external stakeholders to add more to that where they think it is necessary.

Q283 Mr Challen: This diversion you are talking about, if this is a diversion from a more polluting sector to a less polluting sector or a diversion from a sector which does not have huge export potential to one which does have huge export potential, presumably then that is a beneficial diversion?

Ms James: Yes. If that is a significant impact I would expect the RIAs to pick that up.

Q284 Mr Challen: Can you tell us also in the Treasury, how many RIAs have been produced since April 2004? Are we talking huge numbers or a small number?
John Healey: In my time as Customs Minister I was responsible for at least nine or ten.
Ms James: I do not know the number. Whenever there is a proposal which has an impact on the business or the public community, an RIA should be produced to go along with that.

Q285 Mr Challen: I have no concept of the scale of the operation. Is it nine or 10 a year or 50 or 60 or 100 a year, what is the number? They were only initiated from 2004.
John Healey: No, from April 2004 the environmental element became part of what was required of government departments. I started by saying the RIAs are not simply a device which is the responsibility of the Treasury, all government departments where they are doing significant regulation on legislation should be producing them. Therefore, most RIAs generally tend to be produced by the departments which lead in those policy areas. Whilst the Treasury might contribute to them, we produce the minority directly and solely as our responsibility from the Treasury. Chairman, I am very happy to check with the Cabinet Office for you and see if there is some sort of a breakdown on the production of RIAs.

Q286 Chairman: I think that would be very helpful, and not just for the Treasury?
John Healey: No, for both. That is what I meant by referring to the Cabinet Office, which obviously has the responsibility for the RIA process.

Q287 Joan Walley: Following on from that, I would have thought as the first Green Minister for the Treasury, and given the way in which the environment is incorporated into that Regulatory Impact Assessment route, you would want to make sure, at every Green Ministers meeting, you are satisfied that the environmental impact on that has been properly included. I would have thought it would have been something you would have been dealing with all the time. That is our one opportunity, is it not, through the Regulatory Impact Assessment to be able to flag up the extent to which environmental concerns have been taken into account?
John Healey: The opportunity and requirement at the RIA stage is for departments to make sure they take into account whether or not there are significant environmental implications for good or ill, costs or benefits to what they are doing. That is a relatively new innovation and an important improvement in the process. Certainly, where the Treasury have a strong interest or contribution to make into the policy area of regulatory or legislative, we would pay particular attention to that as one element of the preparation of the RIA.

Q288 Joan Walley: I was comparing your role with the process we administer, so to double check that, whoever's responsibility it was, the environmental concern had been taken into account.
John Healey: Generally, if it was an RIA being produced by Defra, I would expect Defra to make sure those concerns in the Green Ministry were addressed, and Defra to do so if it was being produced by the DTI. In a sense, there is a system in place that should ensure the DTI are doing the job. I am not certain I accept that it requires that level of detailed scrutiny. From the Department's point of view, potential meddling from the Treasury is justified in all cases.

Q289 Joan Walley: Can I just finally move on. We have covered a lot of issues in terms of revenue raising and the environment. To some extent there is a slow pace of change and a lack of everybody signing up for change. The way we have covered the aviation issue, again the slow rate of change and getting people signed up to that in terms of every possible European Directive. Can I refer you to one of the earlier recommendations of this Committee which is that we should have a Green Tax Commission. We saw that as being a vehicle which could help stimulate some of the public debate and help to inform a whole cross-sector of different parts of our community, different stakeholders and partners, about the importance of attaching environmental issues into taxation policy. That has never really had the green light from the Treasury. I just wonder whether or not, in view of your responsibilities as Green Minister and a desperate need to have properly informed public debate, is there any way you can give the idea of a Green Tax Commission an amber light that we can move onto or is it something you are always going to say no to? Could it be a real opportunity to get radical long-term change which we need for the environment?
John Healey: In our business of politics, like in any business, you never say never. At this point we have not been convinced that the concept of a Green Tax Commission is going to contribute significantly to the quality of the tax and environmental policy which we produce.

Q290 Joan Walley: What about the public awareness aspect of all of this? How do you suggest that is going to be done through other means?
John Healey: That is a much wider job and not a responsibility which it is sensible to invest in any one particular body.

Q291 Joan Walley: We do not have a cross-cutting government committee for this, do we, a Green Minister?
John Healey: In public awareness terms, I think it is beholden on all of us to be concerned about the environment and public policy which relates to it and to do what we can to draw attention to the issues. There is also a responsibility on many of the interest groups who have a particular concern about the environment and environmental policy to

do the same. In many ways we can probably all take a leaf out of the book of those groups who have been interested in Third World debt and development. They have been successful in a way that many of the environmental groups and those concerned about the environment have not in raising not just a broader understanding but starting to get a much wider head of steam behind the demand for change. Where governments, like ours, have responded very strongly to those suggestions for change, recognising that is taking place and helping to build what is really a very wide and progressive consensus behind those sorts of policy areas which we still lack in the environmental field, I do not see the solution to that failure to date lying in a Green Tax Commission.

Q292 Joan Walley: The reason why we had that recommendation in the past is that precisely something of that kind can help promote information and informed public debates, because when we are dealing with the environment, the place we need to be in the medium and long-term, and the map or route to get us there, is very often in the short-term at a very high cost during that change and time of transition. If the Treasury believes there is no role for a Green Tax Commission in all of that, where else can that consensus be, who would be leading and where would the champion of the debate be in all of that, particularly if we are going to avoid making this into a political football so we cannot move forward to try and get some degree of all-party consensus? I want to ask you whether or not you feel there is any mechanism that can do that? Given that we have G8 and the priority for climate change at the moment, we have to find a way of going forward for the short, medium and long-term. There does not seem to be a way of securing that.

John Healey: In a way I think I have given an example of precisely the way that process can work, as it happens, in the debt and development field. Governments and politicians can lead but in the end there has also got to be something of a sort of popular acceptance consensus and then further demand to back that up. We have not got there in the environmental field and I simply do not see some Green Tax Commission adding significantly to the challenge of trying to get that process underway.

Chairman: The problem is that whoever is in power, if they decide they want to put up fuel duties the opposition party will immediately jump up and down and cry: "Foul, this is terrible", stir up and capitalise on newspaper articles about how the Government is being terrible and the punishing measures they are using. Whoever is in power, that is going to happen. There is an urgent need, if we are to address these very profound and challenging issues of climate change and the consequences which might follow all of that, to establish channels whereby political parties can work together to achieve a buy-in to a package of solutions. I am sorry to use language like that, but that is what is needed which is why the idea of having a Green Tax Commission seems to me to offer a conduit for that type of debate to take place outside the party political slanging match. In the absence of that sort of structure, I do not think it is going to be at all easy, if possible, to make the sort of progress we urgently need to make. That is why we have recommended it. It is disappointing to hear that you do not see any merit in that at all, because it seems to me—I cannot speak for my colleagues—that without that we are in big trouble.

Joan Walley: Of course that was the recommendation of the Committee in a previous reincarnation.

Q293 Chairman: We may have to recommend it again and this time I hope you will address the issue rather than avoid it.

John Healey: In that case, if you recommend it again I will certainly look at it again.

Chairman: Thank you very much, Minister, and thank you so much for your time and that of your colleagues this afternoon. It has been a thought provoking and useful session.

Memorandum submitted by HM Treasury

Q1. *Mr Healey stated that "the Chancellor, when he comes to take these decisions finally, tries to weight up a balance of competing pressures and factors."*

(A) HAS ANY FORMAL APPRAISAL BEEN CONDUCTED DURING THE LAST YEAR IN RELATION TO THE CHANCELLOR'S DECISION NOT TO IMPLEMENT AN INCREASE IN FUEL DUTIES?

Advice from officials to Ministers on the environmental benefits and disbenefits of freezing fuel duty in 2004–05 was drawn from previous Department for Transport (DfT) analytical work in regard to the effect of a freeze on duty rates at Budget 2003. This work was undertaken using the DfT's National Transport Model (NTM), which provides projections of transport outcomes such as traffic, public transport patronage and emissions. These outcomes depend on forecasting assumptions regarding demographic change, economic growth and rising incomes, transport prices, fares and other transport policy.

In general terms, freezing fuel duty rates rather than increasing them (eg in line with inflation) will have a small impact on car use/fuel use, and therefore emissions of CO_2 and local air pollutants. However, a good deal of uncertainty surrounds all transport projections and those from the NTM are no exception, thus it is always advised that such numbers are taken to be indicative. For more information on the NTM see the following website page:

http://www.dft.gov.uk/stellent/groups/dft—econappr/documents/divisionhomepage/030708.hcsp

(B) HAS ANY FORMAL APPRAISAL BEEN CONDUCTED DURING THE LAST YEAR OF THE IMPACT OF INCREASING THE CLIMATE CHANGE LEVY RATES?

The formal evaluation of Climate Change Levy is being conducted by Cambridge Econometrics. We plan to publish this at the Budget. We also publish a ready reckoner at PBR, which gives an estimate of the yield or cost of increasing or decreasing the rates. The latest version of this was published at PBR 2004, and the relevant table can be seen below:

Tax Ready Reckoner Reliefs

Direct effects of illustrative changes in indirect tax rates[1]

One per cent change	*Indicative level of duty on a typical Item[2]*	*Typical Item*	*Tax change of a typical Item*	*£ million cost/yield[6]* 2005–06 (NAB)	2006–07 (NAB)	2007–08 (NAB)
Beer and cider[4]	30p	Pint of beer	0.3p	40	40	40
Wine[4]	1.23	75cl bottle of table wine	1.4p	15	15	20
Spirits[4]	5.48p	70cl bottle of whisky	6p	10	10	5
Tobacco[4,5]	3.05	20 king size cigarettes	3.5p	neg	neg	neg
Petrol[4]	47.10	Litre of ultra low sulphur	0.5p	105	105	110
Diesel[4]	47.10	Litre of ultra low sulphur	0.5p	100	100	110
Vehicle Excise Duty[6]	£165	Car[7]	1.65	50	50	50
Air passenger duty[8]	£5	Economy flight departure[9]	5p	neg	5	5
Landfill tax[10]£2/£15	Tonne of waste	2p/18p	10	10	10	
Climage change levey[4, 11]	43p	100 kWh of business electricity	0.4p	10	10	10
Aggregates levy	£1.60	Tonne of aggregate	1.6p	5	5	5
One percentage point change						
VAT—reduced and standard rates		Current rates are 5%	17.5%	4,450	4,675	4,885
Insurance premium tax—standard and higher rates		Current rates are 5%	17.5%	380	535	565

neg = negligible

1. These are estimated on the assumption that total household expenditure are basic prices (formerly consumers' expenditure at factor cost) does not change. The base assumes tax rates implemented by Finance Act 2004.

2. These figures are illustrative only. They do not equate to the weighted average level of duty on each item.

3. Assuming implementation in April 2005 for all taxes except insurance premium tax (July 2005).

4. The tax change and revenue yeild equals the change in duty plus the consequential VAT (at standard rate).

5. Duty on cigarettes has specific and ad valorem elements. The figures shown are for a one per cent change in total duty for cigarettes and in the specific duties for other products. These figures are based on ONS data published in June 2004. They do not take account of the new smuggled share figure for

cigarettes published today. illstrative changes in tobacco duty are based on elasticity of demand estimated from the forthcoming GES working paper no 150 "The Demand for Tobacco Products in the UK", December 1004.
6. All Vehicle Excise Duty, including HGVs, cars, light vans and motorcycles.
7. Registered before 1 March 2001. Engine size greater than 1549cc.
8.Change applies to all air passenger duties, including both economy and business rates of travel for all flights.
9. Economy flight departure to European Economic Area, and Switzerland.
10. As announced in the 2002 Pre-Budget Report, the standard rate of landfill tax will increase by £3 per tonne in 2005–06 to £18 per tonne and by at least £3 per tonne in 2006–07 and 2007–08.
11. Change applies to all rates of climate change levy, including electricty, gas supplied by gas utility, any petroleum gas or other gaseous hydrocarbon supplied in a gaseous state, and coke, coal and lignite.

Q2. *Mr Healey referred to projections of the numbers of vehicles falling with each VED band.*

(a) What evaluation of this has the Treasury carried out?

(b) Could the Treasury provide data for the number of vehicles currently falling within each band (ie Bands AAA, AA, A, B, C and D) and forecast to fall within each band over the next three years?

(c) Has the Treasury conducted any formal appraisal of the impacts of increasing VED differentials? If so, what did it show?

The forecast of car numbers falling into each graduated VED band is given below. This highlights that Band A is expected to see the most significant increase in numbers over the next three years.

The table below sets out the number of vehicles in each graduated VED band for the next three years.

Graduated VED (for cars registered on or after 1 March 2001)

VED band	*Vehicle No's 2004–2005*	*Vehicle No's 2005–2006*	*Vehicle No's 2006–2007*	*Vehicle No's 2007–2008*
AAA	569	4,622	21,343	47,715
AA	161,428	241,860	349,640	558,032
A	2,946,642	3,990,065	5,211,024	6,427,927
B	2,268,635	2,792,737	3,183,733	3,538,729
C	1,869,686	2,214,525	2,510,116	2,712,867
D	2,567,290	3,001,800	3,362,448	3,641,079
TOTAL	9,814,250	12,245,609	14,638,304	16,926,349

The Department for Transport commissioned MORI to undertake some market research to establish if graduated VED was influencing vehicle purchase decisions. This research, published on 30 June 2003, indicated that graduated VED was not a significant factor for motorists in deciding which vehicle to purchase. More details on this research can be found at:

www.dft.gov.uk/stellent/groups/dft_roads/

The Institute of European Environmental Policy have recently published their findings into the effectiveness of graduated VED in incentivising the purchase of cleaner vehicles. This notes that in 1997–2008 (before the graduated VED bands were introduced), Band D would have been the largest band in terms of sales volume, with progressively fewer sales in Bands C, B, and A successively.

Since then however, sales in Band B, and subsequently Band A, have grown markedly, to the extent that A is now the largest volume band in terms of new sales. Subsequently Bands AA and AAA have also begun to be populated as well, although Band AAA is populated only in the last year and is still too small to register on the chart.

The research concludes that there is some evidence that the current VED bands do have an impact at the margins on purchasing behaviour, but this seems only to be significant at the boundary of Bands A and AA.
HM Treasury has not undertaken any formal appraisal of increasing VED differentials although it is normal practice for officials to advise Ministers on these issues for Budget decisions.

Q3. *Mr Healey agreed to supply data comparing the annual yield of the Climate Change Levy since it was introduced and changes in the rate of NI.*
This data is shown the table below:

Comparison of climate change levy (CCL) revenues with 0.3% cut in employers national insurance contributions (NICs)

£ million	*CCL Revenues*[1]	*Value of 0.3% cut in Employers NICs*[2]
2001–02	771	1,035
2002–03	826	1,125
2003–04	816	1,185

[1] On accruals basis. Based on CCL declarations on trader returns.
*Source:*HM Customs and Excise

[2] Based on HMT Tax Ready Reckoner

Q4. *Mr Healey promised to supply further information on the £20 million energy efficiency initiative, in particular the amount of Government funding to be provided each year.*

The Carbon Trust is an independent company funded by the Department for Environment, Food and Rural Affairs, the Scottish Executive, the National Assembly for Wales and lnvest Northern Ireland. In 2003–04 the Carbon Trust's total grant income was £60 million of which £33.5 million was from the Climate Change Levy. In 2004–05 the grant income for the Carbon Trust is £65.8 million. Spending Review 2004 announced that some of the funding from the recycling of landfill tax revenues in England will be used to expand the Carbon Trust's programmes supporting business in improving energy efficiency. The Trust will receive an additional £3 million in 2005–06, £25 million in 2006–07 and £35 million in 2007–08. In addition to this, the December 2004 Pre-Budget Report announced a new £20 million fund to help foster a new partnership between public and private investment to accelerate energy efficiency technologies. This fund will be managed by the Carbon Trust and will comprise Government contributions of £10 million in 2006–07 and £10 million in 2007–08 with the aim of securing matched funding from private sector sources for programmes.

Q5. *Mr Healey agreed to provide data on the total amount of public money the Government is investing in energy efficiency and renewable energy each year (currently, and for the next three years). It would be helpful if each component were separately listed and if capital R&D funding components were clearly distinguished from other forms of funding.*

The Renewables Obligation is the Government's main mechanism for supporting renewable energy. It requires electricity suppliers to source specified percentages of the electricity they supply from renewable sources increasing from 4.9% in 2004–05 to 10.4% in 2010–11. By 2010, the Renewables Obligation, taken together with the exemption from the Climate Change Levy for electricity generated from renewable energy sources, will provide support of around £1 billion per annum for renewables.

The Obligation is backed by Government spending of over £500 million between 2002–08 to help develop emerging technologies. This will take the form of spending on R&D and funding for capital grants. This includes among other things:

— grants of £117 million for offshore wind;

— over £60 million for energy crops and biomass;

— a special £50 million Marine Renewables Deployment Fund (£42 million of this has now been earmarked to kickstart the construction of large scale wave and tidal demonstration projects);

— £31 million in support for Photo Voltaics;

— £12.5 million for community/domestic schemes;

— plus around £19 million per annum on R&D.

The Government also makes substantive investment in energy efficiency. in addition to the funding for the Carbon Trust to support business in the improving their energy efficiency. Defra provides support of around £25 million a year to the Energy Savings Trust to promote the sustainable and efficient use of energy in the domestic sector. The Warm Front Programme currently provides funding of £156 million a year to reduce fuel poverty by installing energy efficiency measures. Spending Review 2004 announced that spending will be £95 million higher per year by 2007–08 to ensure progress in meeting our target of eliminating fuel poverty in vulnerable homes by 2010. Changes to Building Regulations and the development of a Sustainable Buildings Code also play an important contribution to improving energy efficiency. In addition activity under Energy Efficiency Commitment, under which energy suppliers are required to achieve energy savings by promoting energy efficiency measures to households, will double from 2005.

In terms of examples of the revenue foregone through the introduction of this range of fiscal measures, it was estimated in Budget 2001 that enhanced capital allowances for energy saving equipment would cost the Exchequer £310 million from 2001–02/2003–04 and; reduced rates of VAT on energy saving materials have been calculated to have cost a total of £120 million (1998–99/2003–04).

Q6(a) *Mr Healey agreed to check whether any representations had been made to the ODPM by the renewables industries in relation to the new business rating system.*

ODPM have received a number of representations from the renewables industry over the past year in relation to the new business rating system. These include representations from the Renewable Power Association (RPA), Combine Heat and Power Association (CHPA) and Association of Electricity Produces (EPA).

[The DTI, who are responsible for Government policy on renewable energy, have also been approached by the renewables industry. However, no industry bodies have directly approached the Treasury on this issue.]

Q6(b) *Has the Government carried out any formal appraisal of the impact of the new business rates on renewable power generators as opposed to coal or CCGT generation? If so, please provide a copy.*

The Department of Trade and Industry has commissioned Future Energy Solutions to undertake a study on the impact of the new business rate regime for renewables, specifically considering:

- the likely impact of the proposed business rate changes in England, Wales and Scotland on current and future projects for each of the main renewables technologies, wind, biomass, RO eligible hydropower, and landfill gas;
- the impact of the proposed changes on developer behaviour for each technology;
- the likely overall impact on the rate of renewables development during the next five year rating period and the achievement of government's 2010 renewables target; and
- the ability of the RO mechanism to respond to any business rate changes without the need for any intervention.

14 March 2005

Written evidence

APPENDIX 1

Memorandum submitted by the Cabinet Office

Thank you for your letter of 10 February, requesting a complete list of RIAs that have been submitted to the Cabinet Office since April 2004, including information on the lead department, and a memorandum in response to the third issue of your inquiry.

The memorandum you requested is attached as an annex to this letter. RIA's are published on the relevant Departments' website and where they relate to legislative proposals, laid in the House Libraries. Every six months the Minister for the Cabinet Office presents a Command Paper to Parliament listing all the RIA's completed by Departments in the previous six months. This can be found at www.hmso.gov.uk/information/cmpapers/cm-abc.htm#co.

RIA's not listed on the Command Paper list or on the Departmental websites, which will include some of those submitted to the Cabinet Office for scrutiny, are still under consideration as part of the policy making process. Documents relating to meetings of the Cabinet or Cabinet Committees are not publicly available to enable full and frank discussion to take place.

David Miliband

Annex A

Inquiry Terms of Reference

(A) PBR 2004 and SR 2004. What new policy measures and initiatives to address environmental impacts does PBR 2004 contain? How adequate are they in terms of addressing the environmental challenges we face? Do the new PSA targets in SR 2004 adequately reflect environmental priorities? How much of a real increase in funding for those priorities has actually been made available, and is the level of funding now adequate?

(B) The Treasury's overall fiscal strategy. In view of the fact that we are approaching the end of the Government's second term, what overall progress has the Treasury made since 2001 against the agenda set out in its Statement of Intent on Environmental Taxation in 1997? What successes and failures have there been? Has the Treasury developed an adequate strategy to implement its environmental PSA objective? How could its approach be improved? (See note 2 below.)

(C) Environmental appraisals and Regulatory Impact Assessments. Departments are required to screen and appraise the environmental impacts of their policies. However, over the last four years, the focus appears to have shifted from separate environmental appraisals to an emphasis on integrated policy appraisals. More recently, the Government appears to have taken the view that Regulatory Impact Assessments should constitute the formal means for assessing environmental impacts in relation to other impacts. As highlighted in previous Committee reports, there is also a wide range of overlapping and potentially conflicting guidance on appraisal. How adequate is the current approach to appraisal, in particular the reliance on RIAs, as a vehicle for capturing all environmental costs and benefits and for balancing these against economic and social impacts? In what ways can departmental approaches to appraisal (including the appraisals in the Pre-Budget Report itself) be improved?

Memorandum from the Minister for the Cabinet Office

— The Committee's inquiry is focusing on three issues. One of these is the Government's approach to appraisal of environmental impacts and, in particular, the use of Regulatory Impact Assessments (RIAs) as the tool for such analysis.

— This Memorandum provides evidence on appraisal of environmental impacts in policy making. It does not provide evidence on appraisal within the Pre-Budget 2004.

1. Role of Minister for the Cabinet Office

As Minister for the Cabinet Office, I am charged with ensuring departments deliver better regulation, including through full compliance with the RIA process. An RIA must be developed for any policy proposal which will have significant impacts. The Cabinet Office Regulatory Impact Unit (RIU) works across government to promote better regulation and with individual departments to encourage the effective use of RIAs to inform policy making.

2. Recent Changes to Appraisal of Environmental Impacts

2.1 *Background: the Regulatory Impact Assessment and Integrated Policy Appraisals*

The *Modernising Government* White Paper (March 1999) and the UK Sustainable Development Strategy *A Better Quality of Life* (May 1999) both committed the Government to a more inclusive and integrated system of policy making. A number of initiatives flowed from these commitments including Cabinet Office's Policy Makers Checklist and an Integrated Policy Appraisal tool (IPA) developed by Defra/ODPM/DfT.

The IPA provided policy makers with a process of assessing sustainable development impacts often, as in Defra, starting with the use of checklists. These served to remind policy makers to consider whether their policy had impacts in a specific area, for example of water quality.

A cross-Whitehall pilot and review of the IPA was conducted in 2003. This confirmed the need to clarify the way in which the IPA related to other policy appraisal systems, including the mandatory RIA, and the need to provide clearer central support and guidance for policy makers.

A plethora of tools and guidance for policy appraisal, including the RIA and IPA, led to duplication of appraisal work and confusion amongst policy makers. In addition, with the IPA being voluntarily taken up by certain departments, there was no central requirement for policy makers to look at wider impacts, including environmental impacts. These issues restricted the take-up of tools to appraise environmental impacts.

The RIA had previously been used mainly as a tool for assessing the impact of regulation on business, charities and the voluntary sector, although RIA guidance stated that where wider impacts could be identified, they should be considered. However, work led by the Cabinet Office developed the RIA into a full cost-benefit analysis of policy impacts—a cost-benefit analysis which includes "not only the obvious costs and benefits of the proposal but also the wider economic, social and environmental impacts" (The Prime Minister, in the foreword to the 2003 Cabinet Office Guide to Regulatory Impact Assessment).

With this change, there was increased overlap between the IPA and the RIA and it was recognised that an opportunity was available to strengthen appraisal of issues covered under IPA by integrating it into the RIA. The aim was to give greater status to assessment of sustainable development impacts and promote greater clarity for policy makers while increasing uptake of impact appraisal.

2.4 *Integration of IPA and RIA*

The Committee notes that there is a "wide range of overlapping and potentially conflicting guidance on appraisal". Other recent examples include race equality, health and rural proofing impact assessments. Our aim is to provide policy officials with an integrated but flexible appraisal tool that is able to be used for analysis of all relevant issues in a coherent and easy to use way.

As a result, Defra, Cabinet Office and others agreed in late 2003 to merge IPA and RIA. The changes came into effect in April 2004, with the stronger and more recognised brand of RIA being kept as the name of the impact appraisal process and document.

The changes brought in more explicit requirements for appraisal of environmental and social impacts within the RIA process:

— the RIA template that policy makers use to structure their RIAs now contains separate sections for economic, environmental and social costs and benefits;

— the costs and benefits summary table for policy options explicitly states that the costs and benefits from environmental, social and economic impacts are to be included;

— the RIA Guidance has been amended to reflect the equal emphasis on environmental, social and economic impacts. The revised guidance can be found on http://www.cabinetoffice.gov.uk/regulation/ria-guidance/intro.asp

— the inclusion of checklists to help policy makers consider the range of their policy impacts—these contain a synthesis of the checklist questions previously contained in the IPA: http://www.cabinetoffice.gov.uk/regulation/economic/checklist/impacts.asp

Completed RIAs are published, as part of the Government's commitment to openness and transparency, and inform effective consultation with stakeholders. Inclusion of environmental impacts within the RIA published during policy development allows consultees to more easily identify—and input to consideration of—environmental impacts. This, in itself, encourages more accurate appraisal of such impacts.

2.5 *New Guidance on Appraisal of Environmental Impacts*

Integration of the IPA and RIA clarified impact assessment requirements for policy makers and, importantly, cut overlapping guidance.

To assist policy makers in their appraisal of environmental impacts, Defra has produced revised and reformatted on-line guidance, for use across government. This guidance aims to be practically useful and accessible to policy makers with little knowledge of environmental impacts. It sets out the possible impacts that a policy might have, allows policy makers to decide if their policy option might have such impacts and provides ways to find out more.
This guidance can be accessed from the checklist questions within the RIA Guidance: http://www.cabinetoffice.gov.uk/regulation/economic/checklist/impacts.asp#environmental. It can also be found on http://www.defra.gov.uk/corporate/regulat/ria/envguide/index.htm

3. Future Steps

3.1 *Improving Guidance and Building on Networks*

The Cabinet Office is leading in government on the rationalisation of impact assessment tools and guidance into the RIA process. Since integrating the IPA into the RIA, the RIU has worked with other departments and stakeholders to integrate other impact assessment tools into the RIA process and to roll out the use of RIAs for public sector proposals. Having one tool for effective policy analysis will make it easier for policy makers to analyse all the impacts, and the deliverability, of policy options.

The RIA Guidance will be reviewed twice yearly in light of developments in the RIA process and the further integration of impact assessment tools and guidance.

Departments, including, Defra, are also revising and consolidating their specific guidance to meet the need for clear, concise guidance from one identified location. During 2005 Defra plans to gather feedback from the use of their new environmental guidance and to revise it where necessary. Any revision will include the further use of examples to demonstrate what is expected of policy makers.

Various cross-government networks have been established to promote the better regulation agenda, in particular effective use of the RIA, and to share best practice across government. These include Regulatory Reform Ministers, Board Level Champions in each department and the Departmental RIU network. The Cabinet Office is looking to further build on and strengthen these networks.

The RIU also provides training and guidance on the RIA to policy officials across Whitehall, as well as to trainers at CMPS (formerly Civil Service College) who are now disseminating the need for effective impact appraisal throughout the policy development process.

4. Use of Valuation of Environmental Impacts in RIAs

4.1 *Trade Offs*

While government as a whole subscribes to the sustainable development agenda, there are debates about the steps that need to be taken to deliver it and recognition that it requires trade-offs with other overarching objectives.

For example, if we are to achieve economic prosperity we cannot impose total and immediate bans on polluting activities. At the same time, we find some levels of environmental damage unacceptable. Policies must find the mid-point between these extremes—the level at which, as a society, we are prepared to allow some environmental damage for some economic benefit. Valuation allows comparison of different impacts to allow this trade-off to take place.

4.2 *Comparing impacts*

The RIA should set out all significant impacts. Within the RIA, if monetary values are placed on environmental impacts, decision makers can more easily compare the worth of environmental impacts with other impacts.

There are good reasons for using monetary valuations. Financial costs are easily understood. They have an immediacy and an impact that worded descriptions do not. More importantly, they facilitate comparison of different impacts and indicate whether society places more value on financial impact A than on environmental impact X. The ability to place monetary values on impacts is particularly important where the environmental impact is one of many different impacts that a decision maker must weigh up before deciding whether to proceed with an option. Juggling a set of different impacts without a means of comparing them is a difficult, if not impossible, task.

4.3 *Valuation techniques*

Valuation of environmental impacts uses economic techniques that include various aspects of value—the economic value of environmental resources, certainly, but also the value which individuals place on aspects of the environment that have no direct financial value. For example, people can express the value they attach to having a wood nearby in which they can walk. Values used in RIAs attempt to capture all the values that people place on environmental impacts.

Whilst current techniques cannot claim to provide exact valuations—and almost always provide a range of values—they provide much better guidance to decision makers than the absence of any valuation.

5. *Specific Questions posed by the Environment Audit Commission*

How adequate is the current approach to appraisal, in particular the reliance on RIAs as a vehicle for capturing all environmental costs and benefits and for balancing these against economic and social impacts?

5.1 *The vehicle for capturing costs and benefits*

The RIA has developed into an excellent vehicle for capturing significant environmental costs and benefits of policy proposals. It provides both a framework and an obligation to identify significant environmental impacts.

Key to the success of the RIA in appraisal of environmental impacts are the incentives for policy makers to identify such impacts and the assistance given to help them analyse and examine those impacts.

5.2 *Incentives for Identifying Impacts*

By incorporating the IPA into the RIA, the incentives given to policy makers have been increased: there is now an obligation to appraise environmental impacts.

The policy maker has two incentives to include environmental impacts. Firstly, the incentive to demonstrate, and be recognised for, good practice such as following the Cabinet Office RIA Guidance. Secondly, the risk of censure or failure of their policy proposal if they do not include or properly assess impacts.

The level of positive and negative incentives given to policy makers depends significantly on the structures in the relevant department and its level of engagement in the better policy making agenda, including the effective use of RIAs.

5.3 *Scrutiny and recognition of appraisal performance*

Scrutiny of RIAs takes place both in departments and centrally, including the Regulatory Impact Unit of the Cabinet Office, the Ministerial Panel on Regulatory Accountability (PRA) and the NAO, which undertakes an annual qualitative review of a sample of RIAs.

Each department has a Regulatory Impact Unit that scrutinises and advises on the quality of RIAs that come before them, and a Board Level Champion for Better Regulation to provide a challenge function at a senior level within the department.

The RIU scrutinises all RIAs for significant policy proposals while the PRA takes a strategic overview of the regulatory system, tackling areas where progress on regulatory reform is blocked and calling Ministers to account for new regulation and their performance in addressing the cumulative burden of regulation. The PRA considers proposals based on an assessment by the RIU of the robustness of analysis in the RIA. This includes consideration of economic, environmental and social impacts and both quantitative and qualitative costs and benefits.

The strength of effective impact assessment within a department depends on the publicity and profile given within the department to changes in RIA requirements and techniques for incorporating environmental impacts, as well as the expertise of those developing and scrutinising RIAs.

5.4 *Assistance in examining impacts*

The production of new on-line guidance for appraising environmental impacts provides significant assistance to policy makers. The guidance provides contact details for government officials with specific knowledge of the likely environmental impact of policy options. These officials are able to advise policy makers on the potential impacts of particular policy proposals.

The level of assistance provided to policy makers again depends on the structures in place in departments. For example, within Defra, members of the Better Regulation Unit help policy makers identify any impacts that they may have missed. The department is also introducing closer working practices between specialists and policy makers, to give policy makers easier access to the experience and specialist input of economists, lawyers and scientists.

5.5 *Balancing Environmental Costs and Benefits against Social and Economic Impacts*

The RIA encourages policy makers to qualitatively describe all significant impacts as fully as possible and to quantify and assess economic valuations if possible. This allows the RIA to communicate the issues driving a policy, the options being considered and the associated costs and benefits. Decision makers—Ministers and Parliament—are then able to use this information to determine whether an appropriate balance has been found between the costs and benefits of a proposal.

5.6 *Valuation*

Techniques used to obtain valuation of environmental impacts can be complex but try to find out how much various individuals are willing to pay for a particular outcome. In the same way that we take prices of goods in our competitive economy as an indication of how much people think those goods are worth, environmental valuation involves exploring how much people think environmental goods or services are worth. The techniques might be considered to be somewhere between observing what people do pay for goods and polling them on what value they place on environmental goods.

The prices obtained therefore give an indication of the relative value of environmental impacts, judged by a representative portion of society. Attaching values to environmental impacts gives assistance to decision makers in weighing up different costs and benefits.

Precise values of environmental impacts are very rarely given—ranges of values, reflecting the range of possible values are more frequently included in RIAs.

In what ways can departmental approaches to appraisal (including the appraisals in the Pre-Budget Report itself) be improved?

5.7 *Improving Departmental Policy Appraisal*

There is scope within departments for greater embedding of the RIA as a policy development tool from an early stage of the policy making process, and greater cross-government working to identify the full range of impacts.

The RIA is central to the best-practice method of developing policy. With environmental impacts included as part of the RIA, developing best practice on appraisal of environmental impacts is closely liked to work promoting good policy making.

In addition to the work of the Cabinet Office mentioned above, good practice in policy making is being promoted in different ways. For example, in Defra, several methods are being used to promote best-practice policy, including policy making training and exchange of experience of policy making.

Centrally, as part of the Profession Skills in Government initiative launched in 2004, Sir Brian Bender, Permanent Secretary of Defra has taken the new role of Head of Profession for Policy with a mandate to drive forward policy making skills across Whitehall.

6. *Assessment of Benefits to the Environmental Industries*

The Environmental Industries Commission has submitted written evidence to the Environmental Audit Committee on the subject of RIAs and has made a number of recommendations. The Committee may wish to note the Government's response to the recommendations made by the EIC.

Recommendation 1: RIAs should take into account the benefits to the UK's environmental technology industry of environmental protection measures.

— The Government supports considering possible wider benefits including those that may arise from the use of environmental technology and, where they can be identified, any benefits or costs that will accrue to UK industry including the environmental technology sector.

— The Government does not give any sector special treatment. However where, in directing expenditure from one industry to another, additional benefits such as increased innovation will arise, this should be identified. If the UK has a comparative advantage internationally in a particular area this may also be relevant, for example financial markets.

Recommendation 2: RIAs should take full account of the economic benefits of high environmental standards to the UK's health services through reduced health costs and to the health of the workforce.

Recommendation 3: RIAs should take into account the economic benefits of high environmental standards to third party industries such as tourism, agriculture, and forestry.

In response to both of these recommendations:

- The RIA guidance already states that such benefits (and, where appropriate, costs) should be taken into account. However, by their very nature they are difficult to place monetary values on or assign other quantitative descriptions to. This is set out in the Guidance under "Sustainable Development".
- Such benefits, or costs, should be thoroughly described in RIAs, including an indication of the likely impact.
- Such benefits, or costs, may arise in the long-term and RIAs should choose an appropriate time period to assess the impacts of the various options.
- An example of consideration of such benefits is Defra's review of the National Air Quality Strategy.

Recommendation 4: RIAs should seek to assess the costs savings to mainstream industry from resource productivity and innovation (that high environmental standards have been shown to drive).

- The RIA guidance already asks policymakers to include all impacts.
- However, this is difficult for officials to assess. Where improved technology is required RIAs should, and generally do, include discussion of more general impacts of the new technology.
- Quantifying such impacts is not easy for policymakers and responses from specialists to consultation are essential to ensure benefits are not missed.
- Equally, a change of technology before the old technology has reached the end of its natural life will also incur the cost of writing down the existing capital.

Recommendation 5: Independent studies should assess the ex-poste costs and benefits in the light of the experience of implementing the new environmental protection standard.

- The Government welcomes assessments of the impact of policy that are independent of the affected industry.
- As highlighted in the 2004 Pre-Budget Report, post-implementation reviews should be conducted and planned for in the policy development process.
- The National Audit Office conducts an annual review of a number of RIAs. Feedback from this is used to strengthen guidance or focus on specific areas of the RIA as appropriate.

Recommendation 6: Independent studies should assess the costs on "non-environment", detailing the environmental, health and economic costs of inaction.

- Such studies are welcomed. It is important to establish the counterfactual of what happens if action is not taken as is done in the Risk Assessment section of the RIA and set out in the "do nothing" or "baseline" option.

Please note that this submission does not comment on the approach to appraisal in the Pre-Budget Report.

9 March 2005

APPENDIX 2

Memorandum submitted by the Chartered Institution of Water and Environmental Management

1. The Chartered Institution of Water and Environmental Management

The Chartered Institution of Water and Environmental Management (CIWEM) is the leading professional and qualifying body for those who are responsible for the stewardship of environmental assets. The Institution provides independent comment, within a multi-disciplinary framework, on the wide range of issues related to water and environmental management and sustainable development.

2. Environmental Appraisals and Regulatory Impact Assessments

How adequate is the current approach to appraisal, in particular the reliance on RIAs, as a vehicle for capturing all environmental costs and benefits and for balancing these against economic and social impacts?

CIWEM believes that when implemented appropriately Regulatory Impact Assessments can be a useful tool in weighing up the various impacts of government policy.

With regard to economic impacts, we are particularly keen to see society-wide economic benefits quantified. For example the benefit of reduced healthcare costs through the adoption of more stringent air quality standards. As early as the 1950s and the London smogs, the economic cost of healthcare for populations affected by poor air quality was apparent. DEFRA's Air Quality strategy has already shown that existing environmental policy measures can save many millions of pounds through reduced respiratory-related hospital admissions, early deaths and life years lost.[1]

Another economic cost that RIAs have failed to adequately capture is the benefits associated with improved quality of life. Quality of life can be difficult and expensive to quantify but we agree with the National Audit Office[2] that such wider costs and benefits should be included.

With regard to the environmental costs and benefits of policies, we believe that RIAs often underestimate their impact because environmental issues are generally not weighted very highly unless very large populations or numbers of people are affected. Large impacts on smaller groups of people need to be incorporated more effectively into RIAs.

CIWEM is also keen to qualify the National Audit Office's recommendation that "RIAs should be undertaken early in the policy making process".[3] Whilst we would not wish RIAs to become an end of line bolt-on to policy formation, we are concerned that the benefits of RIAs are diminished if carried out too early in the decision making process. We believe that RIAs should not take the place of policy analysis by decision makers but should instead be used to pull the analysis all together. The work beforehand should ensure that good policies are designed and implemented; RIAs are then the more holistic check procedure.

3. Recommendations

I. The time, effort and funding required to carry out thorough Regulatory Impact Assessments must be realised and resourced by government.

II. Regulatory Impact Assessments must take into account the true economic benefits to society of environmental legislation eg through reduced healthcare costs and improved quality of life.

III. Regulatory Impact Assessments must take into account the true environmental costs and benefits to society of legislation including those where large impacts are felt by a comparatively small group of people.

IV. Regulatory Impact Assessments must not take the place of sound policy analysis.

9 February 2005

APPENDIX 3

Memorandum submitted by the Council for Environmental Education

About CEE

The Council for Environmental Education (CEE) is the national membership body, established in 1968, for organisations and individuals in England with interests in education and the environment. CEE works with and for its membership to develop policy, enhance practice and enable members to work more effectively together. CEE's members (listed in annex I) constitute the "Council" and are national organisations, including government agencies, NGOs, professional bodies and academic subject associations. CEE's associates are local, regional and international organisations including local authorities, NGOs, schools, colleges, universities, education centres, and individuals.

CEE has a broad overview of its field, including research, practice and policy, and a specialist focus on strategic issues. Current government funding comprises a three-year strategic core services grant from the Department of the Environment, Food and Rural Affairs (Defra) through its Environmental Action Fund (EAF) and a three-year youth work programme grant from the Department for Education and Skills (DfES). Both of these grants come to an end in March 2005. Other funding support is received from membership subscriptions; trusts and foundations; and corporate partners.

Introduction

CEE is grateful for the opportunity to contribute to the Committee's inquiry. This response concentrates on the Pre-Budget Report 2004 and Spending Review 2004, and in particular the question of funding for environmental education and education for sustainable development (ESD).

Chapter 13 of the 2004 Spending Review Public Service Agreement (PSA) White Paper focuses on sustainable development, setting clear objectives and performance targets for making progress on government's headline indicators on sustainable development. Responsibility for achieving these targets is placed upon Defra: "The Secretary of State for Environment, Food and Rural Affairs is responsible for the delivery of this PSA".

[1] AEA Technology for Department for Environment Food and Rural Affairs (2004) An Evaluation of the Air Quality Strategy.
[2] National Audit Office (2004) Evaluation of Regulatory Impact Assessments Compendium Report 2003–04.
[3] National Audit Office (2004) Evaluation of Regulatory Impact Assessments Compendium Report 2003–04.

The importance of education in working towards sustainable development has been recognised by the UK government, and, in particular, by Defra. *Where next for the UK on Sustainable Development?* (2003), a report produced by the UNED-UK Committee on behalf of Defra, identifies the top priorities for progressing sustainable development in the UK as sustainable consumption and production and resource efficiency; *energy and climate change*; and education, raising awareness and capacity-building.

The Defra consultation document, "*Taking it On: Developing UK Sustainable Development Strategy Together*" (2004) also recognised that "schools, colleges and universities can play their part in encouraging learning for sustainable development" and that behavioural change will only result from a combination of measures including information and public involvement, education, economic incentives and standards.

Despite these statements of support for the role of education, the Pre-Budget Report (PBR) 2004 fails to recognise the importance of funding for environmental education and ESD. Chapter 7 of PBR—*Protecting the Environment*—focuses on the use of economic instruments to promote better environmental management. However, the Report omits any reference to the use of economic instruments to support strategic funding for educational programmes to aid protection of the environment. This lack of commitment to education has been clearly demonstrated through the recent changes to the Landfill Tax Credit Scheme (LTCS).

The Landfill Tax Credit Scheme

According to Entrust, between1996 and February 2004, LTCS provided around £29.2 million of funding to over 1,100 educational projects. On 1 April 2003 Objects C and CC: "*The provision of education, information or research and development to encourage the use of sustainable waste management practices such as waste reduction and recycling*" were removed from the eligibility criteria for funding. The one remaining category within the LTCS community fund which recognizes education is Object DA (biodiversity), and within this category, education "*cannot be the main intent of the project*". In addition, to be eligible, a project must be within a 10 mile radius of a landfill site. This does not allow for national or regional education projects or programmes and limits recipients to working with groups in a specific geographical area.

Despite some new funding initiatives (see "Other Funding Initiatives" below), to date there has been no replacement for this loss of provision for strategic national waste and resources education work, local waste education work, or wider ESD work, either in the formal school environment or in the non-formal setting.

Education or Awareness-Raising?

Margaret Beckett, the Secretary of State for the Environment, said at the recent Environment Agency conference "*Recent research tells us that there is an attitude-behaviour gap. Information failure is rarely the central problem . . . [it] plays a much less important role than approaches that actively engage people*".

Defra's five year strategy states, within the context of climate change, "*In the past, we have relied a lot on information and awareness campaigns. But these have largely failed to translate awareness into action. Recent studies have given clear messages that a more comprehensive approach is needed to influence and modify individual behaviour*".

Despite these announcements, and despite educational research providing clear evidence of the ability of critical education programmes to develop understanding and skills, to explore knowledge, beliefs and values and to provide the basis for action, most funding related to public engagement in sustainable development continues to be directed at awareness-raising and information campaigns. This contrasts sharply with the approach taken by the Department for International Development (DfID) which has provided continued strategic funding of development education through the Enabling Effective Support programme and through core funding of the Development Education Association, CEE's equivalent within development education.

Other Funding Initiatives

Community Recycling and Economic Development (CRED)

The CRED scheme was established with £35 million from the New Opportunities Fund. Education and public awareness projects that also meet a number of other programme priorities are eligible. However, according to CEE's research, organisations wishing to work primarily with schools have found CRED funding very difficult to access.

Waste Partnership Fund

Defra has allocated £3 million for 2005–06 for the Waste Partnership Fund which can be used for "Awareness Raising". However this is a one-year funding scheme only available until March 2006. CEE does not yet know if projects focusing on education will be successful in accessing funding.

Waste Resources Action Programme (WRAP)

The Waste Implementation Programme (WIP) funding includes funding administered by WRAP. WRAP includes objectives on communications and awareness—to engage the public by raising awareness of the need to reduce waste and recycle more, particularly by helping councils to get the most out of collection schemes by promoting them effectively. This objective has been developed through the Recycle Now campaign for which WRAP has received £30 million from Defra. However, within WIP there is no provision for schools-based education work, or anything other than "communication and raising awareness" activities.

Environmental Action Fund (EAF) (Defra)

The EAF was launched in 1992 to assist voluntary organisations in England to support government environmental objectives, where activities are not eligible for other grants. The total value of fund has remained around £4 million a year. With funding rounds every three years, the focus of the 2002–05 was to support understanding and awareness of sustainable development, and biodiversity. The focus of the fund was recently changed (2005–08 fund) to "sustainable consumption and production": projects "that find ways of making sustainable living attractive to consumers and sustainable behaviour attractive to producers" leaving little scope for critical education projects.

Demand for environmental education funding

The New Opportunities Fund Social, Economic and Environmental Development (SEED) programme has demonstrated the demand for funding for projects linking the environment and education. Environmental education had the largest take-up of any SEED theme: of £14.17 million distributed from 2002 to 2004, £3.79 million was distributed for education projects. The programme has now ended and criteria for successor funds, such as the Community Recycling and Economic Development Programme (CRED) and the Big Lottery Fund Young People Fund, do not present clear opportunities for environmental education programmes to be funded.

In Conclusion

The government has recognised the importance of education in working towards sustainable development in the UK through the Defra *Taking it On* consultation document and the launch of the DfES *Sustainable Development Action Plan for Education and Skills* in 2003. Indeed, Charles Clarke states in his foreword to this document, "*This action plan sits within the wider aspects of the UK Sustainable Development Strategy with its main objectives to ensure effective management and sustainable growth in society, the environment, resources and the economy*".

Despite these statements, funding for strategic education programmes has been systematically reduced, in particular through changes to the LTCS, the EAF fund, and with the end of the lottery-funded SEED programme. At the same time as accessible Defra funding has been reduced, DfES are unambiguously acknowledging there will be no new funding for ESD. There is a clear lack of a funding strategy across government for ESD and this has failed to be addressed within the Pre-Budget Report.

CEE argues that education has a vital role to play in helping to meet government sustainable development objectives and calls for a clear statement of strategic government funding for ESD, acknowledging the respective roles—and resource commitments—of Defra, DfES and other relevant government departments.

Annex I

CEE MEMBER ORGANISATIONS

Association for Science EducationAssociation of National Park Authorities
Bat Conservation Trust
Black Environment Network
Botanic Gardens Conservation International
Botanic Gardens Education Network
British Ecological Society
Centre for Alternative Technology
Centre for Research, Education and Training in Energy
Centre for Sustainable Energy
Chartered Institution of Wastes Management
Compassion in World Farming Trust
Countryside Foundation for Education
Design and Technology Association

Development Education Association
Earthwatch Institute
ENCAMS
English Heritage
English Nature
Environment Agency
Environmental Association for Universities and Colleges
Environmental Education Advisers Association
Farming and Countryside Education
Federation of City Farms and Community Gardens
Field Studies Council
Forest Education Initiative
Forestry Commission
Forum for the Future
Friends of the Earth
Geographical Association
Girlguiding UK
Global Action Plan
Groundwork
Human Scale Education
Industry Council for Packaging & the Environment
Institute for Earth Education
Intermediate Technology Development Group
Learning through Landscapes
Living Earth
National Association for Environmental Education
National Association of Field Studies Officers
National Association of Head Teachers
National Association of Youth and Community Education Officers
National Council for Voluntary Youth Services
National Foundation for Educational Research
Natural Environment Research Council
Ordnance Survey
Oxfam Development Education Programme
Peace Child International
Royal Geographical Society (with the IBG)
Royal Horticultural Society
Royal Society for the Prevention of Cruelty to Animals
Royal Society for the Protection of Birds
Royal Society of Chemistry
Royal Town Planning Institute
Soil Association
Sustrans
The National Trust
The Natural History Museum
The Scout Association
The Wildlife Trusts
The Woodland Trust
UK Youth
University and College Lecturers' Union
Waste Watch
Wildfowl and Wetlands Trust
Wildscreen
Woodcraft Folk
WWF-UK
YMCA National Centre Lakeside
Young People's Trust for the Environment & Nature Conservation
Youth Hostels Association (England and Wales) Ltd
Zoological Society of London

21 January 2005

APPENDIX 4

Memorandum submitted by the Environment Agency

SUMMARY

The Government continues to take forward its environmental taxation agenda, although the prices of environmental resources still need to rise significantly to achieve the changes in environmental performance justified by the environmental challenges we face. There is substantial need for increased progress in this area:

- The Treasury has taken thinking forward with its 2002 publication on economic instruments and we would now be keen to see the development of a systematic strategy, linked not only to its environmental Public Service Agreement (PSA) objective, but its other objectives too.
- There has been progress in the use of environmental appraisal and regulatory impact assessments, but continued work is required to ensure they are balanced in adequately capturing the environmental benefits and not overstating the shorter term costs.
- We urge the Government to consider positively the future need to raise fuel duties and tax incineration.
- We urge the Government to promote the inclusion of aviation emissions in the next phase of the EU Emissions Trading Scheme.
- Government should consider how the introduction of a Planning Gain Supplement tax could promote environmental objectives.
- There is a particular need for alternative sources of funding for flood management services and incentives for building outside the flood plain.
- The Government should consider the need for a tax on phosphate use and a pesticides tax to complement the current voluntary initiative.
- The Regulatory Impact Assessment process should bring greater consistency to the consideration of environmental impacts of policy proposals across Government.

1. THE PRE BUDGET REPORT 2004

We welcome the overall thrust of the Pre-Budget Report (PBR) 2004 and in particular the commitment to prioritise climate change as a key theme for the UK's presidencies of the G8 and EU. In terms of the specific proposals we particularly welcome the recycling of landfill tax revenues into the Business Resource Efficiency and Waste (BREW) fund and the commitment to funding our fight against fly tipping. We urge the Government to consider positively the future need to raise fuel duties and tax incineration.

There are gaps in the measures being proposed. There remains a lack of measures to address for the significant environmental costs of aviation and we also urge the Government to promote vigorously the inclusion of aviation emissions in the next phase of the EU Emissions Trading System.

There is also a need to consider how the introduction of a Planning Gain Supplement tax can also promote environmental objectives, which is particularly important in the SE with the Sustainable Communities plan. The development of the Planning Gain Supplement needs to be viewed in the context of the current processes for funding environmental infrastructure, which are being put under considerable strain by the demands of the Sustainable Communities plan. There is a particular need for alternative sources of funding for flood management services and incentives for building outside the flood plains (see Defra's 'Making Space for Water' consultation).

2. THE TREASURY'S OVERALL FISCAL STRATEGY

The Government has made some progress since 2001. A particular success has been the development of the Landfill Tax to provide stronger signals over the long-term and the use of the increased revenues from business in the BREW fund. We look forward to seeing the final evaluation report on the effectiveness of the landfill tax. There are other measures we would like to see in the near future such as the development of proposals for taxing phosphate use. The Government should consider further the need for a pesticides tax designed to complement the current voluntary initiative as part of a policy package, ensuring that any revenue is used to reinforce action.

The Treasury has taken forward thinking on environmental taxation with its report in 2002 entitled Tax and the environment: using economic instruments. We would continue to encourage the Treasury to develop a systematic plan of action for green taxation, based on substantial analysis and consultation, linked not only to its environmental PSA objectives, but its other objectives too. We would be keen to be involved in this process.

Environmental tax measures need to be based on good analysis and need to:

— take account of the likely responses to tax proposals by firms and individuals, seeking to ensure that 'winners' are supportive and issues for 'losers' are dealt with by practical measures;

— be effectively co-ordinated across departments so that taxation and other economic instruments operate as one element in packages of measures to address complex social and environmental issues; and

— focus on ways in which environmental policy instruments can be refined over time in light of experience gained on their application.

The Environment Agency can contribute our practical experience to these analyses.

3. Environmental Appraisals and Regulatory Impact Statements

We welcome the presentation of environmental appraisal tables in PBR 2004. They show the important role of economic instruments in protecting and improving the environment and highlight the need to ensure that such instruments are effective in delivering their objectives.

We would like to see more quantification of the impacts in the tables in the future to give a better understanding of their scale and range. This information should be provided by the analysis that underlies the policy proposals.

We recognise the Government's move towards integrated appraisal of policy proposals using Regulatory Impact Assessments (RIAs). We welcome the improved coverage of environmental and sustainability issues in the Cabinet Office's most recent guidance on RIAs. The RIA process should bring greater consistency to the consideration of environmental impacts of policy proposals across Government.

The integration of the different strands of policy appraisal should not be to the detriment of the rigour of each of the individual elements. The coverage of environmental impacts within RIAs should be scrutinised to ensure that all environmental costs and benefits are being captured and that the appropriate balance is being struck between these and the social and economic impacts.

In balancing costs and benefits within a RIA, the focus should not only be on those impacts expressed in monetary units. For example, distributional considerations and environmental impacts that are difficult to express in monetary terms need to be properly included in the appraisal. The expression of impacts in physical quantities can often provide greater understanding of an impact than its monetary value.

January 2005

APPENDIX 5

Memorandum submitted by the Environmental Services Association

Executive Summary

— Neither the pre-budget report nor the comprehensive spending settlement delivered the resources the waste management sector needs to deliver the UK's compliance with EU Law.

— Regulatory Impact Assessments are not capturing fully the economic benefits resulting from new environmental standards.

(a) Spending Review 2004

Do the new PSA targets in SR 2004 adequately reflect environmental priorities?

1. ESA would have welcomed a specific PSA on progress towards delivering the 2010 biodegradable municipal waste (BMW) target of the Landfill Directive. This PSA could incorporate the restriction the Government has set on the amount of BMW that can be landfilled by local authorities in England in each of 2005–06, 2006–07 and 2007–08.

2. ESA also believes that a PSA would usefully have been introduced to measure progress on modernising environmental regulation. The next generation of environmental improvement cannot be achieved by adding another layer of prescription to regulation of industrial process. Environmental regulation should instead sustain a better environment by harnessing the market to carefully defined environmental outcomes. Our industry would welcome the opportunity to align economic and environmental sustainability in the context of consistent, transparent and more scientifically prioritised regulation on environmental outcomes.

How much of a real increase in funding for those priorities has actually been made available and is the level of funding now adequate?

3. The Government has again failed to deliver the additional resources necessary to enable the UK to comply with EU Law on waste. The additional PFI credits that were made available and the increase in the Waste Management Performance Reward grant are dwarfed by the £8 billion of capital investment most commentators agree is necessary.

4. The Spending Settlement commits Defra to make efficiency gains of at least £610 million by 2007–08, half of which are to be efficiency gains on waste management services. ESA of course supports the principle of efficiency savings and we believe that efficiencies can be made in the procurement of waste management services by local authorities. However, efficiency savings should not disguise the fact that baseline costs for waste management are likely to increase over the next decade by a much greater amount than any efficiencies.

5. On average, the current annual cost per household of collecting and managing the municipal waste stream in the United Kingdom is about £65–£75. International experience shows that funding for the management of the municipal waste stream will need to increase considerably if the UK is to match current average EU levels of recovery/recycling. For example, according to BDE, the trade association for the German waste management industry, the current average annual cost per household for the basic waste management package in North Rhine Westphalia is approximately £153 in rural areas and £193 in urban areas.

6. We do not assert that the public finances must deliver these additional resources: we believe that the Gershon Review missed an opportunity to take funding for municipal waste management out of public spending altogether.

7. Variable charging may well be the long-term funding solution for management of the municipal waste stream. However, at current stages of public awareness, and to avoid a potential increase in fly-tipping, we see merit in an initial period of a flat rate direct charges which provide no perverse incentives.

(b) Pre-Budget Report

8. The Landfill Tax is the Government's main fiscal driver towards greater resource efficiency. Because of price elasticises there is a broad view that the Landfill Tax needs to reach £35 per tonne to make other forms of management, such as recycling, viable on the industrial scale necessary for the UK to achieve compliance with EU law. Although the Government announced in the 2002 Pre-Budget Report that it would rise to this level the trajectory remains unknown. Waste producers and waste managers alike need adequate notice in order to adapt to increased rates of tax.

9. ESA agrees with the Government that as a waste management technology that manages less than 10% of the municipal waste stream, less than recycling and composting, energy from waste does not at this stage warrant a specific tax. The focus, as required by EU Law, should be a dramatic reduction in waste going to landfill. We also believe that taxes should be focussed on specific outcomes such as carbon dioxide emissions rather than individual technologies.

10. We welcome the announcement by the Government that it is looking at the potential role of enhanced capital allowances for "new" waste technologies like mechanical and biological treatment. ESA has previously suggested that tax credits, capital allowances and other fiscal incentives should be introduced to promote investment in sustainable technologies and the development of industries seeking to grow by using waste as a secondary raw material.

(c) Overall Fiscal Strategy

11. As a general principle, we prefer economic to fiscal drivers. For example, ESA welcomes the trading schemes that have been introduced to help deliver compliance with the Packaging Waste and Landfill Directives.

12. The cost to the economy of the UK's market-based system in achieving the targets of the Packaging Waste Directive between 1998–2002 was £280 million. Germany's more prescriptive approach, whilst resulting in a higher recovery rate, cost the German economy £2 billion euros in 1999 alone.

13. We believe that the Treasury's environmental tax strategy is not yet for our sector a significant driving force as based on current performance the UK will not achieve compliance with EU Law on waste.

(d) Environmental Appraisals and Regulatory Impact Assessments

14. Regulatory impact assessments (RIAs) are potentially valuable provided they do not simply rationalise decisions already taken by authorities but are instead sound and independent assessments of relevant options.

15. Regulation drives environmental improvement in our sector. However, we want regulation not for its own sake but to achieve specified outcomes in an economically and environmentally justifiable manner with a level playing field and without undue prescription.

16. We believe that there are three essential elements to an effective RIA which integrates fully social, economic and environmental considerations.

1. *Data*

17. To be effective an RIA must be based on reliable and sound data. However, data on waste is notoriously poor. For example, the most current figures for commercial and industrial waste date back to 2001. This raises questions as to how the Government can effectively quantify the full impacts of the legislation proposed.

2. *Methodology*

18. As the government itself acknowledges, "the valuation of environmental costs and benefits is constantly evolving" (ref: green book). Annex 2 of the Treasury's Green Book provides information on government research and guidance on the quantification and monetisation of a range of impacts on the environment such as assessing the vulnerability to the impacts of climate change. However, it fails to offer guidance on quantifying the following economic benefits:

Access to Global Market for Environmental Goods and Services

19. Developing the global environmental market is a clear economic opportunity. With an annual turnover of US $515 billion in 2002, of which waste management was 40%, this market is expected to grow to US $700b by 2010 with waste and resource management taking an increased share. Meeting the Government's own target of increasing the UK's share of this market from 5% to 7% could be worth an additional $15 billion per annum to the UK's economy.

Resource Efficiency

20. The current price of commodities is sending a strong economic signal to British business to make better use of its resources. The price of a barrel of oil has nearly doubled over the past 18 months making recycled polycarbonate plastics in vehicle components 15% cheaper than virgin plastic. Companies may be able to gain a competitive advantage by using their resources more efficiently.

21. To capture more effectively the economic benefits resulting from new environmental standards we see merit in establishing a dedicated specialist unit in Defra to ensure that environmental issues are fully integrated into RIAs.

ESA's Recommendation: The Government to establish a specialist unit to advise on economic and environmental impacts when drafting RIAs.

3. *Political will*

22. We recognise that the guidance on measuring environmental impacts may improve significantly. However, it will remain a political decision whether to internalise-borne by industry and/or consumers-or to externalise-borne by the environment-the environmental cost of economic activity.

23. There are occasions when the Government has rejected a policy proposal despite overwhelming environmental arguments. For example, there was no environmental logic behind the Government's decision to allow an interim year between the banning of co-disposal and the introduction of Waste Acceptance Criteria. The Government instead opted for an approach delivering both short-term economic benefit to less efficient producers of waste and longer-term risk for the environment.

24. Whilst the Government does consult on partial and initial RIAs as proposals are being developed, we believe it would be much better for a range of partners to be involved from the outset to advise on the drafting of an RIA and to ensure that social, economic and environmental considerations were considered.

ESA Recommendation: Each Government Department to set up a task group to advise on the drafting of an RIA.

21 January 2005

APPENDIX 6

Memorandum submitted by Friends of the Earth

Friends of the Earth welcomes this opportunity to respond to the Committee's inquiry. Our response focuses on the headline questions posed by the Committee.

1. *What new environmental policy measures are there in PBR 2004?*

There were almost no new measures in PBR 2004. The Government announced a consultation process for a Renewable Transport Fuels Obligation, which is welcome, a small R&D fund for energy efficiency, and some very minor adjustments to the tax structure for company cars.

2. *How adequate are they in terms of the environmental challenges we face?*

PBR 2004 was wholly inadequate, for several reasons. Most significantly, despite naming climate change as one of six long term global economic challenges, PBR 2004 fails to present a plan (or even a process to develop a plan) to manage carbon emissions strategically across the economy. Given the urgent need to get to a low carbon economy, the key role HMT has to play and, as PBR 2004 notes, the importance of this year's climate change programme review, this is extremely worrying.

Even at the level of individual policies that address climate change, PBR 2004 announced a change that will actually increase carbon emissions—the decision to freeze road fuel duties. This decision also costs £500 million a year, money which could have been spent providing decent alternatives to motoring.

The combination of the lack of strategic leadership and management on climate change and the economy, individual decisions (including the Aviation White Paper and the watering down of the already weak EU ETS) that appear to signal that beyond rhetoric climate change is not a priority, and the lack of any plans for integrating economic instruments and public spending demonstrate how inadequate PBR 2004 is at dealing with this crucial issue.

3. *Do the new PSA targets in SR 2004 adequately reflect environmental priorities?*

The inclusion of the Department for Transport (DfT) in the PSA on climate change is very welcome. This agreement should apply to aviation also, as a major growing source of carbon emissions. DfT have yet to prove they are taking their new responsibility seriously.

The ODPM target of cleaner greener spaces is also welcome—a recognition of the poor quality local environments many people live in, particularly poorer households.

HM Treasury should have an additional PSA to manage carbon emissions across the economy.

4. *How much of a real increase in funding for these priorities has been made available; is funding now adequate?*

DEFRA was given extra money, however given the scale of the environmental challenges, particularly climate change, the level of funding is disproportionately low.

Greater spending is urgently needed to tackle market failures because the current approach is inadequate to tackle problems such as climate change. Treasury acknowledges the importance of tackling market failures, and the centrality of their role in doing so. Tackling market failures is crucial in today's societies, as so many decisions are controlled by markets. The Government attaches a high priority to tackling three of the four main effects of market failure—poverty, instability, monopolies. However, the fourth major failure of markets—environmental damage—does not yet attract anything like adequate Government attention. There has been some progress on using economic instruments, but this process is slow and it is acknowledged by almost all commentators that environmental damage is not adequately reflected in prices, and despite progress it will not be for many years. This means that in the meantime, market failure will continue to lead to over-exploitation of environmental resources. The response to this should be for Government to make much greater use of the other tools at its disposal. A key area is spending—to ensure that for example new green technologies and industries grow far faster than at present. It is inevitable that green solutions will be slow to take off so long as their dirty competitors get an unfair advantage through the continued market failure from inadequately priced environmental damage.

R&D is a further area where spending is needed for renewables. The UK R&D budget for renewables for 2001–04 was £18.5 million per year. However, these sums are still dwarfed by comparison with nuclear spend which over the last 25 years has averaged over £230 million per year.

In 1944, the USA's war economy was churning out 9,000 military aircraft a month; the aircraft industry had increased 50-fold within five years. In 2005 we are facing an equally urgent task—today's equivalent should be the UK churning out offshore wind turbines and other renewable technologies just as quickly. A strategy of leaving this sort of action to markets is not going to work—Government should revise heavily upwards the amount of money it puts into the environmental economy.

5. *What overall progress has been made since 2001 against agenda set out in 1997 Statement of intent on Environmental Taxation?*

Overall, the period since 2001 has been a failure. After significant progress in 1997–2001, the Treasury's progress has largely stalled. On the statement's commitment: "Over time, the Government will aim to reform the tax system to increase incentives to reduce environmental damage. That will shift the burden of tax from 'goods' to 'bads'", Government statistics show that since 2001 the burden of taxation has actually shifted from "bads" to "goods"—environmental taxation in 2003 stood at 8.6% of total taxation, compared with 8.7% in 2001, and 9.5% in 1997.

On the 1997 Statement that "growth must be both stable and environmentally sustainable. Quality of growth matters, not just quantity" the Government has also comprehensively failed. There has been no attempt since 1997 to present a strategy for delivering quality growth. Instead of meeting environmental, social and economic objectives together, the Government repeatedly treats these objectives as conflicting aims which can be traded off, or "balanced". The Aviation White Paper is the most egregious example of this policy—colossal environmental damage justified on spurious claims of economic benefit. This issue is also dealt with in the answer to question 8.

6. *What successes and failures have there been?*

Failures:	Road transport, Aviation, Pesticides
Successes:	Landfill tax escalator, Renewables Obligation
In the dock:	Emissions trading scheme, Climate change levy

ROAD TRANSPORT—FAILURE

The failure to use economic instruments to achieve a more sustainable transport system is the biggest failure since 2001. The costs of motoring remain constant, while buses and rail costs have soared, and walking and cycling remain marginalised and dangerous. Even within the costs of motoring the incentives to buy low-C fuels and vehicles remain inadequate despite moves in the right direction (for example VED/Biofuels).

If HMT is to be successful on road transport it has to address the two interrelated issues of price incentives and investment. We welcome the fact the Government has been prepared in words at least to considered a package of economic measures to address this. Unfortunately, attempts to correct this situation have seen the Government repeatedly back down to a vocal minority in the roads lobby. The inadequacy of alternatives is a major barrier to being able to sell the necessary increased motoring costs to the public. The Government repeatedly fail to fund these alternatives properly. It is exactly this type of complex policy area that would benefit hugely from HMT taking a clear strategic cross-economy approach to reducing carbon emissions.

On Vehicle Excise Duty (VED)—the Chancellor introduced a partial reform of VED for cars—there is now a small reduction for greener cars, and this move is welcome, as a means of creating an incentive for greener behaviour at the point of purchase. To be truly effective however this reform needs to be extended—with increases in VED for more polluting vehicles, and greater reductions for cleaner vehicles. Research from the Department for Transport shows that wider differentials would have a major effect on consumer behaviour.

Aviation—Failure

Aviation still receives massive effective subsidies each year from various exemptions from tax—on kerosene, VAT, duty free etc. These amount to around £9 billion a year[4]. The artificially low prices that follow are directly responsible for the planned growth in aviation which the Government has decided to accommodate. The Aviation White paper states that "We will work to ensure that aviation meets its external costs, including its environmental and health costs. The aviation industry has a responsibility to reduce its impacts under the 'polluter pays' principle. . .Economic instruments can help ensure that aviation bears the external costs it imposes on society". There is no justification for inaction here. However, the only solution the Government proposes is to wait for the possibility of inclusion of aviation into EU emissions trading some time to the back end of this decade—this is far too uncertain, delayed and minor to be an adequate response to the spiralling environmental damage from flying. In addition, aviation's exemptions from taxation would still require tackling even if the industry was within the EU ETS—otherwise it would be getting a major competitive advantage over other industry sectors who pay far more for their fuel.

Other mechanisms can and should be used. Yet the only response from Government since 2001 has been in the other direction—to freeze rates of APD. Of all the sectors of the economy, aviation has probably the least justification for receiving massive tax breaks: removing them would be progressive, good for the environment and would enable tax cuts in more deserving areas.

Pesticides—Failure

Very little progress has been made since 2001 on reducing the damage to the environment from pesticides, largely because the Government has abrogated its responsibility to a voluntary initiative which is failing (see previous evidence to the committee on this issue from Friends of the Earth and others). A pesticides tax with revenues funding a support service for farmers would be a more effective policy package, as is the case in a number of other European countries.

Landfill Tax—Success

The landfill tax escalator, and the commitment to keeping it in future years, is a success, and will help the UK meet its EU commitments to reduce the landfilling of waste, although the level of the escalator needs to be increased.

Renewables Obligation—Success

The introduction of the Renewables Obligation (RO) has been a useful method for creating investment in renewable electricity. The RO should also be extended beyond electricity to look at other forms of energy—such as a Renewable Heat Obligation, and a Renewable Transport Fuel Obligation.

Climate Change Levy (CCL)—In the Dock

Since introducing this ground-breaking levy the Government has let the CCL wither—levels have been frozen, not even increasing in line with inflation in Budgets 2002, 2003 and 2004. However, it has at least survived in the face of intense lobbying from industry groups. Credit must go to the Government for sticking to the CCL but it needs to be reformed and made more powerful to drive emissions reductions and spur innovation and efficiency improvements. The structures are in place to allow this to happen. To be more effective, the Government needs to commit to increasing the Levy in future years.

Emissions Trading—In the Dock

The EU emissions trading scheme (EU ETS) is an important development, which could potentially lead to major emissions reductions, and have ramifications for many other areas of environmental policy. Creating a market for carbon could also mean that Treasury takes greater responsibility for action on climate change.

The effectiveness of trading schemes is however heavily dependent on the number of permits allocated, and the way they are allocated. On both of these issues there are major flaws with the EU ETS. First, permits have been "grandfathered" to industry—effectively granting licences to pollute, with more going to the heaviest polluters—against the polluter pays principle. The main alternative is to auction permits—as happened with the licences for third generation phones. As well as being more equitable, this approach would generate both revenue and lead to a higher price per tonne of carbon, leading to more carbon reductions. Second, industry groups have successfully lobbied for large initial allocations, resulting in a very low price for carbon, blunting the effectiveness of the scheme. It is hoped that in subsequent years these flaws can be dealt with.

[4] Sewill, B, 2003. The Hidden Costs of Flying. London, Aviation Environment Federation.

7. *Has the Treasury developed an adequate strategy to implement its environmental PSA objective? How could this approach be improved?*

The Public Service Agreement is: "Protect and improve the environment by using instruments that will deliver efficient and sustainable outcomes through evidence-based policies".

For the reasons set out above, we do not believe there is an adequate strategy in place. No where is this more evident than with climate change. We agree with the PBR 2004 that climate change is a top-level economic issue, as well as the most serious and urgent environmental concern. Given this, the lack of a strategic framework within which packages of policies can be developed is deeply worrying.

More broadly the current incrementalist approach to tackling market failure is simply too slow to be an effective response. Decisions today on house building, power generation, and transport infrastructure affect the UK's emission profile for years to come. It is right to develop economic instruments to tackle market failure, but Treasury needs to acknowledge that this takes time and in the meantime without other action, market failure will continue to make environmental problems worse. Far greater and better coordinated intervention is needed in the form of spending, regulations and information, to steer the UK economy into a low carbon path.

We believe that this year offers a major opportunity for the Treasury to pursue a more effective strategy, particularly on climate change. The Treasury needs to become the lead department on taking forward the climate change programme, and introduce carbon budgeting for all sectors of the economy. The recent commodification of carbon through EU ETS is also an opportunity for Treasury to integrate carbon emissions into the national budget.

8. *How adequate is the current approach to appraisal, in particular the reliance on RIAs, as a vehicle for capturing environmental costs and benefits and for balancing these against social and economic impacts*

The Government's current approach to appraisal is inadequate in five ways:

— Compliance costs and negative impacts on competitiveness are overestimated and the positive impact on innovation is underestimated; economic benefits to other sectors (eg environmental technology sector) are underestimated.

— There is a bias against adequate consideration of longer-term, irreversible environmental impacts that tend to be better defined by intrinsic value rather than purely price.

— Distributional implications are dealt with poorly and in nearly all cases no account is taken of populations in other countries.

— Future generations get a bad deal in the appraisal of environmental, social and economic impacts, particularly in issues regarding uncertainty.

— To compound these failings, in the process of weighing up these impacts within appraisal, and Regulatory Impact Assessment is a prime example, short-term commercial impacts within the economy are given greater weight.

Time and again evidence has shown that pre-regulation costs estimates by industry and Government are over-stated, sometimes by an order of magnitude[5]. One of the main reasons for this is that these cost estimates assume that industry does not adapt to the changes through technical and organizational innovation. In reality environmental policy measures stimulate innovation and can be designed to maximise this benefit. These figures are usually accompanied by a barrage of statements by industry organizations and lobbyists often asserting that the regulation will be the downfall of whole industrial sectors. Although these are not evidence to be used in the appraisal the information asymmetry that exists between Government and business about costs means they seem exert an unduly large influence.

Not all environmental impacts can be expressed adequately in monetary terms. For example, the value of a blue whale or a beech woodland is clearly not measured by the price of whale flesh and oil or timber and land respectively—there is also an intrinsic value. Although Government appraisal identifies that this is an issue it offers no clear solution for how appraisal methods founded on putting prices on things and then comparing them does not either undervalue things with intrinsic value or accord them less weight.

Recent work[6] commissioned by Friends of the Earth from the University of Staffordshire has examined whether distributional issues were adequately considered in a number of different methods of appraisal used by Government. This found that although distribution within the UK was considered in most cases there was poor analysis and in nearly every case no account was taken of populations in other countries or the potential impacts on future generations.

[5] For example, International Chemical Secretariat, 2004. Cry Wolf. Goteborg, ICE; and evidence to this inquiry from Environmental Industries Commission.

[6] Available on request.

Future generations get an all round bad deal from appraisal such as RIA: longer-term, irreversible environmental impacts that will impact most on future generations are marginalized by the process; future generations are not considered in appraising social impacts such as on distribution; estimates of impacts on business routinely ignore the ability to innovative; and we still use a discount rate that institutionalises, as the Green Book puts it, the view that "society as a whole prefers to receive goods and services now rather than later, and defer costs to future generations".

To compound all these failings in the current approach to appraisal, these methods, such as RIA, give greatest weight to the immediate economic impacts and in particular to those directly affecting the private sector. But if the evidence being presented on these impacts is unbalanced and exaggerated then it is a recipe for inaction and for stifling debate aimed at finding the best policy solutions. Genuine competitiveness concerns need to be addressed within the context of the benefits of well-designed effective policy for people's quality of life and the environment. Has the pendulum swung so far that even exaggerated business claims can hold back the democratic process of making policy in the public interest? If these issues go unchallenged and unchanged sustainable development will not be delivered.

9. *How could departmental approaches to appraisal (including in the Pre-Budget) be improved?*

PBR 2004 is alarmingly vague around the issue of appraisal. Even at the most basic level of the policy objectives given in Table 7.1 (within which appraisal will operate) are not specific, measurable or time specific. For example, "tackling climate change" as a policy objective provides no strategic framework within which appraisal can operate meaningfully. It does not define the extent of progress required, the speed with which it should happen, by when and no sense of the contribution it makes to the suite policies delivering on this aim.

In terms of the appraisal processes immediate improvements could be made in the following ways:

— All environmental impacts identified as difficult or impossible to measure adequately in monetary terms should be listed along with the alternative appraisal techniques used in each case and a clear assessment of how these are then to be compared with impacts with monetary values.

— Evidence of compliance costs and the impacts on competitiveness should be checked for accuracy (overestimates of costs has been the norm), balance (have positive impacts been considered in the same way) and relevance (the importance of international competitiveness varies between sectors as does the aspect of business on which it is focused—which for example could be quality rather than price).

— Appraisal should be explicit about how it assesses the impacts upon and of innovation.

— All departments should be provided guidance on these two issues of innovation and competitiveness, not least by summarising the evidence of how costs to business and competitiveness are routinely overestimated and positive impacts upon innovation underestimated- in order to correct this damaging bias in the process.

— A separate section is needed summarizing how future generations and people in other countries have been considered in the process.

If these recommendations were followed and records of appraisal are, as suggested by PBR 2004, available through the Treasury website, this would be a step forward.

1 February 2005

APPENDIX 7

Memorandum submitted by the Institute for European Environmental Policy

1. Introduction

The evidence submitted concerns one of the areas of focus of the EAC Inquiry—impact assessment.

The Institute for European Environmental Policy (IEEP) is a not-for-profit research institute with offices in London and Brussels. We have a primarily European focus and a considerable amount of experience regarding the environmental aspect of impact assessment at the European level. Whilst aware of the principles and operation of the UK Regulatory Impact Assessment (RIA) system, in this evidence we would like to focus on the relationships between the EU and UK approaches, rather than RIA itself. We raise a number of issues regarding the processes involved at each level, and some more generic questions relevant to impact assessment at whatever level it is undertaken, whether UK, European or global, especially the problems inherent in quantifying environmental impacts and comparing them with other types of impacts.

2. Impact Assessment at the EU and UK Level—Processes

2.1 *The Importance of policy assessment at the EU level*

A high proportion of all domestic policy (estimated at around 80% in the case of environment policy) originates from the EU. Consequently it is essential that the UK engages fully in the development of EU policy at an early stage, in order to inform and influence legislation. The European Commission's internal system of integrated assessment presents an opportunity to do this. Established in a June 2002 Communication, the system was designed to provide policy-makers with clear analysis, in advance, of the likely effects of Community measures, to enable them to improve the coherence between different policy priorities, to identify win-win opportunities and to highlight any trade-offs that may need to be made between competing objectives. As has also occurred at the UK level, the new EU system brought together and formalised a number of existing separate procedures for impact assessment.

The new procedure originally required all Commission policy proposals listed in the European Commission's annual work programme to be subject to a short, preliminary impact assessment (IA), on the basis of which a limited number of initiatives with major economic, environmental or social implications were selected for a more in-depth "extended impact assessment". A pilot phase of the system was launched in 2003, with "extended impact assessments" being carried out on a selection of dossiers. From January 2005 all Commission proposals are now subject to an extended impact assessment (now termed simply "impact assessment"), although with a greater emphasis on making the IA "proportionate" to the significance of the likely impacts. The Commission has approached IA as a "learning by doing" exercise, allowing the system to be established relatively quickly and to be reviewed and revised as lessons emerge.

An important element in developing the assessments is stakeholder consultation, and this has been carried out to varying degrees of success for the IAs completed so far. However, there is no formal process specifically for consulting Member States, and there is much variability in whether responses are submitted from EU25 governments/ministries. For example, for the internet consultation on REACH, only six Member States, including the UK, submitted position statements. No southern Member States, nor accession countries, submitted comments.[7] The consultation of Member States at this early stage is something that arguably needs to be more formalised, given the need for the Commission to have an understanding of impacts at each Member State level, and for the EU25 to fully appreciate the likely domestic implications of policy proposals.

Whilst this level of engagement does happen in a few cases, it appears to be ad hoc, with RIAs completed only on those Commission proposals where there is perceived to be a major impact. It is also not clear whether all UK RIAs relating to EU proposals are sent to the European Commission, nor the extent to which they are used in practice during negotiations.

The UK RIA system is therefore not only important for assessing the impact of formal Commission policy proposals. It could be used to inform EU policy at a much earlier stage of development through the Commission's IA process. The benefits of this would be manifold, including:

- ensuring the European Commission is more aware of the implications for the UK;
- helping to shape the proposal at an earlier stage, which is more effective than trying to amend proposals in Council later in the process;
- increased awareness of what is on the horizon at the EU level and the likely implications for the UK;
- a head-start in developing the UK negotiating position; and
- protecting against future implementation problems.

2.2 *Coordination and Quality Assurance*

In the UK the RIA process is coordinated and quality assured by the Cabinet Office RIA Unit, and there is high-level commitment of the Prime Minister. While at the EU level the Commission Secretariat General coordinates the process, there is no formal mechanism for reviewing and ensuring the quality of completed IAs.

Several reviews of the experience so far with the Commission IA system have highlighted the need for quality assurance.[8] The quality of the 2003 extended assessments has been uneven, and several of them have been poor. This partly reflects the fact that it was the first year of operation of the system, but other factors have contributed. There was no formal mechanism for ensuring quality control; resources for undertaking assessments, and for the provision of advice, guidance and training are limited; and there has been no institutional framework within which "learning by doing" can take place in practice.

[7] However, there was regular contact with Member States through meetings with the competent authorities, and several Member States participated in Technical Expert Working Groups.

[8] See for example Wilkinson, D *et al* (2004) Sustainable Development in the European Commission's Integrated Impact assessments for 2003, IEEP.

The Commission's Secretariat General has proposed a number of steps to reform the IA system, including revised guidelines and additional resources (although these are not quantified), but improving the system will be an ongoing process. The UK has a well-recognised track record on regulatory impact assessment,[9] and through its role at the EU level could usefully share this experience with the Commission. An opportune time to review and improve the Commission's IA system is presented by the UK's Presidency of the Council in the second half of 2005.

2.3 *An ongoing process—assessing amendments to Commission proposals*

There is an inter-institutional agreement (between the European Parliament, the Council and the European Commission) to undertake impact assessments on any amendments that they propose to make to a Commission proposal. A pilot impact assessment has now been undertaken under the out-going Dutch Presidency of a major amendment to the proposed Directive on Batteries and Accumulators. Through its role in the Council, the UK needs to consider how the national RIA process can feed into this. Experience with the REACH proposal has been positive in this respect, as the UK has taken a leading role in presenting alternatives to the Commission proposal and in providing impact assessments. However, this appears to be *ad hoc.*

Furthermore, the Council would need to organise assessments on proposed amendments in such a way that ensured a fair distribution of effort between the Member States, and the use of a common approach. Again, the UK could take a lead in this area, given the existing level of expertise.

3. The Assessment of Environmental Impacts

Irrespective of the level at which impact assessments are carried out, there are always problems inherent in assessing environmental impacts, comparing these with social or economic impacts and identifying suitable trade-offs. Estimates of economic impact, particularly costs to those affected, are generally presented in a quantified form and can appear concrete and precise, even when very high levels of uncertainty are involved. Environmental impacts are more difficult to capture in this way. For example, how can the potential impact of a project on a nature reserve be assessed, or the effect of better air quality on health? Even if impacts could be quantified, it is often difficult to attribute monetary values to them. In contrast, it is somewhat easier to quantify and attribute monetary values to the economic and employment impacts of policy. Consequently, there is a danger that environmental impacts, including the costs of inaction, receive less attention than should be the case in decision-making. In a political context where economic growth is becoming of even greater import EU wide, it is now, more than ever, critical that environmental considerations are not sidelined in assessments.

This problem presents important challenges. If, to be fully acknowledged, impacts need to be quantified or even have a monetised value, which methods need to be adopted to ensure environmental costs and benefits are adequately reflected? Monetisation of environmental benefits is in principle possible in some cases, using techniques such as contingent valuation. However, the data is frequently not available, there can be serious difficulties in the assumptions underlying research of this kind and there are major questions about the applicability of such methods to many of the issues that IA needs to address. Therefore monetisation may create as many problems as those it may appear to solve. Perhaps the major challenge for both the UK and EU is how to ensure that qualitative information is given sufficient weighting in relation to quantitative data in policy appraisal/impact assessments. The use of other methodologies, such as critical thresholds as a way of limiting environmentally unsustainable trade-offs, should also be explored more fully.

4. Conclusions

The UK and the EU are both making increasing use of tools that seek to assess and suggest trade-offs between social, economic and environmental impacts. At the same time, however, the EU system at least is coming under tremendous pressure to place greater emphasis on the competitiveness aspect of impact assessment. There are also specific demands to examine the administrative burden of many proposals. Given this political climate, it is all the more critical that assessment methodologies are as robust as possible and that any weaknesses are recognised and compensated for, so that IA is a tool for evidence based policy making and not the reverse. There is a particular opportunity for the UK to promote good practice in this direction.

9 February 2005

[9] See for example Hertin, Julia (June 2004), Sustainability and regulatory impact assessment in the UK, SPRU.

APPENDIX 8

Memorandum submitted by The Royal Society for the Protection of Birds

The RSPB works for the conservation of wild birds and their environment. We are Europe's largest wildlife conservation charity with over one million members. The RSPB was involved in the HM Treasury's consultations during 2002 that developed the "Tax and Environment" document.

Summary

1. The publication of the Government's Pre-Budget Report (PBR) 2004 and the outcome of the 2004 Spending Review (SR04) outline the Government plans to address and resource its environmental priorities. In summary, the RSPB believes that:

- Public Service Agreement targets for farmland birds and Sites of Special Scientific Interest have helped to improve delivery.
- The new PSA target for international biodiversity and the allocation of joint responsibility to the Department for Transport for reducing carbon emissions are welcome.
- SR04 was a missed opportunity to identify new PSA targets to improve protection of the marine environment and tackle diffuse pollution.
- The next Government should build on the existing green taxes, by delivering more rapid environmental tax reform.
- The Treasury should support the implementation of a sustainable development duty for all government departments and public bodies, linked to the delivery of the emerging UK Sustainable Development framework.
- Biodiversity should be considered an integral part of Regulatory Impact Assessments.

PBR 2004 and SR 2004

2. The RSPB has welcomed the introduction of Public Service Agreement (PSA) targets to focus departmental resources on implementing key priorities. PSAs have, for example, helped to increase the proportion of Sites of Special Scientific Interest (SSSIs) in favourable condition and to begin the process of reversing the decline of farmland birds. The PSA targets on farmland birds and SSSIs respectively represent the health of our countryside and best natural heritage sites, and must be retained as crucial targets for delivery.

3. The new PSA targets in the 2004 spending review (SR04) are very welcome, particularly the Defra target on international biodiversity and the inclusion of the Department for Transport in the target on carbon emissions. However, the lack of targets on the marine environment, and water quality and resources, mean the coverage of key environmental priorities is not complete.

4. The RSPB is concerned that environmental priorities such as tackling diffuse water pollution and providing marine protection remain short of resources and policy action. Marine protection requires an appropriate legal framework to be put in place, but funding is also required, for example for data collection and analysis to enable the identification of Marine Protected Areas.

5. On international biodiversity, it is unlikely that the 2010 target to halt the loss of biodiversity will be achieved unless much more funding is transferred from developed to developing countries, a commitment clearly made in Johannesburg in 2002. Although it is quite clear globally that current funding is inadequate in relation to the scale of the problems of species and habitat loss, accurate assessments of current UK funding are not available and are extremely difficult to calculate from the data available.

6. The RSPB acknowledges that keeping track of international biodiversity expenditure is difficult because of its complex nature and the way in which aid is channelled through national or sector level programmes. There is no dedicated UK budget line for international conservation other than the Darwin Initiative, which is extremely important but relatively small. To overcome this problem, we believe the Government must endeavour to structure their accounting practices, or introduce subsidiary reporting methods, to explicitly keep track of what they spend on international biodiversity (as opposed to general "environmental projects"). Doing so is essential for assessing the effectiveness of our contribution to redressing global biodiversity loss.

The Treasury's Overall Fiscal Strategy

7. The RSPB has advocated that taxes should be used to address environmental externalities. For example, we argued for a carefully designed pesticides tax before the introduction of the voluntary agreement in 2001, and supported the introduction of the climate change levy and landfill tax. We also support the concept of environmental tax reform; increasing taxes on things that damage the environment, and reducing tax on good things such as employment.

8. The RSPB was encouraged by the positive language in the 2004 PBR on biodiversity targets in the voluntary initiative on pesticides, the effectiveness of the climate change levy, and the future of the landfill tax credit scheme. However, the RSPB is concerned at the lack of overall progress on environmental tax reform.

9. As we approach the end of this Government's second term, we consider the landfill tax, in particular the use of a pre-announced tax escalator, to be a positive step. However, in proportion to the current measured and predicted rates of environmental damage, we consider the level of progress on environmental tax reform inadequately slow. In order to contribute to sustainable development, the Government's environmental tax strategy must shift a greater proportion of the burden of taxation to environmentally damaging goods and services. Following an anticipated 2005 general election, the RSPB would hope and expect to see the shift in environmental taxation occurring far and fast enough to affect actual practice.

10. We do not believe the Treasury has developed an adequate strategy to implement its environmental PSA objectives. An adequate strategy would assist other government departments' environmental PSA targets. It would help tackle severe environmental issues, especially when the benefits of doing so are clear, but monetary values are not fully understood; for example, by supporting a higher value for the social cost of carbon, and the greater use of economic instruments to reduce emissions of greenhouse gases.

11. The Treasury's fiscal strategy for the environment could be improved by better links to the work of the Sustainable Development taskforce. The Treasury should use appropriate economic instruments (and allocate adequate funds), to support implementation of a sustainable development duty for all government departments and public bodies, linked to the delivery of the UK Sustainable Development framework. The Treasury should support work to "get the prices right" to incentivise sustainable development.

Environmental Appraisals and Regulatory Impact Assessments

12. The RSPB recognise the need to balance environmental issues against economic and social impacts. We support the use of integrated methods of policy appraisal, provided that:

(i) environmental issues are adequately covered;

(ii) the environment is considered at an early stage of policy development; and

(iii) environmental requirements such as environmental impact assessments and strategic environmental assessment are fulfilled.

13. We are concerned that Regulatory Impact Assessments (RIAs) are not adequate as a vehicle for capturing all environmental costs and benefits. The reliance on monetary values under represents the benefits and costs of protecting the environment, being dependant on economic valuations capturing the severity of the environmental change in question. Such valuations are inevitably uncertain, controversial and partial. The RSPB is concerned that regulatory impact assessment may not further sustainable development, because it can overlook or underestimate the value of protecting or enhancing biodiversity for society and, especially, future generations.

14. Biodiversity is a key test of sustainable development, and the need to include it in appraisal tools like regulatory impact assessment has been highlighted in Defra's England Biodiversity Strategy. The Strategy has provided Defra's Better Regulation Unit with initial guidance on incorporating biodiversity into Regulatory Impact Assessments. The Treasury and the Regulatory Impact Unit should support this initiative.

15. The appraisal of individual policy measures in the PBR could be improved by collectively relating them to the policy issue they are trying to tackle. For example, instead of separate appraisals of transport fuel taxation and the climate change levy, budgets and PBRs could give an appraisal of the overall effects of multiple policies on greenhouse gas emissions. This could combine all the policy measures announced, and forecast rates of growth (and therefore emissions) in the economy, to assess their contribution to the Governments Climate Change Strategy.

20 January 2005

APPENDIX 9

Memorandum submitted by Socialist Environment and Resources Association (SERA)

1. SERA is the environment campaign affiliated to the Labour Party, yet is an independent think-tank and green pressure group. SERA has a specialist working group on energy as well as on other key issues. There is also a network of local groups plus SERA Scotland, SERA Cymru and SERA London.

2. SERA's membership includes 100+ Labour MPs (six of them in the Cabinet), members of the Scottish Parliament, Welsh Assembly and Greater London Authority and a range of councillors, trade unionists, academics and environmental professionals.

3. SERA welcomes the EAC's enquiry into Regulatory Impact Assessments (RIAs) of the new environmental protection measures as part of the Pre Budget Inquiry. However, SERA believes Government RIAs must consider all economic costs to any environmental policy and not purely the costs to industry.

4. SERA accepts that RIAs have not been based purely on costs to industry although such considerations have featured very prominently.

5. SERA understands that many policy proposals debated at an EU directive level often come within the scope of RIAs. RIAs play an increasing key role in policy making and are a key factor in the Government negotiating position in the EU on major Directives and the implementation of domestic environmental policy.

6. The economic benefits resulting from environmental regulations are significant although admittedly much more difficult to calculate.

7. The economic benefits include:

— A strong home market for the UK environmental technology and services industry created by environmental protection measures.

— Savings in mainstream industry by cutting pollution through more efficient use of resources.

— Impact of innovation, which allows companies to improve their performance at much lower cost.

— Reduced costs to society (such as the health service and third party industries such as tourism) through cutting pollution.

8. SERA recognises that there are social and economic considerations to factor into any RIA however, the burden of proof too often rests with environmental lobbyists to prove that regulations will not be too stringent. SERA considers that the burden of proof should rest with industry in accordance with the precautionary principle.

20 January 2005

Printed in the United Kingdom by The Stationery Office Limited
4/2005 994600 19585