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Environmental Audit
Committee

Budget 2011 and environmental taxes

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Volume II

Additional written evidence

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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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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/eacom. A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Simon Fiander (Clerk), Edward White (Second Clerk), Lee Nicholson (Committee Specialist), Andrew Wallace (Senior Committee Assistant), Jill Herring (Committee Assistant), Emily Harrison (Sandwich Student) and Nicholas Davies (Media Officer).

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List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/eacom)

1	Greener by Design Group	Ev w1
2	Friends of the Earth, England, Wales and Northern Ireland	Ev w3
3	Finance and Leasing Association	Ev w7
4	Paul Appleby, consultant in sustainable design	Ev w8
5	Agri Energy	Ev w11
6	INEOS Chlor	Ev w14
7	Caribbean Tourism Organisation	Ev w15
8	UK Sustainable Biodiesel Alliance	EV w16
9	Nappy Alliance	Ev w20
10	B9 Coal	Ev w22
11	The Campaign to Protect Rural England	Ev w24
12	The Environment Industries Commission	Ev w27
13	Drax Power Limited	Ev w31
14	Axeon	Ev w32
15	The Institute of Directors	Ev w35
16	British Metals Recycling Association	Ev w37
17	INEOS Manufacturing Scotland and INEOS Infrastructure (Graingemouth) Ltd	Ev w38
18	EDF Energy	Ev w39
19	Mineral Products Association	Ev w42
20	Sustrans	Ev w51
21	TUI Travel Plc	Ev w54
22	Gatwick Airport International	Ev w55
23	The Australian Government	Ev w59
24	Chartered Institute of Taxation	Ev w60
25	Association for the Conservation of Energy	Ev w65
26	The British Ceramic Confederation	Ev w68
27	Motor Cycle Industry Association	Ev w71
28	Royal Society for the Protection of Birds	Ev w73
29	EEF	Ev w78
30	The Wildlife Trusts	Ev w81
31	Transform UK and E3G	Ev w84
32	Flybe	Ev w86
33	British Air Line Pilots' Association	Ev w87
34	Chemical Industries Association	Ev w90
35	PricewaterhouseCoopers	Ev w95
36	British Airways Plc	Ev w101
37	Parliamentary Office of Science and Technology	Ev w104

Written evidence

Written evidence submitted by the Air Travel—Greener By Design Group

SUMMARY

- The establishment of clear cause/effect relationships in a complex area with a large number of variables is harder than advocates of green aviation taxes have claimed—there is little evidence that Air Passenger Duty has had any material environmental impact.
- There are significant shortcomings to the methodologies underpinning estimates of the sensitivity of aviation emissions to taxes and charges.
- For fiscal instruments to make a significant difference to aviation’s climate change impact, they would need to induce the equivalent of at least replicating, on at least a medium-term basis, the recession of the past three years. Regulatory signals such as tighter emission limits, on the other hand, are likely to be more effective regardless of the economic cycle.

1. This submission by the Air Travel—Greener By Design Group [“GBD”] addresses the theme of the Inquiry covering the scope “for the tax system to create a ‘modal shift’ from high carbon transportation to low carbon alternatives, including Fuel Duty, Vehicle Excise Duty, and Air Passenger Duty and issues the Government should consider when developing strategies for sustainable aviation and motoring”. It focuses on APD.

2. GBD is a BIS-sponsored body with the remit of assessing options for addressing aviation’s environmental impacts. It is based within the Royal Aeronautical Society but is not aligned with any sectoral interest. This submission draws on the interim conclusions of a GBD project that has been running for four years with the objective of testing the thesis, advanced on several occasions by EASC¹ and by many others, that the imposition of additional taxes or charges on airlines and/or passengers would reduce demand, leading to a reduction in capacity/frequency and a stimulus to renew fleet and develop more efficient aircraft. The submission focuses on questions surrounding the effectiveness of such instruments rather than on options such as a change to per plane charging.

3. The genesis of our project was the claim by Chris Huhne, when LibDem environment spokesman, in *The Independent* in late 2006 that “On flights, there is well-established evidence on responsiveness of air travel to price changes. This suggests a 1% change in price leads to a little more than 1% change in travel, assuming other factors—such as incomes—do not change.” Following correspondence with Mr Huhne, and with the Institute of Fiscal Studies, which at roughly the same time had published a study² citing an omnibus elasticity study as evidence that aviation-related taxes could reduce emissions, GBD decided to initiate a study of the likely effectiveness of economic/fiscal instruments in influencing the sector’s environmental performance.

4. The project has gone through four stages:

- Desk research on elasticities, which following an examination of 128 studies, some frequently relied upon as the basis for subsequent elasticity calculations, found significant methodological flaws in most of them, with material omissions in others.
- Interviews with a range of full service, No Frills and charter carriers.
- Observation of UK, European and US airline and passenger market responses to a full economic cycle.
- A Round Table last Autumn, with representatives from DfT, CAA, DECC, airlines, academics, and aviation consultants convened to test methodological assumptions.

5. Further analytical work is required.³ However, in connection with EASC’s examination of Budget issues such as the freeze in APD rates and of whether stronger fiscal stimuli should be adopted, provisional guidance for policymakers can be offered in the following paragraphs with a reasonable degree of certainty.

6. We took as a starting premise the assumption that for taxes or charges to be considered effective they must:

- Stimulate a reduction in capacity or flight numbers.
- Encourage an overall reduction in fuel burn.
- Stimulate fleet replacement with more efficient models (if available).
- Stimulate accelerated commercialisation by airframe and engine manufacturers of more efficient technologies.

¹ Ninth Report of 2002–03, *Budget 2003 and Aviation*, HC672; Third Report of 2003–04, *Pre-Budget Report 2003: Aviation follow-up*, HC 233; Seventh Report of 2003–04, *Aviation: Sustainability and the Government Response*, HC 623 and reports on the Budget and PBR in most years.

² <http://www.ifs.org.uk/publications/3773>

³ We have identified the following issues:

- how the industry absorbed/adapted to cost increases and demand reductions;
- the extent to which it did so rather than react directly to APD/fuel price/economic downturn;
- the “new” industry/market model and its sensitivity; differences in likely airline/passenger responses to passenger taxes, incorporation of aviation into the EU Emission Trading Scheme, carbon pricing and fuel taxation;
- and the market conditions/signals that economic instruments must seek to replicate

7. On the methodological basis for the claimed effectiveness of taxes/charges, we found that only CAA (2005), DfT (2007) and possibly the MARKAL-ED and Dutch Aero models came close to producing elasticities based on reliable assumptions, but the Round Table concluded that even these may have overlooked important factors:

- The difficulty of measuring price sensitivity independent of all the other variables in the demand function. For example, because of surcharges and other fare increases, the flight component of overall holiday costs has increased, but the current models do not properly take account of the ability of travellers to reduce their overall holiday spend without changing the air travel element. In other words, forecast pressure on carriers to reduce capacity might not materialise.
- The fuzzy relationship between cost/price, demand and emissions (for example, a 30% cost increase or a 10% demand fall may not reduce emissions at all—it depends on the stage of the economic cycle, Me Too pressure, fear of losing valuable slots⁴ and whether carriers are still profitable).
- Non-global instruments can be offset through service and passenger migration (carriers moving bases and routes to more fiscally advantageous regimes and sectors and passengers minimising their exposure by travelling via another country) and offsetting activity (such as cuts in Spanish landing fees) elsewhere—so-called Carbon Leakage.
- Instruments intended to incentivise fleet replacement and accelerated commercialisation of next generation technologies depend on whether those technologies are available.
- Those advocates of green aviation taxes/charges that we have studied do not appear to have taken account of opportunity costs (for example, the availability of low cost leases for older aircraft and curtailing the planned lifecycle of current production models in order to commercialise more efficient Blended Wing Bodies).
- Nor are behavioural factors, such as the desire to operate marginal services in order to retain slots rather than see them go to competitors or the influence of “Me Too” behaviour on the ability to absorb or pass on costs (airlines have shown a reluctance to raise prices through, for example, fuel surcharges out of line with their competitors) captured. The models Government has used to project the environmental impact of APD are not intended to take into account strategic behaviour on the part of firms or governments.

8. The view from airlines was that even before the recession, demand was reduced, but it was impossible to disaggregate the impact of fuel surcharges from other stimuli. They felt that APD will have reduced emissions, but the effect will have been very marginal. It has not affected scheduling (ie the number of flights). It is perhaps noteworthy that nowhere in the Budget 2011 consultation document on reform of APD⁵ is any mention made of the impact to date of APD on emissions. It is not structured in a way that directly targets fuel burn/emissions and provides no incentive to replace fleets with more efficient/more economical (appropriately sized) aircraft as the same tax is payable irrespective of the efficiency of the aircraft. Furthermore, because almost no other country has followed suit (several have introduced and then rescinded APD-type instruments) passengers can limit their tax exposure by travelling longer distances via a third country (for example, London to Dubai via Amsterdam), increasing emissions. However, the Treasury has been advised that its attempt to make APD more reflective of environmental impact would be illegal. Claims that APD is an environmental tax have been replaced by statements emphasising its role in ensuring that aviation contributes to deficit reduction.⁶ This may at least in part be due to an acceptance of the methodological uncertainties surrounding the relationship between taxation and fuel burn in this sector.

9. The industry’s resilience to the intended stimulus of economic instruments may, at least in the short to medium term, have been eroded by cost and capacity-trimming induced by a combination of a rise in fuel price and recession, but on the basis of observed responses to those factors it is still likely to be the case that aviation-related economic instruments are only likely to achieve material improvements in environmental performance if they exert pressure close to that experienced between 2008–10. In other words, **for instruments to make a significant difference, they would need to induce the equivalent of at least replicating, on at least a medium-term basis, the recession of the past three years.** Regulatory signals such as tighter emission limits, on the other hand, are likely to be more effective regardless of the economic cycle.

10. Market abatement curves produced by IATA and OMEGA show that the stimulus required for early retirement of aircraft is significant—up to \$500/tonne of carbon. However, the establishment of a floor price for carbon⁷ and/or using instruments to stimulate biofuel commercialisation could be effective fiscal options.

⁴ The offsetting impact of factors that do not feature in economic models of “logical” market behaviour—for example, the desire to operate marginal services in order to retain slots rather than see them go to competitors; or the influence of “Me Too” behaviour on the ability to impose surcharges (some US surcharges imposed by carriers individually or in small groups in response to cost increases were withdrawn after a few days because the market did not follow suit)—should not be overlooked.

⁵ http://cdn.hm-treasury.gov.uk/2011budget_airpassenger.pdf

⁶ *Budget 2011*, 1.153

⁷ ICAO concluded through use of the AERO model that a tax would have to be about 23 times more expensive than emission trading (c. \$600/tonne fuel) to be as effective as trading.

11. Although models take a long term view, from the point of view of effectiveness within typical political horizons, when economic stimuli are introduced is at least as important as their level. At times of economic optimism, carriers and passengers are less sensitive to such stimuli.

7 April 2011

Written evidence submitted by Friends of the Earth England, Wales and Northern Ireland

SUMMARY

1. Less than a month ago the Government issued a challenge—that the nation must wean itself off oil. In that light, this Budget was exceptionally disappointing. The UK's oil addiction is an ever-increasing economic liability—it is dangerously negligent of the Treasury to keep choosing to ignore this problem.

2. The Budget was also a huge economic opportunity blown—damaging the potential for new jobs and the UK's economic recovery by hobbling some of the country's fastest growing sectors. The Green Investment Bank has been hamstrung—it cannot borrow for at least five years. The low carbon homes sector has been damaged, to go with the Treasury's earlier actions to hold back the growing UK solar industry. Planning changes are a deeply retrograde step, at odds with the Government's climate change goals. They also conflict with the Government's Localism agenda because they threaten even less involvement for people in decisions that affect them.

3. The Treasury's Budget actions are in deep opposition to the Prime Minister's promise to make this the Greenest Government ever.

4. The main green announcements were:

- 4.1 **The new Green Investment Bank will not have borrowing powers until 2015–16 at the very earliest.** The ability to borrow is the core of a successful bank, as Mr Cameron and Mr Huhne have both made clear. The Bank has been hamstrung.
- 4.2 **Ripped up planning-controls.** The Budget is attempting to redefine “sustainable development” to mean “yes to everything”, in direct conflict with Mr Cameron's (correct) contention that the *type* of growth matters. If successful this will mean a development free-for-all, which local authorities and people will have almost no means to stop or improve. And it will concentrate development in the already over-heated South-East region. Local people will have less say in what happens in their area, in direct conflict with the Government's localism agenda.
- 4.3 **Increased oil-dependence.** The Chancellor found £10 billion extra over five years by increasing taxes on North Sea Oil profits, but spent it all on cutting fuel duty and none of it on measures to cut our dependence on oil.
- 4.4 **Weak carbon price mechanism.** The Budget introduced a new tax to underpin the failing EUETS scheme, but it will be set way below the figure needed to influence investment decisions. It gives an extra subsidy to the nuclear industry and increases electricity bills—with no promise that any of the revenue will be used to help people save energy at home.
- 4.5 **Inaction on aviation,** yet another consultation and more buck-passing—blaming international law.
- 4.6 **No help on energy efficiency for the cold homes** of the 4.5 million households suffering from fuel poverty. Buried in small print, pensioners will lose £50–£100 winter fuel allowance. Zero-carbon new homes standard watered down

5. In late 2009 George Osborne promised “Under a Conservative government, the Treasury will no longer be the cuckoo in the Whitehall nest when it comes to climate change. If I become Chancellor, the Treasury will become a green ally, not a foe”.ⁱ But the Treasury is a bigger cuckoo than ever—this is increasingly economic as well as environmental folly.

FUEL DUTY

6. What was announced: Planned fuel duty increase postponed until next year; fuel duty cut by 1p / litre. The five year cost of this measure is £10 billion, paid for by increasing taxes on the profits of North Sea oil and gas production.ⁱⁱ Future rises in fuel duty will be in line with inflation. The increased tax on production will be removed if oil prices fall below a “trigger” level, tentatively set at \$75 per barrel.ⁱⁱⁱ

7. The Government said earlier this month that it wanted to get the UK “off the oil hook”. From nowhere, the Chancellor found £10 billion over the next five years by increasing charges on the profits on UK oil and gas production. But every penny of this has gone to cut fuel duty—a move which increases the UK's dependence on oil. None of it was spent on giving people and businesses better alternatives to using cars and vans, or improving the efficiency of vehicles.

8. Even just a fraction of that £10 billion could have made a real difference to improving alternatives to the car:

9. £500 million would have doubled the new Local Sustainable Transport Fund, which provides sorely needed funds to cash-strapped councils to cut carbon from transport in their areas;

10. £300 million would reverse the cuts to public subsidy of buses which were announced in the CSR (the Bus Operators Subsidy Grant, BSOG)—a move which will increase bus fuel duty by 8p in 2012;

11. £300 million would ensure the construction of the long-planned electric trolley bus network in Leeds, which has been under threat since the Comprehensive Spending Review.

12. High and increasing global oil prices are set to continue to be a fact of life. The UK desperately needs a strategy to overcome its ever-increasing dependence on imported fossil fuels, yet there was nothing in this Budget to help people or businesses use less petrol. The Chancellor's actions are actively subsidising our oil addiction and making it more expensive for people to choose less oil-dependent options.

13. GREEN INVESTMENT BANK (GIB)

14. What was announced: Initial funding for the GIB increased from £1 billion to £3 billion. But the GIB will only be able to borrow in 2015–16 at the very earliest—a critical function for any bank—and only then if the Chancellor has eliminated the annual structural deficit.

15. The extra £2 billion in initial funding for the GIB—up to £3 billion in total—is still short of the £4–6 billion Ernst and Young say the GIB needs,^{iv} but nonetheless represents a significant improvement.

16. But the decision to prevent the Bank from borrowing until 2015–16 at the earliest is a huge own goal—an economically-damaging delaying tactic from a Treasury determined not to cede any of its power. The ability to borrow is the most critical aspect of the GIB—it's the key mechanism to leverage in the billions of pounds of essential private investment.

17. Even in 2015–16, it is very far from certain that the GIB will actually be able to borrow: a condition imposed is that it can only borrow **“once the target for debt to be falling as a percentage of GDP has been met”**. The Chancellor's ambitious growth forecasts allow him to suggest that this will happen in 2015–16—but after the Budget leading economists, including the Governor of the Bank of England, lined up to attack these forecasts as very ambitious.^v The CBI said the Bank *“should have powers to borrow from the outset to give investors confidence”*. Institutional investors the UKSIF, representing assets of over £500 billion, said linking the Bank's borrowing to progress on the deficit *“does not give investors the certainty they need”*.^{vi}

18. The increased funding secured for the Bank represents a victory for the more progressive elements in Government, but they need to overcome Treasury resistance to the key issue of borrowing for the Bank to be effective—the 2015 date must be brought forward, and the condition that the deficit must be eliminated first must be dropped. After all, a fully functioning bank will be a critical element in helping Britain's economic recovery—rather than something that must wait until the economy is on track.

19. CARBON FLOOR PRICE

20. What was announced: a carbon floor price of £16/tonne will start in 2013, rising to £30/tonne in 2020. The floor price will underpin the price of permits in the EU Emissions Trading Scheme

21. This carbon floor price is set too low to have a meaningful effect on investment decisions. The Government's own modelling looked at a £50 price for 2020. As set up, the policy provides a windfall for existing nuclear power stations of at least £1.8 billion between 2013 and 2026.^{vii} It's inappropriate for a well-established industry to get yet another major subsidy.

22. The Treasury expect the floor price to raise £1.6 billion a year by 2015–16. As this will get passed onto bills, this revenue should be used to help people insulate their homes. At present, this extra cash goes straight to Treasury coffers.

23. AIR PASSENGER DUTY (APD)

24. What was announced: Abandonment of commitment to tax per plane, rather than per passenger as at present. APD frozen for 2011–12, with inflation price increase delayed until next year. Commitment to launch consultation on reform of APD.

25. The Government cites prohibitions in international law for why it has had to backtrack on its plans to bring in a per-plane tax, which could have netted the Exchequer an extra £3 billion—but experts expressed surprise at the sudden change of policy and called on the Government to test this presumption in law later this year.^{viii} This and the postponement of planned rises are bad for the economy and environment. Tax rises could have been used to fund tax cuts elsewhere, or prevent cuts to public services.

26. Aviation remains massively under-taxed—it pays no VAT on any of its activities, and no duty on kerosene. The postponement of the planned inflationary rise means air taxes will actually fall in real terms, and operators will continue to have no incentive to fill planes more efficiently. Freight continues to pay no APD, and there is no distinction between the payments made by the least and most polluting aircraft. The

decision to make private jets pay APD is a tiny loophole closed, but makes very little difference—these flights are a negligible proportion of the total.

27. ENERGY EFFICIENCY IN HOMES

28. What was announced: almost nothing positive, despite outrage over surging energy bills. The Chancellor committed to introduce incentives to encourage take-up of its impending Green Deal scheme for energy efficiency improvements in homes and businesses. The much-lauded policy commitment for all homes to be zero carbon by 2016 was abandoned, to outrage from the industry.

29. Tucked away in the small print of the Budget was a very nasty surprise: the Government quietly walking away from its much trumpeted policy that all new homes must be zero carbon by 2016.^{ix} This means that in practice new homes will only need to be about two-thirds zero carbon. This represents a shocking u-turn from a Government who earlier this month were still trumpeting their commitment to the policy. The UK's low-carbon building industry, which has flourished in readiness for the 2016 target, reacted furiously to this unheralded announcement.^x

30. The Chancellor conceded that he would need to offer financial incentives to encourage people to take up the Green Deal, although he did not go into any further detail. This is broadly welcome: incentives will indeed be hugely important—both “carrots” (financial incentives) and “sticks” (legislation for future minimum standards on energy efficiency). Financial incentives could take the form of a council tax rebate or money off stamp duty and would make a significant difference to the attractiveness of the Green Deal to consumers—as called for by a broad coalition of NGOs and companies.^{xi}

31. It is however important to be clear that from what we know about the Green Deal it seems unlikely that it will live up to the bolder claims Government has made for it. It won't deliver whole-house retrofits, won't work for many millions of fuel-poor households, and is no substitute for a comprehensive strategy—if made to work as well as it can, the Green Deal could have a sizeable role to play in cutting carbon from some of the UK's homes. But it cannot and must not be the only show in town.

32. For a Budget that claimed to be helping people deal with soaring every day prices, there was nothing else which will help people with the struggle of heating their homes adequately.

33. The Government is still committed to axing public grants for energy efficiency in the poorest households by phasing out the Warm Front scheme, a decision which this Budget should have reversed.

34. The Chancellor has also cut the Winter Fuel Payment for pensioners—£100 less for people over 80, £50 less for people over 60. This payment was introduced in 2008 to help pensioners cope with rising energy bills.^{xii} These bills have risen since then.

35. SUSTAINABLE DEVELOPMENT

36. What was announced. A “powerful new presumption in favour of sustainable development, so that the default answer to development is ‘yes’”.

37. The Government has announced changes to planning policy through a Ministerial Statement on 23 March 2011 and a letter to Chief Planning Officers on the 31 March 2011.^{xiii} The Letter to Chief Planning Officers sets out that planning is to support sustainable development, but the Ministerial statement sets out a pro-growth agenda. The Government is attempting to give growth priority over other issues but this is problematic in planning law. What is of more concern, is the Government's deliberate undermining of the term sustainable development as defined internationally by Brundtland,^{xiv} and by the UK Sustainable Development Strategy's five principles, agreed by the UK Government, Scottish Executive, Welsh Assembly Government and the Northern Ireland Administration in 2005. The Government's announcements on sustainable development consistently attempt to redefine sustainable development, creating inconsistency, and moving away from the international definition.

38. The Government's sustainable development strategy^{xv} is clear that economic, social and environmental goals should be met together—the types and location of economic activity matter. David Cameron has said as recently as November 2010^{xvi} that the type of economic activity is critical and that the wrong types of growth can make our society worse off. Greg Clark's ministerial statement says: “The Government's top priority in reforming the planning system is to promote sustainable economic growth and jobs.” The obvious confusion around sustainable development is maintained further by the following sentence: “When deciding whether to grant planning permission, local planning authorities should support enterprise and facilitate housing, economic and other forms of sustainable development.” Further attempts at prioritisation are also made “They [local planning authorities] should ensure that they give appropriate weight to the need to support economic recovery, that applications that secure sustainable growth are treated favourably.” The obvious result is that local authorities will feel unable to demand better-quality, more sustainable developments in appropriate locations which benefit the community and environment as a whole.

39. In planning terms, sustainable development is still defined in PPS1 Sustainable Development, and will only be replaced after the National Planning Policy Framework is published for consultation, expected to be early July 2011. If it is written as the Treasury intends—to be simply a “pro-growth” policy—it will lead

to a free-for-all with poor quality, inappropriate developments that increase the UK's contribution to climate change, deepen the UK's dependence on fossil fuels, and impact severely on people's quality of life. The Government have refused to put an agreed definition of sustainable development on the face of the Localism Bill (Public Bill Committee, Greg Clark, 15 February 2011),^{xvii} suggesting that this will be the case.

40. PLANNING

41. Promoting economic development above other considerations will result in a development free-for-all, which local authorities and people will have almost no means to stop or improve. And it will concentrate development in the already over-heated South-East region. Local people will have less say in what happens in their area, in direct conflict with the Government's localism agenda.

42. Planning is then the main tool to ensure we get the right types of development in the right places: this is not bureaucracy or red-tape, as the Communities and Local Government Secretary Eric Pickles caricatures it, but essential. If new housing development is granted without proper planning and new communities spring up without linked services, there could be extreme pressure on schools, hospitals, doctor's services and public transport in the area. Without a decent planning system, essential services will get stretched, Britain's roads will get ever more choked, and our climate change problems will get worse.

43. The Budget's proposals are an attempt to tear up this strategy, and cripple the planning system's effectiveness. Mr Osborne, Mr Pickles and planning minister Greg Clark have said that the prime purpose of planning should be to "prioritise growth" and that the new NPPF will be "inherently pro-growth".

44. Friends of the Earth is not anti-growth, but the type of growth is critical. A presumption in favour of developments whatever their type will make it much harder to ensure that Britain gets the right type of economic developments, in the right places. Unfortunately it seems that all that matters to Mr Osborne and Pickles is that we get growth, whatever its type or impact.

45. The following additional announcements on planning also damage the Government's own localism agenda—local authorities and people will have a vastly reduced ability to have any say over what gets built in their area:

46. What was announced: The creation of 21 new Enterprise Zones across the country, which will use local development orders to bypass planning application processes;

47. The creation of Enterprise Zones which bypass the planning system are of major concern. The lack of an accountable process for designating and locating the zones risks public legitimacy and prioritises developers above the needs of society, the economy and the environment as a whole. If the zones use local development orders (introduced in the Planning and Compulsory Purchase Act 2004), then the local planning authorities will retain some control. However, planning permission will be dropped within the order area for certain types of development. If these orders are weak, they will not promote integrated sustainable development that delivers positive outcomes for the environment, economy and society together. Environmental standards and social needs are not necessarily met by developers without the appropriate controls or incentives. The orders also summarily remove public involvement in local environmental decision-making within that area, by removing the planning application process.

48. What was announced: Relaxing change of use controls eg converting commercial properties into private dwelling;

49. Relaxing change of use controls could lower the quality of the local environment, as depending on the location and type of building these may be totally unsuited to other uses, or located without the necessary infrastructure.

50. What was announced: Removing brown-field targets.

51. Removing the brownfield targets through the National Planning Policy Framework weakens the sequential test which has been influential in northern parts of England to ensure that development re-uses previously developed land, as a part of regeneration strategies.

52. What was announced: Introduction of Neighbourhood Development Orders through the Localism Bill;

53. The introduction of neighbourhood development orders is the most radical aspect of the Localism Bill in relation to sustainable development. The Government has suggested that these orders will be made available to "neighbourhoods" covering eg a local industrial estate, and could be granted (if in conformity with the local plan) for up to five years, removing planning permission controls in that area. As only 22% of England currently has adopted core strategies, the concern is what happens where there is no adopted core strategy.

54. RESOURCE USE AND WASTE

55. What was announced: Nothing. With the Government's Waste Review due for publication in May this Budget was an opportunity to foreshadow genuine commitment towards a zero waste economy. Instead actions on waste and resource efficiency were absent. The Government could have extended landfill tax to all residual waste treatment including and especially incineration. And with Defra only last week estimating "no cost/low

cost savings” opportunity for business of £23 billion the lack of support for resource efficiency to SMEs in particular is as much economic as environmental negligence.

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- ^{vii} WWF and Greenpeace modelling using Redpoint data for the Government.
- ^{viii} <http://www.tradesignalonline.com/charts/news.aspx?id=772336&filter=&catid=0>
- ^{ix} [http://www.energysavingtrust.org.uk/Resources/Energy-saving-news/Policy/Govt-U-turns-on-zero-carbon-homes-policy/\(energysavingtrust\)/833732](http://www.energysavingtrust.org.uk/Resources/Energy-saving-news/Policy/Govt-U-turns-on-zero-carbon-homes-policy/(energysavingtrust)/833732);
http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf, section 2.296, p117.
- ^x <http://www.ukgbc.org/site/news/show-news-details?id=398>
- ^{xi} http://assets.wwf.org.uk/downloads/budget_green_deal.pdf
- ^{xii} http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/bud_bud08_speech.htm
- ^{xiii} <http://www.communities.gov.uk/documents/planningandbuilding/pdf/1878047.pdf>
- ^{xiv} World Commission on Environment and Development, 1987, “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”
- ^{xv} http://www.defra.gov.uk/sustainable/government/publications/uk-strategy/documents/SecFut_complete.pdf
- ^{xvi} <http://www.guardian.co.uk/politics/2010/nov/25/david-cameron-defends-wellbeing-index>
- ^{xvii} 15/02/2011, Public Bill Committee Localism Bill, Hansard Col 601, Greg Clark, Minister: “There is a clear suggestion that we should put sustainable development and its definition in the Bill. I have no objection in principle, although I am not persuaded that it would prove to be inimical to our joint purposes, but I will approach the matter with an open mind. If it seems possible to capture the suggestion in a way that does not preclude sustainability from having a major role to play, I will certainly do that.”

14 April 2011

Written evidence submitted by the Finance and Leasing Association

1. The Finance and Leasing Association represents the UK’s providers of equipment finance through leasing and hire-purchase. Our members are banks, independent asset finance companies, or captive finance companies owned by equipment manufacturers. In 2010 FLA members provided £19.6 billion of new finance to UK businesses and the public sector, representing around a quarter of all fixed capital investment (excluding real property and own-account software) in the UK last year.

2. We believe Budget 2011 missed an opportunity to further the Government’s green objectives. The Budget did not address an unhelpful exclusion in the tax allowances for investment in energy-saving plant and machinery, Enhanced Capital Allowances (ECAs). The current ECA rules exclude leased equipment.

3. In his evidence to the Committee’s Inquiry into The Green Investment Bank last October, James Wilde from the Carbon Trust described a “massive” opportunity to unlock energy efficiency in Small and Medium-sized Enterprises (SMEs). We believe that the exclusion of leased equipment from ECA is a significant and unnecessary obstacle to that opportunity.

4. SMEs are already investing in energy efficiency. The Open University Business School⁸ reported in January that 29% of SMEs had in the last year invested in equipment or machinery for environmental reasons.

5. Particularly at the moment, however, few businesses are in a position to pay significant amounts up-front for energy-saving plant and machinery. There is a growing awareness that asset finance can help businesses to afford to invest in energy-saving plant and machinery.

⁸ Open University Business School Quarterly Survey of Small Business in Britain Q4 2010

6. For example, in their February 2011 report, *Financing the Low Carbon Economy*,⁹ Accenture noted that financing energy-efficient or micro-generation equipment can be expensive. To reduce the impact on cash-flow, a leasing scheme—“energy-efficient and micro-generation leases”—could be developed so that principal and interest repayments on the equipment are calculated based on the estimated amount of energy saved.

7. The importance of asset finance can also be seen by the launch in April 2011 of the new Carbon Trust green equipment finance loan scheme. This is being run by Siemens Asset Finance and is intended to provide UK businesses with green equipment finance worth up to £550 million over the next three years.

8. Asset finance offers benefits beyond helping businesses to afford to invest. Because the finance company owns the equipment being funded there is less need for additional collateral. The application process is generally simple and is often administered by the equipment supplier rather than a bank. We estimate that over a thousand small businesses obtain new asset finance every working day.

9. The exclusion of leased equipment from ECAs makes investment using leasing less accessible and more expensive. Making ECAs available for leased equipment would reduce the capital needed by finance companies, allowing them to lend more at lower interest rates. This could reduce the reliance on alternative, untested mechanisms including the Green Deal and any relevant Green Investment Bank activity.

10. The existing restrictions on using ECAs for leasing were implemented to address concerns that ECAs for leasing might promote tax avoidance or might result in UK taxpayers supporting investment elsewhere in Europe. Recently-introduced rules for disclosing avoidance arrangements and the new Code of Practice on taxation for banks should mitigate much of the risk of avoidance. Further safeguards might be appropriate, such as restricting the value of qualifying investments, or restricting investments to certain regions. Our call is for the Government to work with business to overcome the obstacles to including leased equipment in the Government’s incentives to invest in low-carbon equipment. This would include the ECA tax incentive as well as the Renewable Heat Incentive.

11. In summary, we believe the Committee should recommend that the Government actively seek to overcome any obstacles to extending ECAs to leased equipment. We would be pleased to provide oral evidence to the Committee.

14 April 2011

Written evidence submitted by Paul Appleby CEng FCIBSE FRSA—Consultant in Sustainable Design

EXECUTIVE SUMMARY

This memorandum deals primarily with the impact of the Budget 2011 and “The Plan for Growth” on sustainable development and in particular CO₂ emissions. These are addressed in the context of other Government actions, such as the Fast Track review of Feed-in Tariff, since these have a cumulative effect which will have a major impact on the ability of Government to meet its legal obligations under the Climate Change Act. Specifically the memorandum addresses:

- The change in definition of zero carbon homes and its impact on the manufacturers and developers who have been gearing up for 2016.
- The relationship between the cost of zero carbon and the Feed-in Tariff, Renewable Heat Incentive, Green Deal and Community Energy Fund.
- The implications of proposed policy for decarbonisation of the grid and relationship with the 2050 Pathways Analysis.
- The implications for zero carbon non-residential buildings from 2019.
- The implications of the proposed changes to Feed-in Tariff for photovoltaic installations larger than 50kW.
- The relationship between Feed-in Tariff (FIT) and Renewable Heat Incentive and their application to low and zero carbon fuelled combined heat and power plant and the proposed changes of FIT for anaerobic digestion.

I conclude that, where applicable, Government policy and actions should be assessed for the impact they will have on achieving the legally binding CO₂ reduction of 26% by 2020 and 80% of GHG by 2050 compared by 1990 baseline values.

1.0 INTRODUCTION

1.1 As a freelance consultant I specialise in the sustainable design of buildings and providing advice to design and masterplanning teams on all aspects of sustainability. I graduated with a first class honours degree in Environmental Engineering in 1975 since when I have worked as a mechanical services design engineer, a lecturer and researcher, setting up my own consultancy in 1988. This became Building Health Consultants Ltd,

⁹ Carbon Capital: *Financing the Low-Carbon Economy*, Accenture, February 2011

which remains today as part of URS Scott Wilson. In 2000 I establish the Building Sustainability Unit at URS, from which I retired at the end of 2008.

1.2 I have some 60 publications to my name including *Integrated Sustainable Design of Buildings* which was published in January of this year by Earthscan. It is a comprehensive guide to sustainable design, masterplanning and construction, designed for a global marketplace, but with a particular focus on the UK.

2.0 POTENTIAL IMPACT OF BUDGET 2011

2.1 I will leave commentary on fuel duty and transportation impacts to others more qualified in these areas. In this memorandum I will focus on those aspects of the Budget 2011, “The Plan for Growth” and other Coalition actions that impact on climate change and sustainable development.

2.2 It is my view that every Government policy and action should be tested against predictable and measurable criteria, such as the requirements for carbon reduction set out in the 2008 Climate Change Act, as well as the trends illustrated in Defra’s Sustainable Development Indicators (updated July 2010).

2.3 The measures set out in the Budget 2011 also have to be viewed in the context of a number of recent reports from Government departments, namely:

- Carbon Plan. March 2011.
- Final Zero Carbon Hub Report. Feb 2011.
- 2050 Pathways Analysis, DECC. July 2010.
- National Infrastructure Plan. HMT/Infrastructure UK. October 2010.
- Fast Track Review of the Feed-in Tariff, DECC. Consultation responses due May 2011.
- Low Carbon Construction Innovation and Growth Team’s final report. November 2010.

2.4 **Zero carbon homes:** Despite pledges in the Carbon Plan and recommendations in the final report from the Zero Carbon Hub the Budget has removed the commitment to zero carbon homes being a requirement of Building Regulations from 2016. The requirement has been watered down to cover only those parts of the energy demand that depend on the design of the dwelling, and exclude the so-called “unregulated emissions”, such as white goods, TVs etc, which are likely to make up some 33–50% of carbon emissions.

2.5 It is understood that the Government is worried that the cost of achieving zero carbon will make homes unaffordable and hence inhibit growth. Unfortunately this is likely to result in a vicious circle since the consequent demand for the materials and products required for improving carbon performance will be insufficient to bring the costs down to affordable levels, hence increasing the cost of low carbon homes. It also means that many of the manufacturers, suppliers, installers and developers who have been gearing up for zero carbon will be left high and dry. Some of these will also be hit by the Government’s proposed Fast Track review of FIT (see below), thus depressing the market for solar photovoltaics along two fronts.

2.6 One side effect of the redefinition of zero carbon is that developers are less likely to be required to contribute to off-site community energy schemes, unless these are leveraged by Local Authorities through the Community Infrastructure Levy.

2.7 The Zero Carbon Hub report refers to illustrative marginal costs for achieving zero carbon as £8,700 for semi-detached houses and £12,300 for detached, compared with 2010 Part L1A compliance. These include an allowance of £75 per tonne CO₂ for off-site “Allowable Solutions” and are based on a Carbon Compliance limit of 11 kg CO₂eq/m²/year for the semi and 10 CO₂eq/m²/year for the detached house. The costs are based on projected prices in 2016.

2.8 There are a number of factors that this analysis appears to ignore:

- 2.8.1 Although I have not been able to access the detailed cost analysis carried out by Cyril Sweett, no mention is made in the Carbon Hub report of allowance for Feed-in Tariff, Renewable Heat Incentive and Community Energy Fund in the marginal costs. In essence these will act as a subsidy for the PVs and other renewables, and potentially for Allowable Solutions.
- 2.8.2 The Government has proposed that the Green Deal should apply to new-build dwellings and would reduce the up-front cost of carbon reduction measures, such as insulation, although in fact this will simply spread the cost over a specified period through energy bills (pay-as-you-save).
- 2.8.3 Both the 2050 Pathways analysis and the EU Roadmap 2050 study require a decarbonisation of the electricity grid in order to achieve the 80% greenhouse gas reduction by 2050. As the grid is decarbonised through some combination of renewable energy, carbon capture and storage and (possibly) new nuclear, carbon emissions associated with the electrical demand from all dwellings will fall proportionately. Bearing in mind that dwellings built to the Zero Carbon Hub proposed Carbon Compliance limits will have negligible heating requirements electrical demand will dominate the energy requirements for future dwellings.
- 2.8.4 On the other hand the Pathways analysis assumes a massive reduction in demand from both new and existing buildings, such that the demand will not be any greater in 2050 than 2011. It has to be remembered that it is predicted that some 10 million new homes will be built between now and

2050, whilst perhaps 1 million will be decommissioned or demolished. Each new dwelling will represent an additional burden on the grid and add to the CO₂ and greenhouse gas emissions to atmosphere.

2.9 Zero carbon non-residential buildings: For non-residential buildings the zero carbon requirement was scheduled for inclusion in revised Building Regulations by 2019, although the Zero Carbon Hub has not yet attempted a definition. There will be a problem in translating the exclusion of non-regulated emissions from the homes definition since all non-residential buildings must cater for the heat gains from all internal sources (regulated and unregulated) in determining either the loads dealt with by an air conditioning system or assessing summertime temperatures for natural ventilation feasibility.

3.0 RENEWABLES FUNDING

3.1 The 2010 Spending Review established a maximum fund for the Feed-in tariff (FIT). This has placed an artificial constraint on this vital incentive. The Committee will be aware that DECC has instigated a Fast Track Review of FIT with a view to reducing the amount paid for electricity generated from photovoltaics (PV) larger than 50 kW, with an especially large reduction for installations larger than 250kW (from 29.3p/kWh to 8.5p/kWh). It is my view that the impact assessment (IA) for this review should focus on the impact of this significant reduction on the ability of this Government in achieving the legally binding CO₂ reduction of 26% by 2020 and 80% of GHG by 2050 compared by 1990 baseline values. It is interesting to note that the IA refers to total CO₂ savings until 2020 of between 10.3 and 20.2 million tonnes for the “do nothing” scenario and between 0.3 and 0.9 million tonnes for the fast track modifications. The difference between these scenarios approximates to the annual carbon emissions associated with one or two large coal-fired power stations. As the Government’s own Pathways Analysis shows there must be an “heroic” effort in renewables development over the next 10 years, particularly when one considers the loss in confidence in nuclear power following the Fukushima disaster.

3.1 The Consultation document for the FIT review refers to 41 solar farms having obtained planning permission or being under consideration. These are very unlikely to go ahead with the revised Feed-in Tariff. Indeed it seems likely that very few installations larger than 50kW will go ahead. In my view this means that a massive opportunity will have been missed. Although the cost of PV cells has fallen by 30% since the original IA, the cost per kWh electricity generated from large-scale solar installations is still likely to be more than twice that for wind farms. It is my view that funding should be related to the cost per kWh of the technology concerned (ideally whole life cost, if data is available). Clearly the problem lies with the method being used to support renewable energy. I agree that the FIT should be able to meet the demand from the domestic market, with a particular emphasis on retrofit. However it must be made economically viable for developers to build large-scale solar farms. If there is inadequate funding within the FIT system, then alternative incentives must be identified; perhaps via energy company Renewable Obligations and/or the Green Investment Bank.

3.2 The IA also does not assess the impact on the UK manufacturers and installers of PV. Evidently with the focus on the domestic market the installers that serve this sector will benefit, however the cancellation of around 40 large-scale solar farm projects would strangle at birth a burgeoning large-scale solar industry.

3.3 The FIT Fast Track Review also responds to a poor uptake of the FIT for anaerobic digestion (AD). A small increase in tariff is proposed which I doubt will increase uptake. My view is that the rate should reflect the whole life cost per kWh of energy generated, taking into account diversion of waste from landfill and the economic benefits of digestate production. I would also like this category to be expanded to cover the use of used cooking oil and sewage waste for CHP plant.

3.4 The Government’s proposed Renewable Heat Incentive (RHI) will apply to renewable energy used directly for generation of heat. However it is unclear how this will be applied to applications that generate both heat and electricity. This includes any combined heat & power (CHP) application that uses a renewable fuel, such as the gas emanating from anaerobic digestion, sewage, landfill, gasification and pyrolysis, as well as biomass. There is a “bio-energy” category in the RHI which refers to heat generated. If the energy from both electricity and heat are subject to separate payments through FIT and RHI respectively then the uptake of AD and other zero/low carbon fuelled CHP could increase markedly once the RHI is launched?

3.5 If crops are to be used for generating energy then I think it preferable that the conversion be through the AD process, which is far less polluting than combustion and more cost effective than gasification and pyrolysis. I think there should be an incentive for those installations that employ only waste products as a fuel, such as wood waste and agricultural by-products, perhaps through a differential in the FIT and RHI.

3.6 Studies have found that small-scale wind installations that are located where wind resources are inadequate, such as for individual houses in sheltered spots in towns and cities, consume more carbon dioxide in the manufacture of the wind turbines than is saved during the lifetime of the installation.¹⁰ I would suggest that applicants for FIT for small scale wind turbines should be required to provide evidence that the wind

¹⁰ Phillips, R et al. 2007. *Micro wind turbines in urban environments* (BRE Report FB17) London: BRE

resources in the planned location is sufficient to recover the carbon associated with manufacture of the proposed turbine within its lifetime. This could, of course, be applied to FIT and RHI applications for all technologies.

14 April 2011

Written evidence submitted by Agri Energy

1. INTRODUCTION TO AGRICULTURE ENERGY

Agri Energy is one of the UK's largest distributors of fresh cooking oil to the catering industry and is the largest collector of waste cooking oil, collecting from over 60,000 catering establishments in the UK. Agri Energy collects Used Cooking Oil (UCO) from food manufacturers and the retail and catering sectors, preventing it from being dumped illegally, and turns it into biodiesel for use as a renewable transport fuel. It has ten depots across the UK, three bio-refineries capable of processing UCO into renewable bioliquid or industrial oil, and employs 350 people across the country.

2. SUMMARY

This paper sets out Agri's submission to the Environmental Audit Select Committee's inquiry into the 2011 Budget and environmental taxes. It is comprised of two parts, the first looking at the 20p fuel duty differential for biodiesel made from UCO, which the Budget announced is to be abolished from April 2012, and the second section considering the current fuel duty derogation for producers of biodiesel who manufacture less than 2,500 litres per annum.

Our submission concludes that the 2011 Budget represents a missed opportunity to ensure that the Government's green objectives are being met through the tax system, and makes the following policy recommendations:

- The Government should adopt a more integrated approach to developing biodiesel policy. Currently, responsibility is spread across four different departments, and this is creating an uncertain regulatory environment for biodiesel producers.
- As part of this integrated process, the Government needs to look again at the tax incentives and support mechanisms for the sustainable biodiesel industry. It needs to look further than the current consultation on the RTFO and consider the future of the differential alongside a longer-term strategy to support the industry, such as including biodiesel within the scope of the Feed-in-Tariff or tying the Treasury more closely to the certificate trading scheme.
- In the shorter term, the impact of fluctuating certificate prices in the RTFO should be resolved by the creation of a stability mechanism either through a minimum price for certificates or an extension of some form of duty differential.
- The fuel duty derogation for producers who refine less than 2,500 litres per year should be abolished. The derogation does nothing to incentivise the use of high-quality, sustainable biodiesel, but poses a health and safety risk and has facilitated the rise of a black market industry and a spate of oil thefts.

3. THE 20P FUEL DUTY DIFFERENTIAL

3.1 *The environmental benefits of biodiesel made from UCO*

UCO is a recycled waste product which has, in the past, been disposed of down the drain. The UK has traditionally had a big problem with the illegal disposal of waste cooking oil. It costs utility companies £15 million to clear the estimated 150,000 blockages per year caused by oil and grease that has been poured down the drain.

Biodiesel made from UCO is acknowledged to be one of the most sustainable forms of transport fuel. Figures from the Renewable Fuels Agency suggest it can deliver emission reductions savings of 84% when compared to fossil fuels, and this is considered to be a conservative estimate. Our own measurements using ISO 14064 show savings of 95% for our own biofuel products.

As UCO is a waste product it avoids a host of contentious and negative effects traditionally associated with biofuels, such as Indirect Land Use Change and the displacement of agricultural land for the growth of food crops. Its benefits should therefore be considered independently of any analysis of the environmental impacts of biofuels, which have tended to focus exclusively on first generation fuels made from virgin crops.

3.2 *The 20p fuel duty differential for biodiesel made from UCO*

Biodiesel produced from UCO currently enjoys a 20p per litre fuel duty differential compared to regular diesel. This has been largely successful in promoting the use of waste derived bioliquids in transport fuel and ensuring that waste oil is not illegally poured down the drain. By creating stability and market certainty it has given investors the confidence to plan new projects, and the clear cost benefit has encouraged many large companies to switch their captive fleets to biodiesel. It has also helped drive waste collection and renewable

energy creation, allowing businesses to research new conversion techniques and train employees in the green skills that will be required for future innovation.

3.3 *The Renewable Transport Fuels Obligation*

This good work is in danger because of the impending abolition of the 20p differential. This is a retrograde step that will have a severe impact on the biodiesel industry and potentially negate much of the investment that has been made in renewable transport fuels.

The previous Government said it hoped that the Renewable Transport Fuels Obligation (RTFO) would provide the main support mechanism for the sustainable biodiesel industry after the differential is abolished. However, there are a number of flaws with the RTFO. The system treats biodiesel in the same way as bioethanol, when in fact the supply chain and markets for their feedstock are completely different and so not suited to be transposed onto the same scheme. Certificate prices have been fluctuating considerably in recent years, with some suppliers being unable to redeem their obligation or secure any value for the biodiesel they have produced. The fluctuations in certificate values make it difficult for investors to plan new projects and assess the incomes streams they are likely to derive from the scheme. This is acting as a barrier to investment and a disincentive to take advantages of the opportunities offered by the renewables sector.

The DfT is currently consulting on whether to offer biodiesel made from waste, such as UCO, double certificates under the RTFO. While we welcome this proposal and believe that it will, at current levels, partly negate the loss of the duty differential, the problem is that the fluctuations in certificate prices detailed above make revenue streams highly uncertain. Based on past trading data, double certificates could see biodiesel made from UCO incentivised by anything from 0p per litre to 60p per litre. This will lead to big changes in trade flow and make it more difficult for producers to plan investment in renewable energy projects over the medium and long term.

The RTFO is a complicated and expensive system to run, requiring frequent monitoring and reporting by the Renewable Fuels Agency. It is complex to understand and requires significant time on the part of business to calculate estimated cash flows. The duty differential requires no such time and effort on the part of business and is simple for the Government to administer. It does not require an expensive quango to run it, and at a minor cost of £10 million per annual it is equivalent to the amount spent on empty office space in Whitehall.

When differential is abolished in April 2012, biodiesel from UCO will suddenly become 20p per litre more expensive. This is a huge increase and means that biodiesel produced from waste will become more expensive than regular fossil fuels. As no vehicle modifications are necessary to switch from biodiesel to regular diesel, demand is highly price sensitive and so there could be a huge impact on the sector within a very short space of time. Even with the offer of double certificates, the RTFO as is currently set up is not a suitable incentive scheme due to the wildly fluctuating levels of support that it entails. This clearly demonstrates that the decision to abolish the differential is in stark contrast to the Government's stated green objectives.

3.4 *The lack of a joined up strategy on biodiesel tax incentives*

The Government's Gallagher Review into the impact of Indirect Land Use Change recommended that biofuels production must target the use of waste and residues as fuel, while the Renewable Energy Directive says that biofuels produced from wastes are especially desirable. The Treasury's Tax Policy Making Handbook notes that the tax system needs "simpler, greener and fairer". The differential meets every one of these requirements, and yet it is notable that there is still some policy uncertainty about sustainable biodiesel.

Although the RTFO is currently under consultation, the paper does not consider the future of the differential or any other tax measures as they fall outside the remit of the DfT, while the flaws in the RTFO remain outside the Treasury's sphere of interest. This approach to biodiesel incentives makes joined-up policymaking difficult and is preventing the industry from reaching its full potential.

3.4 *Our recommendations*

Agri Energy believes that the sustainable biodiesel industry has the potential to contribute greatly to the UK's diverse energy mix and promote a growth in green jobs and scientific development that can help make our country a world leader in low carbon technology. However, in order to do this the industry requires stability and market certainty. This could best be achieved by:

- Over the longer-term, launching a review into the future of the RTFO, which would be wide ranging and include consideration of the various biodiesel tax incentives, with a view to ascertaining the best mechanism for supporting the industry.
- In the shorter-term, committing to some sort of stability mechanism for the RTFO which will negate the negative impact of certificate price fluctuations. This could be in the form of an extended differential, a minimum price for RTFO certificates, or double certificates plus the 20p differential, with a requirement to provide one of the certificates to the Treasury.

4. THE FUEL DUTY DEROGATION

In the 2007 Budget, it was announced that motorists who refine or used less than 2,500 litres of biodiesel per year to run their cars would be exempt from paying fuel duty. This was in response to unflattering news reports of police officers and tax inspectors staking out supermarkets and sniffing exhaust fumes to identify drivers that were buying cheap cooking oil and pouring it straight into their tanks.

However, while the benefits for amateur producers of biodiesel were widely promoted, small scale biodiesel has in recent years grown into a lucrative, underground industry, with many small scale producers selling their product illegally and ignoring the 2,500 litre limit, costing the Treasury tens of millions of pounds in lost revenue.

Rather than provide a tax break for those who run their family cars on domestically refined biodiesel, the derogation has had the effect of removing many biodiesel producers from regulatory oversight and the tax system entirely. These small scale producers who “drop out” of the system frequently refine far more than the allowed 2,500 litres, creating unfair competition for larger producers that do pay tax and who must adhere to strict health, safety and environmental standards. This is putting further pressure on legitimate producers in addition to the uncertainty detailed above.

More urgently, the proliferation of domestically refined biodiesel, which contains dangerous combustible elements and by-products, poses a serious health and safety threat to those involved as well as to the environment, unless it is produced as part of a strictly controlled and monitored process. Amateur production of biodiesel is strongly discouraged by the health and safety executive, and so its promotion through a tax benefit is again evidence that the Budget has not benefitted from joined-up thinking in its approach to green taxes.

4.1 *The dangers of home produced biodiesel*

(i) The threat to producers

It is possible to buy a small processor for as little as £995, or lease one for £7 per week, which can produce as much as forty litres of biodiesel a day. However, making biodiesel is an extremely hazardous process as it involves the use of dangerous chemicals and the risk of fire and explosion. The Health and Safety Executive recommends that it only be carried out in controlled conditions by people with suitable qualifications and experience. Biodiesel production involves the use of sodium hydroxide and methanol. Sodium hydroxide is extremely corrosive and can cause burning to unprotected skin and potential blindness if used incorrectly. When stirred it produces a fine mist which if inhaled or swallowed can cause major damage to the throat lining and digestive system. Methanol is a toxic chemical and cumulative poison which, if its vapour is breathed, can lead to blindness and damage to the central nervous system.

(ii) Risk of fire and explosion

There is a serious risk of fire and explosion when refining biodiesel because methanol is highly flammable at just 17°C and there are many potential sources of ignition in most homes, such as plugs and appliances, open flames and smoking materials. Violent chemical reactions, leading to explosions, have occurred owing to amateur producers making a mistake in the recipe, pouring the chemicals in the wrong order, poor mixing, or making too much at once.

(iii) The danger to the environment

Black market biodiesel often fails to meet stringent criteria for environmental sustainability and greenhouse gas emissions set out in UK and European law. Biodiesel sold in the UK must meet European standard EN14214—but it is simply not possible to meet this standard using small processors. There is no guarantee that the feedstock used for the biodiesel has been sustainably sourced. The chemicals listed above can cause significant harm to humans and wildlife if they are breathed or touched.

(iv) Theft of cooking oil

The increase in small scale biodiesel production has seen a corresponding increase in the theft of cooking oil. Agri Energy estimates that theft from its customers and suppliers is equal to the loss of duty on 12.5 million litres of biodiesel per annum. Extrapolating this to the total UK volume of waste cooking oil, thought to be around 120 million litres per annum, means a loss of duty on 30 million litres of biodiesel.

4.3 *Our recommendations*

As detailed above, Agri Energy believes that sustainably sourced biodiesel has a crucial role to play in helping the UK meet its targets for emission reductions and an increase in the amount of fuel generated from renewable sources. However, biodiesel production is a complex process that should only be carried out by suitably trained professionals. Far from helping amateur producers of biodiesel who wish to run their family cars on vegetable oil, the duty exemption for those who refine less than 2,500 litres of biodiesel has facilitated an underground market in which much larger quantities are sold, avoiding all tax and regulation. This not only

creates unfair competition for responsible, larger producers like Agri Energy, but deprives the Treasury of millions in lost revenue, and increases the likelihood of serious accidents that may lead to severe contamination of the environment or health and safety risks to “garden shed” producers.

Agri Energy would like to see a level playing field, where all biodiesel producers are required to pay duty and take their health and safety and environmental responsibilities seriously. We therefore recommend that:

- The fuel duty exemption for those who produce less than 2,500 litres per year is removed. If it were replaced with an extension of the duty differential mentioned above, then sustainable and reputable producers would still be incentivised for the fuel they produce, but the Exchequer would no longer subsidise poor quality fuel produced from unregistered or stolen oils.
- This issue should be examined as part of the review of biodiesel incentives detailed above, which would have a remit to examine where tax policy was contradicting the policy approaches taken by other Whitehall departments and agencies.

18 April 2011

Written evidence submitted by INEOS Chlor

1. INEOS Chlor is a manufacturer of chlorine and caustic soda. We operate in the UK, Norway, Germany and Sweden. The electrolytic processes we operate are very energy intensive and electricity is a key raw material, representing approximately 60% of our manufacturing costs.

2. The cost of carbon—either through the EU ETS or as proposed here as Carbon Price Support—has a direct and significant impact upon our costs of production, as do all other energy taxes.

3. The products we produce are globally traded and we cannot pass on additional costs that are not faced by our competitors. As a result, badly implemented energy and environmental policies have the potential to severely impact the ongoing viability of our business within the UK.

CARBON PRICE SUPPORT AND CARBON LEAKAGE

4. If the UK is to contribute fully and properly to reducing anthropogenic CO₂ emissions, Government policy must achieve two goals:

- the UK must become a low carbon economy, in particular with respect to energy (electricity) production; and
- the UK must manufacture the energy intensive goods it requires within this low carbon economy.

5. We see clear evidence of a considered plan to achieving the first of these aspirations, with binding emission targets and a route map to a low carbon economy.

6. Unfortunately, there is however no evidence that due regard has been given to the latter. There appears to be no consideration of the needs of energy intensive industry and no plan for helping industry manage the transition from a fossil fuel economy to a low carbon one. This is a dereliction of both economic and environmental policy. Without urgent action from the UK Government we are faced with the progressive abandonment of the UK as a manufacturing centre for energy intensive goods, and the export of our carbon emissions.

7. The UK should be seeking to export energy intensive goods into higher carbon economies, creating jobs and economic growth within the UK alongside delivering significant and real environmental benefits. This will not happen by chance. The political will that has driven the decarbonisation agenda needs to be applied to a manufacturing strategy that will allow the transition to a low carbon economy.

8. Energy intensive manufacturing industry does not need subsidy, but it does require a recognition that the costs of carbon, either through EUETS or proposals for Carbon Price Support (and other energy tax measures), create a far from level playing field, which must be addressed.

9. The impact of environmental policy on energy intensive industry within Europe is already creating an unacceptable burden. Whilst there is some support for the costs faced as a result of direct CO₂ emissions, the impact of “indirect emissions” is much more significant for electro-intensive industry. Without adequate support for such costs, we face a very difficult future within Europe. The Government is now raising the prospect of an additional and unique UK-only cost through the Carbon Price Support mechanism.

10 The Carbon Price Support mechanism seeks to deliver additional certainty for low carbon investment. The reality is that as planned it creates an equal but opposite certainty that there will be no investment in electro-intensive industry and as a result the prospect of its terminal decline in the UK. We face the very real risk of exporting energy intensive manufacturing to high carbon economies elsewhere in the world, and increasing global CO₂ emissions through ill considered policy.

18 April 2011

Written evidence submitted by the Caribbean Tourism Organisation

THE CARIBBEAN TOURISM ORGANISATION

The Caribbean Tourism Organisation (CTO) comprises 33 member countries in the English, French, Spanish and Dutch speaking Caribbean. It is headquartered in Barbados. It has on its board the Ministers of Tourism of each of the 33 countries that it represents as well as private sector allied members. The current Chairman of the Board is the Minister of Tourism for St Kitts and Nevis.

The CTO's role is to help establish tourism as a sustainable means of social and economic development for the Caribbean and to safeguard the industry's interests in the region and internationally.

EXECUTIVE SUMMARY

The following short submission from CTO observes that:

- Taxes, including “green” taxes, related to international travel have a significant impact on other countries. In such cases their effect should be fully taken into consideration before they are introduced or reformed.
- Greater consideration should be given to the extra-territorial impact of taxes such as Air Passenger Duty (APD) on the sustainable development of other countries.
- When aviation is included in the EU Emissions Trading System (EU ETS) in 2012, CO₂ emissions will be covered by that scheme. Air Passenger Duty (APD) will then become a general taxation measure rather than a green one.
- If the UK Government's objectives for APD are revenue driven rather than related to the environment, labelling APD as a green tax is misleading to consumers including those travelling to the Caribbean region.
- More could be done to harness the opportunity to use UK expertise in green technology to develop business partnership opportunities in the Caribbean that relate to climate change.

WRITTEN EVIDENCE

1. *Sustainable development and environmental protection aspects of the UK Plan for Growth*

The UK's Plan for Growth recognises Britain's expertise in green technology and related industries. The Caribbean, like many other developing regions, has a significant requirement for green technology in relation to climate change adaptation. It would benefit from collaboration with UK companies in this field. There would be value in considering how UK companies might be encouraged or incentivised to develop business partnership opportunities overseas for the benefit of the UK companies and the Caribbean.

2. *Shifting the burden of taxation from “goods” (eg labour) to “bads” (eg emissions) needs to be better considered when designing and introducing new taxes affecting aviation*

The UK Treasury's APD consultation document details the Government's belief that market based approaches to emissions such as the EU Emissions Trading System (EU ETS) are the best way to address CO₂ emissions. The CTO agrees with this as an overall global approach but believes that such policies should not be developed unilaterally. It hopes that a fair global system will soon be developed that places all airlines and countries on a level playing field. Without this, tourism dependent regions such as the Caribbean that as a result of changing European policy have had to migrate from preferential agricultural arrangements to an industry that is based on its environment, tourism, will be unfairly discriminated against.

If as UK Ministers now suggest APD is a revenue raising rather than an environmental tool, then this is a tax on people taking holidays, visiting friends and relatives or making business trips or “goods”, rather than emissions—“bads”.

The Government states that it sees APD primarily as a revenue raising measure. Therefore, the CTO does not believe that APD should any longer be classified as a green tax as this misleads consumers about the intention of the tax, which is essentially a tax on people taking flights for the purpose of raising government revenue.

3. *The scope for the tax system to create modal shift from high carbon transportation to low carbon alternatives are issues the government should be considering when developing strategies for sustainable aviation*

Over 70% of flights taken from the UK each year are to short haul destinations in Europe. Given that some of these short haul journeys are the only ones that can realistically be replaced by lower carbon alternatives such as high speeds trains, it seems perverse that the Air Passenger Duty on flights to short haul destinations is significantly lower than to anywhere else.

There is no possible modal shift to lower carbon transportation to the Caribbean as there is no way other than by flying to reach the Caribbean—the most tourism dependent region in the world. CTO has noted an

increasing tendency for passengers to route their flights via European hubs to avoid the higher rates of APD. There is therefore the paradox that by increasing rates beyond a certain point the UK may, by encouraging diversionary measures, increase carbon emissions from international aviation. This risk was recognised by the UK Parliament's Committee on Climate Change in its December 2009 Report, which noted that "action at European level is required in order to avoid leakage from UK airports to hubs in other Member States".

4. The impact of the taxation system in general on sustainable development

The CTO wishes to draw attention to the extraterritorial impact of aviation taxation. The attached report produced by the CTO on the impact of Air Passenger Duty was compiled at the request of the UK government and presented in November 2010. It demonstrates clearly, using World Bank Development Indicators, that the Caribbean is the most tourism dependent region in the world.

The report, using a wide range of data, suggested that since the 2009 significant increase in APD rates, tourism arrivals to the Caribbean from the UK had decreased by as much as 16% compared to increased arrivals to the Caribbean from all other source markets.

There is no readily available economic substitute for the tourism industry in the region. Caribbean economies depend on tourism for government revenue through taxation on hotels and other tourism related services, for employment, for economic growth and GDP, and for investment attraction.

As many as one in four jobs in some Caribbean countries are related to tourism, and in some countries tourism accounts for as much as 80% of GDP. Therefore, anything that negatively impacts the tourism industry and the UK companies which serve it will have a serious impact on the sustainable development of the region. This should be considered alongside the fact that the Caribbean, although a low carbon emitter, is recognised as one of the regions most at threat from climate change.

The CTO believes that the extra-territorial impact—both economic and environmental—of tax policies related to international travel or the environment needs to be carefully considered in order to avoid unintended consequences.

In the case of APD, the unintended consequences are already evident and it is to be hoped that the APD consultation being undertaken by the UK Treasury will result in a fairer system that will be implemented with haste.

UK policy on aviation and the environment is having a detrimental impact on Caribbean development and the longer it takes to reform the APD system, the greater the risk of serious economic decline in the industry that now underwrites almost all Caribbean economies.

5. Green Investment Bank (GIB)

The CTO understands that the GIB fund will be used to support low carbon investment. Given that income from taxes that are labelled environmental (APD and the EU ETS), and in the name of global carbon emissions reductions, CTO would urge consideration be given to the GIB providing support to UK companies that wish to develop innovative low carbon projects in developing regions such as the Caribbean.

19 April 2011

Written evidence submitted by the UK Sustainable Biodiesel Alliance

1. OVERVIEW

This paper has been prepared by the UK Sustainable Biodiesel Alliance (UKSBA) as a submission to the Environmental Audit Select Committee's inquiry into the 2011 budget and environmental taxes. The UKSBA is the representative body of the sustainable biodiesel industry in the UK.

This submission has been put together to help the Committee consider the impact of the Budget on the UK's sustainable biodiesel industry and to ascertain whether it helps to further the Government's green objectives and contribute to a "modal shift" from high carbon transport to low carbon alternatives. Our paper provides an overview of the sustainable biodiesel industry and outlines UKSBA members' concerns about the announcement in the budget that the fuel duty differential, currently available to producers of sustainable biodiesel, is to be abolished in April 2012.

2. SUMMARY

The current 20p duty differential for biodiesel produced from Used Cooking Oil has been a tremendous success in providing stability for the sector, promoting investment, training, employment and technical innovation in a vital part of the renewable energy industry. It has also had the added effect of helping to reduce the UK's carbon emissions and increase effective waste management. It provides value for money well beyond its modest £10 million cost to the Exchequer, and serves as a case study of how well targeted fiscal measures can drive behavioural change, private sector innovation and job creation.

However, the announcement in the Budget that the differential is to be abolished from April 2012 is likely to have a severe negative impact on the sustainable biodiesel industry. While the UKSBA welcomes the proposal to offer double certificates for biodiesel from waste under the revised Renewable Transport Fuels Obligation, the large fluctuations in certificate values under the scheme mean that the mechanism is not adequate or stable enough to replace the tax differential. For many producers future revenue streams would become highly uncertain and many small producers would go out of business under the RTFO alone, negating the investment that has been made in rolling out the use of sustainable and renewable transport fuels.

The UKSBA is concerned that, as incentives for waste derived biodiesel fall under the remit of four different departments—the Treasury, Defra, the Department for Transport and the Department for Energy and Climate Change—there is a lack of policy coordination and joined up thinking on support for the sustainable biodiesel sector. This has created an uncertain tax and regulatory landscape which acts as a barrier to investment in green jobs and growth and poses a threat to the future of the industry.

The UKSBA would like to see a wide ranging review on the best way to incentivise sustainable biodiesel, which would consider the right level of support. This could be Treasury led with input from the DFT, DECC and Defra, and should consider the effectiveness of the RTFO as well as the future of the duty differential, with a view to ensuring that the industry can continue to play its part in the UK's diverse renewable energy mix.

3. BIODIESEL FROM USED COOKING OIL: A CLEAN AND SUSTAINABLE FORM OF RENEWABLE ENERGY

There are around 250 million litres of UCO produced in the UK every year. The UK currently has no collection of UCO from domestic premises provided by a national body or by a majority of local authorities, and so a high proportion of this oil is disposed of down the drain or sent to landfill. Defra estimates that 150,000 blockages per year are caused by fat, oil and grease being poured into the drains, at cost to utility companies of £15 million per annum. Meanwhile, landfill sites produce 40% of the UK's methane emissions and 3% of the UK's greenhouse gas emissions.

Biodiesel manufactured from UCO is one of the most sustainable fuels available for transport and heat and power systems. Its use can reduce lifecycle carbon emissions by up to 90%. The use of UCO in biodiesel is already making a valuable contribution to meeting the UK's stringent renewable energy targets and is helping to reduce the amount of waste disposed of illegally or in an unsustainable manner. Some 34 million litres of biodiesel were manufactured from UCO sourced in the UK and then used in road transport in 2009/10, delivering a carbon saving of 82 million Kg of CO₂. With the potential to access 250 million litres of UCO in the UK, more can be done if the industry is given adequate support.

4. THE 20P FUEL DUTY DIFFERENTIAL FOR BIODIESEL PRODUCED FROM UCO

Currently, biodiesel produced from UCO enjoys a 20p per litre duty differential when compared to mineral diesel. In 2008, the Government announced that it intended to abolish this differential from April 2010. This was done, not out of economic considerations, but out of a fear that tax incentives for biofuels were encouraging deforestation, land use change and rising food prices in the third world. However, as a waste product, these concerns do not apply to biodiesel produced from UCO. Following an extensive campaign by the UKSBA, it was announced that the differential would continue until April 2012 for biodiesel produced from UCO.

The relatively modest cost of maintaining the tax differential for biodiesel made from UCO, estimated at some £10 million in the March 2010 budget, has provided excellent value for money and been successful in providing stability for the biodiesel industry. It has had the effect of: increasing UCO collections and driving the retrieval of other forms of waste; encouraging vehicle fleet managers using high blends of biodiesel to increase their use and so reduce transport emissions; and helping drive employment, research and the creation of a "green collar" skills base in a sector that is expected to be worth some £150 billion to the UK economy in the coming years.

5. THE RENEWABLE TRANSPORT FUELS OBLIGATION

The previous Government announced its intention to replace the duty differential with the Renewable Transport Fuels Obligation (RTFO), a scheme which obliges the larger fuel providers to source 5% of the fuel they use from biofuel by 2014 or buy out of the requirement by purchasing tradable certificates from biofuel suppliers. However, owing to the requirements of the Renewable Energy Directive, the RTFO is currently under consultation. Further EU reviews of the RED will mean more revisions of the RTFO up to 2014 and continuing uncertainty. A drafting error in the initial RTFO meant that an incorrect obligation level was set in 2008, causing certificates to trade at near zero value.

In its current consultation, the DFT has proposed to award double certificates to biodiesel made from waste. This is in order to meet the requirements of the RED that energy from waste be counted twice towards the UK's renewable energy target. However, certificates traded under the RTFO fluctuate in value, revenue streams are highly volatile and can be as low as zero—double nothing is still nothing. The market value of certificates is affected by a myriad of global factors, for example when obligated suppliers import biodiesel and bioethanol from countries where the fuels are subsidised to meet their obligation, rather than purchasing certificates in the UK.

In the last few years, certificates have been trading at well below expected value, and several UKSBA members have been unable to sell any certificates even through brokers and auctions. One member had certificates relating to production of over 3 million litres of biodiesel, but was unable to obtain any value for them from the obligated suppliers. Another member, who produces approximately 300,000 litres per month, was receiving £25,000 per month in 2008, but nothing at all in 2009, and went from profit to a loss on the production of biodiesel.

An additional impact for producers will be the proposal under the revised RTFO that certificates will only be able to be traded once they have been independently verified. This adds to producer cost, but also impacts cash flow as there will be several month delay on cash received to fulfil that requirement.

The uncertainty surrounding the RTFO makes long-term planning in the industry difficult and creates a lack of market certainty that discourages the capital investment and skills training necessary for renewable energy projects to get off the ground. Without the stability offered by the differential or a minimum certificate price, the investment climate and prospects for the biodiesel sector will be extremely challenging.

Although the proposal for double certificates is currently out to consultation, the consultation paper is very limited in its scope, focusing more on how we can meet the requirements of the RED rather than how the sustainable biodiesel industry can be best supported. The DfT states that the duty differential is a matter for the Treasury, and so is outside the scope of the consultation, while the Treasury has said that any representations on the RTFO are a matter for the DfT. This indicates that policymaking is not being carried out in a holistic manner in cases where environmental taxes cut across different departments.

6. THE DANGERS OF REMOVING THE FUEL DUTY DIFFERENTIAL

If the 20p fuel duty differential is removed in early 2012 the impact on obligated suppliers using less than 5% bio-fuel will be minimal. However, for high-blend users—captive fleets such as McDonalds, 3663 and the Environment Agency—who use much higher blends (up to B100), biodiesel will suddenly become 20% more expensive, and so more expensive than mineral diesel. These high-blend users, operating on a 2% margin, will not be able to absorb this huge increase in fuel costs and will be left with no choice but to abandon their green commitments and return to fossil-based fuels. With this fall in demand, the RTFO far from embedded, and with certificate prices fluctuating, many producers will come under cost pressures or close, shedding jobs and reducing the opportunities for practical skills and training in green skills, as demand for fuel expires. As there are no vehicle adjustments necessary for captive fleets, this could happen literally overnight.

This lack of certainty makes business planning impossible and denies the sector vital investment opportunities. In August 2010, the CBI estimated that the UK is missing out on some £150 billion of investment owing to a lack of policy certainty, and the Secretary of State for Energy and Climate Change, Chris Huhne, has said that the global, low carbon economy will be worth some £4 trillion by 2015 with 1 million people in the UK potentially employed in the sector by the end of the decade.

7. THE BENEFITS OF THE DUTY DIFFERENTIAL: EMPLOYMENT, SKILLS AND TRAINING

The production of and research into biofuels is a new and rapidly changing area. UKSBA members have built up considerable levels of green skills in the workplace, but with the removal of the differential, some 3,000 direct and indirect jobs could be lost over a five year period. The loss of these green collar and low carbon skills from a developing industry with much higher levels of research and development and training than most traditional industry sectors would seriously impede the development of the renewable energy sector in the UK.

7.1 CHEMISTRY SKILLS

The chemistry skills required to produce biofuels and meet quality standards is a complicated and developing area of expertise. Even chemists who have qualified in green and organic chemistry need to be trained for up to six months to operate an on-site laboratory. At present, all training is in-house within the private sector, with only general courses publicly available.

7.2 RESEARCH AND DEVELOPMENT

The methods of producing biodiesel and associated products are continually developing. Several companies have research and development arms which are looking to extend the associated products manufactured and types of feedstock capable of being processed into sustainable biofuels. This research is dependent on the cooperation of different organisations and the funding from profitable biodiesel companies to continue. If the duty differential is removed, many companies will no longer be profitable and research and potential advances in new technology will be lost.

7.3 BIODIESEL PRODUCTION

All production personnel in the biodiesel industry are required to undergo extensive training to produce biodiesel and understand the factors which affect the quality of production. Almost all employees involved in production are trained in-house as external courses are not available on the specific requirements of the industry.

This is unlikely to change any time soon as the specific requirements required by producers can vary dramatically from company to company. The full training of production staff will usually take six to nine months.

8. THE BENEFITS OF THE DUTY DIFFERENTIAL: REDUCING WASTE AND INCREASING RECYCLING

From an initial base of UCO collection, customers will often demand more extensive waste collection as part of their service—for example, glass, cardboard and food waste. In Cheshire, Cheshire East and Cheshire West local authorities are now offering waste oil collection vessels at their recycling centres for domestic customers to dispose of their waste cooking oil—a scheme which other local authorities are now expressing an interest in developing. The stability offered by the tax differential has created a platform for growth, which allows producers the certainty to invest in new services and respond to market demand.

9. THE BENEFITS OF THE DUTY DIFFERENTIAL: MEETING CARBON REDUCTION TARGETS

The UK is currently ranked 25th of the 27 EU member states in the production of renewable energy and the Public Accounts Committee have commented that meeting EU targets is “unacceptably slow”.

The Secretary of State anticipates that sustainable bioenergy, including UCO based biodiesel, could contribute up to half of the UK’s target of 15% renewable energy by 2020—a greenhouse gas saving of 20 million tonnes of CO₂ equivalent by 2020. He also states that sustainable bioenergy is vital to the UK’s security of supply, as bioenergy is one of the few renewables that can generate energy on demand.

The tax support offered to UCO based biodiesel is already working to achieve that aim.

10. THE BENEFITS OF THE DUTY DIFFERENTIAL: SMALL OUTLAY, BIG RETURNS

While the Treasury estimated the cost of the 20p fuel duty differential at £10 million per annum in the March 2010 budget, industry estimates in 2009 suggest that, as a result of enforced business closures, some £36 million in VAT, corporate and personal tax revenues could be lost each year if the differential was to be removed. Over the next five years, based on the planned increase in production capacity, the expected tax revenues lost to the Government could increase three-fold, meaning £100 million would be lost to the Treasury.

11. ABOUT THE UKSBA

The UK Sustainable Biodiesel Alliance is the representative body of the sustainable biodiesel industry, led by waste to energy company Convert2Green Ltd. UKSBA members produce biodiesel from Used Cooking Oil (UCO), widely recognised as one of the most sustainable forms of renewable energy, and must meet the Renewable Fuels Agency’s Qualifying Standard for sustainability, either for the biofuel they use or the biofuel they produce. Associate members must be either producers who have achieved the Qualifying Standard or better for a proportion of the biofuel they produce, and who are committed to achieving the standard for all their fuel, or organisations that actively support the use of sustainable biofuels.

The RFA Qualifying Standard is a carbon and sustainability reporting system for biofuels based on a full lifecycle analysis of emissions throughout the production chain. Fuels meeting the environmental standard must be sourced with regard to protecting biodiversity, carbon stocks, and soil, air and water quality. To meet the social standard, employers’ rights and land rights must be protected.

12. ABOUT THE UK BIODIESEL INDUSTRY

There are some 37 medium and large biodiesel producers in the UK using waste products such as UCO to produce fully sustainable biodiesel for use in transport and in heat and power generation. Customers include larger petrol companies who use low blend biodiesel, to large organisations such as the Environment Agency, McDonald’s and 3663, who run their captive vehicle fleets on high blends of biodiesel with mineral diesel. Power customers include NHS trusts, which use on-site micro generators, run on UCO based bio-fuels, to power their buildings. These customers are also able to become suppliers of renewable energy to the national grid.

Biodiesel producers create local employment opportunities and are developing the green skills vital to the UK’s low carbon economy, including green chemistry, research and development and specialist production skills. As customer demand for the retrieval of other waste streams increases, these skills are being adapted to drive future renewable energy development from waste, such as anaerobic digestion from food waste. In addition, producers are working with local authorities to set up waste oil collection and recycling centres for domestic households—a new service.

The majority of biodiesel producers are based in traditionally industrial areas of the UK. One example of a larger producer would be Argent Energy Ltd, based in Motherwell, Scotland, with a production capacity of 50 million litres per annum and employment of 88 people, while an example of a medium sized producer is Convert2Green Ltd, with a production capacity of 13.2 million litres and employing 30 people in Middlewich, Cheshire.

13. CONCLUSIONS AND RECOMMENDATIONS

The Government has expressed its desire to be the “greenest government ever”, increasing low carbon investment, making progress towards a greener tax base and using fiscal measures to drive behavioural changes that help to meet the UK’s environmental objectives and reduce carbon emissions. The sustainable biodiesel industry, which has been driven by the market certainty and stability of the duty differential, is currently playing a key part in meeting these objectives.

When considering the remit of the Environmental Audit Select Committee’s inquiry, the following conclusions can be drawn from the evidence submitted above:-

- The 2011 Budget does not further the Government’s green objectives. By adding an additional 20p per litre fuel duty onto the greenest and most sustainable form of renewable transport fuel, it threatens to cripple a nascent industry that is driving the way forward in promoting low carbon transport, green skills and growth, and a reduction in carbon emissions.
- Adding an additional 20p per litre fuel duty onto sustainable biodiesel directly contradicts the Government’s stated intention of shifting the burden of taxation from “goods” to “bads”.
- The removal of the differential not only fails to create a “modal shift” from high carbon transport to low carbon alternatives, but actually discourages such a behavioural change.

Going forward, the UKSBA believes the duty differential is the most simple, effective and transparent incentive for sustainable biodiesel producers in the UK. However, we are disappointed that the division of interest in sustainable biodiesel policy between the Treasury, Defra, the DfT and DECC continues to inhibit coordinated policy development, and that decisions on the best tax regime for the industry are not being taken due a lack of joined-up working between the Treasury and the DfT.

With this in mind, the UKSBA would therefore suggest that the Environmental Audit Committee make the following recommendations to the Government:-

- The Government should commission a Treasury-led, wide ranging review of sustainable biodiesel incentives, which seeks to identify the role that waste derived biofuels can play in the UK’s renewable energy policy and the right form and level of incentives for the industry.
- This review would encompass stakeholders from the DfT, Defra and DECC and consider the effectiveness of the RTFO alongside the future of the duty differential.
- To provide stability following the implementation of the new RTFO in December 2011, the Government should consider an extension of the differential beyond April 2012 until the new RTFO has had a chance to prove itself as a viable support mechanism for the industry.

19 April 2011

Written evidence submitted by the Nappy Alliance

EXECUTIVE SUMMARY

- One of the goals of the Government’s environmental policy should be to encourage a reduction in the amount of waste sent to landfill, and an overall reduction in levels of waste produced. Landfill tax, including the increase included in Budget 2011, helps to achieve this goal but is not enough on its own.
- This could be improved in a number of ways including considering the communication of green taxes, the consideration on individual initiatives to improve waste management, and the consideration of further taxes on waste producing products.
- The aim of Government action, including on green taxes, should be to encourage the best environmental behaviour, not simply behaviour which is slightly better than the worst behaviour.

INTRODUCTION

1. The Nappy Alliance is the trade body for the re-usable nappies industry. It was set up in 2003 by independent providers and distributors of re-usable nappies to promote awareness of the key benefits of re-usable nappies, which include waste reduction, improved well being for babies and significant cost savings for parents and local government.

2. Re-usable, or real, nappies are nappies that are washed and re-used, reducing both waste and cost. A recent Mintel report found that 5% of parents chose re-usable nappies.¹¹ Given the waste reduction that can be achieved through the use of re-usable nappies this means there is a lot of scope to reduce the amount of household waste produced by increasing the use of re-usable nappies. This also has financial implications for local authorities: figures show that if a 10% conversion rate from disposable nappies to re-usable nappies were achieved across the UK, this would equate to Local Authority savings of up to £9.2 million per annum.

¹¹ Mintel, Nappies and Baby Wipes UK, August 2010

3. This submission to the Environmental Audit Committee focuses on the impact of environmental taxes included in Budget 2011, particularly landfill tax, in encouraging the minimisation of waste. It also examines whether there is potential to further encourage environmentally friendly behaviour, for example through taxes on disposable products.

The benefits of re-usable nappies

4. Re-usable nappies have many benefits over disposable nappies:

- 5. **Costs to local authorities:** waste collection and disposal is a significant cost burden on local authorities, who spend approximately £22 billion per year on this in England,¹² according to figures from the Chartered Institute of Public Finance and Accountancy. Waste reduction, therefore, offers an excellent opportunity for cost savings in local government. This, again, means prioritising waste minimisation and re-use, as the less waste is produced, the less it will cost to manage. If a 10% conversion rate was achieved across the UK, figures show that this would equate to local authority savings of around £10 million per annum.
- 6. **Environmental protection:** Using re-usable nappies, as opposed to disposable nappies, can have a significant positive impact on the environment by reducing the amount we throw away. Nearly three billion disposable nappies are thrown away every year—around eight million per day—making up almost 4% of all household waste, which adds to the UK’s landfill site problems.
- 7. There are a number of problems with relying on landfill to dispose of waste: it represents an excessive use of land and is a potential source of water pollution; landfill produces environmentally harmful greenhouse gases and accounts for 38% of total methane emissions, and, according to the Environment Agency, the decomposition timescale for some of the materials and chemicals used in disposable nappies is more than 500 years.
- 8. Re-usable nappies can have a much wider positive environmental impact, as shown in the Environment Agency’s 2008 revision of their Life Cycle Analysis Report on Nappies. The report showed that re-usable nappies can be up to around 40% better for the environment than disposable nappies.
- 9. **Climate Change:** The fact that re-usable nappies can reduce the amount of material which is put into landfill also has positive effects in helping to reduce climate change due to the reduction in the amount of methane produced.
- 10. **Compliance with EU legislation:** Not only are re-usable nappies more environmentally friendly, they are also aligned with the priorities of the revised EU Waste Framework Directive—the document which sets the ground rules for waste management across Europe.
- 11. At the heart of the Directive is the waste hierarchy, which the provisions of the Directive state should act as a priority order in waste prevention, legislation and policy. The hierarchy includes five priority levels:
 - Prevention
 - Preparing for re-use
 - Recycling
 - Other recovery—including energy recovery
 - Disposal.
- 12. The waste hierarchy calls for waste prevention to be the top priority of Government policy and legislation, with preparing for re-use the second priority. Re-usable nappies prevent waste and are re-used—they can even be kept and used for future children or bought second hand—the two top priorities for waste management. In contrast, disposable nappies are poor fuel for incineration and are therefore mainly disposed of, the last of the options in the hierarchy.
- 13. **Costs to parents:** Re-usable nappies can save parents up to £600 per child¹³ compared to disposable nappies. The savings per child can be even greater if the nappies are re-used for a second child.

Does Budget 2011 further the Government’s green objectives?

14. Budget 2011 is partially supportive of the Government’s environmental objectives (and European obligations) in terms of providing an incentive to reduce the amount of waste which is sent to landfill. The budget confirmed that the Government will increase the standard rate of landfill tax by £8 per tonne to £64 per tonne on 1 April 2012, as originally announced in June 2010. This will continue until at least 2014–15, by which point the cost will have reached £80 per tonne. This clearly provides an incentive to local authorities to reduce the level of waste which is sent to landfill, whether through waste prevention, increased recycling, or greater use of methods such as anaerobic digestion.

¹² CIPFA Finance and General Statistics 2008–09

¹³ According to figures from “What Mums Really Want”, commissioned by Lifecycle Marketing, publishers of Emma’s Diary, and conducted by independent research company Mum’sViews.

15. However, while landfill tax provides a disincentive to send waste to landfill, it does not make any distinction between activities at different levels of the waste hierarchy above landfill. In terms of avoiding landfill tax, the financial benefits to councils are the same whatever they do to decrease waste to landfill. Our concern is that there is too high a focus on activities such as recycling, rather than the prevention of waste in the first place. As mentioned above, waste prevention should be the highest priority in waste management, from a legal, financial and environmental point of view, yet it is often neglected in favour of recycling—whether this is through compulsory recycling schemes, such as in the London Borough of Barnet, or recycling incentive schemes, such as in Windsor and Maidenhead. The latter can actually actively discourage waste prevention, as incentives are provided on the basis of the volume of waste recycled.

16. Furthermore, waste prevention tends to be neglected in the general political and media debate around waste management, with recycling once again prioritised as the main issue.

17. So while the increase in landfill tax goes some way to encouraging environmentally friendly behaviours, it does not encourage the *most* environmentally friendly behaviours.

Factors which need to be considered when designing environmental taxes

18. The increase in landfill tax places the increased financial burden for disposing of waste on local authorities, rather than on the individuals who are responsible for generating household waste. Sending increased waste to landfill does obviously have implications for council budgets, and therefore on council tax bills and the ability of local authorities to provide other services. However, this is not always communicated to residents, who may not understand why they are being asked to prevent waste or recycle more, and may see this activity as unnecessary interference in their home life. Greater efforts need to be made by local authorities to communicate to local residents about the reasons why certain policies may be desirable, and how they are likely to be beneficial to the local area.

19. In addition to this, environmental taxes could be designed in a way which better reflects the impact of individual choices on the environment. As an example, there could be a one pence tax on product which produce a high level of waste, such as disposable nappies, especially where a re-usable alternative exists. As well as raising money which could be invested in waste prevention initiatives, this would also increase the financial attractiveness of re-usable alternatives. Similar approaches have proven very effective in other countries to encourage the use of re-usable shopping bags instead of plastic bags, for example. This would also make people more aware of their environmental choices, and place the financial burden of disposing of waste on those producing the waste, in line with the principle of “the polluter pays”.

CONCLUSION AND RECOMMENDATIONS

20. While the environmental taxes in the budget, particularly landfill tax, are helpful in nudging environmental policy in the right direction, there is more that could be done to encourage behaviors such as waste reduction. We would make the following recommendations for the Committee to consider:

- When designing green taxes, the Government should consider how they can encourage the best environmental behaviour, not simply reduce the worst behaviour.
- Government and local authorities should consider how they communicate with people about the reasons why green taxes have been introduced, so that they are better understood and more widely supported.
- Government should consider a one pence tax on waste producing products, particularly where a waste minimising alternative is available.

19 April 2011

Written evidence submitted by B9 Coal

1. ABOUT B9 COAL

1.1 B9 Coal is developing game-changing projects in the field of carbon capture and storage, combining coal gasification with highly efficient alkaline fuel cells from AFC Energy to create first-of-a kind Integrated Gasification Fuel Cell (IGFC) power stations.

1.2 AFC Energy’s alkaline fuel cell achieves 60% electrical efficiency and operates at low temperature and low pressure. The system has been designed for commercial application and is therefore low-cost (the company has eliminated the need for precious metals) and easy to manufacture and maintain. In addition, the use of hydrogen allows the system to load follow to meet peak energy demand.

1.3 With hydrogen as the feed-stock, fuel cell power stations are not only highly efficient and flexible in output, they are also fuel flexible. The system has the ability to switch between and mix hydrogen produced from coal, gas, biomass and electrolysis sources. Such characteristics offer strategic energy security benefits in terms of utilising potential UK coal resources as well as the ability for grid balancing and back-up for intermittent sources of renewable electricity.

1.4 B9 Coal's pursuits have been underpinned by a strategic partnership undertaken with Linc Energy, the world leader in underground coal gasification. UCG technology potentially gives access in the UK to an extra 17 billion tonnes of coal without the major environmental impacts of conventional mining.

1.5 In October 2010 B9 Coal announced a partnership with Powerfuel Power Limited, outlining plans to incorporate AFC Energy's alkaline fuel cell at Powerfuel's Hatfield site. The Hatfield project is among the most advanced CCS projects in Europe and has been entered for the European Union's NER 300 funding mechanism for new renewable and CCS projects.

2. B9 COAL AND BUDGET 2011

2.1 B9 Coal supports the concept of taxation as a means of delivering a sustainable low-carbon economy by 2050. However, taxation must be coupled with effective regulation and support to ensure a swift and smooth transition to a decarbonised power generation sector by 2030.

2.2 Budget 2011 included some positive elements for B9 Coal and CCS deployment in general. We welcomed the commitment to fund demonstration projects 2–4 through the Department of Energy and Climate Change's competition. Other positive provisions included the establishment of the Green Investment Bank which will begin operations in 2012 with a tripling of initial capitalisation funds, and the introduction of a carbon floor price which will underpin low-carbon energy generation in the UK.

2.3 On CCS, the decision to fund the demonstration projects from general expenditure has provided the industry with clarification on Government commitment. However the coalition's decision to fund demonstration schemes through general taxation rather than a specific CCS levy could affect the "investability" of CCS; the provision of a CCS levy could have contributed to increased investor confidence in this novel industry. Furthermore, this choice of funding may not enamour public opinion to a development which could have otherwise been self-funded through a CCS levy or similar mechanism. The general public are being faced with massive cuts to public finances and have seen spending reduced in areas such as benefits, healthcare and education, making the decision to fund a relatively new technology difficult to stomach. Government must therefore work to enhance public awareness on CCS and other low-carbon energy technologies, in order to limit the potential for future delays in deployment.

2.4 The establishment of the Green Investment Bank will leverage an extra c. £18 billion in financing for green initiatives, however this will have a relatively small impact for an industry said to need between £200–£450 billion investments by 2030 in order to meet Government carbon reduction targets.

3. BUDGET 2011 AND FURTHERING THE GOVERNMENT'S GREEN OBJECTIVES

3.1 Budget 2011 made significant provisions for green innovation and the green economy, however it is difficult to say whether the budget provisions will significantly further the coalition's green objectives. It is noteworthy that these measures have been introduced in light of cuts taking place across the public sector which highlight the Government's commitment to addressing the issues of climate change and energy security in the UK. However, as regards CCS the funding for this "crucial" technology has been rendered less bankable to investors as a result of what can be termed a variation in Government accountancy arrangements.

3.2 Approaches to shifting the burden of taxation from "goods" (eg labour) to "bads" (eg emissions) and factors that need to be considered when designing and introducing green taxes.

3.3 It is vital that such a shift in taxation does not result in windfall profits for nuclear and existing renewable generators; the ultimate purpose of this form of taxation should be to incentivise the development of a low-carbon economy. However, the Government must ensure that the burden of any new tax does not adversely affect those who cannot afford it, ie consumers. Fuel poverty is a key issue to be addressed in this regard, and the Government must take the necessary precautions to maintain access to affordable fuel for low-earners. Environmental taxes should be structured in such a way as to incentivise investment in green energy. The Government must be cautious and avoid an investment hiatus in this sector or carbon leakage abroad.

3.4 It is vital that the Government employs the right balance of mechanisms to achieve its environmental and social objectives. Combinations of regulatory and fiscal measures are necessary in this regard (ie taxes plus emissions ceilings).

4. THE IMPACT OF THE TAXATION SYSTEM IN GENERAL ON SUSTAINABLE DEVELOPMENT

4.1 The taxation system must provide small and fledgling enterprise and industry with the necessary incentives to develop; this may be in the form of lenient taxation or general support and advice mechanisms. Low-carbon energy is an essential area for growth, and the UK must take advantage of its competitive advantage in this regard. It is essential that the UK supports the green economy and avoids forcing green innovation to relocate abroad to more favourable research and investment climates.

4.2 Taxation goes hand in hand with regulation. This should include the provision of well-balanced measures which ensure regulatory and fiscal constraints are not too stringent and do not risk suffocating the system. The taxation system for sustainable development should be progressive with the high tax burden being placed on

those with the ability to pay, ie large industry players. Such a system would essentially supplement the work of valuable programmes such as the CRC Efficiency Scheme and the EU Emissions Trading Scheme.

5. THE PLAN FOR GROWTH

5.1 The ambitions outlined by the Government in HM Treasury's Plan for Growth are crucial for encouraging the development of an innovative green economy in the UK. The document's focus on innovation, research and support for new and small businesses is essential for the development of a sustained and prosperous energy sector throughout the 21st century. The introduction of the carbon floor price and the establishment of a Green Investment Bank are valuable additions to the Government's green portfolio, however it must be emphasised that further action will be necessary in order to leverage the £200–£450 billion private sector investment that this industry will need to meet legally binding emissions reduction targets.

5.2 As a small company employing pioneering technologies in its projects, B9 Coal would favour further support from Government to share the risk-burden placed on fledgling industries such as ours. It is therefore central to this issue that policy-makers understand the liability which is unfairly being placed on entrepreneurs across the green energy sector, especially given the potential of enterprises such as B9 Coal to develop efficient power generation technologies at home in the UK to the benefit of the entire UK economy.

5.3 B9 Coal would favour the introduction of fiscal measures designed to incentivise investments in sustainable energy and clean technologies which will further the development of a low carbon energy sector.

5.4 The UK has real green growth potential due to its strategic advantage over other countries and regions (with regard to location, resources, skills etc.) and must ensure this opportunity is not lost. Without Government incentives for investment in this area there is a likely risk that advanced technologies and enterprises could relocate abroad to more favourable investment and regulatory climates. In light of the UK's reduced competitiveness in recent years the alternative energy sector could provide us with the opportunity to regain economic prominence and compete with emerging economies such as China who are excelling in this field. B9 Coal is a British company utilising AFC Energy's British technology in the effort to tackle climate change. This enterprise will provide employment opportunities in its operational and manufacturing pursuits as part of wider economic expansion in the United Kingdom.

5.5 It will therefore be fundamental that Government policy is formulated in such a way as to ensure the right projects are financed as part of the coalition's green growth plans. It must ensure that this funding is not open to abuse and utilised in the financing of generic forms of private enterprise which will not impact on development of this crucial industry.

6. GREEN INVESTMENT BANK

6.1 B9 Coal welcomes Budget 2011's announcement on the establishment of the Green Investment Bank with an advanced date of operations. The GIB cannot be commented on in detail until its structures have been further defined. However, this is a positive step taken by the Government and has been underpinned by increased funding and a commitment to the speedy introduction of capitalisation and loaning capabilities.

7. CONCLUSION

7.1 To conclude, B9 Coal welcomes the provisions included in Budget 2011 and the Plan for Growth which indicate Government commitment to the further development of the UK's alternative energy sector. However, we would warn against the Government becoming complacent in the context of budget cuts across the public sector, and would like to emphasise the need for accelerated action with regard to low carbon power generation.

7.2 The UK has signed ambitious emissions reduction targets into law as part of the Climate Change Act, and has therefore taken a driving seat in the global action to tackle climate change and its associated effects. It is therefore vital that the UK Government backs up these actions with a fiscal and regulatory system capable of incentivising investment and development in the green economy.

20 April 2011

Written evidence submitted by the Campaign to Protect Rural England

EXECUTIVE SUMMARY

1. The Campaign to Protect Rural England (CPRE) is concerned that the proposals set out in *The Plan for Growth*, which was published alongside the 2011 Budget, are incompatible with commitments set out in the Coalition Agreement that the Government will be the "greenest ever" and will "radically reform the planning system to give neighbourhoods far more ability to determine the shape of the places in which their inhabitants live."

2. In its inquiry into the environmental impact of the Budget we suggest that the committee considers how the Government will deliver on these promises, particularly in relation to the following points:

- Recognition of the critical role of planning in delivering long term, sustainable economic growth while also promoting environmental and social goods must not be lost in a rhetoric of the planning system as a “barrier to growth”;
- Any presumption in favour of sustainable development must be based on a sound definition of “sustainable development”, and this presumption must not override the plan-led system of development;
- The commitment to continued protection of the Green Belt and Areas of Outstanding Natural Beauty (AONBs) is welcome. The abolition of the target for housing development on previously-developed land, however, combined with incentives for development that do not favour quality and need, could seriously undermine protection of non-designated, yet still valued, green space;
- The Budget implies that the role of the planning system is to deliver jobs and economic growth. It is unclear how this can be reconciled with its role of economic, environmental and social objectives.

INTRODUCTION

3. CPRE welcomes the opportunity to submit evidence to the Environmental Audit Committee’s inquiry into the Budget 2011 and Green Taxes. As a leading environmental charity, we have worked to promote and protect the beauty, tranquillity and diversity of rural England by encouraging the sustainable use of land and other natural resources since our formation in 1926.

4. CPRE champions the role of planning in protecting the environment while securing appropriate development and effective local involvement. We welcomed the Coalition’s original aspirations for planning reform, which recognised the importance of involving people in local decision-making, but are deeply concerned by the package of planning reforms announced in the Budget, which suggest that some in Government have a confused view of the role and value of the planning system.

HOW POLICY PROPOSALS IN THE PLAN FOR GROWTH WILL AFFECT SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PROTECTION

5. CPRE believes that, to be sustainable, future economic growth must remain within environmental limits, acknowledging that natural resources including land and landscape are finite. We welcome therefore the commitment included in *The Plan for Growth* to the continued protection of Green Belt land and AONBs.

6. This commitment was accompanied, however, by a series of statements that threaten seriously to undermine the ability of planning decision-makers to take into account environmental and social considerations as well as economic ones. CPRE believes that these statements arise from the misconception, articulated repeatedly throughout the Budget speech itself and the accompanying literature, that the planning system acts as a barrier to economic growth.

7. For example, a Written Ministerial Statement by the Minister for Decentralisation, Greg Clark MP, published on 23 March, stated “there is a pressing need to ensure that the planning system does everything it can to help secure a swift return to economic growth”. This statement represents a fundamental shift from the planning system as a mediator between economic, environmental and social priorities to one focused on delivering economic growth alone. And such a shift is contrary to existing planning legislation which states that the objective of the planning system is to contribute to achieving sustainable development.¹⁴ Much about the ongoing reform of the planning system is still to be clarified by the Government, and we recommend that the Committee considers how the environmental objectives of planning are not lost in a push for short term, unsustainable economic growth.

8. CPRE believes that, on the contrary, for over 60 years the planning system has operated as a democratic process that advances public, not sectional, interests by mediating between different aims; local and national, economic, environmental and social, short-term and long-term. In doing so the planning system has successfully delivered sustainable development. It has played a crucial role in protecting the countryside from inappropriate development and in securing the holistic regeneration of urban areas.

9. The Budget proposes that to resolve the, we believe misconceived, “problem” of an overly obstructive planning system, the Government will “introduce a new presumption in favour of sustainable development, so that the default answer to development is ‘yes’”. CPRE welcomes the qualification that this development must be sustainable. We suggest therefore that to provide greater certainty for all, and to identify the common goal towards which all participants in the planning process should be working, the Committee should reiterate the

¹⁴ S.39 Planning and Compulsory Purchase Act 2004

recommendation made in its recent short report, *Sustainable Development in the Localism Bill*, and recommend to Government that it enshrines in the Bill a short definition of sustainable development using the principles set out in the UK Sustainable Development Strategy. These principles are:

- (i) living within environmental limits;
- (ii) ensuring a strong, healthy and just society;
- (iii) achieving a sustainable economy;
- (iv) promoting good governance; and
- (v) using sound science responsibly.

10. Even a sound definition of sustainable development must not override the presumption in favour of the development plan that is currently defined by planning legislation.¹⁵ This presumption allows for a “plan, monitor, manage” approach to development, meaning that development is delivered in response to evidence of need. Such a strategic approach protects the countryside from ad hoc, unnecessary and unsustainable development. We recommend that the Committee explores how a sound presumption in favour of sustainable development could be reconciled with the established plan-led system of development.

11. The Budget also included the abolition of a national target for the proportion of new housing to be delivered on previously-developed land. The justification for the abolition of this target, as included in *The Plan for Growth*, is that it has “helped to drive up land prices in certain areas and would increasingly limit the supply of new housing, which would harm first time buyers in particular”.

12. CPRE believes that one of the biggest environmental successes of recent years has been the regeneration of many of our urban areas due to development being targeted towards “brownfield” sites, and that this has also protected vast swathes of countryside from unnecessary development. As a result of the previously-developed land target introduced to Planning Policy Statement 3: *Housing* (PPS3) by the previous Labour Government 80% of new homes built in 2009 were on previously-developed land. This is as opposed to 56% on previously-developed land in 1997.

13. CPRE believes that the loss of a target for development on previously-developed land, combined with the use of incentives to encourage development regardless of quality or need, could seriously undermine the ability of the planning system to direct the right kind of development to the right places, with potentially seriously damaging consequences for the countryside.

14. While the commitment in the Budget to the continued protection of the Green Belt and AONBs by the planning system is to be welcomed, CPRE is extremely concerned about the level of protection that will be afforded to non-designated green space in the wake of the abolition of the previously-developed land target and the implementation of development incentives. This “ordinary” countryside makes a profound difference to well-being and must not be disregarded. While supporting the inclusion of empty home refurbishments within the scope of the New Homes Bonus incentives scheme, we strongly question whether the Government’s policies are strong enough to promote urban regeneration and a brownfield first approach to development.

THE IMPACT OF THE TAXATION SYSTEM IN GENERAL ON SUSTAINABLE DEVELOPMENT

15. In particular, we would have welcomed some consideration of equalisation of VAT on house refurbishments and new build. Such a change, we believe, would provide a significant fiscal incentive for both individuals and business to invest in bringing empty homes back into use, and thereby complement the New Homes Bonus, which is not weighted towards rewarding environmentally sensitive house building. In place of fiscal incentives, we look to the forthcoming National Planning Policy Framework to give clear guidance to local authorities that they should prioritise refurbishment of existing empty dwellings and development on brownfield sites.

CONCLUSION

16. CPRE recommends that, in considering all of the issues described above, the Environmental Audit Committee addresses in particular how contradictions in commitments to environmental health, economic growth, local involvement in planning and the perpetuation of a plan-led system of development might be reconciled.

20 April 2011

¹⁵ S.38 Planning and Compulsory Purchase Act 2004

Written evidence submitted by The Environmental Industries Commission

BUDGETARY KICK-START FOR A GREEN ECONOMY

THE ENVIRONMENTAL INDUSTRIES COMMISSION

The Environmental Industries Commission (EIC) was launched in 1995 to give the UK's environmental technology and services industry a strong and effective voice with Government.

With over 230 Member companies EIC has grown to be the largest trade association in Europe for the environmental technology and services (ETS) industry. It enjoys the support of leading politicians from all three major parties, as well as industrialists, trade union leaders, environmentalists and academics.

The EIC and its members work to provide solutions to meet environmental standards set by government legislation. We work with government to strengthen the UK's policy framework. This work ensures that the Government's intentions to put the economic benefits of environmental protection at the heart of its plans for growth. This framework ensures that the government's environmental targets are realised and the UK have cleaner air, water and land.

We the Environmental Industries Commission (EIC) and its 230 member companies are delighted to have the opportunity to submit our proposals for 2011 Budget to the Chancellor of the Exchequer.

We have followed the government's progress on being the "greenest government ever" we would like to congratulate on some good initiatives. We will be watching out for more.

The EIC believe that the UK needs a new approach and new thinking to create sustainable jobs and low carbon resource efficiency which will save the economy money and protect our environment.

Today we have an opportunity to shape a new economy that is driven by industrial processes which are low carbon and resource efficient, and protect our environment. The fundamental logic of this "new economy" must be for ecological sustainability—an argument endorsed only this month by the UN report "Towards a Green Economy".

To do this the government must rectify the major market failure of unpriced environmental costs and benefits—thereby reconciling the free market economy with the environment. We need above all a strong and robust economic-environmental policy framework that rectifies this market failure by putting a cost on pollution, thereby encouraging finance and investment in low carbon resource efficient industrial operations and supply chains.

Our Pre-Budget report highlights a few areas where we think the Chancellor must focus if we are to build a "green economy and create jobs". We and our members look forward to working with the government and to support them in their efforts.

INTRODUCTION

The Government must put green jobs creation at the heart of the 2011 budget if it is to establish an international leadership role for UK business in the global economy of the future.

The Budget is the first opportunity for the Coalition Government to lay the foundation for a fundamental shift in our economic model so that future economic wellbeing and competitiveness is based on protecting the environment, not destroying it. This is not only the defining challenge of the coming decade, but the defining business opportunity.

The global environmental market place is currently worth £3.2 trillion and is growing at over 5% a year. The UK's environmental industry is currently valued at £112 billion and employs just fewer than one million people. Its continued success will be engine of growth on which the future of the UK economy depends.

The Environmental Industries Commission's 2011 Budget proposals set out a series of recommendations for how the 2011 Budget can exploit this huge business opportunity and help establish a world-leading environmental technology and services industry in the UK—with thousands of new businesses, hundreds of thousands of new jobs and huge export potential—at a low cost to the Treasury.

In 2009, George Osborne highlighted the need to "bring to an end the stale argument that we have to choose between economic growth and the environment." Indeed, he went on to argue that "the Treasury should put a fair and predictable price on environmental externalities... An externality is an impact that is not fully reflected in the economic costs or benefits of a transaction or process. A classic example of a negative externality is a polluting factory that does not have to bear the full cost of the damage it's causing to the environment... The role for the Treasury is to ensure that these externalities, whether good or bad, are properly priced into the cost of doing things."

This was a welcome commitment. These words were said in opposition, but we would very much hope that we now see evidence of this thinking in Government. Rhetoric must be replaced by action both in the forthcoming budget and wider HM Treasury policy.

A vital first step will be taking action to correct the huge market failure that continues to allow the exploitation of our environment. When we emit greenhouse gases, or our vehicles emit harmful air pollutants, or our factories discharge harmful pollutants to our rivers and seas, the market does not bear the true cost of the damage caused. The only way to correct a market failure is to adopt policies that ensure environmental damage is translated into immediate price signals. Putting a fair and predictable price on environmental damage means developing market mechanisms that price in the true environmental costs of doing business.

THE UK NEEDS TO SET A PRICE ON POLLUTION

In the past the UK has missed countless opportunities to put an effective price on pollution through the tax regime and, therefore, done little to encourage investment in environmentally sustainable behaviour. By reforming fiscal measures to put a price on pollution and better reward environmentally sustainable behaviour, at the same as facilitating innovative funding mechanisms such as Tax Increment Financing, the Government could provide much needed support to the UK's high growth environmental industries. This will help drive investment in new green businesses, help create new jobs and put the UK at the forefront of a £3 trillion global market place for environmental goods and services.

David Cameron recently highlighted that “if government put a realistic cost on pollution and waste, it... would force whole industries to change in order to survive... That's why a future Conservative Government will put a real price on pollution and waste in our economy—and one that is here to stay.”

The 2011 Budget is the Government's first opportunity to embrace low carbon and sustainable growth and put an appropriate price on pollution. By doing this the Government can harness the power of markets to find effective, efficient and equitable responses to the environmental challenges we face.

EIC believe that the 2011 Budget must support the UK's environmental industry through targeted fiscal incentives for green technologies; innovative funding mechanisms such as Tax Increment Financing; and mobilising private sector investment through a Green Investment Bank.

These fiscal support measures should be supported with the launch of an Environmental Industrial Strategy setting out how Government Departments can help establish a world leading environmental industry in the UK.

Of over-riding importance, if the Government is to provide the confidence it acknowledges businesses need to invest in environmentally friendly goods and services, is the urgent need to put in place a long-term, ambitious environmental policy framework right across the economy. Without this, business will not have the confidence to invest in the technological solutions to the range of environmental problems we face, leaving our international competitors to seize huge new environmental markets.

David Cameron has acknowledged that environmentally friendly goods and services “take time and money to research, develop and invest in. And businesses will only put in that time and money if they are confident that there will always be a place for these products in the market.”

The 2011 Budget is the Government's first opportunity to show that it is serious about leading a “green technology revolution, creating jobs and new businesses across the country.”

Unless urgent action is taken to secure these environmental and sustainability investment opportunities for British business, countries such as Germany, the USA, Japan and Korea—whose governments are continuing to put in place ambitious support measures for their environmental industries—will steal the march on the UK. This would be disastrous for our international competitiveness.

1. *A Green Investment Bank*

EIC welcomes the Government's commitment to create a Green Investment Bank. It is crucial that the Bank is given a broad remit to invest in the whole of the UK's environmental industry.

If the Bank's mandate is limited to the low carbon sector the UK will risk forfeiting the huge investment opportunities that exist across the whole of the environmental sector—notably in the traditional environmental technology and services industry.

The GIB is about building confidence for the markets so they unlock finance and invest in environmental technologies. The GIB must be the finance mechanism that supports industry exploiting the positive synergies between environmental protection and economic growth.

We therefore believe that the GIB should not be a fund but a fully operational commercial bank that can raise money (eg through “Green ISAs”).

EIC has established a Green Investors Strategic Policy Group of leading private sector investors to look at how the Government can boost private sector investment in environmental solutions. It will explore ideas such as an Environmental Investment Tax Credit (similar to the Community Investment Tax Credit available to individuals and corporate bodies investing in accredited community development finance institutions which then in turn provide finance to qualifying profit-distributing enterprises, social enterprises or community projects).

2. Environmental Tax Incentive Financing

EIC believe that the 2011 Budget should launch a new Environmental Tax Increment Financing model to finance local environmental infrastructure, including:

- (i) Low and zero carbon public buildings:
 - (a) Energy efficiency retrofitting of low-income family homes.
 - (b) The construction of low carbon social and affordable homes (on brownfield land).
 - (c) Energy efficiency retrofitting of public buildings, such as schools and hospitals.
- (ii) The redevelopment of Brownfield land.
- (iii) The construction of new waste infrastructure.
- (iv) The implementation of Sustainable Urban Drainage systems.

3. Targeted Incentives for Energy Efficiency, Land Remediation, Waste Management, Transport Pollution Control and Water Management

EIC believe that the 2010 Budget is valuable opportunity for the UK to show leadership in stimulating the economy through support for the high-growth environmental technologies and services sector.

Below we have set out a series of targeted fiscal and monetary incentives that EIC believe would facilitate investment in green technologies. EIC believe that these measures should be primarily financed by applying the “**polluter pays principle**.”

A. Incentivising Energy Efficiency

Ambitious carbon and energy management policy that drives vast improvements in energy efficiency—and therefore makes a full contribution to meeting the UK’s climate change targets—will help position the UK as a global leader in provision of energy efficiency technologies and services. Establishing this technology and skills base in the UK will help create new business and, potentially, thousands of new jobs.

If the UK is successful in establishing a domestic market for energy efficient solutions, we will start to see other Governments around the world adopt similar measures. And as they do, UK business will be ready to respond to the increasing demand for their skills and technologies—creating new business opportunities for the UK across the world.

Whilst EIC welcomes the Government’s commitment to energy efficiency we still need far greater ambition from Government if we are to fulfil the full potential for energy efficiency improvements right across the economy.

EIC believe that the 2011 Budget should incentivise energy efficiency improvements across the economy by:

- (i) Increasing the ambition of the Carbon Reduction Commitment by:
 - (a) Reducing the coverage threshold from 6,000 MWh to 3,000 MWh.
 - (b) Ensuring a higher price for allowances.
- (ii) Improving the Enhanced Capital Allowances scheme by:
 - (a) Introducing an “open competition” for new technologies to be added to the energy technology list.
 - (b) Increasing the values of ECAs to 150% for the most innovative technologies.

B. Supporting Land Remediation and Brownfield Development

In 2007 there were an estimated 62,130 hectares of previously developed land in England alone. Local planning authorities have estimated that 26,510 hectares (43%) of this is potentially suitable for housing and could provide around 1,051,000 dwellings. Given the UK’s ambitious house building targets, EIC believe that it is vital that development of these sites continues to be viable and that we retain the skills to deal with the challenges they bring.

The UK’s contaminated land sector is worth £1 billion a year and employs almost 8,000 people. The sector is expected to grow by almost 3.5% per year between now and 2015, with the number of jobs expected to increase to 10,000 over the same period.

EIC calls on the 2010 Budget to support the redevelopment of brownfield sites by:

- (i) Urgently improving the Land Remediation Relief by:
 - (a) Allowing developers to claim in year of spend.
 - (b) Extending the Land Remediation Relief.
 - (c) Change the definition of long term derelict.
 - (d) Allow the Landfill Tax Exemption for asbestos; and
 - (e) Allow the transfer of the Landfill Tax Exemption.
- (ii) Using Tax Increment Financing to help local authorities to develop brownfield land.

C. Using Waste as a Resource

As a society, we currently consume natural resources at an unsustainable rate. Reducing waste can make an important contribution to achieving sustainability. Waste can be reduced by using fewer natural resources, and by re-using products and recycling the materials in them.

The waste hierarchy sets out an order of preference for waste management policy—reduction, reuse, recovery, and disposal. Where waste minimisation has reduced the waste stream to the extent practical, and recovered materials are reused or recycled, EIC believe that it is preferable to recover energy from residual waste rather than dispose of it.

Disposal to landfill should only be necessary for small amounts of residual material. EIC therefore welcomes the decision to extend the landfill tax escalator to 2014 (and to introduce a “floor” price of £80 per tonne).

EIC believe that the Government should ensure that Defra’s new review of waste policies adopt a policy and regulatory framework across the waste hierarchy that facilitates a rapid move away from a linear process of resource extraction, manufacture, consumption and disposal towards a “closed loop” economy where resources remain in use.

EIC believe that sustainable waste management should be supported in the 2011 Budget by:

- (i) Maintaining a landfill tax escalator in excess of £80 per tonne beyond 2014 (at a minimum through inflation-linking of the landfill tax “floor” price);
- (ii) The use of Tax Increment Financing to allow local authorities to invest in new waste infrastructure;
- (iii) Minimising virgin material use through the introduction of new fiscal incentives such as reduced VAT for the use of reused materials and a Virgin Materials Levy.

D. Improving Public Health by Incentivising Transport Pollution Control

Poor air quality is estimated to reduce the life expectancy of every person in the UK by an average of seven to eight months—impacting particularly on children, the elderly and those in poor health. According to recent estimates, poor quality results in more than 32,000 premature deaths in the UK each year. Road transport is one of the most significant contributors to poor air quality. This problem is significantly worse in hotspot problem areas, such as cities.

EIC believe that one of the most effective ways to meet the UK’s air quality obligations is through targeted programmes focused on cleaning up the most polluting vehicles. These areas will continue to suffer from poor air quality unless measures are implemented at a local level.

EIC calls on the 2011 Budget to incentivise the uptake of transport pollution control measures by:

- (i) Announcing a National Framework for Low Emission Zones supported by funding for retrofit of PM and/or NOx abatement technologies.
- (ii) Introducing an equivalent “Enhanced Capital Allowance” for retrofit technologies
- (iii) Incentivise the early uptake of Euro VI vehicles through the continued use of the Reduced Pollution Certification (RPC) scheme

E. Making Water Regulation Work Better for Consumers and Industry

EIC’s Members have consistently argued that Ofwat’s current regime for the Periodic Review creates a “boom and bust” financial climate for the supply chain serving the water industry in the UK as capital expenditure tends to be concentrated towards the end of the five year period. This situation leads to financial and managerial inefficiencies and instabilities in the supply chain (leading to sizeable job losses) and ultimately leads to higher costs for consumers.

EIC welcomes the current reviews into Ofwat (by both Defra and Ofwat) but is concerned that insufficient attention is being paid to the problems suffered by that EIC Members and the water technology and services sub-sector.

EIC calls on the 2011 Budget to announce:

- (i) An immediate study into job losses suffered by the water technology and services sub-sector in the last two years of the last five-yearly AMP cycle;
- (ii) Changes to Ofwat’s Periodic Review process to avoid damaging the competitiveness of the UK’s water technology and services sub-sector caused by the existing “boom and bust cycle”;
- (iii) The use of Tax Increment Financing to allow local authorities to invest in Sustainable Urban Drainage Systems.

4. An Environmental Industrial Strategy

EIC believes that there is a need for strategic thinking by ALL government departments with the aim of promoting and assisting the whole of the environmental industry (covering the traditional environmental technology and services sector as well as renewables and low-carbon).

An overall strategic approach to green jobs and skills must address issues related to water, air quality, land contamination and soil quality, and the efficient use of resources.

EIC calls on the 2011 Budget Report to: announce an Environmental Industrial Strategy supported by:

- (i) A fully resourced Sponsoring Unit for the UK's environmental industry.
- (ii) An "Environmental Industry Forum" (across government departments) to coordinate the range of policies on:
 - Environmental Industry Support
 - Environmental Regulation
 - Technology Diffusion
 - Innovation
 - Investment
 - Skills training
 - Export support.

20 April 2011

Written evidence submitted by Drax Power Limited

This response does not attempt to respond to the specific questions posed by the Committee. Instead it focuses almost exclusively on the implementation of the Carbon Price Support (CPS) set out in the Budget, which will be introduced from 2013, via changes to the Climate Change Levy (CCL). This mechanism is of key interest to Drax.

ABOUT DRAX

1. Drax is predominantly an independent power generation business responsible for meeting some 7–8% of the UK's electricity demand. It also owns Haven Power, an electricity supplier serving the needs of business customers.

2. Drax is the owner and operator of the 4,000MW Drax Power Station in North Yorkshire, which is the largest, cleanest, most modern and most efficient coal-fired power station in the UK. It comprises six 660MW coal-fired generating units; the largest and most flexible in the country. This capability means that Drax is one of the most significant providers of flexible generation and system support services in the UK which will increasingly be required to complement the deployment of the intermittent wind and inflexible nuclear generation required to meet the Government's binding renewables and CO₂ targets.

3. Drax is also committed to playing its part in reducing its carbon footprint and hence that of UK power generation. To this end, in summer 2010 the largest biomass co-firing facility in the world was commissioned at the power station.

4. With the capability to produce 12.5% of the station's output from renewable, sustainable biomass—equivalent to the output of over 700 2MW wind turbines—Drax is by some distance the largest renewable generating facility in the UK. In 2010, Drax produced around 7% of the UK's renewable power, more than twice that of the next largest renewable facility.

5. With the right levels of support from Government, Drax intends to increase its renewable generation well beyond current levels, and progressively move from being a large coal generator who burns some biomass, to potentially being a large biomass generator who burns some coal. Ultimately, Drax has the potential to convert to a biomass station.

6. Drax has many concerns about the CPS. However, in the context of this particular inquiry, we would like to alert the Committee to the following key points:

KEY POINTS ON CARBON PRICE SUPPORT MECHANISM

(Mainly relevant to Questions 1, 2 and 6)

IMPACT ON SECURITY OF SUPPLY AND A FUTURE UK COAL INDUSTRY

7. The CPS will increase the cost of generation from high CO₂ emitting coal-fired plant. This has the potential to lead to a more rapid closure of marginal, flexible coal-fired capacity. Given that at times over the last winter the nation relied on coal for over 50% of its power, this will increasingly affect the security of UK electricity supply after 2013, which is still many years before new nuclear, low carbon or renewable plant, will come on stream to fill the gap.

8. The Government is proposing the imposition of a single CCL tax rate per tonne for all solid fuels used for electricity generation, supposedly based upon the carbon content. This methodology will disadvantage UK domestic coal versus imported coal. This is due to the typically lower carbon (and hence energy) content of

UK-mined coal. Therefore, there will be a detrimental impact on UK coal producers potentially leading to the closure of more pits, in particular deep mines, and resultant job losses. There will also be an increase in carbon emissions due to the increase in transportation and also a potential reduction in security of supply from an over-reliance on imports.

9. These effects could be rectified quite easily by introducing a tax rate which more accurately reflects the actual carbon/energy content of the solid fuels used for electricity generation—in other words a rate which is calculated on the heat/ energy content of the fuel (ie £ per gigajoule(GJ)) rather than a £ per tonne basis.

10. This GJ methodology is already well established. It is the basis on which most solid fuel is actually bought / sold in the national and international markets. Furthermore, it is also the methodology used for calculating the CO₂ emissions for EU-ETS compliance purposes for fossil generators. As a result the necessary rigorous sampling and auditing processes are already in place, so there would be no material administrative burden for coal suppliers.

11. Alternatively, if HMRC / Treasury remain insistent on a CCL rate / tonne methodology, then a banded approach could be used instead of the single rate. For example, there could be three or four different rates depending on the type of coal—eg high energy (Imported), Medium energy (British), Low energy and Reclaimed fuel.

12. Taken to its natural conclusion, a single CCL tax rate would mean that future coal plants with CCS will have to rely on imported coal when there are still abundant and economic potential supplies in the UK.

IMPACT ON OVERALL CO₂ LEVELS

13. All UK power plants participate in the European Union Emissions Trading System (EU ETS). This is a cap and trade system within the EU, which means that if there is less CO₂ produced in the UK as a result of the CPS and consequently fewer CO₂ allowances used, there are correspondingly more available for use elsewhere within the EU within the overall EU cap. There will, therefore, be no net overall reduction in emissions from the CPS.

14. Furthermore, if the CPS results in the UK importing cheaper, “carbon tax free” power over the interconnectors with mainland Europe, the UK will literally export emissions. Overall, in environmental terms this may well be inefficient as some European marginal fossil fuelled plant emits as much, if not more CO₂, than those in the UK.

GREEN INVESTMENT BANK (QUESTION 7)

15. The announcement was made in the Budget that the Green Investment Bank (GIB) will be initially pre-funded with £3 billion, beginning operation in 2012–13. This is a positive step which recognises the challenge and costs of securing project finance for green investments in the current market. That pre-existing challenge has been exacerbated by the CPS which is not really “bankable” as an investment incentive, as it is subject to political risk of future changes. This increases the need for a body prepared to help absorb the risk of changes in Government policy, and to lend money where conventional banks would otherwise not be prepared to. However, the level of investment required by 2020, as for example suggested by Ofgem’s Project Discovery Report, is over £200 billion. This is many times greater in size than the GIB, suggesting that the £3 billion initial funding perhaps does not go far enough and should be more ambitious if it is to make a really meaningful contribution to the overall investment challenge.

20 April 2011

Written evidence submitted by Axeon

SUMMARY

- Electric vehicles have clearly been identified as the most effective way to de-carbonise transport in the short to medium term and are therefore essential to the Government’s ambitious climate change targets.
- Evidence indicates that consumers are far more likely to consider purchase cost rather than long-term savings when buying a vehicle.
- If the electric vehicle market is to flourish, it is vital that the Government acts to incentivise both businesses and consumers to ensure that the cost at the point of purchase is reduced as far as possible while the market is still in its infancy.
- While measures announced in the Budget to limit the financial burden on drivers of conventional cars were an understandable response to current economic circumstances, additional tax measures could be taken to induce consumers to purchase electric vehicles.

1. ABOUT AXEON

1.1 Axeon is a leading UK technology business which designs and manufactures advanced lithium-ion battery systems for electric and hybrid electric vehicles (EVs and HEVs). Headquartered in Dundee, Scotland, Axeon is the only UK-based high tech battery manufacturer.

1.2 Axeon has a proven track record; vehicles powered by Axeon lithium-ion battery systems have driven well over a million miles on the roads of Europe and the US.

1.3 We continue to invest in our UK-based R&D centre to be at the cutting edge of battery technology, cost competitiveness and product performance. We are currently working on several technology development programmes, four of which are part funded by the UK Government's Technology Strategy Board. As a result of this support and collaboration with several other UK based automotive businesses we are now winning significant orders for mainstream automotive projects, which will give the UK a significant presence in this rapidly growing new sector, and support the UK Government's objective of developing green, high tech manufacturing businesses vital to the UK economy.

1.4 As a spin-off to the original automotive technology, Axeon is also looking at energy storage in the renewable energy sector—another important new industrial sector if the UK is to meet its climate change targets.

2. INTRODUCTION

2.1 We very much welcome the Environmental Audit Committee's new inquiry into the Budget 2011 and green taxes. We believe there is a long way to go before the transport sector will be in a position to make its full contribution to the UK's demanding climate change targets.

2.2 It is worth noting that at present low-carbon vehicles do not pay Vehicle Excise Duty (VED) and if purely electric do not pay Fuel Duty either. Hence, in the longer run, the loss of the tax revenue presently raised by these two duties will require the Government to give considerable thought to a different structure of taxation in the transport sector.

2.3 However, in the shorter term, the issue of achieving our climate change goals is essential to encourage a critical mass of consumers—both in the public and private sector—to switch to electric or hybrid vehicles for their transportation. EVs have clearly been identified as the most effective way to de-carbonise transport in the short to medium term and are therefore essential to the Government's ambitious climate change targets.

2.4 Research indicates that a key inhibitor of the growth of the EV market is cost. In general, the evidence suggests that private consumers are less likely to take into account the overall cost of an EV, which involves a higher purchase price but lower running costs, when making decisions about purchasing cars. Hence we believe there is much to gain by introducing measures which reduce costs at the point of purchase.

2.5 Whilst we welcome commitments made in the Budget 2011 to incentivise low-carbon company cars, we believe that more needs to be done to stimulate the EV market. An attitudinal survey conducted by the Department for Transport in 2011 found that 55% of respondents supported higher taxes to try and stop people buying cars with high CO₂ emissions.

2.6 We have commissioned work, in collaboration with others, in this area with a view to helping the Scottish Government formulate its policies, and whilst we are not in a position to send that document to you, we thought that it may be of use to summarise its main conclusions. In the interests of brevity, we have given only a brief summary of the measures we believe would be helpful. If you would like more details, please do not hesitate to be in touch.

3. RESPONDING TO THE BUDGET

Fuel duty

3.1 While measures announced in the Budget to limit fuel increases were an understandable response to current economic circumstances, rising fuel prices will in fact do more to encourage the uptake of electric vehicles. The Department of Transport's January 2011 survey, *Public Attitudes to Climate Change and the Impact of Transport*, noted that after purchase cost, fuel costs are the most important cost when buying a car. An increase in fuel duty could therefore encourage consumers to switch to EVs. A report commissioned by the RAC Foundation in January 2011 also cites evidence from both the UK and US that increases in fuel prices result in a preference for fuel-efficient vehicles and changes in driving habits. In response to the fuel price peaks in 2008, followed by the global economic downturn, the UK market has seen a marked shift to smaller, more fuel-efficient cars, a trend which could continue to benefit the EV market if fuel prices were to increase.

Company Car Tax

3.2 Measures to freeze Company Car Tax for low-carbon vehicles and increase levies for more polluting vehicles from April 2013 are welcome. Historically data shows that, until the fuel price peaks in 2008, the Company Car Tax system was the main incentive driving the reduction of new conventional car CO₂ emissions.

Capital Allowances

3.3 Extending the limit on the capital allowances short life assets election is another welcome move for the manufacturing industry. However, in addition, we would encourage the Government to consider providing additional **enhanced capital allowance** tax exemptions for business. This would extend the existing scheme for low carbon cars until 2020, and widen eligibility to a larger range of vehicles and recharging infrastructure.

Vehicle Excise Duty

3.4 The freeze in Vehicle Excise Duty rates for cars emitting less than 95g per kilometre is a welcome measure. However, anything that can be done to increase the price differentials between adjacent bands for vehicle excise duty, which in turn increases the financial benefit of EV ownership, would be a boost for the EV market. Evidence suggests that VED is not (at current levels) a sufficiently strong price signal to incentivise the purchase of lower CO₂ cars. If the band was larger however, VED could be expected to have an impact.

3.5 A key recommendation would be the introduction of a Feebate scheme, a revenue-neutral incentive programme involving increasing the tax levied on the purchase of relatively high CO₂-emitting vehicles and providing rebates for lower CO₂-emitting vehicles.

Registration Tax

3.6 In general, evidence suggests that private consumers are less likely to take future reduced running costs into account when purchasing an EV, instead prioritising the purchase cost. Hence we believe there is much to gain by measures which reduce costs at the point of purchase. Since the EV market is still at an early phase, there is currently no second-hand market. This means that when purchases are made, they are for brand new vehicles. Consequently, a move to levy a registration tax for new vehicles scaled on the basis of CO₂ emissions could also have a beneficial effect on the uptake of EVs. This measure would involve increasing the “first year rates” for high CO₂-emitting vehicles to give EV buyers a financial benefit of between £2,000 and £5,000.

4. WIDER RECOMMENDATIONS TO BOOST THE EV MARKET

4.1 The Government to produce an **Electrical Vehicle Infrastructure Strategy** setting out a clear vision for the future and a strategy for the provision and roll out of appropriate recharging infrastructure.

4.2 The Government to set **technical standards, specifications and regulations** for implementing a recharging infrastructure.

4.3 A **review of the possible market models for recharging infrastructure** and work with relevant stakeholders to agree a market model identifying key roles and responsibilities for energy providers, electricity retailers, EV manufacturers, private infrastructure providers and the public sector; and pricing and payment approaches; and customer interface requirements (single or multiple points of contact).

4.4 The Government and local authorities to provide **funding for publicly accessible recharging points**.

4.5 The Government and local authorities to **incentivise businesses to install recharging points**. This would involve engaging directly with the largest businesses with employee car-parks to highlight the benefits of encouraging use of EVs rather than conventional vehicles; by providing free advice; and by providing match funding to “innovator” and “early adopter” businesses wishing to install recharging points in existing parking spaces.

4.6 The Government to prepare **advice for residents on home recharging** and guidance for electricians on the type of facilities needed (including issues to be considered in communal parking areas). Local authorities to disseminate information.

4.7 The Government to provide **national planning guidance** on the provision of recharging bays and infrastructure in local authority areas as part of a parking strategy which supports wider sustainable transport objectives.

4.8 The Government to **update building regulations** to set out minimum requirements regarding the provision of electrical infrastructure and recharging points in new buildings.

4.9 The formulation of a **Working Group to address electricity generation** and distribution requirements for EVs.

4.10 Local authorities to work with existing **car club operators** to introduce EVs into fleets and introduce EV-based car clubs in other cities. This would involve local authorities: engaging directly with existing car clubs to raise awareness of EVs and their benefits; using car clubs instead of purchasing their own fleet cars; procuring vehicles directly for car clubs using their considerable purchasing power to lever favourable purchase prices or lease contracts; investigating the feasibility of working with manufacturers to set up a publicly funded electric car share scheme.

4.11 Encourage manufacturers to offer **alternative ownership models** to consumers in the UK by promoting the UK as an attractive market for manufacturers, and engaging with manufacturers to understand and influence their decisions about where to focus their sales strategy.

4.12 The Government to provide **subsidies up until 2020** of at least £5,000 in the initial years with the level of subsidy reducing as EV uptake increases.

4.13 The Government to introduce a **targeted scrappage scheme** to encourage consumers to purchase electric vehicles, with subsidies reducing as EV uptake increases.

4.14 The Government to provide **grants for purchasing second hand EVs** from specified dealers, with subsidies reducing as EV uptake increases.

4.15 The Government, local authorities and other public sector organisations to support an earlier than average **switch to low carbon emissions vehicles for public sector fleet vehicles** (cars and vans) through procurement policies.

4.16 The Government to support and **fund research needed to enable rapid EV uptake.**

4.17 The Government to lobby **the EU to increase the EU target for the emissions-intensity of new cars and vans** produced by manufacturers.

20 April 2011

Written evidence submitted by the Institute of Directors

Thank you for giving the Institute of Directors (IoD) the opportunity to comment on your enquiry, published in April 2011. Issues surrounding environmental and taxation policy are of considerable interest to the IoD and its membership.

ABOUT THE IoD

Founded in 1903, and granted a Royal charter in 1906, the IoD is an independent, non-party political organisation of 40,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 92% of FTSE 100 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises, ranging from long-established businesses to start-up companies.

GENERAL COMMENTS

The Institute of Directors (IoD) supports the Government's aim of addressing climate change. However, the IoD believes that the Government should allow the market to function effectively in order to enable market forces to achieve these goals. Thus, the IoD has designed a set of principles that can be used as a guide for environmental taxation and regulation.

Britain's energy market is over regulated. UK governments have designed detailed programmes and schemes controlling the market to an extent that disables it. On the subsidies front, the Government fragmented the renewables market by creating a technology based subsidy—the Renewable Obligations (RO) and the Feed in Tarrifs (FIT) are a prime example for this. On the regulations front, the market is also over regulated; there is extensive domestic regulation surrounding gas and nuclear generation, Emission Performance Standards (EPS), the Climate Change Levy, on top of extensive European regulation in this area. All these different schemes and programmes lead to a high level of uncertainty and confusion within the market. This also undermines markets and impedes investment decisions.¹⁶ Instead investors and entrepreneurs wait for the Government to make decisions on which technologies it favors. The final outcome is that regulatory and political uncertainty not only increases costs in the market, but also encourages market investors to “wait and see”. This undermines the innovation and investments that are critical for developing an effective energy market. With regards to taxation, there is a case for some environmental taxation. It makes polluters pay for the burdens that they impose on others. But environmental taxes, like all other taxes, impose burdens. Any developments in environmental taxation should therefore observe the following principles.

REVENUE NEUTRALITY

Any increases in revenue raised should be matched by reductions in the revenue raised from other taxes. Environmental taxes must not become a tool to increase the size of the overall tax burden. The adverse economic effects of high overall levels of taxation are well-documented in the economic literature.

It is particularly important to emphasise revenue neutrality because environmental taxes are hard to design perfectly. They can easily fail to achieve their goals, either because the wrong activities are taxed or because

¹⁶ As evidence investors can for the first time, buy carbon credit insurance to protect themselves from political uncertainty in the European emission trading system (Financial Times, and City AM p-2, 18 April 2011)

taxes are set at the wrong levels. The double dividend that is sometimes attributed to environmental taxes can all too easily turn into a double loss, when a tax does not achieve its intended goals but still imposes the burden that any tax imposes. A constraint of revenue neutrality at least limits the damage that can be done.

The burden of a tax will in part be suffered by persons other than the immediate payers of the tax, including customers, suppliers, employees and shareholders (including shareholders on whom many people depend, such as pension funds). One of the worst policy mistakes to make would be to think that because environmental taxes are intended to address worthy ends, they are cost-free, or even positively desirable in themselves (as opposed to being desirable for the results that they may achieve). All taxes are burdens on individuals, one way or another, even if the route is indirect, and the costs of taxation must never be neglected.

EQUAL APPLICATION TO BUSINESS AND PRIVATE CONSUMERS

Environmental taxes should apply equally to businesses and to private consumers, even if they are only collected from businesses, and the amounts due should appear prominently on bills or tickets that are sent to private consumers.

A tax on businesses can easily go unnoticed by private individuals, even though they are in fact paying it, one way or another. And where a tax on private consumers is collected via businesses (for example as part of the cost of a flight ticket), the amount should be drawn to the attention of the consumers. That will help the consumers to decide on their behaviour, and it will also help them to form their political views on whether given taxes are justified.

Where private individuals engage in activity that is sufficiently environmentally damaging for businesses to be taxed, private individuals should also be taxed. For example, whatever the case for discouraging carbon dioxide emissions may be, it applies equally to emissions by businesses and to emissions by private individuals. If, for example, the climate change levy makes environmental sense, the exemption of domestic energy consumption from the levy makes no environmental sense.

SIMPLICITY

Environmental taxes should be simple in design and straightforward in their application. They must also be introduced with ample warning and with advance publication of detailed guidance on what needs to be done.

There is some tension between simplicity and the precise achievement of policy objectives. But in the environmental field, uncertainties about what needs to be done mean that precision in policy objectives is meaningless anyway, as soon as one moves beyond high-level objectives such as target ranges for environmental variables. Complexity can of course also spring from a desire to achieve some extraneous political objective, but that is hardly a justification for complexity.

An important element in making the application of taxes straightforward is to give ample warning of their introduction and to publish detailed guidance in good time. There should be no repetition of what happened with the climate change levy when it was introduced. Draft guidance was made available in good time, but the finalised guidance was not published until after implementation of the levy.

EFFECTIVE DESIGN

Environmental taxes should be designed to do their job properly. The level of a tax should match the cost of the environmental damage. The onus must be on the Government to demonstrate the amount of that cost. And there is no point in imposing a tax if the taxed behaviour will simply relocate to another country and continue to do the same damage.

If, for example, a tax is intended to reduce carbon dioxide emissions, there is no point in applying it to nuclear power. If nuclear power has other environmentally damaging effects, they should be dealt with using other measures, which may or may not include taxation. And if an activity has adverse environmental effects which justify taxing the activity, it should be taxed whether it is carried out by businesses or by private individuals.

The general uncertainties of environmental science make it hard to design taxes to achieve precise objectives. But that is not an excuse for giving up and introducing new taxes without adequate evidence to support their introduction. The onus must be on the Government to justify its proposals in detail. All of the analyses that officials carry out in relation to any proposal should be published in their raw form, with no selectivity or presentational gloss, before proposals are debated in Parliament. That level of openness will maximise the chances of making the correct decisions.

COMPETITIVENESS

Environmental taxes hold a risk of undermining businesses competitiveness by imposing additional costs on domestic businesses. Therefore the environmental tax system should be designed as part of an international or regional agreement, in order to maintain a level playing field. A tax system that will undermine British businesses competitiveness, will not effectively address global warming, and will undermine growth and export, which are vital for the British economy. A tax system that ignores overseas competition will undermine growth

in the UK. It is therefore essential to design a tax system that is taking into consideration the broader economic goals.¹⁷

PRICE VOLATILITY

Lately, we are witnessing high volatility in commodity prices. Higher energy costs impose a significant burden on households and businesses. Households are already experiencing an income squeeze due to higher inflation, higher VAT rates and a lack of wage growth. Businesses struggle to achieve growth due to diminishing demand and flat or diminishing export performance. Environmental taxation must be adjusted to this economic reality, and not impose high additional costs on struggling businesses and households. Moreover, environmental taxes should be designed to adjust to volatile energy prices without inflicting additional costs on businesses and households.

FEED IN TARIFF (FIT) AND CARBON PRICE

The IoD believes that the current framework of subsidies hinders the market from delivering the results we aspire to see. It hinders the carbon price and reduces incentives for both the supply and the demand side. In the long-term FIT discriminates between technologies when its core aim is to provide investors with certainty about the level of support. These schemes, although well intentioned, have a combined effect that distorts the market. The IoD believes that the different models of FIT will distort the market and will undermine investment. It is our view that the market is being sliced and divided into too many sections. The IoD believes that market forces and market structure should be used in order to generate investment and ensure a functioning electricity market. A stable carbon price is the best, most effective framework for achieving this goal. As well as creating distortion within the market, FIT and other schemes undermine the development of a stable electricity market. The IoD is in favour of the Carbon price support, and believe that this along with a carbon tax would be an effective policy to encourage decarbonising the economy. Nevertheless, the IoD objects to FIT and other schemes that generate complexity and artificially discriminate between technologies.

CHANGING MODES OF TRANSPORT

It might be thought that taxes could be used to ensure that the great majority of journeys by private car were replaced by journeys by bus, coach and rail, that the great majority of long-distance freight transport by road was transferred to transport by rail, and that most short-haul journeys by air were replaced by rail journeys.

While very high taxes probably would achieve these results, it is not at all clear that such results would be desirable. Certain methods of transport may have negative externalities associated with them. Even if they do, it does not follow that the use of those methods should be reduced to a very low level. The advantages of using a given method, such as convenience and speed, may be worth so much that they outweigh the externalities. The right approach is to measure the externalities, price them into people's decisions by the imposition of matching taxes, and then let market forces determine the extent to which they are used. The IoD contends that a comprehensive cost-benefit analysis should be used to design an effective tax system. Moreover, additional considerations should be incorporated, such as international competition, macro-economic conditions etc. The environmental aim should be viewed as part of a greater economic and social goal.

Thank you once again for inviting the IoD to take part in this consultation. We hope you find our comments useful. If we can provide further detail on any of the points raised, please do not hesitate to contact us.

20 April 2011

Written evidence submitted by the British Metals Recycling Association

INTRODUCTION

1. Metals recycling is the largest and most successful recycling sector in the UK. Every year this £5 billion industry recovers around 15 million tonnes of metal per annum, including two million end-of-life vehicles (more than any other EU country), five billion food and drinks cans, three-and-a-half million white goods, and around eight million automotive batteries. Metals recycling not only brings huge environmental benefits by reducing the UK's dependence on dwindling natural resources and landfill but also lowers greenhouse gas emissions and water usage when producing new metals (compared to using virgin ores): the industry does more than any other to ensure that the UK meets its targets under the various EU producer responsibility directives.

2. Metals recyclers also use advanced shredder and media separation techniques to recover other materials. For example, besides 1.5 million tonnes of metal, 100,000 tonnes of other secondary raw materials, such as glass and plastics, are recovered from end-of-life vehicles each year. This contribution means that, as well as playing an important role in fostering green growth and jobs, the metals recycling sector—because it processes far more metal than domestic manufacturing needs—is one of the world's largest exporters of recovered metal, accounting for 45% of Europe's 10 million tonne global trade.

¹⁷ IoD Economic forecast for 2011 is available at G.Leach, Six dragging anchors: the UK economy in 2011, Big Picture quarter 1, 2011, no 10, Institute of Directors.

3. However, with the appropriate fiscal and regulatory support, the industry could be making an even bigger contribution. This submission sets out the British Metals Recycling Association's position on the role of the landfill tax regime in promoting innovation and improved recycling rates, which will become necessary as EU recycling targets increase.

4. The BMRA is the trade body for the metals recycling industry, serving a membership ranging from small family-owned enterprises to large multi-national companies. It represents around 85% of the industry, by volume.

LANDFILL TAX

5. The metals recycling industry has invested heavily in developing the advanced media separation techniques and solutions for residual wastes required to not only meet but exceed recycling targets under the various EU producer responsibility directives but also to divert materials from landfill and realise the "zero waste" agenda. Examples include new technologies to allow the recovery of non-ferrous metals using dense media and advanced downstream systems, employing copper analysers, and investing in mega-shredders. BMRA members are also leading the way on plastics recovery and in adopting advanced thermal processes such as gasification and pyrolysis for end-stage recovery of non-recyclable materials.

6. With producer responsibility targets set to increase over the next decade—for example, the targets for the recovery of end-of-life vehicles will increase from 85% to 95% in 2015—further capacity needs to be put in place urgently if these targets are to be met and infringement proceedings from the EU avoided.

7. However, the requirement to pay landfill tax on current activity whilst also being expected to fund investment in new technologies to reduce landfill acts as a significant inhibition to developing these solutions. Support in the form of a landfill tax credit or holiday—whereby waste would be landfilled free of landfill tax whilst approved investment programmes in new technology are in development—would be a welcome step.

8. Such support could also extend to a "holiday" from the escalator—for example, in the event that material is stored now until it could be treated using a new process, but should the development of that process ultimately prove unsuccessful, the rate of landfill tax would be backdated to the year in which the waste would otherwise have been landfilled rather than the prevailing rate.

9. With metals recycling not currently able to benefit from the framework of incentives aimed at developing renewable and other technologies, support for investment in research and development through the landfill tax regime represents an obvious means by which HM Treasury can support the sector in enabling the Government to meet its own public policy objectives around sustainable development and environmental protection.

20 April 2011

Written evidence submitted by INEOS Manufacturing Scotland and INEOS Infrastructure (Grangemouth) Limited

BACKGROUND TO INEOS IN GRANGEMOUTH

1. INEOS functions as three operating companies in Grangemouth: INEOS Manufacturing Scotland Limited, INEOS Chemicals Grangemouth Limited and INEOS Infrastructure (Grangemouth) Limited. Together, these companies employ directly ~ 1,350 people.

2. INEOS Manufacturing Scotland Limited operates a 210,000 barrel per day capacity fuels refinery, which produces over nine million litres of clean fuels every day. This is the only fuels refinery in Scotland and supplies over 70% of the Scottish market.

3. INEOS Chemicals Grangemouth Limited operates two ethylene crackers and derivative plants that produce polymers, synthetic ethanol and other chemical commodities. It is significantly integrated with other site operations, including the Refinery and the Forties Pipeline System (operated by BP Exploration Company Limited, transporting oil and natural gas liquids from the North Sea).

4. INEOS Infrastructure (Grangemouth) Limited operates facilities for raising steam and power which are integrated with a 3rd party's operations to form a "good quality" CHP plant, registered with the CHPQA programme. It provides steam and power to the INEOS businesses and the Forties Pipeline system, along with other utilities. It also operates the infrastructure to export products from the site.

CARBON PRICE SUPPORT AND CARBON LEAKAGE

5. If the UK is to contribute fully and properly to reducing anthropogenic CO₂ emissions, Government policy must achieve two goals:

- the UK must become a low carbon economy, in particular with respect to energy (electricity) production; and
- the UK must manufacture the energy intensive goods it requires within this low carbon economy.

6. From the consultations during the first quarter of this year, we can see clear evidence of an intention to achieve the first of these aspirations.

7. Unfortunately, there is however no evidence that due regard has been given to the latter. There appears to be no considered plan for helping energy intensive industries transition from a fossil fuel economy to a low carbon one. Indeed, elements of the proposals contained in the consultations on the former have (unintended) consequences on the energy intensive industries to such an extent that without urgent action from the UK Government there will be a progressive abandonment of the UK as a manufacturing centre.

8. The UK should be seeking to export energy intensive goods into higher carbon economies, creating jobs and economic growth within the UK, whilst simultaneously delivering real and significant decreases in global emissions. For this to happen, the same political will that has been applied to decarbonisation of electricity needs to be applied to a manufacturing strategy that will allow a transition to a low carbon economy.

9. Energy intensive manufacturing industry does not need subsidy, but it does require recognition that the costs of carbon, either through EU ETS or proposals for Carbon Price Support (and other energy tax measures, such as CRC Energy Efficiency), create a far from level playing field.

10. All of the INEOS businesses at Grangemouth process feed-stocks and produce products that are globally traded commodities; there is no option to pass on carbon taxation costs to the end consumer, instead these costs are taken from our margins. This directly affects the profitability of UK operations as compared to non-UK, and will ultimately impact upon investment decisions.

11. Taking the Carbon Tax elements announced in the 2011 budget as a whole, the costs of UK only carbon and energy taxation will be to add costs to our Grangemouth operations equivalent to up to 50% of our estimated EU ETS compliance costs.

12. There are multiple levels of carbon and energy taxation either in place or in consultation / development, many with uncertainties in their detail:

- EU ETS Phase III—Allocations not finalised, for scheme starting 2013.
- CRC Energy Efficiency—scheme commenced April 2011, but rules being re-visited for “simplification” which may have significant impacts on application.
- Climate Change Agreements—to consult on extensions.
- Carbon Price Floor—level of CHP exemption not determined

As noted by the Commons Treasury Committee, the UK carbon and energy taxation measures “lack overall coherence” as a package; when coupled with these uncertainties it further undermines confidence in the fiscal environment when making investment decisions in UK manufacturing.

20 April 2011

Written evidence submitted by EDF Energy

SUMMARY

- EDF Energy welcomes the Government’s announcement of a carbon price floor. Greater certainty in the future long-term price of carbon will form an important and significant part of the electricity market framework required to increase investment in cost effective low carbon generation.
- The carbon price floor will also act to reduce the emissions from the existing plant mix by ensuring that a stronger price signal is factored into day to day operational decisions. It will have a positive impact on investment in existing low carbon plant and will support investment in energy efficiency upgrades, increased biomass co-firing and will also be a factor in the investment decisions for life extensions of the UK’s existing nuclear fleet.
- The removal of specific exemptions in the Climate Change Levy will ensure that the most carbon intensive fuels are penalised the most and this is consistent with the “polluter pays” principle behind such environmental taxes.
- The introduction of the carbon price floor helps restore the long-term price signal that the EU ETS was expected to achieve. This will provide much needed price stability for investors in low carbon generation.
- The proposed trajectory that sees the carbon price floor being introduced from April 2013 and reach £30/tCO₂ in 2020 (and then £70/tCO₂ in 2030) strikes the right balance between mitigating any impacts on customers in the short term and providing the right incentives for future investment.

RESPONSE

1. EDF Energy welcomes the Government’s announcement at Budget 2011 to introduce a floor price for carbon, as part of its reforms to drive low carbon investment. The introduction of a carbon price floor has been discussed widely between industry and Government for some time, and is consistent with the commitment made in the Coalition Agreement.

2. Establishing a carbon price floor now, with a clear trajectory, is a fundamental component of a package of wider electricity market reforms that are needed to deliver the UK's energy policy objectives and for us to move forward with our multi-billion pound low carbon generation investment plans. It is a measure which has been advocated by the Committee on Climate Change (CCC), and it will serve to drive both decarbonisation and long-term economic growth in the UK.

3. We welcome the proposed path announced, such that the carbon price floor is introduced from April 2013 and reaches £30/tCO₂ in 2020. We believe that this strikes the right balance between mitigating any impacts on customers in the short term and providing the right incentives for future investment. A gradual and relatively linear trajectory would provide sufficient time for carbon-intensive users and generators to adapt to the new low carbon environment. This is preferable to a sudden and sharp rise if introduced later, for example in 2018, which would additionally expose investors to greater, and perhaps unacceptable, political risk.

4. Investors require a robust, long-term carbon price signal, and this needs to be part of a coherent set of complementary measures that provide sufficient incentives to investors to deliver energy security and investment in low carbon generation. Without this carbon price certainty, there is a risk that investors will continue to concentrate investment in unabated fossil plant. This would increase the risk that the UK's long term emission reduction targets would not be met, as we lock in the higher carbon emissions from these new assets and so significantly delay the decarbonisation of the UK economy.

5. We support the methodology that has been chosen in setting the carbon price support rate. As the tax will be set according to the carbon content of the fossil fuel, this method will ensure that the tax penalises the most carbon intensive fuels. This is consistent with the Pigouvian economic principle behind environmental taxes, ie where the objective is to restrict market activities that generate negative externalities. The mechanism, as established, will also help fulfil HM Treasury's statement of intent to "explore the scope for using the tax system to deliver environmental objectives" and in line with the above, help to 'shift the burden of tax from 'goods' to 'bads''.¹⁸

6. As a mechanism for providing a long term price signal, we recognise that any tax may be subject to political risk, but we believe that this may be mitigated by strong cross-party political support and evidence of support "from the top". Both factors would further help demonstrate to investors the genuine political commitment towards creating a low carbon economy, and will assist in providing long-term assurance that the current intended price trajectory will be implemented over the coming decades. We would in particular welcome greater cross-party political support for a firm commitment to the proposed carbon price floor of £70/tCO₂ in 2030. This is the minimum carbon price that many, including the Government, believe is consistent with the ultimate environmental objective of limiting the global temperature rise to two degrees Celsius. We also believe that investors would value the additional certainty gained by having the trajectory scrutinised and monitored by a credible independent body such as the CCC. Such an approach could help ensure that the trajectory chosen is commensurate with the carbon emission reductions being sought through the UK's carbon budgets.

7. We believe that introducing the carbon price floor by removing some of the exemptions in the existing Climate Change Levy is an efficient means of delivering a minimum price of carbon that will require little new legislation, and will not interfere with the broader operation of the EU ETS. The UK Environmental Accounts compiled by the Office for National Statistics already classify the Climate Change Levy as an environmental tax, as it is "collected on a physical unit with a proven negative impact on the environment, such as the combustion of fossil fuels".¹⁹

8. EDF Energy endorses the use of environmental taxes in decarbonising the economy where it is appropriate to do so. We note that the commitment in the Coalition Agreement is to "increase the proportion of tax revenue accounted for by environmental taxes".²⁰ However, care should be taken to ensure that environmental taxes are applied as part of a coherent policy framework to meet specifically targeted objectives, as is the case with the carbon price floor, rather than simply to meet arbitrary revenue targets.

9. EDF Energy supports the EU ETS as the primary means to meet the EU's emission reduction objectives, but recognises that the prevailing energy policy landscape differs between member states and that the EU ETS cannot be expected to efficiently meet specific energy policy and climate change mitigation objectives in individual member states. Although many had hoped that the EU ETS would have put a reliable long-term price on carbon dioxide emissions, it is clear that it has not done so for a number of reasons. These include the lack of international consensus on sufficiently ambitious carbon reduction targets, the relative immaturity and operational imperfections of the EU ETS market, and the inherent short-term nature of this market.

10. Carbon pricing is not new policy and electricity generators have been aware of carbon prices for almost a decade, since the inception of the UK Emissions Trading Scheme in 2002, and then the EU ETS in 2005. It is therefore reasonable to assume that carbon prices will have influenced investment decisions since that time.

¹⁸ http://www.hm-treasury.gov.uk/tax_environment_statement_of_intent.htm

¹⁹ Office for National Statistics, Review of Environmental Taxes in the UK Environmental Accounts, August 2006, p26

²⁰ HM Government, The Coalition: our programme for government, May 2010, p31

Indeed, as pointed out by Grubb and Neuhoff, one of the justifications for allocating free allowances in the first place was as “part of a transitional process towards a strategic objective of fully internalizing CO₂ costs”²¹ and so mechanisms have been place for some time to help companies make the transition to carbon pricing.

11. Carbon prices in Phase I of the EU ETS consistently moved in the range €20–30/tCO₂ soon after its launch, before crashing in Spring 2006 when verified emissions data showed that there had been an over-allocation of allowances by Member States. The emissions caps in Phase II were adjusted to correct for this, and it was as recently as 2008 that market participants were exposed to a carbon price of around €27/tCO₂, before they fell significantly as the result of the global recession. This reflects a weakness of the EU ETS in that it has not been able to correct for supply side shocks. We do not believe that the carbon price support levels that have been announced should be seen as being unprecedented, or unexpected, by market participants as the carbon prices under consideration have already been demonstrated in a number of different periods.

12. We believe it is correct that the carbon price floor should start by reflecting the price that the EU ETS was previously expected to achieve. For example, in July 2009, DECC published five independent long-term model based forecasts of the EUA price in 2020, including from the European Commission, and these forecasts ranged from €27.3–€36.8/tCO₂ (in 2009 prices),²² and this is consistent with the Government’s announcement of a target price of carbon of £30/tCO₂ in 2020.

13. EDF Energy supports initiatives that would help remedy some of the defects of the EU ETS at the European-wide level, and would encourage the Government to continue to pursue these. However, it has to be recognised that the UK needs to move faster to renew its infrastructure than other countries in Europe, and there is a serious risk that a delay could expose UK consumers to volatile and probably higher energy prices.

14. Our recent investment decisions have been based on the assumption that the carbon price will be material. However, recent market prices have not reflected the true underlying value of carbon abatement. We do not believe that investors are making decisions on the assumption that long term carbon prices will be low. Instead we believe that investment decisions over the last decade have been influenced by the expectation that Governments will maintain their commitment to the need to act to mitigate climate change and that this will lead to a policy framework that establishes a credible carbon price. EDF Energy believes that there is widespread acceptance by both Governments and participants in the EU ETS that such a credible price is some way above the current EU ETS price. The carbon price floor mechanism is a positive step forward in formalising this implicit assumption and will provide greater certainty for investors.

15. The specific impact of the carbon price floor on individual generators depends on the carbon intensity of their plant mix. It penalises those companies whose generation mix has a higher-than-average carbon intensity, and who as a result have higher carbon emissions. As we have highlighted above, this is exactly what such environmental taxes are designed to achieve. The range of technologies that will benefit from the introduction of the carbon price floor includes all low carbon technologies, such as nuclear, renewables and fossil plant with Carbon Capture Storage (CCS). It is generally accepted that all three technologies are likely to be required for the country to make the transition to low carbon economy. If the carbon price floor works as intended, then it will simply be maintaining the price signal that the EU ETS was meant to provide.

16. The carbon price floor will not only encourage investment in new low carbon generation, but will also support investment in a range of measures, including energy efficiency upgrades and increased biomass co-firing. It will also be factored into our investment plans for the life extension of our existing nuclear fleet. For example, EDF Energy’s objective is to extend the lives of our existing AGR nuclear fleet by an average of five years (as we announced last year for Heysham 1 and Hartlepool) and Sizewell B by 20 years. This will entail investment of around £300 million per year. Further plant life extension could help avoid around 4GW of new fossil generation required in the UK before 2018, and has the added benefit of retaining a skilled operational workforce.

17. The carbon price floor will also act to reduce the emissions from the existing plant mix by ensuring that a stronger price signal is factored into day to day operational decisions, and this is consistent with the environmental aims of the proposal. Like many generators, EDF Energy operates a diverse portfolio of generation assets, including coal, renewable and nuclear generation. As the carbon floor is introduced, and our investment in a new, highly efficient CCGT gas plant in Nottinghamshire comes on line, we will expect to use our existing coal stations less, and our low carbon generating assets more.

20 April 2011

²¹ Michael Grubb and Karsten Neuhoff, Allocation and Competitiveness in the EU Emissions Trading Scheme: Policy Overview, June 2006, p11

²² DECC, Carbon valuation in UK policy: A Revised Approach, July 2009

Written evidence submitted by the Mineral Products Association

PART ONE. THE IMPACT OF CARBON TAXATION

1. Summary

1.1 The UK mineral products industry provides essential materials needed to supply UK economic growth and play a critical role in the sustainable solutions necessary for a low carbon economy.

1.2 Considerable early action has been taken in the mineral products sector. The cement industry has decoupled economic growth and environmental impact.

1.3 The UK Portland cement industry has reduced absolute CO₂ emissions by 58% between 1990 and 2009, outstripping the UK economy as a whole. Between 1998 and 2009 total cement emissions have reduced by 52% (21% reduction per tonne of output), whilst over the same period economic growth²³ in the sector has increased by 55%.

1.4 The 2011 Budget will add increased environmental taxation to mineral product producers. This additional tax is not counteracted by an equivalent reduction in non-environmental taxation.

1.5 The additional costs on small, medium and large businesses in the UK mineral products supply chain will inhibit growth, threaten jobs and leave some sub-sectors such as cement and lime vulnerable to carbon leakage.

1.6 Carbon leakage is not the way in which the UK should be achieving its UK carbon budgets as set out in the Climate Change Act. The UK should not increase its exportation of emissions whilst increasing its imports of manufactured goods.

1.7 The 2011 Budget missed an opportunity to minimise the risk of carbon leakage and promote the use of the UK's natural resources to supply the UK economy and therefore establish a secure and sustainable supply of local materials for the construction and allied industries.

1.8 Environmental taxes in 2013 will cost the UK cement industry at least £63.7 million (equivalent to £10/t cement).

1.9 The creation of natural accounts is unnecessary if materials are supplied in accordance with Responsible Sourcing standards. The mineral products sector has an excellent record of providing certified responsibly sourced materials.

2. Introduction

2.1 The Mineral Products Association (MPA) is the trade association for the aggregates, asphalt, cement, concrete, lime, mortar and silica sand industries. With the recent addition of The British Precast Concrete Federation (BPCF), it has a growing membership of 405 companies and is the sectoral voice for mineral products. MPA membership is made up of the vast majority of independent SME companies throughout the UK, as well as the nine major international and global companies. It covers 100% of GB Portland cement production, 90% of aggregates production and 95% of asphalt and ready-mixed concrete production and 70% of precast concrete production. Each year the industry supplies in excess of £5 billion of materials to the £110 billion construction and other sectors. Industry production represents the largest materials flow in the UK economy and is also one of the largest manufacturing sectors. For more information visit: www.mineralproducts.org

2.2 The inquiry into the Budget 2011 and Environmental Taxes is particularly relevant to the members of the Minerals Product Association because environmental taxation affects all aspects of our business. For example, the aggregates levy targets the sale of mineral products; carbon taxation affects mineralogical processes such as cement, asphalt and lime both directly and indirectly; and fuel duties affect the delivery to market of mineral and concrete products.

2.3 The evidence provided in this submission assesses the effectiveness of the principle environmental taxes affecting the sector and its relevance to low carbon economic growth and sustainable development in the context of the Budget 2011.

3. Direct Carbon Taxation

3.1 The Cement, Lime and Asphalt sectors are all directly affected by the EU Emissions Trading Scheme. Despite being listed as vulnerable to carbon leakage in the European Commission's assessment the EU ETS will add substantial costs to cement and lime manufacture from 2013 to 2020 (Phase III). In the cement sector the shortfall of free allocation created by challenging European benchmarks will add £54.5 million directly to the cost of UK manufacture or result in carbon leakage. Similarly, in the lime sector the Phase III allocation shortfall created by the EU cap on emissions will add £5.8 million to the cost of UK lime production at £30/tCO₂.

²³ Gross Value Added data from the Office of National Statistics for SIC code 26.51 Manufacture of cement

3.2 HMG should recognise that some UK sectors eg cement, are more vulnerable to carbon leakage than European counterparts in the same sector. Decisions on how rationalisations and capacity extensions that took place in Phase II of the scheme are treated in Phase III are part of particular concern.

3.3 The UK Government is supportive²⁴ of a move to a –30% EU GHG target but has not detailed how it intends to protect the UK economy from carbon leakage that will result in job and tax revenue losses. The 2011 Budget was a missed opportunity for the UK Government to commit to UK manufacturing, minimise carbon leakage and secure UK employment and the security of supply for essential basic materials.

3.4 All MPA members are also affected by the Climate Change Levy. From April 2011 the rate of rebate for sectors (such as cement and lime) with Climate Change Agreements was reduced from 80% to 65% and represents a significant additional burden for those sectors. The impact of this change for the lime and cement sectors is £1.8m/year added cost. In the 2011 budget the Chancellor committed to reinstating the 80% rebate on electricity only from 2013 for sectors that can achieve energy efficiency targets in new climate change agreements (CCAs). In the Budget the Government retained the 35% tax level on all other energy for those sectors with CCAs, so the move in the Budget to revert the electricity rebate to 80% favours those industries that have a greater proportion of electricity in their energy mix. In the cement sector around 90% of the energy use is from fuels and only 10% from electricity. The Climate Change Levy costs the cement and lime sector £4–5 million annually and the 80% rebate change on electricity will benefit cement and lime production by around £0.8 million. However, in both the cement and lime sectors considerable early action²⁵ has already been taken and meeting new energy efficiency targets will require new investment and/or purchases of CO₂ credits to offset the additional effort needed to meet the targets. The requirements of these new CCAs have yet to be published so the impact on costs of meeting new targets cannot be evaluated at this time.

3.5 Operations and activities in the mineral products sector that not covered by CCAs or EU ETS are impacted by the Carbon Reduction Commitment (CRC). The removal of revenue recycling from the CRC means that the scheme is effectively a complicated tax. Increased energy prices over recent years have shown that in many sectors simply increasing the cost does not lead to energy efficiency. CRC needs to be redesigned so that it is simplified and incentives rather than penalises companies to address energy efficiency.

3.6 It is vital that UK carbon budgets enshrined in the Climate Change Act are not met by exporting the UK's climate change obligation. Recent research²⁶ shows that the UK is becoming increasingly reliant upon imported goods and that the UK is exporting its climate change obligation. It would be perverse if locally sourced, locally produced and largely locally consumed materials such as cement were to suffer from carbon leakage due to excessive UK and EU taxation. Until there is a globally equal carbon price the cement and lime sectors should continue to receive free allocation in the EU ETS and should be compensated for the high electricity prices that the EU ETS provides.

4. Indirect Carbon Taxation

4.1 The Chancellor introduced a carbon price floor in the 2011 budget. This tax on fossil fuels used for electricity generation will have enormous consequences for major energy consumers in the mineral products sector. The £16/tCO₂ carbon floor price will add £4.94 tax in 2013 and this will add £2.76 million to the cost of cement manufacture (*Annex I*) and £0.36 million to the cost of lime manufacture in the UK.

4.2 In total, the membership of the MPA consumes around 1,500 GWh of electricity and the carbon price floor will add £4–5 million to our member's businesses.

4.3 The Government's stated position is that the Carbon Price Floor will increase to £30/tCO₂ in 2020 and if sectors vulnerable to carbon leakage are not protected from this additional cost the Carbon Price Floor will accelerate carbon leakage and damage the UK economy. It should be recognised that at CO₂ price of €25/tCO₂ all of the UK cement clinker production is vulnerable to carbon leakage,²⁷ similarly the cost of UK lime production would increase by more than 50% and would be vulnerable to off-shoring at a CO₂ price of €30/tCO₂.²⁸

4.4 The Government's own Impact Assessment identifies the cement and lime sectors as being the most heavily impacted by its Carbon Price Floor proposal. The Budget measures to stimulate growth such as the reduction in Corporation Tax and the restoration of Climate Change Levy relief are certainly important steps in the right direction, but for energy intensive businesses these are very small steps compared with the much larger and escalating impact of a guaranteed minimum price for carbon.

²⁴ Letter to the Guardian on 30% EU Emissions Cut from Chris Huhne and EU Environment Ministers. 14 March 2011

²⁵ The cement sector has improved its Climate Change Agreement energy efficiency by 45% between 1990 and 2010. The Lime sector has improved by 12% between 1998 and 2010.

²⁶ Helm, D et al. 2007. Too Good To Be True? The UK's Climate Change Record. 10 December 2007. Vivideconomics.co.uk

²⁷ 2008 BCG. ASSESSMENT OF THE IMPACT OF THE 2013–2020 ETS PROPOSAL ON THE EUROPEAN CEMENT INDUSTRY. Project report—Abstract for the UK. Boston Consulting Group

²⁸ 2008 NERA Potential Impacts of the EU ETS on the European Lime Industry Prepared for the European Lime Association. NERA 19 May 2008

5. Attempts to shift the balance between environmental taxation and non-environmental taxation

5.1 Climate change is important to mineral products such as cement and lime for two principle reasons; firstly because their manufacture emits CO₂ both directly and indirectly and secondly because the uses of mineral products in a low carbon economy can help to reduce greenhouse gas emissions.

5.2 The UK Portland cement industry has reduced absolute CO₂ emissions by 58% between 1990 and 2009, outstripping the UK economy as a whole. Between 1998 and 2009 total cement emissions have reduced by 52% (21% reduction per tonne of output), whilst over the period 1997–2007 economic value added²⁹ in the sector has increased by 55%. **Annex II.**

5.3 Environmental taxes and energy costs make up a considerable proportion of manufacturing costs (>40% of variable costs). **Annex III** shows that in the cement sector environmental taxes from the climate change levy, landfill tax, the carbon price floor and the shortfall in EU ETS free allocation will cost the cement manufacturers £63.7 million, equivalent to around £8.5/t of cement in 2013 based on 2009 activity levels. This cost could escalate to £188 million (£25/t cement) if free allocation in the EU ETS is removed and no rebate on the Climate Change Levy existed.

5.4 In the Budget 2011 the Chancellor attempted to balance the increase in environmental taxation with a reduction of 2% in corporation tax. The cement sector example in **Annex IV** shows that the reduction of corporation tax is estimated to be worth around £1.45 million but this does not compensate for the increased taxation on electricity producers from the Carbon Price Floor that will be passed directly through to consumers.

Annex I

CEMENT			
<i>Column note</i>	<i>Actual 2010 energy data</i>	<i>CCL Cost (£) at 65% rebate for all energy</i>	<i>CCL Cost (£) at 65% rebate for fuels and 80% for electricity</i>
Units	GJ (del)	GBP	GBP
Coal	15,613,568	2,532,544	2,532,544
Coke	0	0	0
Petroleum coke	523,546	84,920	84,920
Gas oil	279,462	0	0
LPG	5	0	0
Kerosene	52,914	0	0
Natural gas	256,412	39,637	39,637
Delivered electricity	3,726,843	1,652,247	944,141
Cement total	20,452,750	£4,309,348	£3,601,242

Value of 65% to 80% CCL rebate on Electricity
Cement £708,106

Estimated Electricity Bill (Using DUKES electricity cost)
Cement £72,466,385

Estimated CO₂ from Electricity consumption (using DEFRA CO₂ factor)
Cement (tCO₂) £558,364

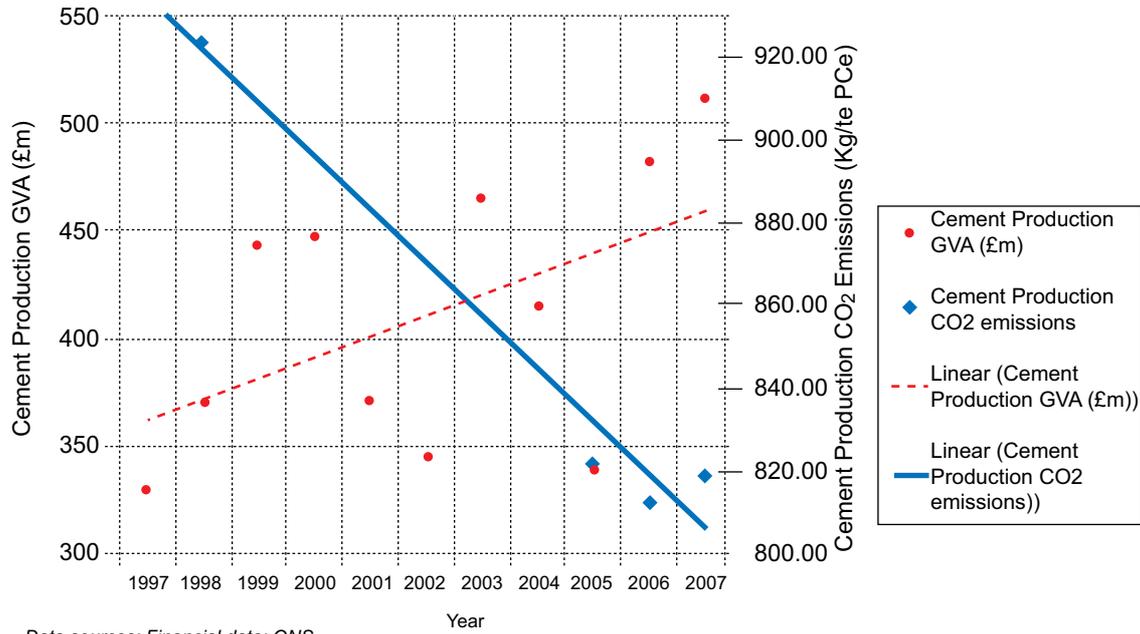
Estimated Cost of Carbon Price Floor at £4.94 per tonne CO₂
Cement (tCO₂) £2,758,318

Note:

This data shows that the reduced cost of the climate change levy rate is far outweighed by the added cost of the Carbon Floor Price.

²⁹ Gross Value Added data from the Office of National Statistics for SIC code 26.51 Manufacture of cement

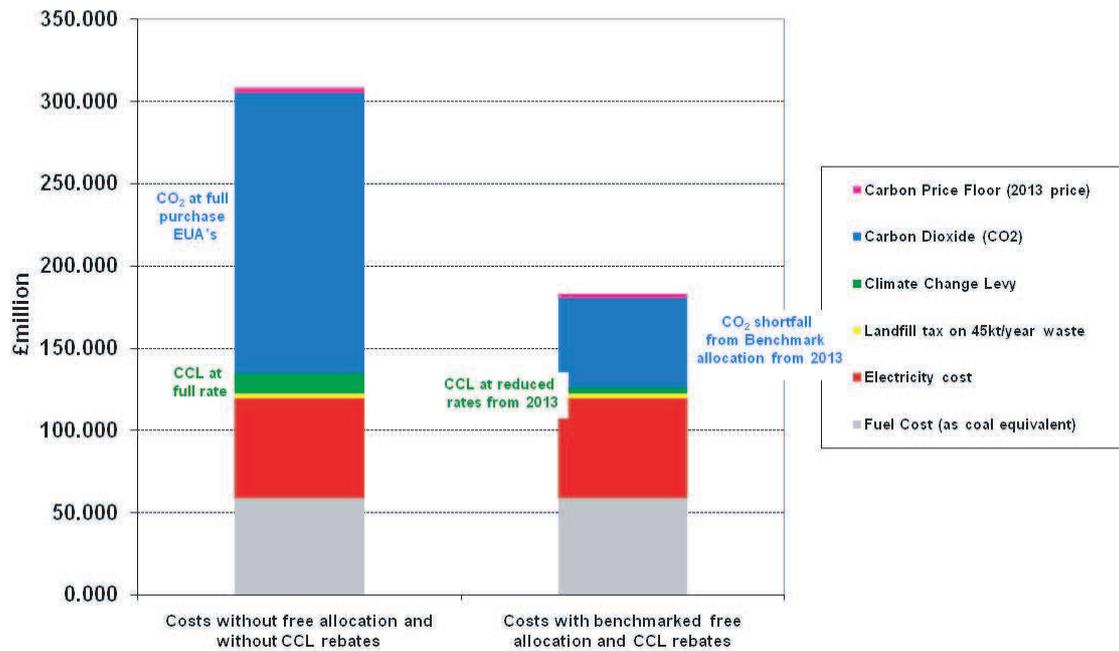
Annex II



Data sources: Financial data: ONS
Annual Business Inquiry Emissions data: MPA Cement

Annex III

2013 Estimated energy costs and environmental taxation for the manufacture of circa 7.5 million tonnes of cement using 2009 energy data



2011 BUDGET STATEMENT: SIMPLIFIED IMPACT ANALYSIS FOR CEMENT ON THE CORPORATION TAX CHANGE

UK CEMENT

	2010	Units	Notes/Assumptions
Estimated Sales (volume)	9,878,467	Tonnes	UK sales = GB sales + 10% inc imports
Estimated Sale Price per t	75	£/tonne	Sales price estimated at 70% of BIS Construction Statistics Annual price to account for bulk prices (£107/t in 2008 * 0.7)
Estimated Sales (Value)	739,897,166	£	
Estimated profit margin	10	%	profit estimated at 10%
Estimated gross profit	73,989,717	£	profit estimated at 10%
Estimated corporation tax at 40%	29,595,887	£	
Estimated corporation tax at 38%	28,116,092	£	
Value of corporation tax change (-2% tax)	1,479,794	£	

PART TWO. THE AGGREGATES LEVY AND AGGREGATES LEVY SUSTAINABILITY FUND

6. Summary

6.1 The aggregates levy provides a case history of the operation of an environmental tax, including lessons for future taxes.

6.2 The Aggregates Levy was introduced as a revenue neutral measure in 2002 with revenue used to finance the Aggregates Levy Sustainability Fund and a general 0.1% reduction in the rate of employers' national insurance contributions. (Employers' NIC rates were increased by 1.0% a year after the introduction of the aggregates levy.)

6.3 In spite of assertions in successive Budgets that the aggregates levy has been environmentally effective, there has been little substantive evidence presented to support such assertions and no open or transparent evaluation of the impacts of the levy by Government.

6.4 The Aggregates Levy Sustainability Fund (ALSF) was designed as the means by which the aggregates levy delivered environmental and sustainability improvements to local communities and more broadly.

6.5 The disengagement of the ALSF (managed by Defra) from the Aggregates Levy (managed by HM Treasury) has undermined the Aggregates Levy policy announced in Budget 2000 and introduced in 2002.

6.6 Defra funding for the ALSF has been persistently lower than the value of the ALSF originally announced by HM Treasury.

6.7 The ALSF has been ended by Defra in spite of independent evidence of the fund's environmental success to date and "*potentially more significant gains in the longer term*".

7. Introduction

7.1 MPA members have direct experience of a range of environmental taxes and market measures and the aim of this part of the submission is to focus on the experience to date of the aggregates levy, introduced in April 2002. This experience may be of wider interest in the context of designing and implementing other environmental taxes. In the 2011 Budget the planned indexation increase in the rate of the aggregates levy was postponed for a year, but of greater environmental significance an integral element of the aggregates levy package introduced in 2002, the Aggregates Levy Sustainability Fund (ALSF) in England, was ended in 2010-11. The demise of the ALSF was not mentioned in the Budget, but announced on the ALSF section of the Defra website just before Christmas 2010 and subsequently in parliamentary answers.

8. The Aggregates Levy—has it achieved its environmental purpose?

8.1 The 2000 Budget (6.91) stated that the purpose of the Aggregates Levy was "to ensure that the environmental impacts of aggregates production not already addressed by regulation are more fully reflected in prices, encouraging a shift in demand away from virgin aggregate towards alternative materials such as recycled aggregates." The 2008 Budget included a table summarising the impact of the levy as "an 8% reduction in sales of aggregates in the UK between 2001 and 2005" and "an increase of nearly six million tonnes of recycled aggregates in England. Reductions in noise and vibration, dust and other emissions to air, visual intrusion, loss of amenity and damage to wildlife habitats."

8.2 From these and similar comments the objectives of the levy can be summarized as follows:

- To reduce the physical environmental impacts of aggregates supply.
- To ensure that the price of aggregates should fully reflect the full external costs of supply.
- To increase the supply of recycled materials in aggregates markets.

9. *Have the environmental impacts of aggregates supply been reduced significantly by the aggregates levy?*

9.1 The aggregates levy is a production tax and not a tax levied on environmental impacts. The Government argument that the levy has reduced environmental impacts is based on the assumption that the level of aggregates production is a proxy for the level of environmental impacts, hence the claim (paragraph 8.1) that the levy has reduced noise and other impacts.³⁰

9.2 This claim has been made consistently in Budgets without being informed by any sectoral research or analysis. To quote from a report³¹ by the European Environment Agency from 2008; *“In the United Kingdom, there was no quantitative data available to show any improvement (in environmental impacts). This was because of the lack of any measures in place. Neither Government nor industry provided any evidence to show that the aggregates tax brought about reductions in noise and vibration; dust and other emissions to air; visual intrusion; loss of amenity and damage to wildlife habitats.”*

9.3 We believe that the industry’s environmental performance has improved significantly over the past decade, due to a combination of regulation and industry action. There is no mechanism within the operation of the levy in Great Britain for distinguishing between different levels of environmental performance nor to encourage higher standards. To provide an illustration of industry action, The 2010 MPA Sustainable Development Report indicates that 81% of aggregates sites surveyed have certified environmental management systems. The limited environmental assessment made by Government also ignores the contribution that the industry makes to sustainability and nature conservation through the restoration of sites. The calculation of monetary values for industry environmental impacts which underpins the levy³² discounted any long term benefits arising from site restoration. Industry performance was described in January 2011 by Poul Christensen, Chairman of Natural England as follows:

“I salute the minerals industry in the way you do conservation; working with local people and conservationists to transform mineral sites into new habitats for wildlife, new business opportunities and new places for people to enjoy...”

9.4 While there is increasing evidence that the aggregates industry’s environmental performance is improving there is no evidence to support government’s contention that the aggregates levy has contributed in any significant way to such improvements.

10. *Does the price of aggregates as a result of the aggregates levy fully reflect the full external costs of supply?*

10.1 The original levy rate of £1.60 per tonne was based on a survey process³² used to establish the price individuals would be prepared to pay through additional tax payments in order to close the local quarry in the survey locations and to end quarrying in national parks (although those surveyed knew that this tax cost would not in practice arise—it was a hypothetical exercise). The monetary values calculated through the survey process, known as “contingent valuation”, were then scaled up by the population of quarries in the UK and a value/cost of £1.60 per tonnes of aggregates produced generated.

10.2 The use of this survey methodology to establish an environmental cost of aggregates supply was fundamentally flawed, for example through the assumption that the restoration of quarry sites provides zero environmental benefits, and to the best of our knowledge has never been used again to inform the level of environmental taxation in the UK. As such the initial levy rate was not based on a rigorous nor reasonable assessment of the external costs of supplying aggregates.

11. *Has the supply of recycled materials in aggregates markets been increased significantly by the aggregates levy?*

11.1 Appendix one to this part of the MPA submission includes a time series of the GB aggregates sales from primary and recycled sources. Government claims that the levy led to *“an 8% reduction in sales of aggregates in the UK between 2001 and 2005”* and *“an increase of nearly six million tonnes of recycled aggregates in England.”*³³

11.2 The GB data in the appendix confirms that sales of primary aggregates have declined since 2000, most notably in the recent recession years, and that sales of recycled materials have been relatively more robust. However, the extent to which this is due to the aggregates levy is unclear. There has been an evident trend of

³⁰ 2008 Budget Table 6.2

³¹ Effectiveness of Environmental Taxes and Charges for Managing Sand, Gravel and Rock Extraction in Selected EU Countries. European Environment Agency report No 2/2008 (page10)

³² The Environmental Costs and Benefits of the Supply of Aggregates: final report by London Economics for the Department of the Environment Transport and the Regions, May 2009

³³ 2009 Budget paragraph 7.67

increase in the supply of recycled materials in GB aggregates markets since the mid 1990s due to a range of factors such as the increasing cost of landfill and more efficient construction practices, and the change in this trend growth since 2002 is relatively marginal. No doubt the aggregates levy has made some contribution to this trend but there is no quantified evidence of the significance of the impact.

11.3 In terms of value for money the impact of the levy in generating additional sales of recycled materials in aggregates markets is questionable. The costs to construction clients (who ultimately pay for the levy through higher material and construction costs) of the aggregates levy have been in the order of £350–£400 million pa. The evidence suggests that the marginal additional supply of aggregates that could reasonably be attributed to the levy is probably up to one million tonnes pa—and probably now less as we are closer to maximising the available supply—therefore the additional recycled tonnage which can be attributed to the levy has come at a very high cost to construction and aggregates clients, 40% of whom are in the public sector.

12. *The role of the Aggregates Levy Sustainability Fund (ALSF) and the implications of Government's decision to end the ALSF in 2010–11*

12.1 The decision to implement the ALSF with the Aggregates Levy was set out in the 2000 Budget as follows: 6.94 To further the Government's aim of shifting the burden of taxation from "goods" to "bads", the revenues from the levy will be fully recycled to the business community through a 0.1 percentage point reduction in employers' NICS and a new Sustainability Fund. The Government will be consulting shortly on how this fund can best be used to deliver local environmental improvements.

12.2 The 2000 Pre Budget Report confirmed the value of the ALSF "the Government has decided to allocate £35 million to the new Sustainability Fund that will be introduced alongside the aggregates levy in April 2002." Of this total £29.3 was allocated to England, with the fund to be administered and distributed by Defra.

12.3 The ALSF was introduced as an integral part of the aggregates levy package in recognition of the fact that the levy itself would deliver little direct environmental benefit, but the targeting of a proportion of aggregates levy revenue could support environmental and sustainability improvements if distributed through organisations such as Natural England, English Heritage, WRAP and for local community projects in quarrying areas. It was described in an independent evaluation³⁴ of the ALSF carried out for Defra in 2010 as follows: "The levy has been described as a blunt instrument as it is not differentiated by location or material. Therein lies the rationale for the ALSF, which was introduced concurrently with the levy. By targeting a proportion of the levy at the sources and impacts of aggregates extraction, the Fund maximises the reduction of, and compensation for, its environmental externalities."

12.4 The independent evaluation referred to in the previous paragraph concluded:

"Over the period 2008–11 the ALSF stands to make an important contribution to its overarching objective to reduce the environmental footprint of aggregates extraction, and make measurable progress under each of the five themes. The fund will generally deliver good value for money with potentially more significant gains in the longer term. Notwithstanding the ALSF's significant achievements to date, there remains a strong case for further funding for knowledge and data management; targeted research and practical or site-based assistance to address national priorities; facilitation of further-improved co-ordination, collaboration and behavioural change, and to deliver further benefits to local communities."

12.5 The use of the ALSF has generated real benefits to local communities in quarrying areas, has supported positive outcomes for nature conservation, heritage, the marine environment, carbon reduction and recycling and research activity.

12.6 In spite of these benefits and the evaluated value for money of the ALSF programme since 2002, Defra advised in early 2011 that "*the ALSF did not*³⁵ *represent a core activity for the Department, and therefore, funding could not continue beyond the current financial year*" and that "*no specific consultations were undertaken on the decision to discontinue the Aggregates Levy Sustainability Fund (ALSF)*".

12.7 Defra also sought to justify the decision to end the ALSF on the basis that "*the two are separate—in that the levy does not pay directly for the fund.*"³⁶

12.8 The clear problem which has arisen is that the ALSF, while an integral element of the Aggregates Levy policy, became disengaged from the Levy. Defra ended the ALSF because it was not "*a core activity*", therefore removing the most valuable environmental and sustainability outcomes arising from the aggregates levy policy. The overall principles and design of the Levy set out in the 2000 Budget and implemented in 2002 have been undermined by this Defra decision.

13. *The Distribution of the Aggregates Levy Sustainability Fund in England*

13.1 The ALSF in England has been administered by Defra with funds allocated to a number of distributing bodies. Although it was announced originally that the ALSF would be worth £35 million pa (£29.3 million in England) the amount of money allocated by Defra has been consistently below this level of funding. As the

³⁴ ALSF 2008–11 Evaluation for DEFRA IHPR MAY 2010

³⁵ Parliamentary Answer—See Appendix 2

³⁶ Parliamentary Answer—See Appendix 2

ALSF is a Defra cost and not ringfenced, any money not spent on the ALSF has been retained for use in other Defra budgets.

13.2 Actual ALSF spending has in general been lower than the annual ALSF allocations for reasons including the difficulty in reconciling some project expenditure with annual cycles of spending allocations. During the course of the ALSF some flexibility in the use of the fund was introduced to enable longer term planning and programming of projects.

13.3 The use of the ALSF since April 2002 is summarised below:

ALSF FUNDING ALLOCATIONS AND SPENDING IN ENGLAND 2002–03 TO 2010–11

£ million

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Year 6</i>	<i>Year 7</i>	<i>Year 8</i>	<i>Year 9</i>	
	<i>2002–03</i>	<i>2003–04</i>	<i>2004–05</i>	<i>2005–06</i>	<i>2006–07</i>	<i>2007–08</i>	<i>2008–09</i>	<i>2009–10</i>	<i>2010–11</i>	<i>Total</i>
Universities	0	0	0	0	0	0	0	0.5		0.5
EA	0	0	0	0	0	0	0.4	0.55	0.35	1.3
ACRE	0	0	0	0	0	0.5	0.5	0.55	0.05	1.6
British Waterways	0	0	0	0	0	0	2	0	0.4	2.4
Carbon Trust	0	0	0	0	0	0	0.8	2.25	1.55	4.6
DfT	0	0	2.5	4.1	2.8	1	1.3	0.9	0	12.6
CEFAS (marine fund)	0	0	0.8	1.3	0.9	2.5	4	4.3	3.2	17
Local Authorities	0.8	0.8	0.5	3.8	2.7	2.8	3	3	3	20.4
MIRO	3.7	3.5	2.1	3.5	2.4	1.5	0.5	1.4	1.1	19.7
English Heritage	5.5	4.2	3.3	4.9	3.4	4.3	1.5	1.95	1.65	30.7
WRAP	7.2	8.9	4.8	7.8	5.4	2.7	6.3	3.45	2.35	48.9
Natural England	10.4	8.4	6	6.7	4.7	5.1	3.8	4.6	3.5	53.2
<i>Original Allocation level</i>	<i>29.3</i>	<i>263.7</i>								
Total Allocations	27.6	25.8	20	32.1	22.3	20.4	24.1	23.45	17.15	212.9
Actual Spend	17.9	19.2	19.5	25.4	19.6	19.7	24	22.8	17.15	185.25
<i>Defra retention</i>	<i>11.4</i>	<i>10.1</i>	<i>9.8</i>	<i>3.9</i>	<i>9.7</i>	<i>9.6</i>	<i>5.3</i>	<i>6.5</i>	<i>12.15</i>	<i>66.3</i>

“Defra retention” compares the original allocation level of £29.3 million pa with actual ALSF spending, the balance or “Defra retention” being used for non ALSF purposes.

2010–11 figures are estimates derived from the ALSF 2008–11 evaluation carried out for Defra by IHPR (November 2011)

14. Conclusion

14.1 There is and has been a failure of Government to carry out any rigorous assessment of the environmental impact and effectiveness of the aggregates levy since its introduction in 2002. In successive Budgets Government has made repeated assertions about the environmental effectiveness of the levy while offering only superficial evidence for such claims or no evidence. No benchmarks or quantified objectives have been published for the levy. These failures have magnified the wholly unsatisfactory methodology used to calculate the original levy rate, notably the lack of consideration of long term benefits arising from the restoration of quarry sites.

14.2 These shortcomings have been compounded by the decision of Government to end the most environmentally productive element of the levy, the ALSF. This decision highlights the danger of having two elements of the same policy instrument managed by different Government departments (ie Aggregates Levy by HM Treasury and the Aggregates Levy Sustainability Fund by Defra) with potentially inconsistent policy decisions.

14.3 The operational history of the Aggregates Levy provides lessons that environmental taxes and measures are unlikely to be regarded as environmentally credible unless these are proportionate to the environmental impact, have clear and transparent objectives and the impacts of the tax or measure are regularly assessed in a clear and transparent manner. It would also seem to be an unsatisfactory situation when a decision of one Department undermines the tax principles set out by another Department.

APPENDIX 1

GB AGGREGATES SALES 1980–2010—MILLION TONNES PA

	<i>Primary aggregates</i>	<i>Recycling</i>	<i>Total Aggregates</i>
1980	199	20	219
	182	18	200
	194	19	213
	213	21	234
	211	21	232
1985	217	22	239
	228	23	251

	<i>Primary aggregates</i>	<i>Recycling</i>	<i>Total Aggregates</i>
	254	25	279
	291	29	320
	300	32.0	332
1990	278	33.0	311
	246	34.0	280
	233	35.0	268
	239	37.0	276
	259	39.0	298
1995	241	42.0	283
	215	45.0	260
	220	48.0	268
	218	51.0	269
	221	54.0	275
2000	219	57.0	276
	222	60.0	282
	210	62.0	272
	203	64.5	268
	214	67.0	281
2005	204	66.6	271
	207	68.7	276
	209	70.5	280
	187	68.5	256
	147	56.5	203
2010	148	57.6	206

Sources ONS, DCLG, WRAP, MPA

APPENDIX 2

ALSF PARLIAMENTARY ANSWERS—1 FEBRUARY 2011

Martin Horwood:

To ask the Secretary of State for Environment, Food and Rural Affairs what recent assessment she has made of the Aggregates Levy Sustainability Fund; and if she will make a statement.

Richard Benyon

An independent evaluation of the Aggregates Levy Sustainability Fund (ALSF) programme of work for the years 2008–11 was recently carried out by the in-house policy resource unit. Overall, the evaluation was positive in that the programme delivered against its objectives and did provide value for money. The evaluation can be viewed on the DEFRA ALSF web pages at:

<http://www.defra.gov.uk/environment/quality/land/aggregates>

However, during the spending review, and against other departmental priorities, DEFRA concluded that the ALSF did not represent a core activity for the Department, and, therefore, funding could not continue beyond the current financial year. This decision should not detract from the excellent work that has been undertaken by delivery partners, and for which the Department is very grateful.

Martin Horwood:

To ask the Secretary of State for Environment, Food and Rural Affairs what consultations her Department has conducted on the Aggregates Levy Sustainability Fund in the last 12 months.

Richard Benyon

No specific consultations were undertaken on the decision to discontinue the Aggregates Levy Sustainability Fund (ALSF) which was taken in the light of broader departmental spending priorities as part of the spending review. However, an independent evaluation of the ALSF programme of work for the years 2008–11 was recently carried out by the In House Policy Resource unit, and the results are available on the ALSF pages on the DEFRA website at:

<http://www.defra.gov.uk/environment/quality/land/aggregates/>

All the relevant delivery partners, industry and professional bodies were consulted through the process of drawing this evaluation together.

20 April 2011

Written evidence submitted by Sustrans

ABOUT SUSTRANS

Sustrans makes smarter travel choices possible, desirable and inevitable. We're a leading UK charity enabling people to travel by foot, bike or public transport for more of the journeys we make every day. We work with families, communities, policy-makers and partner organisations so that people are able to choose healthier, cleaner and cheaper journeys, with better places and spaces to move through and live in.

SUMMARY

- Transport plays a key role in all our lives. It has transformed our outlook and has had a massive impact on our quality of life yet but the transport sector in the UK is responsible for a significant proportion of emissions. Transport policy therefore has a strategic role to play in the challenge to reduce carbon emissions and mitigate oil dependency.
- The Prime Minister's aspirations for the coalition to be the "greenest government ever" have been well documented though actual green credentials less able to identify. The Chancellor's 2011 highlighted a weak commitment to "green" issues and appeared to be heavily influenced by the "end of the war on the motorist".
- Environmental taxes offer the potential for behavioural change and modal shift and consequently may offer an important part of wider government strategy towards reducing the onset and impact of climate change, but research shows that such taxes require transparency and must be designed to improve rather than worsen inequality.

RECOMMENDATIONS

- Environmental taxes should be used to reward, rather than punish behaviour.
- Revenues from fuel duty should be ring-fenced and invested increasing people's travel choices and make it easier for people to walk, cycle and use public transport.
- Additional support from national government, local government or business may be required to create an environment that enables people to travel sustainably.
- Environmental taxes must be positively communicated so as to ensure that the public understand the rewards that the taxation gives and are encouraged to change their behaviour.

1. SUSTRANS

Overview

1.1 Sustrans is the charity that's enabling people to travel by foot, bike or public transport for more of the journeys we make every day. Our work makes it possible for people to choose healthier, cleaner and cheaper journeys, with better places and spaces to move through and live in.³⁷

1.2 Sustrans was founded in 1977 partly in response to emerging evidence at the time about the threat of "global warming", as it was popularly termed then. We believe that now more than ever before, we have an urgent collective responsibility to reduce our contribution to climate change by changing the way we travel. Sustrans is committed to creating an environment in which people can make low and zero carbon transport decisions every day.

1.3 We welcome the opportunity to respond to this Environmental Audit Committee inquiry into the 2011 Budget and environmental taxes. As the expected impact of the March 2011 budget begins to unfold it is vital that select committees ensure the government is able to maintain its commitments across all policy areas.

Sustrans and Climate Change

1.4 The latest scientific information from the Intergovernmental Panel on Climate Change—the largest body of expert climate scientists from around the world—shows that climate change is the biggest challenge facing us all today. Sustrans supports swift and decisive action to reduce greenhouse gas emissions, to prevent catastrophic climate change. The urgency of our work, to put in place low and zero carbon transport solutions, is informed by the ever-increasing scientific literature on climate change, and the moral imperative of adopting a precautionary approach, considering the global impacts of catastrophic climate change.

1.5 The rate of change in predictions as to what degree of greenhouse gas emission reductions we need, and by when, is alarming, and only serves to increase the urgency for change. The need to transform travel behaviour towards low and zero carbon solutions is only made more urgent by the data surrounding peak oil—by some predictions, we have already passed the point where conventional oil production has peaked; by other predictions, we will pass this point before or by 2015. As oil becomes ever more expensive as supply declines compared to demand, this has the potential to increase pressures on more climate polluting sources of fossil fuels, such as coal, or marginal oil production methods such as tar sands. The sooner we reduce our oil dependency for transport, the faster we can reduce our contribution to catastrophic climate change.

³⁷ www.sustrans.org.uk

1.6 Sustrans believes that the UK Government should be aiming for a policy target of zero greenhouse gas emissions by 2050, or sooner if possible, across all sectors (not just transport). The target of zero greenhouse gas emissions is also set by the Intergovernmental Panel on Climate Change (IPCC), who argue that we should be aiming globally for zero emissions by 2060.³⁸

1.7 Sustrans believes that different sectors should all be working towards carbon reduction targets—no one sector should be allowed to mitigate the effects of another. So for instance, Sustrans does not support investment in walking and cycling if it is done to offset the pressures caused by an escalating demand for air travel, and its associated increases in greenhouse gas emissions. Every sector must play its part in reducing greenhouse gas emissions. Strategy and planning for different sectors then needs to start with these carbon reduction targets, and budgets for implementation need to clearly deliver results towards these sectoral targets.

Sustrans and Peak Oil

1.8 Clearly our way of life, particularly how we transport ourselves, is currently hugely dependent on cheap, readily available oil supplies. Sustrans promotes sustainable transport solutions which can help to dramatically decrease our reliance on oil. Sustrans is keen to ensure that the solutions we promote, and demonstrate through a wide range of projects changing travel behaviour to increase walking and cycling wherever possible—are developed fast enough, and on a big enough scale, to provide solutions to the problems presented by loss of access to cheap oil and rising fuel prices.

1.9 Sustrans believes that one of the ways we can adapt to living in an oil-scarce world is by choosing to walk and cycle wherever feasible. Ultimately, this will require us to reduce the need to travel long distances, and also to reduce the need to travel at high speeds. These two changes—travelling less far, and less fast—will require major changes in many aspects of our lives. There are a number of other ways people can prepare and adapt for an oil scarce future—Sustrans' focus is on the changes we can all make in our personal travel choices.

1.10 One of the most effective means the Government has of constraining emissions from road transport is to reduce reliance on car use through planning regulations which can shape the areas in which people live. The Department for Transport (DfT) and the Department for Communities and Local Government (DCLG) must work more closely together to ensure that new developments, especially in the housing growth areas, are designed to minimise car use. Planning policy, in particular, should include specific measures for reducing road journeys.

1.11 Progress to date indicates both that reducing carbon emissions from transport is particularly challenging, and that the DfT needs urgently to accelerate its efforts: transport is the only sector of the UK economy in which carbon emissions were higher in 2004 than the baseline year of 1990, and the only sector in which emissions are projected to be higher in 2020 than in 1990.³⁹

1.12 The fuel duty escalator, put in place under the previous Conservative government,⁴⁰ has played an important role in helping to reduce the increase in CO₂ emissions from road transport. Given the transport sector continues to present seemingly intractable problems of emissions growth, the Government and sensitivity around the issue of fuel pricing, particularly at a time of high oil prices, there can be few more urgent issues on which those who have argued for an all party consensus on climate change policy should now focus their attention.

2. BUDGET 2011

2.1 The chancellor's 2011 budget⁴¹ could have used the recession as a reason to build a greener, cleaner and more sustainable economy, creating jobs and tackling climate change. In practice, the budget failed to exemplify the well-documented green aspirations of the coalition government, instead providing an incentive to use more oil, just as we might be heading towards an oil crisis.⁴² The fuel duty escalator has been abolished, fuel tax for vehicles has been cut, air passenger duty rates have been frozen and a tax on planes that would have discouraged airlines from running them half-empty has been dismissed. These measures send the clearest possible signal that intentions to reduce oil dependency have been downgraded.

2.2 A particularly concerning element of the budget was the abolition of a social contract dating back to 1947,^{43,44} which ensured that developers, through the planning laws, were accountable to the people. Notwithstanding the unorthodox location of the detail referred to as sustainable development, the change undermines the commitment to local control emphasized regularly⁴⁵ in coalition policy doctrine. In effect, the change presents yet another barrier to communities trying to prevent large corporation domination of local areas.

³⁸ <http://ec.europa.eu/environment/air/pollutants/stationary/ippc/index.htm>

³⁹ <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmenvaud/981/981-i.pdf>

⁴⁰ <http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snbt-03015.pdf>

⁴¹ <http://www.hm-treasury.gov.uk/2011budget.htm>

⁴² <http://www.guardian.co.uk/environment/georgemonbiot/2011/mar/23/budget-green-fuel-duty-planning>

⁴³ The Town and Country Planning Act 1947

⁴⁴ <http://colinbuchanan.wordpress.com/2011/03/23/budget-%E2%80%93-planning-and-transport-issues-the-details/>

⁴⁵ <http://www.communities.gov.uk/statements/localgovernment/localismbill>

2.3 The Green Investment Bank will now start borrowing to the start of financial year 2015–16. In effect this means that the Chancellor will not, unless he remains chancellor beyond that point, take responsibility for a measure that will contribute to the national debt, but prefers to pass it on to his successors.

2.4 The budget was disappointingly regressive and has the potential to undermine not only progress on “green” agendas but also the government’s own tendency towards devolved control. It demonstrates that the government promises to protect the environment were not thoroughly integrated across government policy.

3. ENVIRONMENTAL TAXES

Overview

2.5 Environmental taxation has been regularly misrepresented in Britain. Government has failed to combine environmental or green taxes with direct and ring-fenced funding to support the preferred behaviours which the taxes are designed to encourage. Environmental taxation, at its most effective, should not generate any revenue and should therefore not be used to replace alternative modes of taxation such as income tax.

2.6 Before the 2010 elections, the Liberal Democrats indicated an inadequate understanding of environmental taxation. Their “green tax switch”⁴⁶ announced last September promised to “cut income tax and switch to green taxes on pollution instead”. As the UK relies on income tax to fund schools, hospitals and public services, replacing this funding with eco-tax revenue either implies a desire to continue polluting so as to keep the revenue coming in, or indicates a reduction in spending for schools, hospitals, public services and so on.

Environmental Taxes: Transport

2.7 Britain should be a particularly responsive environment in which to apply environmental taxation as a means to achieve significant modal shift. Of course there are some journeys which need to be made by car and which will continue to require private motorised transport, at least in the foreseeable future. But 23% of car journeys are less than two miles long and 56% less than five miles⁴⁷ and government should be focusing on making it possible for the majority of those journeys to be made by other modes such as walking, cycling and public transport.

2.8 There are a whole host of journeys we make for example to the out of town supermarket or to the post office in the next town which could be removed from oil dependency if we looked more holistically at policy decisions.⁴⁸ Land use planning,⁴⁹ investment from health, and a more coherent understanding of school travel are all policy areas which could significantly reduce the number of journeys we currently need to make by car.

2.9 In the UK, the adoption of fuel tax as a transport demand measure formally took place in 1992 when the Conservative government replaced the UK’s 10% Car Purchase Tax with the *Fuel Duty Escalator*.⁵⁰

2.10 The principle of the Fuel Duty Escalator was that Road Fuel Duty would be increased annually at above the rate of inflation, initially by 5% per annum and, from 1997, 6% per annum. This was coupled, for example, with the 1996 policy for regulated rail fares to rise at 1% *below* the rate of inflation, thus over time increasing the real cost of travel by car and reducing that of rail. Other European countries have also adopted a policy to raise the overall price of road fuels, in some cases with an increase in public transport subsidies to reduce fares and/or considerable investment in public transport capacity. The Netherlands is a prime example of this. Fuel duty has thus emerged as a policy instrument to promote modal shift.

2.11 The effectiveness of the imposition of fuel duty as a general pricing mechanism will depend on the context in which it is applied. As noted above, some countries have combined a policy to increase fuel duties with subsidies to reduce public transport fares (or the rate of fare rises). So, the impact of fuel duties will be dependent on the overall pricing context. Fuel Duties would be expected to have a stronger impact if there were complementary policies to reduce public transport fares (and also increase public transport availability) and a political and financial commitment towards increasing levels of walking and cycling.

2.12 In the UK, the general context has been one where, compared to other European countries, both fuel duties and public transport fares are high and investment in walking and cycling has not seen significant and focused commitment. Even the 1996 policy to limit the increase in (already high) regulated rail fares was reversed in 2002 to increase fares at 1% above inflation (coupled with a funding decision to also raise London bus and Underground fares above inflation in order to help finance service improvements). So the UK context is one where the modal shift impact of high fuel duties has been subdued.

2.13 Furthermore, governments have been inconsistent in the way that motoring taxes have been justified. Fuel duty has been presented, at different times, as a tool to reduce carbon emissions, a source of general revenue, and a means to fund transport investment. This approach has undermined the potential which

⁴⁶ http://www.libdems.org.uk/economy_detail.aspx?title=Zero_Carbon_Britain_%E2%80%93Taking_a_Global_Lead&pPK=bb5f4eb7-cf45-4d89-897c-5315e6cb18cd

⁴⁷ <http://transitionculture.org/wp-content/uploads/lga-report.pdf>

⁴⁸ <http://www2.cege.ucl.ac.uk/cts/shtrp.asp>

⁴⁹ http://www.geocomputation.org/2003/Abstracts/Strauch_Abs.pdf

⁵⁰ <http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snbt-03015.pdf>

environmental taxation has to reduce the negative impact which the current transport system has on the environment.

2.14 In their 2009 report “Taxes and Charges on Road Users”, the Transport Select Committee stated that:

Taxation policy can have a significant effect on the impact of transport on the environment. Transport contributes about 23% of UK domestic carbon dioxide (CO₂) emissions and road transport is responsible for 93% of this. The Climate Change Act 2008 commits the Government to reducing emissions CO₂ by 80% by 2050 and transport will have to contribute to this reduction. The Department for Transport’s objectives include commitments to reduce congestion, CO₂ emissions and pollutants, as well as road casualties. Fuel duty, Vehicle Excise Duty (VED) and other taxes and charges can, to varying extents, be used to help achieve these objectives.⁵¹

2.15 Fuel duty is, in most respects, the better way to raise revenue, to encourage fuel efficiency and reduce CO₂ emissions. Those who consume the most and pollute the most, pay the most. Unfortunately the public are distrustful of government on this issue and will need to see an improvement in the consistency and transparency with which environmental taxes are handled.

20 April 2011

Written evidence submitted by TUI Travel PLC

TUI Travel PLC is the world’s leading international leisure travel group operating in approximately 180 countries worldwide. It serves more than 30 million customers in over 27 source markets. Headquartered in the UK, the Group employs approximately 49,000 people and operates a pan-European airline consisting of 143 aircraft. The company is organised and managed through four business Sectors: Mainstream, Specialist & Activity, Accommodation & Destinations and Emerging Markets. In the financial year ended 30 September 2010 TUI Travel had revenues of £13.5 billion and an underlying operating profit before tax of £447 million. TUI Travel UK brands include Thomson, First Choice, Hayes & Jarvis, Exodus, LateRooms.com, Crystal and Thomson Airways.

We appreciate the opportunity to respond to the inquiry into the environmental impact of the Budget 2011 and green taxes.

GENERAL

TUI Travel was disappointed that the Budget 2011 did not deliver on the coalition Government’s promise “We will reform taxation of air travel by switching from a per-passenger to a per-plane duty,.....”.⁵²

Additionally we are concerned that the quantum of taxation levied upon travel by air will not assist the Government agenda for growth. Air Transport is a significant driver for the economy supporting 3.8% of UK GDP and providing 963,000 jobs, representing 3.3% of the UK workforce. When tourism is included, these figures rise to 5.7% of UK GDP and 1.5 million or 5.1% of the workforce.⁵³ While we welcome, therefore, the freezing of APD rates for this year, we are extremely concerned that future updated rises, combined with the introduction of EU ETS will dampen demand for air travel and thus reduce the level of tax paid to the exchequer.

During the recent Travel Matters seminar, organised by ABTA, Justine Greening the Secretary for the Treasury confirmed that the government will retain APD and seek to increase it using RPI. Additionally she also confirmed that when EU Emissions Trading Scheme comes into effect, in January 2012, there will be no corresponding reduction in APD, thus leading to a further taxation of the industry.

In 2007 a DfT study concluded that aviation pays its external environmental costs: since then we have seen two rises in APD with further rises due in 2012, plus the cost of emissions trading. Yet aviation remains the only industry within the UK to pay in full for its own infrastructure, airports and Air Traffic Control services. Yet the taxpayer is subsidising rail and surface transport.

TUI Travel PLC has publicly committed to reducing its airlines’ direct carbon emissions by 6% by 2013–14 (against a baseline of 2007–08) in terms of total carbon emissions as well as relative carbon emissions, based on 2008–09 operational structure and plans. Thomson Airways is the group’s largest airline.

To assist us to achieve our targets we believe that the Government should explore ways to incentivise the industry to reduce its carbon footprint by way of its taxation policies. For example; to assist in the creation of an infrastructure that supports the development and commercialisation of aviation Biofuel, that is scheduled to be certified later this year, and calculated to offer a significantly lower whole life carbon cost. Whether this can be achieved through tax incentives for investment in the environmental technology or other fiscal measures remains to be seen. We would encourage the use of fiscal measures to assist in the development of aviation biofuels where there are few or no realistic alternatives to kerosene *vis a vis* road transportation which is subject to legislation to include a percentage of biofuels and has many more options of propulsion available.

⁵¹ <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtran/103/103.pdf>

⁵² The Coalition: our programme for government, paragraph 29

⁵³ Oxford Economics: Economic benefits from Air Transport in the UK 2011.

AIR PASSENGER DUTY

We appreciate the current consultation on both the banding of APD and how this might be made fairer. We fully intend to respond to that consultation in due course.

PREMIUM ECONOMY

We believe that it is simply wrong to tax a premium economy passenger the same as if they were in First or Business class having access to a flat bed seat, airport lounge facilities and a limousine service. Our Premium Economy passengers pay a small supplement on their holiday price to upgrade to a seat with extra legroom and giving more comfort, yet do not enjoy the full benefits associated with First or Business class travel.

PER PLANE DUTY

We continue to believe that a per plane tax would be the most efficient way of incentivising the efficient use of lower emissions aircraft. For example a per plane tax could be used to incentivise airlines for their investment in new lower fuel emitting aircraft such as the Boeing B737/800 or the Boeing 787 Dreamliner that use 15% & 20% less fuel respectively per passenger km and thus be more carbon efficient (in the case of the Dreamliner, these are forecast savings). Leisure airlines, such as Thomson Airways, already have a lower carbon per passenger per km footprint than many of its rival scheduled and low cost carriers, because of the high density seating, higher load factors and extensive fuel conservation activities deployed over many years.

We understand, but do not share Government's concern that a per plane tax may be unlawful in that it may breach the Chicago Convention and associated bilateral agreements. We had suggested to Government that the method used to calculate a per plane tax should be based upon the methodology used to calculate sums due under EU ETS. On this basis we had assumed that a per plane duty would be as robust, from a legal perspective, as EU ETS. In any event we would urge the government to follow through with its undertaking to seek international agreement for any necessary changes to be made in the Chicago Convention and to introduce a per plane tax without delay once the perceived legal impediments have been removed.

BUSINESS INCENTIVES FOR LOW CARBON FUELS

Five years ago the general consensus was that sustainable aviation biofuels were 15 to 20 years away and therefore both UK and EU government policy has been to concentrate on and to incentivise investment and research into surface transport biofuels. The reality is that sustainable aviation biofuels are scheduled to be certified later this year. It follows that the sector desperately needs the right incentives and tax breaks to enable a sustainable jet biofuel infrastructure to be created that will in turn deliver significant reductions in aviation CO2 emissions over the next five to 10 years, well ahead of those predicted as little as five years ago.

Government tax policy needs to be adjusted to take account of the significant early development of sustainable aviation biofuels.

CONCLUSION

TUI Travel PLC welcomes the current consultation on APD reform; however we continue to believe that the Government tax policies should be designed to incentivise airlines to invest in more fuel efficient aircraft and to incentivise the more efficient use of fuel efficient aircraft. Such an approach, we believe, would help the Government to meet its own environmental goals.

The government should commit to moving to a per plane duty once it has established that there are no legal impediments to so doing. The government should explore ways to incentivise investment in new technology, particularly in the creation of a sustainable Biofuel infrastructure. TUI Travel PLC wishes to be part of any consultation on changes to environmental taxation and will work with the appropriate government departments.

20 April 2011

Written evidence submitted by Gatwick Airport Limited

INTRODUCTION

1. Gatwick Airport Limited ("Gatwick") welcomes the opportunity to respond to the Environmental Audit Committee's inquiry, *Budget 2011 & Environmental Taxes*. Gatwick is UK's second largest airport and the busiest single-runway airport in the world. We serve more than 200 destinations (more than any other UK airport) in 90 countries for around 33 million passengers a year on short- and long-haul point-to-point services. We are also a major economic driver for the South-East region, generating around 23,000 on-airport jobs and a further 13,000 jobs through related activities. The airport is 28 miles south of London with excellent public transport links, including the award winning Gatwick Express. Gatwick is owned by a group of international investment funds, of which Global Infrastructure Partners is the controlling shareholder.

2. Gatwick is committed to reducing our impact on the local environment and, in particular, to reducing our carbon emissions. The airport has a target of achieving 25% of all on site energy consumption from low or

zero carbon sources by 2020. We have also publicly committed to a 50% reduction to our carbon emissions by 2020.⁵⁴ On site energy generation is considered essential to our achieving this objective, and is likely to take the form of a combined heat and power plant (CHP).

3. Our approach extends to encouraging low carbon surface transport to and from the airport. Already, 37% of all passengers arrive at Gatwick by public transport (the highest of any UK airport) and we are installing a network of electric vehicle charging points to encourage the use of zero carbon vehicles. We are also the only UK airport to jointly hold the Carbon Trust Standard, the Level 2 ACI Carbon Accreditation Standard and the ISO 14001 Environmental Management Standard.

SUMMARY

4. Gatwick is directly subject to environmental taxation in the form of the Climate Change Levy (CCL), which amounts to a bill in excess of £1 million per annum. We will also be a mandatory participant in the Carbon Reduction Commitment (CRC) energy efficiency scheme. We expect to be required to purchase allowances to the value of £1.2 million in 2012, and possibly more than that amount in future years, depending on the price of carbon and our own efforts to reduce our emissions. **Following the reforms introduced in 2010 Comprehensive Spending Review (CSR), we consider the CRC scheme, in effect, to be an environmental tax that actively reduces potential for our investing in low-carbon, onsite energy generation.**

5. The airlines that operate from the airport either are, or will be, subject to two further taxes which have been interpreted by many, and appear to be interpreted by the Committee, as environmental in nature. These are Air Passenger Duty (APD) and the European Union Emissions Trading Scheme (EU ETS). Gatwick itself has also been a participant in the EU ETS scheme since its inception as a result of our on-site combustion processes in our heat generation facilities. **The Government must acknowledge that EU ETS is, effectively, a new “green tax” on aviation and recognise this in future environmental tax policy.**

6. Unlike other sectors, particularly the energy sector, aviation does not receive any fiscal incentive to move towards the use of more sustainable fuels and technologies. If there is to be a wide-ranging transition to such technologies, such incentives are necessary. **Simply increasing taxes on flying, and maintaining a situation where the sector is effectively taxed four times over for its environmental impacts, will not achieve the behaviour change the Government wants in terms of a more sustainable aviation sector, and will in the process irreparably damage the UK economy and the aviation sector’s capacity to promote growth in future.**

7. **APD is economically counter-productive and, as currently structured, does very little to promote the Governments “Green” Objectives’.** Fiscal incentives for further development of more sustainable technologies in aviation, and encouraging their use by the sector as a whole would be far more effective. A significant number of EU Member States see high levels of aviation tax as an active inhibitor of economic growth, rather than as part of a strategy to achieve their own, or the EU’s environmental objectives.

THE BUDGET AND THE GOVERNMENT’S GREEN OBJECTIVES

8. The 2011 Budget does not acknowledge the range of fiscal and other measures that Government is implementing, either on UK basis or in compliance with binding European Directives, that in themselves have the same effect as acknowledged “green taxes” do on the aviation industry.

9. The EU ETS is one such measure. The Government has recently introduced a statutory instrument to Parliament that would require UK airlines to participate in this scheme.⁵⁵ In 2012–13 alone—the first year of trading for airlines under the EU ETS—the aviation industry will bear an additional cost of approximately €1.125 billion across the EU as a result of compliance with it.⁵⁶ In the long term, this cost will be borne by passengers, as profit margins for airlines are particularly low and compliance costs are very likely to be passed to them. By 2020, airline tickets for a return journey could increase by between €4–€39 per passenger depending on the length of the journey⁵⁷ across the EU. **The EU ETS will add to the cost of flying in the same way APD does. This should be acknowledged by Government in determining levels of APD in future budgets.**

10. The 2010 Comprehensive Spending Review (CSR) stated that “the CRC Energy Efficiency Scheme (‘CRC’) will be simplified to reduce the burden on businesses, with the first allowance sales for 2011–12 emissions now taking place in 2012 rather than 2011” and that “Revenue from the sale of CRC allowances, totalling £1 billion a year by 2014–15, will be used to support the public finances, including spending on the environment, rather than recycled to participants”. The 2011 Budget confirmed that allowances would be priced at £12 per tonne.

11. Previously, participants in the CRC scheme had expected to have the initial proceeds from purchasing carbon allowances returned to them. Those participants that performed particularly well in terms of the CRC

⁵⁴ According to 1990 Levels.

⁵⁵ The Aviation Greenhouse Gas Emissions Trading Scheme (Amendment) Regulations 2011

⁵⁶ Standard & Poors “Airline Carbon Costs Take Off As EU Emissions Regulations Reach For The Skies” (February 2011)

⁵⁷ Ibid

“league table” of carbon footprints could expect to receive a bonus of the order 10% of the original amount paid into the scheme through purchase of carbon allowances.

12. As a result of the changes introduced in the CSR, none of the proceeds of allowances sales will be returned to participants by Government and no bonuses will be paid. As such, **the CSR effectively created a new tax on carbon emissions, and one that will result in, 2012 alone, Gatwick being subject to, at the very least, an additional £1.2 million in effective taxation in 2012.** The Government have stated that the reform of the CRC is intended to “reduce the burden on business” from participation. This impact of the reform would appear to suggest that it is in fact simply a revenue raising measure. The Government should acknowledge in forming future environmental tax policy.

13. We believe the reforms to the CRC must also be considered in the context of determining the best way to incentivise investment in low carbon energy generation. As a mandatory CRC scheme participant, **Gatwick stands to incur costs as a result of reforms to the scheme. In the short term, this could threaten our capacity for future investment in low carbon energy generation that we wish to undertake in the course of reducing our emissions by 50% by 2020.**

14. The 2011 budget could have done a great deal more to promote local energy generation as an effective mechanism to reduce carbon emissions. The Governments “Plan for Growth” focuses on initiatives to reduce carbon emissions from macro generation which are complicated and financially prohibitive. By contrast, more wide-ranging fiscal incentives to **support to small scale local energy generation projects would reduce the reliance on the already capacity constrained grid and offer a more efficient power generation solution.**

15. We note and welcome the commitment made in the 2011 budget to increase the CCL only in line with inflation in the current financial year. **There is clear potential for the streamlining of carbon taxing mechanisms for UK businesses in order to reduce the administrative burden inherent in complying with them.** One fundamental change would be the administration of the CRC as a tax. The way the scheme now operates is akin to being a tax. We see no reason why it should not be referred to, and operated in such a way. Consideration should be given to its amalgamation with other instruments such as the Climate Change Levy as a way of reducing the Green Tax compliance burden.

16. **The effective removal of the “cap and trade” element of CRC would considerably simplify the process and cost of compliance on the part of participants.** Gatwick, for one, and soon all airlines that operate from Gatwick are participants in the EU Emissions Trading Scheme. We are already incentivised to reduce emissions through these means.

17. **The Government should focus on simple mandatory reporting of emission levels, to which a tax with a transparent rate would be attached, rather than another “cap and trade” scheme in which a large element of the incentive to participate has been removed, and which incorporates a “league table” that has no effective purpose.**

18. This could be brought about relatively simply through the use of the mechanism currently used to collect the Climate Change Levy (CCL) and has had the clear effect of reducing energy consumption and hence carbon emissions, a recent independent review by Cambridge Econometrics, published in the Government’s Climate Change Levy Report, highlighted its impact.

19. The review stated that since the climate change levy’s introduction in 1999, a carbon emissions saving of 3.5 million tonnes had been achieved, and there had been a reduction in energy demand of 14.6%. The Government has the objective of reducing carbon emissions further by an additional 11.2 million tonnes by 2022. The approach of simple, transparent taxation of carbon emissions would undoubtedly assist them in achieving this objective. **Schemes that have the appearance of being fiscal incentives, but are in fact taxes, are bound to be less effective and more administratively burdensome than transparent and simply administered ones.**

20. Amalgamation of CCL with CRC would mean that there would be no need for CRC participants to register and submit details of their emissions every year. This could instead be delivered through the energy billing process. All obligated businesses would be captured, reducing the audit burden on the regulator and resolving the fact that until recently, of the projected 4,000 mandatory participants in CRC, 2,779 had actually registered. There could be an additional line entered on to utility bill to cover consumption and carbon emissions, with the resulting data being automatically entered into the proposed league table. In this way, **the administrative burden of compliance between both CRC could be substantially removed and the overlap between the two schemes reduced.**

USE OF THE TAX SYSTEM TO CREATE “MODAL SHIFT”

21. We note and welcome the Government’s move to “freeze” Air Passenger Duty (APD) for the next financial year as long overdue, and particularly appropriate in the context of the UK already maintaining the highest levels of aviation tax of any European Union Member State. **The view that the aviation sector is in some way “under-taxed” in proportion to its environmental impacts or compared to other carbon emitting industries has no basis in fact.** As we outline above, airports and airlines are currently subject to four separate taxes that are in some way linked to their environmental impacts. Furthermore, **the current VAT**

exemption applied to aviation fuel is required under international law.⁵⁸ The Government would be in contravention of an international treaty obligation if it removed this exemption unilaterally.

22. **The taxation of aviation *per se* is counterproductive in numerous ways, and APD does nothing to promote the sustainability of the sector.** On a fundamental level, increasing the cost of flying through the tax system actively disincentivises the economic activity, tourism and cultural exchange that air travel generates. For example, Gatwick is one of the main air travel routes into the Caribbean, and therefore one of the main catalysts of this activity. Since November 2010, the total amount of air passenger duty (APD) that passengers must pay in order to travel to the Caribbean from Gatwick has risen by 30%, from £40 million to £60 million every year. **Gatwick has a key role to play in helping developing countries, including those in the Caribbean to grow, and in building relationships between the UK and citizens of those countries. Current levels of APD harm our potential to fulfil this role.**

23. The aviation sector directly accounts for £53 billion (3.8%) of UK GDP. Of this, £24 billion is generated directly through the activity of airlines, airports and ground services and the aerospace sector. £16.6 billion is accounted for through the aviation supply chain, £12.8 billion through the spending of employees of the sector and its supply chain, and an additional £25.5 billion is provided through “catalytic” benefits through tourism⁵⁹ only possible through the air links that aviation provides. Gatwick alone accounts for £2.4 billion of added value for the economy every year. **The 2011 Budget, which purports to focus on economic growth, does very little to enhance the contribution that aviation makes to the economy or to promote the sustainability of the sector.**

24. The Eddington Transport Study (2006) correctly identified that the most important catalysts for economic growth are ease of access to markets, customers and clients. As an island, the UK’s ports and airports facilitate the vast majority of this access, and through that access the majority of international trade. Evolving economic conditions have made the need for the international connectivity that aviation provides particularly acute. The UK economy needs better access to markets, customers and clients. Effective and well supported international gateways are central to facilitating the export led growth, and the inward investment, that the 2011 budget outlines is necessary for our future economic success. **Encouraging a modal shift away from aviation would reduce the substantial contribution the sector already makes to the UK economy, as well as its potential to foster the inward investment that is a precursor for future growth.**

25. EU Member States are reducing the cumulative levels of the various taxes they levy on their respective Aviation Sectors or abolishing them altogether. Ireland recently cut its aviation tax as a way of stimulating economic growth. The Netherlands trialled an aviation tax for a year between 2008–09. They estimated that it resulted in net €1.3 billion loss to the Dutch economy, and abolished it as a result.⁶⁰ Likewise, Sweden, Malta and Denmark have also seen fit to abolish their own respective aviation taxes in recent years. **A significant number of EU Member States see high levels of aviation tax as an active inhibitor of economic growth, rather than as part of a strategy to achieve their own, or the EU’s environmental objectives.**

PROMOTING SUSTAINABLE AVIATION & THE DESIGN OF “GREEN TAXES”

26. In the first instance, the 2011 Budget does not acknowledge a range of measures that Government is implementing, either on UK basis or in compliance with binding European Directives, that in themselves constitute “Green Taxes”.

27. The view that APD is an appropriate and effective measure for achieving the Government’s environmental objectives deserves serious scrutiny. **APD, as currently structured, delivers no positive externalities beyond providing additional revenue to the Treasury.** The Government have stated that rises in APD are “partly intended to help achieve environmental goals”.⁶¹ The Treasury also classify APD as an environmental tax. However, APD is only calculated according to one element of a given flight—the distance travelled. The 2011 Budget does not propose to change this. There are a whole range of other factors relevant to a given flights impact on the environment, including the type and age of the aircraft, the time that the aircraft is physically in the air as well as how heavy it is. The Government choose not to take these factors into account. **In its current form, the effectiveness of APD as an environmental tax is severely limited.**

28. We appreciate that the introduction of a “Per Plane Duty” (PPD) is not possible under international law. We had reserved our position on the relevant commitment in the Coalition Agreement pending the publication of firm proposals by Government. We await the results of ministerial discussions with fellow signatories to the Chicago Convention (1944) with interest. In the mean time, **we would encourage the Government to seriously consider how APD could be reformed in order to effectively incentivise greater use of aircraft that have less impact on the environment.** This could be through the integration of other variables relevant to the environmental performance of a given aircraft into the way the tax is calculated.

29. More broadly, there is a real scope to explore whether the current environmental tax regime applied to the aviation sector as a whole is overly punitive, and incentivises less actual transition to technologies that are more environmentally sustainable than might otherwise be the case. The Government implicitly acknowledges

⁵⁸ Article 24 of the Chicago Convention (1944)

⁵⁹ Oxford Economics, *The Economic Benefits of Air Travel in the UK*, March 2011.

⁶⁰ SEO Economisch Onderzoek (2009): Implicaties van de invoering van de ticket-tax.

⁶¹ HM Treasury Spokesman in International Business Times, 2 November 2010

incentives, as well as punitive taxation, can be effective through the fiscal approach it adopts to promoting the reduction of emissions in other sectors. For example, the energy generation sector currently receives £1.4 billion of effective fiscal incentives every year to transition towards greater use of renewable energy sources.⁶² This approach has been remarkably successful. Since its introduction in 2002, these incentives have led directly to the tripling the level of renewable electricity in the UK from 1.8% to 6.64%.⁶³

30. **The Aviation Sector is likely to significantly increase its overall capacity for reducing emissions in the next eight years.** It is entirely possible that engine and airframe improvements could increase the fuel efficiency of new aircraft by up to 40% in the 2020s relative to new aircraft in 2005. Moreover, the introduction of more speculative radical technologies could make new aircraft up to 60% more efficient by 2050, compared to 2006 levels. In addition, it is apparent that more efficient air traffic control measures (many of which are already being deployed), and airfield operational procedures could contribute between an additional 613% per flight by 2020.⁶⁴ This progress is being achieved with no direct fiscal incentive on the part of Government.

31. If the environmental tax regime as applied to aviation were geared towards actively incentivising development of technology that reduced or eliminated carbon emissions by the aviation sector, and timely adoption of that technology by airlines, **there is every prospect that the sectors progress towards reducing its environmental impact would be accelerated.**

32. In the long term, we believe the only viable option available to the aviation sector to drive real carbon savings is through the further development of and deployment of biofuels amongst major airlines. This is a concept that has been proven many times already. But there are a range of constraints that currently prevent this happening.

33. Measures to promote a transition to biofuels must be considered in a global context. The industry is after all, global in scope. Worldwide, existing airlines fleets are thought total around 23,000 aircraft. Total investment in this fleet is thought to be in the region of billions or even trillions of dollars. Aircraft have a typical life of 25 to 30 years, meaning that a significant fraction of the current fleet will be operational to 2020 or even 2030 and beyond. This long life cycle and high cost, coupled with stringent certification requirements for fuels, mean that **airlines are generally not willing to consider any fuel that is not an immediate, or drop-in, replacement for current, petroleum-derived jet fuel.**⁶⁵

34. **A significant amount of research and development activity on whether biofuels could be a “drop in” replacement for conventional jet fuel has been undertaken. It is apparent that, in principle, it is possible they could be. However, widespread installation of the infrastructure required to bring the fuel to the aircraft is necessary before biofuels could be considered as the “drop in” replacement for conventional jet fuel that is necessary before a mass conversion could take place. Gatwick is working closely with onsite fuel providers to put that infrastructure in place at our own airport. We already have some capacity to deliver it on site. But there is currently no real financial incentive for our airlines to move towards using it on a significant scale. There is a role for Government, in the tax system for incentivising this transition. The 2011 Budget does little to recognise this role.**

20 April 2011

Written evidence submitted by the Australian Government

INTRODUCTION

Australia welcomes this opportunity to comment on the environmental aspects of the Air Passenger Duty (APD). Australia is concerned that the current APD unfairly discriminates against Australia (and other long-haul destinations). We have advocated that the APD be fair, non-discriminatory and transparent; that the UK travelling public, as well as family and friends in Australia, not be disproportionately disadvantaged; and that the APD be consistent with efficient environmental practices.

DETAILS

Australia considers that the following factors show that the APD is not effective as an environmental tax:

- The distance-based banding of the APD is a poor proxy for environmental impact. The bands are based on the distance between London and the destination country’s capital (with the exception of Russia, which is split into two bands), not on the actual flight distance. This leads to anomalies, including flights to the west coast of the United States of America being taxed at a lower rate than flights to many Caribbean destinations which are less distant from London; and flights to Hawaii being taxed at a lower rate than flights to Singapore, which is less distant from London.

⁶² OFGEM (<http://www.ofgem.gov.uk/Sustainability/Environment/RenewablObl/Pages/RenewablObl.aspx>)

⁶³ Department of Energy & Climate Change, June 2010 Energy Trends

⁶⁴ Committee on Climate Change: *Meeting the UK Aviation Target—options for reducing emissions to 2050* (December 2009)

⁶⁵ Report for the Climate Change Commission, *Review of the potential for biofuels in aviation*, (August 2009)

- The APD does not take into account the differing environmental impact of different aircraft—the duty is the same for a flight on an aircraft with high per passenger fuel consumption as for a flight on a fuel-efficient aircraft.
- There are no practical alternatives to flying for travel to long-haul destinations, so a higher tax is less likely to change travellers’ behaviour and improve environmental outcomes. In contrast, where there are alternative means for short distance travel (eg to continental Europe) those choosing to fly are taxed at a lower rate.
- Transport emissions are best dealt with by a multilateral solution that is applied universally. The proliferation of unilateral “environmental” taxes on aviation creates inconsistencies between jurisdictions, distorting economic and environmental outcomes.
- The APD should be removed once the EU’s emissions trading scheme (ETS) is applied to aviation (from 2012 onwards) to avoid double taxation of airlines on “environmental” grounds.

CONCLUSION

Australia considers that the UK’s APD, particularly in its current form, is not an effective environmental tax. Australia intends to make a submission to the UK Government’s APD consultation detailing its views on the proposed options for change.

20 April 2011

Written evidence submitted by the Chartered Institute of Taxation

BACKGROUND

1. The Chartered Institute of Taxation (CIOT) welcomes the opportunity to comment on the environmental impact of Budget 2011 and green taxes.
2. The call for evidence sets out seven themes. We set out our comments in relation to each of these below.
3. As a professional body concerned with taxation, we have limited our comments to tax issues. In this submission, references to environmental taxes or green taxes refer not only to specific taxes that have an environmental objective, such as landfill tax, but also to tax measures contained in other taxes that have similar objectives, eg the taxation of private use of vehicles by reference to emissions.
4. We have already submitted a paper dealing with the principles of environmental taxes to HM Treasury, which can be found on the CIOT website at <http://tinyurl.com/6cfsu7x>. This submission draws on that paper.

EXECUTIVE SUMMARY

5. The CIOT believes that green taxes can play a significant role in a modern tax system, and in furthering the Government’s green objectives, but it is important that they are implemented with close attention to sound principles to ensure they are effective. Taxes which merely shift pollution elsewhere, or which leave loopholes which can be exploited, or which fail to lead to greener behaviour because of a lack of alternatives, are failing to do their job. Put simply, green taxes should ideally be easy to avoid (by a change in behaviour) but hard to evade.
6. The UK already has a complex tax system and lengthy tax code which constitute a substantial bureaucratic burden for taxpayers, particularly small businesses. It is important that environmental tax measures do not unduly add to that burden. We would prefer to see environmental tax policy:
 - Build environmental incentives into existing taxes where possible rather than creating new taxes;
 - Implemented through measures that are transparent, uncomplicated and easily understood by the taxpayer without the need for expert advice; and
 - Look at means to broaden the tax base, eg the proposal to extend air passenger duty to aircraft not currently within its scope.
7. Environmental taxes should conform to Adam Smith’s four basic principles of taxation: Fairness, Certainty, Convenience and Minimising the Compliance Burden.
8. For environmental tax incentives to be fully effective, it is important that government gives people confidence that they will be in place for a long period. The Government should put in place an Environmental Tax Framework for the rest of the Parliament along the lines of the Business Tax Framework already adopted.

EXTENT TO WHICH BUDGET 2011 FURTHERS THE GOVERNMENT’S GREEN OBJECTIVES

9. The CIOT sees the key relevant objectives as being:
 - Cutting carbon emissions and decarbonising the economy;
 - Increasing the proportion of tax revenue accounted for by environmental taxes;

- Increasing the target for energy from renewable sources; and
- Supporting the creation of new green jobs and technologies.

10. The main Budget announcements with a “green” impact are:

- Changes to the structure of climate change levy (CCL) by the introduction of a carbon price floor from 2013;
- A cut in fuel duty;
- Changes in the rates of the aggregates levy (deferred to 2012), climate change levy and landfill tax;
- Temporary suspension of CCL reliefs pending state aid re-approval;
- Deferral of an increase in air passenger duty and announcement of the intention to tax flights on personal planes;
- A technical change to aggregates levy to deal with a problem arising from ongoing litigation;
- Changes to company car tax to incentivise use of low emissions vehicles;
- Extension of Climate Change Agreements to 2023 and an increase in the CCL discount for participants from 2013;
- Commitment to fund four Carbon Capture and Storage (CCS) demonstration plants from general taxation rather than a CCS levy; and
- Commitment to a Green Investment Bank.

11. Of these only the first two are projected to have a significant impact in terms of government revenue.

12. The green objective which the CIOT is best qualified to comment on is the Government’s target to increase the proportion of tax revenue accounted for by environmental taxes. The red book indicates that the net effect of environmental tax measures announced in the Budget will be a small cut in cash terms in the 2011–12 and 2012–13 financial years followed by a significant increase in 2013–14 and subsequent years. However, if changes to fuel duty are included in the definition of environmental taxes, the effect of Budget policy decisions is a cut in environmental tax revenue for every year covered by the Budget projections.

13. This highlights the need for consistency from the Government over what constitutes an environmental tax. A parliamentary written answer from the Economic Secretary in July 2010 (Hansard, column 545, 12 July 2010) included only landfill tax, aggregates levy, climate change levy and EU Emissions Trading Scheme revenues in a list of environmental taxes. However, the previous month, the ONS’s Environmental Accounts 2010 also included fuel duty, VAT on duty, renewable energy obligations, vehicle excise duty and air passenger duty in its definition. Air passenger duty appears under the environmental tax subheading in the “Budget policy decisions” table in this year’s Budget red book (table 2.1, page 42–3) but fuel duty appears separately. We would welcome greater clarity in this area.

14. The Finance Bill introduces legislation that had been foreshadowed in a consultation on the carbon price support mechanism (CPSM). In our response to that consultation, we raised a number of concerns including:

- The CPSM may raise concerns about double taxation;
- There are issues relating to its interaction with the EU Emissions Trading Scheme; and
- The CPSM does not apply to imported electricity and the availability of cheaper imported electricity could then undermine the purpose of the scheme.

Our concerns about the CPSM remain.

15. We consider the environmental measures in the Budget to be relatively limited in scale. We do not have a problem with this—it is for Government to determine the speed and extent to which it wishes to move on its green objectives. However, we think that there would be greater commitment to green objectives if a consolidated tax plan was developed providing a better guide as to how the Government proposes use the tax system to achieve its green objectives (see paragraph 30).

16. On specific measures, it is difficult to determine the extent to which taxation rather than any other factor is responsible for behavioural changes and the extent to which other instruments such as regulation have had an impact. However there has been a considerable reduction in the quantity of material being sent to landfill and it seems highly probable that the substantial increases in landfill tax have been the major causal factor behind this.

APPROACHES TO SHIFTING THE BURDEN OF TAXATION AND FACTORS TO CONSIDER WHEN DESIGNING AND INTRODUCING GREEN TAXES

17. The normal principles of good taxation can and should be applied to all environmental tax measures. A good starting point is the four principles set out by Adam Smith in “The Wealth of Nations”. These are:

- Fairness;
- Certainty;

- Convenience; and
- Minimising the compliance burden.

FAIRNESS

18. The Government and CIOT share the objective of a tax system which is fair and which is seen to be fair. At a household level, taxes based on consumption—as most environmental taxes are—tend to take a greater share of the income of those on low incomes than of those on high incomes (ie they are regressive). Consequently environmental tax measures are particularly at risk of being judged to be unfair and disproportionate in their effects. This typically leads to protests and calls for exemptions and concessions. (The furore around the introduction of VAT on fuel in the 1990s is a case in point.) It is important to recognise and respond to these legitimate concerns. However, rather than introducing exemptions or exclusions, diluting the effect of the measure and complicating the tax system further, we generally favour offering assistance to targeted groups via mechanisms outside the tax system. This means less well-off households too, get the opportunity to make small gains by adopting greener behaviour.

19. The Government should pay particular attention to the affordability of public transport for people on low incomes.

20. Green taxes have the potential to give foreign suppliers an advantage over British business if they are not subject to similar measures. We understand the frustration of some businesses that see the burden of taxation substituting imported environmental damage for existing local damage. We do not want to see the shifting of “dirty industries” outside the UK to the detriment of UK businesses subject to stricter controls. So far as possible, therefore, measures should apply equally to both local and overseas production.

21. There are limitations on what can be done because of EU and other international law. However some taxes lend themselves to dealing with such problems. Excise duties apply equally to both local and imported goods and services and can therefore serve as a means of ensuring a level playing field for business. There is also a need to re-examine international agreements that prevent taxes being used as an instrument of environmental policy.

22. One further issue around the fairness of green tax measures is the potential for double taxation. For example, it would be possible to “green” both business rates and council tax but in doing so there may be an element of double taxation because these taxes already include an element of the cost of other taxes. Another situation that could give rise to double taxation would be if country A levied a tax on energy used in production of manufactured goods while country B levied a tax at point of sale or import based on an estimate of energy used in production. Without compensatory measures an exporter from country A to country B would be taxed twice while a firm exporting the other way would not be taxed at all.

CERTAINTY

23. Taxpayers—businesses in particular—benefit greatly from certainty. They want to be able to carry out transactions with confidence, knowing that risks are confined to features inherent in markets and natural phenomena. It therefore needs to be clear to a taxpayer in advance what the tax consequence of their actions will be. The main elements of a tax system that provide certainty are simplicity, transparency, adherence to the rule of law and long-termism. It is unfortunate to note that the Budget had to introduce measures that may suspend certain existing reliefs from the climate change levy for an indeterminate time pending renewal of state aid approval. This can only lead to confusion and uncertainty for those businesses involved.

24. The tax system is already over-complex and the tax code lengthy. If a tax is complex, it will not be understood—or may be understood in more than one way—and will give rise to uncertainty and efforts to circumvent it. The Government is rightly committed to tax simplification. It is difficult to build environmental incentives into the system without adding some administrative burdens and additional clauses to the tax code, but it should be a priority to minimise this.

25. We believe that the two main methods that could be employed to create a greener tax system without unduly complicating the overall system and imposing more burdens on taxpayers are:

- By incorporating green measures in existing mainstream taxes where possible rather than creating new taxes; and
- Widening the scope of existing tax regimes, eg excise style duties, to achieve green objectives.

26. Both of these have already been done. For example, in relation to motor vehicles, there are income tax, VAT and vehicle excise duty measures that are based on green objectives.

27. Transparency is also important. Taxpayers need to be able to understand what the environmental tax seeks to achieve, how it is levied, how much it costs and what behaviour is needed to avoid paying it. Many of the taxes in this area are not transparent; for example most businesses are not aware of how much CCL they pay because it is a component of energy prices and not captured by most accounting systems. Transparency about tax changes is also important in avoiding environmental taxes being labelled “stealth taxes”.

28. A third factor contributing to certainty in the tax system is adherence to the rule of law, as laid down in statute. Codified tax law is preferable to tax law determined only by guidance or case law. In particular, retrospective change is damaging to confidence in the tax system and sends a bad signal to those outside the UK about the stability of the UK tax system. Accordingly, we welcome the Government's Protocol on unscheduled announcement of changes to tax law, published on Budget day, which explicitly recognises that retrospective changes to tax legislation will be wholly exceptional.

29. Long-termism in government policy is especially valuable if the intention is to change people's behaviour in ways that require significant investment of time or money. The fact that the last Government were able to announce substantial increases in landfill tax some years in advance has undoubtedly been helpful in encouraging waste producers to invest in measures to increase recycling rates and avoid some waste generation.

30. The new Government has deservedly won praise for the introduction of the Corporate Tax Road Map, which sets out how the Government intends to approach reform of the corporate tax system over the course of this Parliament. The CIOT would like to see the introduction of a similar framework for green taxes—a Green Tax Road Map.

CONVENIENCE

31. Taxes should be levied at a time and in such a manner that it is most convenient for the taxpayer to pay the tax. We are not aware of any obvious instances of environmental taxes not complying with this principle.

MINIMISING THE COMPLIANCE BURDEN

32. One risk with the move towards green taxes is that there will be more taxes—each with its own compliance regime and potentially able to generate penalties for non-compliance. As set out in paragraph 25, where possible legislators should look to the adaptation of existing taxes and use of existing regimes such as that for excise duty rather than the creation of new ones.

OTHER FACTORS FOR CONSIDERATION

33. It is important for the Government to be clear what success looks like for each environmental tax measure. While green taxes can and do raise significant tax revenues, unlike most other taxes their objectives include either or both of altering people's behaviour and ensuring that the cost of damaging behaviour is borne by those responsible (the "polluter pays" principle). An environmental tax that raised no money at all could be an enormous success, simply because it has driven out the behaviour it was targeting. (The plastic bag tax in Ireland is perhaps the nearest to achieving this result.) Thus Government needs to be clear for each measure of the extent to which the environmental objective or the revenue-raising objective is paramount.

34. Where the purpose of a tax is to change behaviour there must be realistic alternatives available. For example, if a Government's objective in raising fuel duty is to shift people onto public transport this will be ineffective—and arguably unfair—if there are wide areas where no public transport alternative exists.

35. Environmental taxes present a particular political challenge. While in theory they have the potential to be a rare popular tax (and in the abstract are often favoured over other forms of taxation), in practice they tend to be particularly unpopular. This is partly because they are, in the case of fuel and flight taxes at least, penalising people for doing something they value highly, for enjoyment or because it is essential to their livelihood. It is also because they are perceived as unfair (see paragraphs 18–22) and because many people believe politicians are not being honest about their motives for introducing them (claiming it is high-minded action against climate change when they see it as just revenue raising).

36. The CIOT recognises the difficulties inherent in hypothecation of tax revenue (especially where the size of the revenue stream is uncertain) but notes that both (a) making green tax increases fiscally neutral by balancing them with visible cuts elsewhere, and (b) earmarking revenues from green taxes for particular related spending, have the potential to mitigate public opposition to green taxes to some degree, and should be carefully considered by the Government. (These two courses are, of course, mutually exclusive for a single revenue stream.) Additionally compensatory measures (see paragraph 18) can tackle the perception of unfairness and focusing on areas where there are genuine alternatives (see paragraph 34) is also likely to help.

A SHIFT TO GREENER TRANSPORT

37. We have not examined this issue in detail but our instinctive view is that if the taxation is set at a high enough level, then such a behavioural shift may well result. However there are a number of potential problems which may arise.

38. Businesses or individuals that have older forms of transport and have no means of avoiding the tax by altering their behaviour could be unfairly penalised. There may be damage to UK competitiveness. Taxes can lead to rogue traders dumping waste and other products such as old motor vehicles, though these problems are well known and best solved by other legislation.

39. In some areas transport taxes can be vulnerable to merely displacing environmental damage rather than reducing it. For example, an airport tax introduced at Schiphol in the Netherlands reduced the number of people

travelling from the airport, but increased the number of commuters between the Netherlands and Belgium and increased air traffic in Belgium, thus increasing emissions overall.

40. Accordingly, in our view, any attempt to use taxes to achieve such a shift needs to be planned and implemented over a period of years and may need to be accompanied by other measures. For example, if tax is used to discourage the retention of old vehicles or aircraft it would be desirable to provide a transitional measure to help those affected to dispose of those items.

41. It is also clear that unless and until there is a ready availability of low carbon alternatives—such as access to affordable public transport in rural areas—so that there is a real alternative, such taxes will have a limited effect as a deterrent but a powerful effect as an agitator.

THE SCOPE FOR THE TAXATION SYSTEM TO PROTECT AND INCREASE STOCKS OF NATURAL CAPITAL

42. The CIOT believes that there is considerable scope for the tax system to be used to deter the use of scarce and finite natural resources (land in particular) as well as reducing emissions of carbon and other contributors to climate change.

43. The UK already uses the tax system to encourage efficient land-use. The landfill tax has been successful in reducing the amount of material being sent to landfill, which consequently reduces the amount of land needed for this purpose. More directly the taxation system rewards efforts to reclaim contaminated land through enhanced allowances (land remediation relief). These incentives work well and could potentially be built on.

44. The 2010 Mirrlees Review of the tax system looked at the potential for a land value tax (that is, a levy on the unimproved value of land, rather than property value). While recognising that reform of the planning system would probably have greater influence over land available for particular uses than the tax system, the Mirrlees Review concluded there is a strong case for introducing a land value tax, with priority to be given to considering its use in the context of land used for non-domestic purposes as a replacement for business rates (see <http://www.ifs.org.uk/mirrleesreview/design/ch16.pdf>). The introduction of such a tax—either for all land, or just for that used for non-domestic purposes—would clearly present a substantial practical challenge (potentially including the valuing of all plots of land within the UK separate from any structure on the land). Should the Government be minded to move in this direction—and the CIOT does not take a position on what we see as a political question—the first step would sensibly be a feasibility study of the kind recommended by Mirrlees.

45. Notwithstanding the apparent success of landfill tax, we believe that tax can be used more aggressively to ensure that the real cost of consuming natural resources is reflected in consumer products and the tax so raised is used at least in part to develop technologies to restore what was lost.

46. At present, environmental tax policy seems focused on low carbon objectives. We take the view that a more holistic approach is necessary.

IMPACT OF THE TAXATION SYSTEM ON SUSTAINABLE DEVELOPMENT

47. We see the three key responsibilities of the tax system in this respect as being:

- To underpin a strong, sustainable, internationally competitive economy, that delivers growth and prosperity and does not unduly deter investment, hard work or other beneficial economic activity;
- To sustainably fund the services, infrastructure and social security needed for a strong, fair and inclusive society and economy; and
- To play a part in incentivising and rewarding environmentally responsible actions.

48. Getting the right balance in the tax system is fundamental to achieving the first two of these, and can be highly significant in the third.

IMPACT OF POLICY PROPOSALS IN “THE PLAN FOR GROWTH”

49. A key objective stated in the Plan is to create the most competitive tax system in the G20. The CIOT and others in the tax world have said for a long time that the corporate tax system needs serious reform and modernisation to be internationally competitive. It is good to see that the Government agree and that reform is going ahead with a sense of urgency. We are particularly supportive of the benchmark of a simpler, more certain tax system. The benefits of this for environmental sustainability are set out in paragraphs 23–30 of this submission.

50. Another key objective of the Plan is to increase investment in low carbon technologies. A key policy proposal to achieve this is the introduction of a carbon price floor. Our views on this are as set out in paragraph 14 of this submission.

51. The Plan notes:

“The Stern Review made clear that the costs of effective international action to tackle climate change are dwarfed by the costs of inaction.”

We agree that there is a need for international action. Action includes the need to review international treaties to ensure that a balance can be achieved between the prevention of the use of the tax system to give local businesses a competitive advantage and the need to be able to introduce and apply effective environmental tax measures that do not put domestic businesses a disadvantage to foreign businesses.

52. We note the formation of the Green Economy Council. Further, we note that with the exception of the TUC all of the members appear to be from industry (including bodies representing industry). Some of those members are from businesses that are particularly high energy users. While we note that the Council is specifically formed to discuss how government and industry can work together on green objectives, it is important that there is similar consultation with those most directly affected by green policies—consumers, including those on lower incomes who will be least able to pay higher energy bills.

GREEN INVESTMENT BANK

53. We have no comments on the Green Investment Bank.

THE CHARTERED INSTITUTE OF TAXATION

54. The Chartered Institute of Taxation (CIOT) is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it—taxpayers, advisers and the authorities.

55. The CIOT's comments and recommendations on tax issues are made solely in order to achieve its primary purpose: it is politically neutral in its work. The CIOT will seek to draw on its members' experience in private practice, Government, commerce and industry and academia to argue and explain how public policy objectives (to the extent that these are clearly stated or can be discerned) can most effectively be achieved.

56. The CIOT's 15,400 members have the practising title of "Chartered Tax Adviser" and the designatory letters "CTA".

20 April 2011

Written evidence submitted by the Association for the Conservation of Energy

INTRODUCTION

The Association for the Conservation of Energy was formed in 1981 by major companies active within the energy conservation industry, in order to encourage a positive national awareness of the needs for and benefits of energy conservation, to help establish a sensible and consistent national policy and programme, and to increase investment in all appropriate energy-saving measures. We welcome this opportunity to submit our views on Budget 2011 and green taxation.

SUMMARY

- The Coalition Government has repeatedly asserted its wish to be the "Greenest Government Ever". In his Budget statement, the Chancellor George Osborne also stated that, "Green taxes will increase as a proportion of our total tax revenues". However, while there were some welcome references to energy efficiency—for example, the need to "encourage and incentivise take-up" of the Green Deal before it is introduced—Budget 2011 failed to seize a number of key opportunities to put investment in energy efficiency at the heart of our economic recovery.
- In particular we were disappointed by the absence of any announcement of a stamp duty incentive for householders making energy efficiency improvements to their home. Such an announcement had been heavily trailed by officially inspired leaks in the weeks preceding the Budget, and its absence on the day leads us to conclude that the Treasury intervened at the eleventh hour to remove it.
- We regret that the Budget contained no announcement of a reduced rate of VAT on the installation of energy efficient windows. We have been calling for this for some time, as it is a glaring omission in the list of energy saving products that already attract the reduced VAT rate.
- While welcoming the creation of the new Green Investment Bank with initial capitalisation levels of £3 billion, we were disappointed that the Bank will not have borrowing powers till 2015–16 at the very earliest. The power to borrow is what would give the Bank its potential to leverage in billions of pounds held by institutional investors. Critically for energy efficiency, without the power to borrow, the Bank will not be able to raise low cost finance to support the Green Deal.

- While we have no intrinsic objection to a carbon price floor for electricity generation, we have two key concerns about the carbon floor price announced in the Budget. First, we believe that, at £16 per tonne, the price is likely to be far too low to have a significant influence on investment decisions. Second, as the floor price will be passed on to customers' electricity bills, we believe that the adverse effects of this should be offset by an undertaking from Government that receipts from both the carbon floor and the EU Emissions Trading Scheme will be ringfenced to fund energy efficiency improvements in both the domestic and non-domestic sectors.
- Building on the previous point, we are concerned, more generally, that an increasing number of energy and climate change policies are being funded by means of outsourced “quasi-taxation”. We refer principally to the raft of obligations that are placed on energy suppliers, the costs of which are then recovered from the consumer, either on a per kilowatt hour basis, or on a crude “per household” basis that is fundamentally regressive. Recovering costs in this way runs counter to the “polluter pays” principle; it also gives no incentive to consumers to lower their energy use.

GENERAL OBSERVATIONS

1. The Coalition Government has repeatedly asserted its wish to be the “Greenest Government Ever”. Furthermore, in his Budget statement, the Chancellor George Osborne reiterated his earlier promise that, “Green taxes will increase as a proportion of our total tax revenues”. The jury is out as to whether either of these targets is on course to be met. The cut in fuel duty has to some extent been offset by the announcement of a carbon floor price, but it is uncertain as to how much revenue the latter will generate.

2. We were heartened by the acknowledgment in the Budget document that: “The Government is committed to the success of the Green Deal and will act to encourage and incentivise take-up so that the Green Deal will appeal to households, businesses and prospective providers alike, *before it is introduced in 2012*”. We have long been concerned that considerably more public policy interventions are needed to ensure the success of the Green Deal by optimising take-up across all sectors. We are glad that our concerns appear to have been acknowledged by Government.

3. However, despite this welcome step, the Budget contained few other substantive references to energy efficiency and a number of key opportunities were missed to adjust fiscal policy in such a way as to put investment in energy efficiency at the heart of our economic recovery. Specifically, the “Plan for Growth”, published by BIS and HM Treasury alongside the Budget document, contains only two references to energy efficiency, both in the context of the oft-repeated assertion that, “the Green Deal will enable households and businesses to invest in energy efficiency measures at no upfront cost”. This constitutes somewhat less than a comprehensive assessment of the part that energy efficiency can play in boosting our economic recovery.

COMMENTS ON SPECIFIC FISCAL ISSUES

Stamp Duty Incentive

4. As already noted, we were disappointed that the Budget contained no announcement of a stamp duty incentive for householders making energy efficiency improvements to their home. Such an announcement had been heavily trailed in the weeks preceding the Budget, and its absence on the day leads us to conclude that the Treasury intervened at the eleventh hour to remove it.

5. ACE has been calling for such an incentive for nearly a decade. Owner occupiers account for 68% of householders in England,⁶⁶ but to date, despite considerable discounts offered by suppliers under CERT and its predecessors, relatively few of these households are improving the energy efficiency performance of their properties. We believe that a stamp duty incentive offers a simple and low-cost option for Government to effect a significant change in householder attitudes.

6. We are firmly of the view, however, that any stamp duty incentive should not be restricted only to householders taking up the Green Deal. This would unfairly penalise those who choose to finance improvements to their property out of general household funds or, for example, by taking out a green mortgage.

REDUCED RATE OF VAT FOR ENERGY EFFICIENT WINDOWS

7. A reduced (5%) rate of VAT already exists for the installation in households of a range of energy saving products and materials. The list of eligible products has been extended over recent years—and recent additions include ground- and air-source heat pumps, micro-CHP units and wood-fuelled boilers. However, we believe there is no good or logical reason why this should not be further extended to cover low emissivity (“low-e”) glass. We have been pressing Government for some time to remedy this omission, and we were disappointed that Budget 2011 did not do this. We shall continue to press Government to make the change, so that householders are encouraged to replace old, heat-leaking windows sooner rather than later, and with the most energy efficient glass available.

⁶⁶ English Housing Survey 2008

GREEN INVESTMENT BANK

8. We have long argued that the Green Investment Bank (GIB) should be a proper bank, not a fund—and that it should have adequate levels of capitalisation, with borrowing powers enshrined in its constitution. We therefore welcomed the announcement in Budget 2011 that the GIB will be a proper public green bank; we also welcomed initial capitalisation levels of £3 billion, which are higher than anticipated some months previously—and not too far adrift of the minimum of £4 billion recommended by Ernst & Young in their recent report.⁶⁷

9. However, in a blow to the potential for the Green Investment Bank to drive energy efficiency, Budget 2011 delayed the Bank's borrowing powers until at least 2015, subject to the Government meeting its target to eliminate the annual structural deficit. This is a significant own goal.

10. The power to borrow is the most critical aspect of the GIB. It would give the Bank the potential to leverage in huge resources held by institutional investors. Critically for energy efficiency, without the power to borrow the Bank will not be able to raise low cost finance on which a successful Green Deal critically depends. This short-sighted decision by the Treasury not only imperils the success of the Government's flagship energy efficiency policy, but also fails to address the wider low carbon investment needs of the UK. We shall continue to press the Government to bring forward the 2015 date and drop the condition that the deficit must be eliminated before borrowing can begin.

CARBON PRICE FLOOR FOR ELECTRICITY GENERATION

11. The Budget announced that, following consultation, a carbon price floor for electricity generation will be introduced from April 2013. This made good promises in both the Coalition Statement and the Conservative election manifesto. ACE supports in principle the introduction of a carbon floor price. However, that support is conditional upon the combined receipts from the carbon floor and the EU ETS being ringfenced to fund energy efficiency improvements in homes, businesses and industry. Evidence from the US indicates that investment in energy efficiency delivers seven times the CO₂ savings than carbon taxes and prices.⁶⁸ Ring-fencing this revenue for energy efficiency can therefore greatly increase the carbon reductions resulting from taxation policies.

12. By contrast, failure to use receipts in this manner would impact upon the productivity of British industry, raise public anger at increases in their bills and exacerbate fuel poverty. Even at £16 per tonne, the Treasury expects the floor price to raise £1.6 billion a year by 2015–16. This is a significant sum that should be used to fund energy efficiency improvements, rather than simply to line Treasury coffers.

13. We are also concerned that the price is too low to drive a significant increase in investment in low carbon power generation.

14. One of the arguments often made against environmental taxation is that the amount of revenue raised is unpredictable because a successful environmental tax will, by definition, change “environmentally negative” behaviour, resulting in a drop in tax revenue. By contrast, combining the receipts from the carbon price and the auction of EU ETS permits will create a more predictable and stable revenue stream for the Treasury at any given price floor. This in turn will provide a stable funding stream for the energy efficiency programme that we are advocating.

CRC ENERGY EFFICIENCY SCHEME (FORMERLY THE CARBON REDUCTION COMMITMENT)

15. No substantive announcements were made in the Budget about this Scheme, save to confirm that the first allowances on sale in 2012 will be priced at £12 per tonne of carbon dioxide. However, it had been widely hoped that the Chancellor would bow to pressure from all sides (including the CBI and other industry representatives) and revert to the original proposal to recycle the revenues from CRC allowance sales to participating organisations.

16. To a chorus of criticism the Chancellor dropped this original proposal in last October's Spending Review, announcing that CRC revenues would simply be “used to support the public finances”, ie swallowed up by the Treasury. All informed commentators believe that this will act as a reduced incentive to Scheme participants to lower their carbon emissions. We are therefore disappointed that Budget 2011 gave no sign that the Government were minded to reverse their October decision.

LANDLORDS ENERGY SAVING ALLOWANCE (LESA)

17. The Landlords Energy Saving Allowance (LESA) is a tax allowance, introduced in April 2004, that allows private sector landlords to claim up to £1,500 (per property) against tax every year for investment in energy saving. However, awareness among landlords is low and the value allowable is not high enough to incentivise significant whole-house retrofits of properties. We have therefore been advocating that the current £1,500 cap be significantly raised to incentivise the installation of more expensive energy efficiency measures.

⁶⁷ Ernst & Young LLP, *Capitalising the Green Investment Bank, Key issues and next steps*, October 2010

⁶⁸ RAP, *Delivering Energy Efficiency on a Large Scale: Challenges and Lessons Learned*, November 2009, slide 14 http://www.raponline.org/docs/RAP_Cowart_BHamilton_DeliveringEnergyOnLargeScale_Bern_2009_11_04.pdf

This should be accompanied by an awareness campaign by the Treasury, who have to date been remarkably coy about advertising the existence of LESA—no doubt one reason why the Allowance has only ever been claimed by less than 0.2% of those eligible to do so.

THE RISE OF OUTSOURCED “QUASI-TAXATION”

18. Finally, we have mounting concerns that an increasing number of energy and climate change policies are being funded by means of outsourced “quasi-taxation”. We refer principally to the raft of obligations that are placed on energy suppliers, the costs of which are then recovered from the consumer on a crude “per household” basis. According to DECC⁶⁹, in 2010 these obligations accounted for 4% of an average annual domestic gas bill and 12% of an average electricity bill.

19. The obligations include the Carbon Emissions Reduction Target (CERT), Community Energy Saving Programme (CESP), Feed in Tariffs, Renewables Obligation and of course, and the newly announced carbon floor price. There are a number of flaws in this gathering trend:

- In some cases it has not been made clear whether the costs will be recovered through a “per household basis” or a “per kilowatt hour basis”—however situations where all consumers pay a flat rate, regardless of their income or level of energy consumption, are fundamentally regressive.
- It is not transparent. Consumers do not know exactly how much they are paying via their fuel bills to fund the various policy initiatives.
- Soaring fuel bills are already having a damaging effect on household incomes. By requiring bills to carry in addition the costs of an ever-increasing number of climate change policies, there is a real danger that the general public will be “turned off” the whole environmental agenda.
- If costs are recovered from all energy customers at a flat rate this would run counter to the basic principle underlying environmental taxation, ie that “the polluter pays”. There is no penalty for environmentally negative activity, and no reward for “good behaviour”.

20. In this regard we were interested to read in the “Plan for Growth”⁷⁰ that the Government plans to introduce “a new framework to cap the impact of levy-funded support on energy bills”. As far as we are aware, no further detail has yet emerged as to the Government’s plans—and we would urge them to clarify their intentions without delay.

20 April 2011

Written evidence submitted by the British Ceramic Confederation

SUMMARY

- The budget needed to prioritise economic growth in the UK economy—and balance this with commitments to reduce emissions.
- All parts of the economy must play their part in reducing the UK’s emissions. We are disappointed that the green taxes in the budget targeted certain sectors of the economy, such as energy intensive industry through the Carbon Price Floor rather than spreading the burden fairly amongst all sectors including transport, agriculture etc.
- The Government needs to measure the cumulative costs of all the UK’s green taxes on energy intensive industries through impact assessments to ensure that the UK does not just meet its emissions reductions targets by off-shoring manufacturing. The UK needs to avoid “carbon leakage” of energy-efficient manufacturing in the UK to less-regulated economies—exporting of GDP and jobs.
- We welcome the need to secure UK electricity supply—after many decades of under-investment—and to move to a lower carbon electricity mix. However, this has to be at least cost to avoid damaging industrial competitiveness, growth and investment.
- The UK Carbon Price Floor adopted in the budget threatens the competitiveness and viability of many companies in our sector and other energy intensive sectors.
- We welcome the extension of Climate Change Agreements to 2023 and that all participating sectors will continue to be eligible for the scheme. The reinstatement of the 2010 electricity rebate (80% rather than 65%) is welcome, but does not mitigate the extra costs of the Carbon Price Floor in 2013 at £16/te—let alone later when CPF costs escalate to £70/te in 2030.
- We welcome the move for the government to fund Carbon Capture and Storage (CCS) demonstration plants from general taxation, rather than from a further tax on energy use.
- We accept the principle in the “Growth plan” of a cap on green taxes—and want to be involved in developing the detail.

⁶⁹ DECC, *Estimated impacts of energy and climate change policies on energy prices and bills*, July 2010

⁷⁰ HM Treasury and BIS, *The Plan for Growth*, March 2011, para. 2.159

- It is important that Green Investment Bank funds are available for industrial energy efficiency and emissions reduction projects as these can offer very cost-effective means of reduction in the UK's emissions, with relatively short payback times compared to other investments.

BRIEF INTRODUCTION TO THE BRITISH CERAMIC CONFEDERATION

1. The British Ceramic Confederation (BCC) is the trade association for the UK Ceramic Manufacturing Industry, representing the common and collective interests of all sectors of the Industry. Its 100 member companies cover the full spectrum of products and materials in the supply chain and comprise over 90% of the Industry's manufacturing capacity.

2. Membership of the Confederation includes manufacturers from the following industry sectors:

- | | | |
|----------------------|------------------------|----------------------|
| — Gift and Tableware | — Floor and Wall Tiles | — Sanitaryware |
| — Bricks | — Clay Roof Tiles | — Clay Pipes |
| — Refractories | — Industrial Ceramics | — Material Suppliers |

Our sector and its suppliers employs approximately 20,000 people and generates £2 billion sales of which approximately £500 million are exports. The sector is a solution provider for the low carbon economy including durable construction materials with low lifecycle carbon footprints; industrial ceramics providing critical components for low carbon energy and electricity distribution; long-life refractory materials are essential for glass, steel and ceramic production

3. Ceramics is an energy-intensive industry: energy bills / taxes can be up to 30–35% of total production costs. 85% of the energy used is natural gas. BCC is a member of the Energy Intensive Users Group. Although the sector uses more gas than electricity, the amount of electricity used is still significant. (About 85% of the total energy used is from gas). Much of the electricity used is for process control or essential safety and environmental equipment. It is therefore more difficult to reduce consumption for these essential functions.

FACTUAL INFORMATION

Whether Budget 2011 furthers the Government's green objectives, including the impact of the cut in fuel duty on greenhouse gas emissions and air pollution

Approaches to shifting the burden of taxation from "goods" (eg labour) to "bads" (eg emissions) and factors that need to be considered when designing and introducing green taxes

4. The Government recognises that the optimal way to achieve a green economy is through the **retention within the UK of the whole supply chain for green products**. This includes the energy intensive industries who already enable a range of low carbon solutions.

5. **Carbon Price Floor—and broader impact on Energy Intensive Industries**. In our consultation response to Treasury we outlined how this measure alone was likely to increase our members' electricity bills in real terms by almost £40 million per annum by 2030. Based on a survey of our members, we think this will put about half of them out of business (ie the real terms energy cost increase in the HMT Proposal⁷¹ exceeds current profits). In the fiercely internationally competitive market in which they operate, it is simply not an option to increase prices to pass on this cost to customers. This is a unilaterally imposed UK price increase that overseas competitors will not have to bear. The extra Climate Change Agreement rebate on electricity might only reinstate £200,000 of annual benefit to our members. Ceramics is not a particularly electro-intensive industry—so it is of concern that HMT's impact assessment did not include:

- 5.1 A quantification of the cost to energy intensive industries.
- 5.2 The cumulative cost on energy intensive industries as a result of all energy tax measures in the UK. The ceramics industry included 2 examples in the "*The Cumulative Impact of Climate Change Policies on UK Energy Intensive Industries—Are Policies Effectively Focussed? A summary report for The Energy Intensive Users Group and the Trades Union Congress Prepared by Waters Wye Associates July 2010*".⁷² An updated WWA analysis including these proposals is available.⁷³
- 5.3 Broader effects on the UK economy from loss of these businesses. For example: tax revenues from corporation tax / national insurance / income tax; extra costs (eg unemployment payments etc and consequences on GDP / balance of payments if these companies were no longer able to operate profitably in the UK. There is a significant GDP multiplier for the construction sector covering many of our members.⁷⁴ Moreover, much of the supply chain is integrated and interconnected. For example, materials and kiln suppliers work across many ceramic sectors and

⁷¹ Chart 5.E: Time weighted baseload electricity prices (£/MWh, real 2009 prices) in http://www.hm-treasury.gov.uk/d/consult_carbon_price_support_condoc.pdf

⁷² <http://www.eiug.org.uk/publics/WWA%20Impact%20of%20Climate%20Change%20Policies%20EIUG%20TUC%202010723.pdf>

⁷³ <http://www.eiug.org.uk/publics/r1403w1.pdf>

⁷⁴ LEK Report for CBI / UKCG "Construction in the UK Economy—The Benefits of Investment" October 2009. Slide 10: *£1 spent on construction output generates a total of £2.84 in total economic activity (ie GDP increase)* [http://www.cbi.org.uk/ndbs/press.nsf/38e2a44440c22db6802567300067301b1b0460221653edd28025765c005a5db8/\\$FILE/UKCG%20L.E.K%20report%2028.10.09.pdf](http://www.cbi.org.uk/ndbs/press.nsf/38e2a44440c22db6802567300067301b1b0460221653edd28025765c005a5db8/$FILE/UKCG%20L.E.K%20report%2028.10.09.pdf)

we have seen in 2008–10 that a single manufacturer in administration can cause a series of UK suppliers (and some of their UK customers) to fail right across the industry in a cascade.

6. Investment is on hold and the UK regulatory framework is even more complicated than previously. Return on capital is being predicted at higher rates in competitor countries. Our members say that UK investments are not viewed favourably—and there is a track-record in the UK of a series of governments much less sympathetic to manufacturing industry than overseas competitors. Investment is essential for energy efficiency—and also for expansion at this stage in the economic cycle and is largely on hold—especially if parent companies can also invest in other countries. The new UK carbon price floor exacerbates the problem. An opportunity has been missed for the simplification and improvement in economic efficiency of climate policies—instead, the energy industry and its consumers are facing even greater complexity and policy overlap.

How policy proposals in “The Plan for Growth” will affect sustainable development and environmental protection (ie planning, green growth, low carbon investment, regulations etc) our comments in italics

7. The areas affecting our members and their sustainable development in the plan are:

- 7.1 Corporation tax reduction—*the reduction will only be of benefit if resource-efficient UK manufacturers can remain internationally competitive and profitable. Many of our members are concerned that unless the UK cumulative energy tax issue is addressed they may not have a profitable business in future.*
- 7.2 UK Carbon Price (Price Floor)—*see paragraph 5.*
- 7.3 Green Investment Bank—*see paragraph 17.*
- 7.4 Global action to tackle environmental challenges. *We support an international agreement on climate change which seeks to regulate greenhouse gas emissions from industry on an equal footing, regardless of location. We note that unfortunately the majority of world ceramics production is not covered by mandatory carbon dioxide / environmental legislation.*
- 7.5 Taking action now to put the whole economy on a low-carbon, resource efficient path that maintains UK competitiveness—*we are concerned that this is at odds with paragraph 7.7 below.*
- 7.6 “Green growth opportunities”—and resource efficiency savings—*see paragraph 17. Funding or co-funding for technology demonstrator projects is essential. Options for industrial scrappage and replacement schemes, low-carbon tax credits, low-carbon capital allowances and accelerated depreciation should all be explored. Incentives should apply to technologies, processes, buildings and other innovative ways of reducing the carbon footprint of business while still conducting activity in the UK. However, businesses should not be forced to replace assets before the end of their useful life.*
- 7.7 Increased “transitional costs” of moving to a green economy. Use of market-based approaches to simplify this policy landscape, minimising the costs of transition and reducing burdens on business. “Some aspects of the move to a green economy will impose transitional costs. In the short-term cleaner technologies may be more expensive than the conventional ones they replace. Adopting new, low-carbon technologies in energy production and consumption is currently expected to increase the average non-domestic energy bill by around 11%”. ***This statement is of major concern to our members as it is not compatible at all with “growth”, “sustainable development” or international competitiveness—even for companies in our sector that have invested in brand new state-of-the-art energy-efficient factories. The reference⁷⁵ is for 11% by 2015 and 26% by 2020. This was for a limited number of policies in 2010 and so excludes a Carbon Price Floor. The costs for energy intensive industries are not assessed.***
- 7.8 Capping the cost of policies funded through energy bills through a new framework—*see summary.*
- 7.9 Green Deal—*we support the principle here and some of our members are developing innovative products for improved measures in building energy efficiency.*
- 7.10 Green Economy Council. *At present our sector has no representation that adequately articulates its concerns.*

The scope for the tax system to create a “modal shift” from high carbon transportation to low carbon alternatives, including Fuel Duty, Vehicle Excise Duty, and Air Passenger Duty and issues the Government should consider when developing strategies for sustainable aviation and motoring

8. See summary.

RECOMMENDATIONS

The impact of the taxation system in general on sustainable development

9. We need a UK regime fair on companies that strive to be energy-efficient, and provides transparency, predictability, simplicity and allows them to compete internationally. This is not the case at present.

⁷⁵ Paragraph 23 in <http://www.decc.gov.uk/assets/decc/What%20we%20do/UK%20energy%20supply/236-impacts-energy-climate-change-policies.pdf>

10. The Climate Change Act needs to be amended to include imported carbon, so that UK policy is focussed on reducing emissions on UK consumption—rather than just production. The current UK policies allow products made in less stringent environmental conditions overseas to have a competitive advantage at the expense of UK jobs and increased net global emissions.

11. Thorough impact assessments on energy intensive industries (covering all the areas in paragraphs 5.1–5.3) need to be performed for the Carbon Price Floor and all future “green taxes” that affect these industries. New policies to reduce emissions should only be adopted that minimise the costs on the UK economy as a whole and do not increase global emissions or carbon leakage.

12. That the Government acknowledges the impact of the carbon price floor and other carbon taxes on the bottom line of energy intensive industries and takes appropriate steps in the context of the ongoing Electricity Market Reforms to mitigate the cumulative burden of this and other climate policies and ensures that industrial users are actively involved in this process.

13. Low carbon electricity investors require the certainty now that when new generation capacity comes on stream, electricity will then receive financial support. A Carbon Price Floor—a policy designed primarily to support nuclear electricity—should therefore remain at zero until at least 2020 (estimated timescale for new nuclear capacity) and should remain at a low level, say £20/tonne from 2020 until 2030.

14. The Environmental Audit Select Committee as a matter of urgency should examine the cumulative costs of UK regulation on Energy Intensive Industries.

15. Future Climate Change Agreements for Energy Intensive industries must continue to use sector-specific challenging **yet achievable** targets. Rebates should mitigate the maximum possible amount of the Climate Change Levy.

The scope for the taxation system to protect and increase stocks of natural capital and the possible role of proposed “natural accounts”

16. Waste infrastructure needs to operate at scale in new ways, recognising that what was waste should now be seen as a strategic resource around which value chains can be created. An example relevant to ceramics and several other energy-intensive sectors is waste the need for biogas generation, yet current tax instead incentivises electricity from waste.

The announcement in Budget 2011 on the Green Investment Bank

17. As in our earlier response to the EASC inquiry,⁷⁶ it is important that Green Investment Bank funds are available for industrial energy efficiency and emissions reduction projects as these can offer very cost-effective means of reduction in the UK’s emissions, with relatively short payback times compared to other investments. We welcome the government’s commitment to provide a further £2 billion to the Green Investment Bank on top of the existing £1 billion, but are disappointed in the phased-in approach.⁷⁷

21 April 2011

Written evidence submitted by the Motor Cycle Industry Association

INTRODUCTION

The MCI

1. The Motor Cycle Industry Association (MCI) is pleased to submit written evidence to the Environmental Audit Committee Inquiry on the environmental impact of Budget 2011 and green taxes.

2. The MCI is the UK trade association that represents the supply side of the motorcycle industry, including manufacturers and importers of mopeds, motorcycle and scooters; the suppliers and distributors of associated goods and services. With approximately 120 members, MCI represents approaching 90% of the UK industry.

3. The Motorcycle industry in the UK today employs around 62,000 people in 6,300 businesses. The UK industry has been valued at over £7 billion per annum. A sister Association, the eMCI will be launched in June this year to represent the growing alternative powered motorcycle sector, which according to the answer to a recent Parliamentary Question (*Zak Goldsmith MP 28 Feb 2011*) is currently twice the size of the eCar sector, in terms of new vehicles sold.

4. The MCI has played an active role in the development of sustainable policies for motorcycling over many years and has worked closely with the Government, police and other delivery bodies to implement strategies and to encourage a holistic approach towards motorcycling.

⁷⁶ <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmenvaud/memo/greeninvest/wrev27.htm>
Written evidence submitted by British Ceramic Confederation (GIB 27) Green Investment Bank—Environmental Audit Select Committee Session 2010–11

⁷⁷ While the GIB will start a year earlier than planned, in 2012, initially its capital is staggered over the first few years, and it will not be able to raise its own finance on the capital markets until 2015 on the condition of the fiscal debt target being met

5. The MCI does not request a specific opportunity to present oral evidence, though if called by the Committee to give evidence, will be happy to do so.

MOTORCYCLE INDUSTRY RESPONSE

Summary

6. The lack of powered two wheeled (motorcycles, scooters, mopeds; both alternative [electric/hydrogen] and conventionally powered) awareness by in the Budget seems to point to a basic misunderstanding (or lack of awareness or an unwillingness to recognise) that a powered two wheeled vehicle is a viable and practical commuting option and has a role to play in a low carbon sustainable transport architecture.

7. It is interesting that all of the UK funding for EV's is being focussed on commercial vehicles and buses, cars and trucks. Powered two wheelers (PTW) are noticeable only by their absence from the 2011 Budget—despite the fact that the ePTW sector is one of the largest in the alternative powered vehicle sector

8. We can conclude only that the Government have missed a significant opportunity to reduce green house gasses and emissions by using the tax system to encourage the use of efficient PTW's for commuting, which would have had the effect of increasing the likelihood of ePTW take up in the future.

9. Indeed, those tax measures that have impacted on the PTW sector have had the opposite effect and may see those currently commuting on a PTW switch to a car.

The Committee's Questions

10. The Committee has asked the respondents to consider a number of points. These are set out below, accompanied by the motorcycle industry's response, where appropriate.

11. *Whether Budget 2011 furthers the Government's green objectives, including the impact of the cut in fuel duty on greenhouse gas emissions and air pollution;*

12. Whilst relief for the motorist is both a political and economic imperative doing can have a positive impact on greenhouse gas emissions if such support is matched with support for viable low carbon transport alternatives. The budget is too one dimensional in so far as it seeks only to show concern for the motorist by reducing fuel duty. A greater driver of lower green house gas emissions and air pollution has been the high levels of fuel tax, combined with high oil prices, which has resulted in congestion on Britain's trunk roads and motorways dropping by 12%* on 2007 figures (*Trafficmaster/RAC Foundation Journey Time Index). However, the wider the consequences—inflation—have mitigated many of the benefits and time savings of the lower traffic levels.

13. *Approaches to shifting the burden of taxation from “goods” (eg labour) to “bads” (eg emissions) and factors that need to be considered when designing and introducing green taxes;*

14. There is limited evidence of the Government's intention to shift the burden of taxation to emissions in this budget. People are making transport choices because of fuel prices, which are being influenced by global factors rather than UK Government policy. The disproportionate cost of public transport compared to even expensive refueling of petrol cars also maintains the dominance of the private car. In such an environment, the Government should be using its powers of “taxation persuasion” to enable “green” transport choices, but not by further increasing carbon fuel costs which in these economic times would be a “stick” to far. It should seek to extend “carrots” such as tax breaks or grants to all areas of green technology, in particular low CO2 or cleaner transport, thus driving invention and innovation. Such incentives need to be applied with an even hand. For example, the motorcycle industry is very concerned at the deliberate exclusion of ePTWs from the “Plug in Grant” and would ask the Committee to scrutinise this decision.

15. *The scope for the tax system to create a “modal shift” from high carbon transportation to low carbon alternatives, including Fuel Duty, Vehicle Excise Duty, and Air Passenger Duty and issues the Government should consider when developing strategies for sustainable aviation and motoring;*

16. Given the European profile of the EV sector at the moment; the recent EU investment in green transport technologies (€24 million as part of the cross-European Electromobility initiative Green eMotion), it must be concluded that the Government have missed an opportunity to place the UK at the centre of the Low Carbon transport revolution. There is little in the Budget that indicates overt support for a shift to low carbon transport. Indeed, two measures in the 2011 Budget will effectively dissuade people from engaging with low carbon transport options:

17. VED on Motorcycles has increased by over 4%—more than the increase in VED for cars. Current motorcycle production produces on average 30% lower Co2 (industry survey [ACEM] and ADEME research [French institute]).

18. The mileage rate for car business use has increased by 12.5% to 45p. There has been no increase in the business mileage rate for motorcycles.

19. These two measures alone demonstrate that the Government either does not recognise the “green” currency of conventionally powered two wheelers or is actively using the tax system to disincentivise commuters to avoid PTW’s.

20. *The announcement in Budget 2011 on the Green Investment Bank.*

21. There is an opportunity for investment in Low Carbon transport technologies, but may be too late in 2012. The key to the success of the Green Investment Bank will be its openness to smaller companies and entrepreneurs who are always central to the development of these new technologies. There is a very real danger that much of the funding will be soaked up by large corporates or research institutes, when in fact significant green technology “drivers” come from SMEs and other smaller concerns.

ADDENDUM

Parliamentary Question from Zac Goldsmith MP, 28 February 2011, on the current size of the e-vehicle market:

Zac Goldsmith: To ask the Secretary of State for Transport how many new ultra low-emission vehicles were registered in the latest period for which figures are available.

Norman Baker: The Department for Transport uses the term “ultra-low emission vehicles” to refer to vehicles with significantly lower levels of tailpipe emissions than conventional vehicles. In practice, the term currently refers to electric, plug-in hybrid and hydrogen fuel-cell vehicles.

Data from the DVLA suggests that 1,277 electric and plug-in hybrid vehicles were registered in Great Britain during 2010: 268 cars, four quadricycles, 547 motorcycles, mopeds, scooters and tricycles, six buses, coaches and minibuses, and 452 commercial vehicles, including light vans. Data for hydrogen fuel-cell vehicles is currently limited.

21 April 2011

Written evidence submitted by the Royal Society for the Protection of Birds

SUMMARY

- The RSPB believes that a fair and effective approach to green taxation should involve taxing bads rather than goods, focus on behavioural change and consider the use of hypothecation to reinforce environmental outcomes. It can also be used as a stick when other tools, such as voluntary initiatives, demonstrably fail to deliver environmental objectives.
- The RSPB does not feel that the 2011 budget has done nearly enough towards meeting the Government’s overarching green objectives, particularly in respect to the natural environment.
- The Chancellor has failed to address damages being done to the natural environment, omitting any further measures that seek to internalise current damages that are occurring into private decision making. Peat use in horticulture is a prime example where fiscal policy could help prevent habitat destruction and damage, and work towards the UK Government’s conservation and carbon objectives.
- The reduction in fuel duty and freezing of air passenger duty have signalled a move away from taxing bads, such as air pollution and greenhouse gases, rebalancing the overall tax burden to lie more heavily on goods. Such a move will reduce societal welfare in the long-run.
- This budget has jeopardised the Coalition’s chances of meeting their stated aim to increase the proportion of the total tax take made up of environmental taxes.
- The RSPB is concerned that the Coalition’s soft-touch approach to environmental taxation in favour of promoting short-term growth will prevent the UK from tackling urgent threats to our natural environment which, in turn threaten long term, sustainable economic welfare.

THE RSPB AND ENVIRONMENTAL TAX REFORM

1. The RSPB is Europe’s largest wildlife conservation charity. We have over a million members, the support of over 16,600 volunteers and manage over 200 nature reserves covering over 143,000 hectares, home to 80% of our rarest or most threatened bird species. Internationally, the RSPB is part of the Birdlife Partnership and are involved in numerous conservation projects including three large scale tropical forest and peatland restoration projects.

2. The RSPB believe green taxation and fiscal reform should be seen as a fundamental part of an overall package of measures designed to internalise environmental externalities, and promote more sustainable patterns of production and consumption.

3. The purpose of environmental tax reform should be to change behaviour, protect the environment and ensure economic actors pay for the damage they do. The rationale is not primarily therefore to raise revenue.

4. A fairer tax structure would be one based on wealth and which focuses on taxing bads, such as environmental damages, rather than goods, such as employment, and one that truly accounts for environmental externalities. We overexploit and undervalue natural resources (beyond the marketable ones) because of their public goods characteristics. As we grow ever more aware of the looming ecological problems, as highlighted by the TEEB and National Ecosystem Assessment reports, far greater attention should be given to accounting for the benefits nature provides.

5. The RSPB supports the hypothecation of green taxes. Hypothecation uses the proceeds of taxes on environmentally damaging activities to support environmentally beneficial ones. We believe there is scope for increasing the amount of environmental tax revenue recycled specifically for environmental purposes.

6. The RSPB also advocates the introduction of new taxes on empirical grounds, where alternative approaches, such as voluntary agreements, have proven to be ineffectual. One example of this would be in the use of peat in horticulture, as discussed later in this response.

KEY THEMES FOR THE INQUIRY

Whether Budget 2011 furthers the Government's green objectives, including the impact of the cut in fuel duty on greenhouse gas emissions and air pollution

7. The RSPB does not feel that overall the 2011 budget has done enough towards meeting the Government's overarching green objectives. Whilst we cautiously welcome the carbon floor price measure and the extension of Climate Change Agreements, the limitations on the Green Investment Bank, alongside fiscal incentives for highly damaging modes of transport, have called into doubt the Coalition's commitment to meeting UK carbon commitments.

8. Although not explicitly designed as a green tax, fuel duty is a proven and effective way to incentivise reduced fuel use and carbon emissions and should thus be considered as an important instrument of climate policy. Transport accounts for a significant and rising proportion of UK carbon dioxide emissions. Until now transport has been the worst performing sector under Kyoto, growing by 34% between 1990 and 2008 in the EU, despite the fact that other sectors reduced their emissions by 14% on average over the same period.⁷⁸ These emissions, particularly from road transportation (and aviation), will need to be reduced if the UK's carbon dioxide reduction targets are to be met. Taxation is the best way to affect these changes in as cost-efficient a way as possible.

9. Therefore, the decision to cut fuel duty and abolish the fuel duty escalator in the budget was particularly disappointing. This new round of measures further weakens incentives, particularly given the fact that the costs of alternative (substitute) modes of transport are rising. There has been a large shift in the relative costs of public and private transportation in the last two decades; the price of private transport has fallen relative to income whilst public transport costs have risen.

10. In terms of carbon emissions, the scheduled fuel duty increases under the escalator (introduced in 2007–08) were expected to save 1.7 MtCO₂ per year by 2014–15 (compared to inflation only increases). UK fuel taxes have dropped by 32% in real terms since their high point in 2000.⁷⁹ If the Labour government had stuck with its fuel duty escalator policy of a 6% above inflation rise every year, the subsequent reduction in demand since 2000 would have led to a 5% reduction in total UK carbon emissions. Not only that, but an extra £100 billion of tax would have been collected by 2010. The additional annual revenue by the end of the period would have been sufficient to fund a reduction in employers' national insurance contributions of around 25%, or a reduction in household income tax of around 10%.⁸⁰

11. Abandoning these policy makes little economic or environmental sense given the long-term upward trend in the price of oil, the significant negative externalities associated with motoring, and the decline in the real cost of motoring relative to other forms of transport. High fuel prices are here to stay and so, although it may be possible to reduce short-run price volatility, it is infeasible to keep fuel prices artificially low in the long-run through reductions in fuel duties as this would impact negatively on both government revenues and the environment. Government needs to send a consistent and durable signal to consumers, producers, and investors that we will need to adapt our transport systems and behaviours in the long-run. They are currently providing the wrong kind of signal.

12. Although the implied carbon price associated with motoring is relatively high, carbon emissions are just one of the many negative externalities associated with driving. Aside from emissions of greenhouse gases and other pollutants, the externalities associated with motoring include noise, accidents, health, road building and maintenance, and congestion. Designing optimal taxes to internalise all of these external costs accurately and optimally in the prices paid for motoring by consumers is very complicated, and sometimes the appropriate instruments will differ for different externalities. For example, by far the largest external cost of motoring is

⁷⁸ European Federation for Transport and Environment. April 2011. Fuelling oil demand: What happened to fuel taxation in Europe?

⁷⁹ European Federation for Transport and Environment. April 2011. Fuelling oil demand: What happened to fuel taxation in Europe?

⁸⁰ PSI (Roger Salmons), February 2011. Road transport fuel prices, demand and tax revenues: impact of fuel duty escalator and price stabiliser.

related to congestion. These external costs vary hugely according to the location and time of driving and are thus poorly targeted by the relatively blunt instruments of fuel duty and vehicle excise duty.^{81,82} In theory, it has been suggested that this is best tackled using a road pricing scheme that charges motorists for the distance driven according to where and when they drove. It appears likely that road user charges could become a major part of the taxation system in the coming decades. In this situation, the RSPB urges that fuel and vehicle duties should remain in place as they serve important transport and environmental policy objectives that are not addressed by road pricing.

13. Finally, the RSPB believes that there are other “environmentally related” motoring externalities that are often overlooked, including a number of potentially important ecological effects such as wildlife roadkills, road avoidance (due to traffic noise), barrier effects (limiting connectivity), ecosystem effects on local hydrology, erosion, sediment, and chemical effects, not to mention direct habitat loss, fragmentation, and degradation.⁸³ Roads can interrupt and modify natural processes altering community structures and in the longer term, population dynamics. Road vehicles are prolific killers of terrestrial vertebrates and have ecological effects on a large proportion of the landscape.^{84,85} In the intensively used, densely populated UK landscape, roads affect almost half the designated sites of special scientific interest for nature conservation while up to 25% of all protected areas may be disturbed by their proximity to a road.⁸⁶

14. We also regret that the Chancellor announced no new fiscal measures to tackle the deterioration of the UK’s natural environment. In particular, the Coalition has missed an opportunity in this budget to introduce fiscal measures to address the use of peat in UK horticulture. This practice is responsible for 630,000 tonnes of CO₂ emissions per year, as well as significant habitat destruction on raised lowland peat bogs, of which only around 6% remain undamaged across the UK. Clear environmental externalities in this industry have prompted Government targets to phase out peat use; however, the voluntary route adopted over the past 15 years has ended in failure, with peat still making up 70% of growing media consumed in the UK. This consumption pattern is driving damages both at home and abroad, despite the existence of working alternatives to peat, predominantly using waste products, the use of which also contributes to recycling and landfill reduction.

15. Organisations across the UK, including those from within the peat growing media industry, have been calling for a regulatory approach. A levy of just 4 pence per litre of peat growing media could make alternatives more price competitive, reduce peat use and its associated damages, stimulate investment in the renewable alternatives industry, and generate significant funds for the public purse. Internalising the environmental externalities around peat use, by making the price better reflect the social costs of its extraction, would have also contributed to a better fiscal balance between taxes on bads and on goods.

16. We also regret the decision to discontinue of the Aggregates Levy Sustainability Fund (ALSF). The ALSF was a hypothecated fund from the Aggregates Levy which delivered substantial and tangible environmental benefits. In terms of direct industry carbon emission reductions, the ALSF was also responsible for savings of 160,000 tonnes of CO₂ in the aggregates sector by 2011–12, and had an estimated potential for a total reduction of 560,000 tonnes from 2015–20, the monetary value of which is estimated at £58.4 million. Regarding improvements in waste management, over 12.5 million tonnes of waste has been diverted from landfill since 2008. This work has saved over 500,000 tonnes of CO₂ emissions annually, and would have delivered savings of £123 million over the period to 2020.

17. The ALSF has proven to be excellent value for money. The overall cost:benefit ratio of all the ALSF work which can be monetised is just under 1:10, with £20 million invested giving rise to £195 million in benefits. This represents only the measurable environmental benefits, and in fact there have also been significant additional gains in societal welfare from other activities relating to the restoration of habitat affected by extraction. For example, the Nature After Minerals project, which received a small amount of funding from the ALSF, has assisted in the restoration of over 2,100 hectares of minerals sites, creating rare and fragmented UK Biodiversity Action Plan (BAP) priority habitats such as lowland heathland, wet woodland and fenland.

Approaches to shifting the burden of taxation from “goods” (eg labour) to “bads” (eg emissions) and factors that need to be considered when designing and introducing green taxes

18. We feel that the recent budget performed poorly against this criterion due to measures reducing tax on carbon intensive travel, and the failure to incorporate any fiscal measures around conservation of the natural environment.

⁸¹ IFS Mirrlees Review. 2010. Reforming the Tax System for the 21st Century: “Dimensions of Tax Design Chapter 5. Environmental Taxes” (Don Fullerton; Andrew Leicester; Stephen Smith).

⁸² Sansom, T, Nash, C, Mackie, P, Shires, J & Watkiss, P (2001). Surface Transport Costs and Charges—Great Britain 1998. Final Report for the DETR. Institute of Transport Studies, University of Leeds.

⁸³ Forman, R T, Alexander, L E, 1998. Roads and their major ecological effects. *Annu. Rev. Ecol. Syst.* 29:207–31

⁸⁴ Underhill, J E, Angold, P E, 2000. Effects of roads on wildlife in an intensively modified landscape. *Environmental Review* 8, 21–39.

⁸⁵ Forman R T T, Alexander L E, 1998. Roads and their major ecological effects. *Annu. Rev. Ecol. Syst.* 29:207–31

⁸⁶ Underhill, J E, Angold, P E, 2000. Effects of roads on wildlife in an intensively modified landscape. *Environmental Review* 8, 21–39.

19. The introduction of a carbon floor price in the budget, while welcome, does little to address the complex set of existing carbon regulations that continue to provide insufficient incentives to consumers and producers to reduce their environmental impacts. The rationale for introducing a price floor is in order to correct for the fact that the (traded) carbon market price is currently too low and too uncertain for the long-term investment decisions that need to be made. However, the policy the government announced in the Budget may not correct for either of these problems. The carbon price that has been chosen is too low and replaces market uncertainty with further regulatory uncertainty. It has been argued that the carbon price floor will “increase abatement costs for the UK and the EU, provide windfall profits to existing low carbon generators (especially nuclear) and may deliver no additional emission reductions at least until 2020 and possibly not beyond”.⁸⁷

20. Solving these issues requires a higher carbon price and for the carbon price floor commitment to be embedded in a contractual obligation, which would provide investors with the long-term credibility they require to invest, rather than simply a tax that is vulnerable to future political pressures. More generally, the carbon price floor adds further complexity to the already complex policy mix of different incentives, widens the range of carbon prices, and fails to price carbon consistently between sectors and fuels. Many consumers in the public, commercial and industrial sectors will effectively face double or even triple regulation of their carbon emissions—directly through the climate change levy on electricity use and indirectly through the impact on electricity prices of both the carbon price floor and EU ETS allowance price. A rationalization of existing policies is called for. Inefficient climate change policy costs more than it needs to and achieves less, directly because of limited resources available to tackling it, and also because of the sensitivity of public support for tackling climate change to the costs of doing so.

21. There have thus been suggestions that the existing set of climate change instruments be merged⁸⁸ in order to address the disproportionate complexity relative to a lack of environmental ambition. It is often overlooked that much of the UK legislation that overlaps with the EU ETS results in no net carbon emissions reduction at the EU level. Less demand for carbon permits in the EU simply lowers the carbon permit price and thus subsidises emissions elsewhere in Europe. In the long-run, it would be desirable in theory to move as far as possible towards a single price of carbon (i.e. via a carbon tax) for all sectors of the economy as a means to reducing emissions to levels consistent with future abatement targets in the most economically efficient way possible, preferably at an EU level. However, we are a long way from that point at present.^{89,90}

22. The Coalition has pledged to increase the proportion of the total tax take that is made up by environmental taxes. Whilst this is hardly the best measure of overall environmental performance, it indicates a positive intention to shift the burden of taxation towards bads. The OBR produced a fiscal outlook in 2010 mapping expected future revenues from taxation.⁹¹ The IFS used this report in 2011 to predict that the UK Government was on course to meet its green tax pledge, with the proportion of green taxes set to increase from 7.9% of receipts in 2009–10 to 8.3% of receipts in 2014–15.⁹² However, this calculation included a rise in tax receipts between 2010–11 and 2011–12 of £1.6 billion from fuel duty and £0.4 billion from APD. Whilst the freeze in APD and reduction in fuel duty do not prevent these increases from occurring (as car and air travel may increase, causing overall revenues to rise), it is far less likely that the predictions will be valid compared to if the planned fuel duty escalation and shift towards PPD had occurred. Therefore the chancellor in the 2011 budget has probably hindered the ability of this government to achieve its green taxation pledge.

The scope for the tax system to create a “modal shift” from high carbon transportation to low carbon alternatives, including Fuel Duty, Vehicle Excise Duty, and Air Passenger Duty and issues the Government should consider when developing strategies for sustainable aviation and motoring

23. The UK Government’s agreement committed to the introduction of a Per-Plane Duty (PPD) to replace APD. Taxing aviation based on actual flights rather than passenger numbers would have made the tax more aligned with carbon dioxide emissions from air travel, increasing the efficiency and effectiveness of the tax, as well as increasing the total tax take from an industry which is responsible for significant environmental externalities.

24. Transport is responsible for almost 25% of all carbon dioxide emissions in the UK. Influencing market incentives to reduce aggregate demand for carbon based transport, as well as shifting demand towards lower-carbon alternatives such as rail, will be essential for the UK Government to meet the nation’s commitments.

25. The RSPB welcomes the current consultation on business jets, which at the very least should be included into current aviation tax schemes such as APD.

⁸⁷ MacKerron, G, Sorrell, S & Watson, J, 8 March 2011. Response to DECC Consultation on Electricity Market Reform. Sussex Energy Group, SPRU, University of Sussex

⁸⁸ <http://www.decc.gov.uk/assets/decc/What%20we%20do/A%20low%20carbon%20UK/crc/1195-reducing-the-overlap-between-schemes-crc.pdf> DECC Consultation on CRC: Reducing the Overlap Between Schemes

⁸⁹ Helm, D, 2010. The Case for Carbon Taxes, in Less, S (ed) Greener, Cheaper, Policy Exchange, London

⁹⁰ The IFS Green Budget: February 2011. London. Ch. 11 Environmental Policy.

⁹¹ Office for Budget Responsibility, 2010, *Economic and fiscal outlook*.

⁹² Institute of Fiscal Studies, 2011, *Green Budget 2011*.

The impact of the taxation system in general on sustainable development

26. The impact of taxation on economic activity and competitiveness is clearly important. However, it is broadly accepted that gauging performance by measures of aggregate income or activity (like GDP) which fail to take into consideration the depletion of natural capital, will be hazardous. We also know from the Stern Review and the Millennium Ecosystem Assessment that we are depleting natural capital at ever accelerating rates. All environmental assessments, at virtually all scales, whether it be fisheries, soil productivity or forests, underline this trend. If we are to remain within ecological limits, then these limits must then inform decision making at all levels, and taxation can be one of the most effective, and appropriate means to address environmental externalities.

27. Taxation should be a principal means of realigning market incentives by internalising the external costs private actors impose on society. We believe it is legitimate to use them to change behaviour even if the outcome is a reduction in short term GDP growth. For example, if a factory enhances its profits by polluting a river, taxing their emissions may well reduce GDP but will increase societal wellbeing—the proper metric for assessing taxation.

28. Traditionally, economic management focuses on static efficiency and stability. Questions of sustainability are naturally more dynamic. Growth can only be sustainable if activity today does not undermine the prospects for growth in future. There is overwhelming evidence that, on current trajectories, it will. If that is accepted, the question becomes what do we need to be doing now to ensure we can sustain the economy. Knowing the scale of CO₂ emission cuts required by 2020, for example, should be informing present tax policy as much as the static efficiency of different tax options (in a cost benefit sense).

How policy proposals in “The Plan for Growth” will affect sustainable development and environmental protection (ie planning, green growth, low carbon investment, regulations etc)

29. The UK is facing unprecedented challenges for the 21st Century—economic recovery, climate change and biodiversity loss, increased urbanisation and the need for greater social equity. The need for us to strive to achieve sustainable development and effectively address these issues has never been more pressing. An effective, strategic planning system has an essential role to play in delivering true integration of economic, social and environmental priorities and objectives at all levels.

30. However, recent budget announcements (both 2010 and 2011) have presented planning as a barrier to economic growth. Speaking at the Conservative Party’s spring conference in Cardiff, the Prime Minister has recently described planning officials as “enemies of enterprise” and declared that the forthcoming budget will be the most pro-growth friendly for generations. As a result, current measures put forward by Government restrict the planning system to a statutory land-use activity. While it might hinder economic growth by filtering out inappropriate development and setting (environmental) limits, there is a lot of evidence that suggests that effective strategic (spatial) planning can help support economic development (planning for minerals). Government should view the role of planning as providing an essential strategic co-ordinating mechanism for economic, social and environmental priorities and ensuring that nature is at the heart of decision-making.

31. We believe that achieving sustainable development must be at the heart of the planning system. Currently decisions about land-use are made by different organisations and government departments all with their own priorities and interests. If we are to reverse the decline in biodiversity, we must ensure that decision-making is aligned and suitably integrated towards achieving a common vision for sustainable development.

The announcement in Budget 2011 on the Green Investment Bank

32. The RSPB welcomed the announcement that a Green Investment Bank (GIB) will be established in 2012–13, with an initial capitalisation of £3 billion. However, we feel that as currently envisioned, it will not deliver in the ways that will be required if our 2020 and 2050 carbon emissions reduction commitments are to be achieved. The delay in full borrowing powers until 2015, and the relatively small start-up capital mean that the bank is predicted to leverage only an estimated £18 billion investment in low carbon infrastructure by 2014–15. Given that the Green Investment Bank Commission estimates that the investment needed by 2020 to meet UK carbon targets is £550 billion, this measure clearly does not even begin to go far enough to ensure the government’s green objectives will be met.

33. The RSPB supports the recommendations made by the Green Investment Bank Commission, and the Environmental Audit Committee for borrowing powers to be granted to the GIB as soon as possible.

Written evidence submitted by EEF

ABOUT EEF

1. EEF is the representative voice of manufacturing, engineering and technology-based businesses with a membership of 6,000 companies employing around 800,000 people. A large part of its representational work focuses on the issues that make a difference to the productivity and competitiveness of UK manufacturing, including investment, innovation and tax issues.

SUMMARY

2. Over the past two decades, UK governments of all stripes have increasingly used the tax system to achieve their environmental objectives. However, as the UK pushes ahead of other countries in its use of green taxes, the Committee's inquiry into Budget 2011 and green taxes provides an opportunity to assess the impact of the Government's approach to green taxes on growth and carbon emissions.

3. Better balanced growth and an economically sustainable transition to a low carbon economy are two of EEF's top priorities. Consequently we do not believe the two are necessarily mutually exclusive. But the nature of the transition to lower carbon emissions matters. Our concern is that the mix of environmental taxation currently proposed by government is unlikely to achieve either growth or a reduction in carbon emissions.

- **OECD suggests taxes that raise relative costs on mobile activity will be harmful to growth.** The behavioural and growth consequences of the shift away from taxing "goods" and towards taxing "bads" will depend on whether the "bads" are derived from mobile economic activity. According to the OECD study, a carbon tax that raised the relative cost of production in the UK would likely lead to lower growth as mobile activity shifted abroad.
- **Tax on its own will not change behaviour.** For environmental taxation to be effective—ie bring about the desired change in behaviour—it needs to be sensitive to the range of barriers facing businesses and complemented by other policies to help overcome them. The Landfill Levy is an example of an environmental tax that has been relatively successful because of a strategic package of complementary regulations, investments and incentives for waste reduction and recycling. The proposed Carbon Price Floor stands in contrast, where the new carbon tax will inefficiently duplicate existing carbon taxes.
- **UK needs political leadership.** Rather than reaching for ambitious, but unachievable targets, the UK should adopt a policy mix that shows that growth and an economically sustainable transition to a low carbon economy are not mutually exclusive.

THE ENVIRONMENT, TAXATION AND GROWTH

Question: *What are the various approaches to shifting the burden of taxation from "goods" (eg labour) to "bads" (eg emissions) and what factors need to be considered when designing and introducing green taxes?*

4. Over the past two decades, UK governments of all stripes have increasingly used the tax system to achieve their environmental objectives. However, as the UK pushes ahead of other countries in its use of green taxes, the Committee's inquiry into Budget 2011 and green taxation provides an opportunity to assess the impact of the UK's approach on growth and carbon emissions.

5. In order to generate growth and a reduction in carbon emissions, the choice of shifting from taxing "goods" in favour of taxing "bads" needs to be viewed in the context of how taxation affects growth.

6. A recent OECD study, *Tax Policy Reform and Economic Growth*,⁹³ shows that taxes that have a smaller negative impact on economic decisions of firms will have a less negative impact on growth. According to the report, taxes on mobile economic activities will be the most harmful to growth, while taxes on immobile activity have the least damaging effects on growth.

7. As globalisation increases economic openness and mobility, the OECD report stresses that different factors should drive tax policy choices than in the past, when there was less mobility. Although tax is only one factor among many in improving countries' competitiveness, the OECD report notes that location decisions are becoming more sensitive to relative tax rates.

8. The analysis suggests that corporate taxes are the most harmful type of tax for economic growth, followed by personal income taxes, personal consumption taxes and finally taxes on immobile property the least harmful tax. According to the report, the relative taxes that affect mobility include taxes that affect the costs of production, and therefore the relative international competitiveness of some sectors, and corporate income taxes—including allowances for capital expenditure and innovation—which can influence the location of factories and offices.

9. Consequently, the behavioural and growth consequences of the shift away from taxing "goods", such as corporate income, and towards taxing "bads", such as carbon emissions, will depend on whether the "bads" are derived from mobile economic activity. In theory, taxing "bads" can help make explicit the wider social and economic costs of the activity and, thereby, change behaviour. The new Carbon Price Floor is an example

⁹³ OECD (2010), *Tax Policy Reform and Economic Growth*, OECD Tax Policy Studies.

of a tax that will add to the higher costs (relative to their European and international competitors further afield) faced by UK manufacturers already paying the Climate Change Levy (CCL) and the Carbon Reduction Commitment (CRC).

10. With rising carbon prices, there are three potential behavioural consequences: a reduction in carbon emissions, a reduction in the activity that led to the carbon emissions, or escaping the tax by moving the activity abroad (or not locating it in the UK in the first place). According to the OECD study, a carbon tax that raised the relative cost of production in the UK would likely lead to lower growth as mobile activity shifted abroad.

11. Any significant shift to taxing “bads” also raises questions about the ultimate policy objective. In the case of a carbon tax, it is unclear to manufacturers whether the policy objective is reducing carbon emissions or raising revenue.

12. As noted above, a green tax that succeeds in changing behaviour, would, by definition, reduce the potential tax base. The only way to maintain a stable revenue base is to continually raise the tax rate, as was done with the Landfill Levy escalator. A tax on “bads” that didn’t change behaviour—such as the Airline Passenger Duty—may generate a stable revenue base, but would undermine the credibility of green taxation as it achieved neither the policy objective of growth or the transition to a low-carbon economy. In addition, a tax on “bads” derived from mobile activity would damage growth in the UK, without necessarily reducing global greenhouse gas emissions.

13. Taxing “bads”—including through carbon taxation—is therefore not as simple as setting the right price in order to generate the right behaviour, which in this case is fostering both growth and the transition to a low-carbon economy. Rather experience suggests that taxation, including carbon taxes, is successful at changing behaviour without sacrificing growth when they are part of a strategic and targeted policy mix and factor in the relative international impact.

GREEN TAXES FAILING ENVIRONMENTAL GOALS AND GROWTH

Question: How well are green taxes being used to deliver environmental goals and aid the transition to a low carbon economy?

Question: Does Budget 2011 strikes the right balance between these aims and broader economic objectives?

Question: What views do you have on the announcement in Budget 2011 on the Green Investment Bank?

14. For environmental taxation to be effective—ie bring about the desired change in behaviour—it needs to be sensitive to the range of barriers facing businesses and complemented by other policies to help overcome them.

15. For example, the energy-intensity of UK industry has fallen by two-thirds in the past 40 years but going further is likely to require more than just sharpening price signals through taxation. In many industries, further efficiency gains are being held back by technological and financial barriers. So environmental tax policy needs to be placed in the broader context of issues like innovation policy, support for investment and access to finance.

16. The Landfill Levy is an example of an environmental tax that has succeeded because of a raft of complementary regulations, investments and incentives for waste reduction and recycling. The proposed Carbon Price Floor stands in contrast, where the new carbon tax will simply duplicate existing carbon taxes in the form of the Climate Change Levy (CCL) and the Carbon Reduction Commitment (CRC).

17. The cost of the Carbon Price Floor (CPF) will also be acutely felt at a time when complimentary support mechanisms to overcome entrenched barriers are being stripped away, including support via The Carbon Trust for its Industrial Energy Efficiency Accelerator which aimed to work with manufacturing sectors to overcome technical barriers to carbon reductions.

Landfill Levy

18. Landfill Levy was introduced on 1 October 1996 as a tax levied on landfill operators by weight of refuse disposed in landfill sites. The aim of the tax is to encourage less disposal of waste to landfill; to recover more value from waste through recycling and composting; and to stimulate moves to alternative waste management technologies by making their gate fees more economically viable. It was the UK’s first tax with an explicit environmental purpose.

19. There are two rates: £56 per tonne for “active” wastes, which rises by £8 per annum until it reaches £80 per tonne by 2020 and £2.50 per tonne for “inactive” wastes. The Landfill Levy escalator started with annual increases of £1, rising to £3 in 2005 and £8 a tonne in 2007. This long-term clear projection of cost has helped industry adapt and budget for change.

20. Figures from HMRC show that landfilled waste subject to the standard rate of Landfill Levy has dropped by 45% from 49,006 thousand tonnes in 98/99 to just 26,983 thousand tonnes by 09/10. Alongside the Landfill Levy a number of supporting measures have been introduced to help stimulate the diversion of waste away from landfill, including:

- **Statutory recycling targets for local authorities** (one of a suite of Best Value Performance Indicators).
- **A national, public recycling awareness campaign**, Recycle Now, run by the Waste and Resource Action Programme (WRAP).
- **The New Technologies Demonstrator Programme** was run by Defra’s Waste Implementation Programme to demonstrate the commercial viability and to help remove investment and insurance risks of advance waste technologies that had yet to be proved in a UK-environment. It included pilots of gasification, in-vessel composting, anaerobic digestion and mechanical heat treatment. Since then further support for energy recovery from waste has been provided for through the **Renewables Obligation** system.
- **The Business Waste and Resource Efficiency Programme**—a number of government-funded projects, paid for by Landfill Levy receipts (£43 million in 2005–06, £95 in 2006–07 and £146 million in 2007–08), which aimed to help businesses divert waste away from landfill. This included funding for the Waste and Resources Action Programme which provided targeted support for those sectors facing some of the greatest challenges in waste management.
- **The Landfill Allowance Trading Scheme** which threatens local authorities with large fines (£150/tonne) if they fail to divert biodegradable waste from landfill. Target periods are 2010, 2013 and 2020. (*NB: Defra is currently examining whether to scrap the scheme due to the level of fines councils may be forced to pay*).
- **Additional European legislation** has also led to waste being diverted from landfill through the introduction of statutory recycling/recovery targets including producer responsibility legislation dealing with packaging, waste electrical and electronic equipment and batteries.

Carbon Price Floor

21. The recently announced Carbon Price Floor, designed to catalyse investment in low-carbon power generation, is a striking example of a “green” tax which looks likely to damage economic growth for little or no environmental benefit.

22. The CPF will have a negative and material impact on the competitiveness and attractiveness of manufacturing in the UK, especially in energy-intensive industries like steel, cement and aluminium.

23. The “implicit price” of carbon in the UK (ie the combined effect of all existing climate policies) is already significantly higher than in other major industrialised economies. According to analysis carried out for Australia’s Climate Institute, it’s more than twice as high as in China, almost six times as high as in the USA and more than nine times as high as in Japan.⁹⁴

24. The CPF will widen this gap further and will, significantly, undermine the competitiveness of UK manufacturing vis-à-vis competitors elsewhere in the EU, our largest trade partner. The effect will be felt through higher industrial electricity prices as the cost of generating power increases. Initial EEF analysis suggests that this measure alone could add up 10% to industrial electricity prices and up to £6 million a year to manufacturers’ electricity bills by 2020.

25. Similarly, the investment case for the CPF—ie it is needed to drive the necessary investment in low-carbon power generation—is unconvincing. The stated objective of the tax is to deliver greater stability and certainty over returns for investors in low-carbon technologies. Yet under electricity market reform proposals, the Government is also planning to introduce long-term contracts for low-carbon generators based on “Contracts for Difference” (CfD) against the wholesale power price. The introduction of these “feed-in tariffs” would make the carbon price floor redundant by offering investors absolute certainty over returns and greater protection against political risk in the form of a binding legal contract. In addition to achieving a low carbon goal, well-designed CfD feed-in-tariffs would achieve that goal at less cost.

26. The ultimate case for many of the UK’s flagship climate policies like the 2020 renewable energy target and the CPF is often cited as setting an example to inspire the rest of the world to follow. However, it is highly questionable that rapidly industrialising emerging economies would want to follow an example that constrains and undermines growth in manufacturing. The UK would set a more compelling example by pursuing a climate policy that puts greater emphasis on cost-effectiveness, competitiveness and more efficient use of resources.

27. Given the mobility of manufacturing activity, the economic and environmental case for the CPF is very weak. By adding to relative costs in the UK, the CPF is likely to damage growth (as the OECD report suggests) or it will simply push mobile activity out of the UK, resulting in little or no net reduction in net emissions across Europe or even globally.

⁹⁴ Vivid Economics (2010), *The Implicit Price of Carbon in the Electricity Sector of Six Major Economies*

28. From an industrial perspective, a significant failure in the design of UK carbon taxation is heavily skewed focus on “sticks” rather than “carrots”. UK manufacturers, therefore, are faced with rising costs, but with few complementary policy measures to help them overcome the barriers to improving their energy efficiency and cutting their emissions.

29. Despite being subject to amongst the highest levels of carbon taxation in the UK economy (eg households are exempt from both the CRC and the CCL), industrial consumers receive significantly less support to cut their emissions than households or power generators. In addition, unlike the Landfill Levy, tax receipts from the CRC and the CPF contribute to general finances rather being used to help energy users reduce their carbon impact.

30. The “Green Investment Bank” (GIB) currently being developed by the government is a case in point. To help drive the behavioural change across the economy that taxes like the CPF, CCL and CRC are ostensibly designed to bring about, the GIB’s remit should include financing industrial energy efficiency and onsite generation projects rather than just large-scale infrastructure and major power generation schemes. Manufacturers face a similar range of technological and financial challenges as the utilities, and because most compete in global markets they are often less able to pass on the costs of adopting new technologies.

CONCLUSION

31. As the UK pushes ahead of other countries in its use of green taxes, EEF believes that the Government should rethink its approach to demonstrating leadership on the climate change agenda. Rather than reaching for ambitious, but unachievable targets, the UK should adopt a policy mix that shows that growth and an economically sustainable transition to a low carbon economy are not mutually exclusive.

21 April 2011

Written evidence submitted by The Wildlife Trusts

SUMMARY POINTS

- New approaches to funding that recognise the multiple benefits provided by the natural environment, eg ecosystem services, would allow us to restore nature over a much larger area than before. Government can play a role in enabling new innovative funding streams to be developed, eg environmental taxes on peat, developer contributions and payments for ecosystem services;
- The Wildlife Trusts is concerned that the principle of hypothecation in relation to some “green” taxes is being diluted or removed eg Aggregates Levy Sustainability Fund;
- “The Plan for Growth” and the Localism Bill have not provided the planning policy framework needed for the natural environment following the abolition of Regional Spatial Strategies. The forthcoming National Planning Policy Framework and Natural Environment White Paper must fill that gap.

1. The scope for the taxation system to protect and increase stocks of natural capital and the possible role of proposed “natural accounts”

1.1 New approaches to funding that recognise the multiple benefits provided by the natural environment, eg ecosystem services, would allow us to restore it over a much larger area than before. Government can play a role in enabling new innovative funding streams to be developed, eg environmental taxes on peat, developer contributions and payments for ecosystem services.

2. Developing a scheme for biodiversity offsetting and developer contributions

2.1 The Wildlife Trusts have a long track record of working with local authorities and developers to develop and deliver Section 106 agreements. In this context, we are keen to work with Government to develop and pilot the conservation credits / biodiversity offsetting concept. We recognise the potential of biodiversity offsets, currently being developed by DEFRA and linked to the planning process, to be used to restore the natural environment through the creation of credits which can be pooled and used to achieve landscape scale conservation.

2.2 We support the idea of offsetting operating at a larger geographical scale than Section 106 agreements and would consider Ecological Restoration Zones (described in section 7.2) as the most obvious focal point of investment through this scheme. However, we would be concerned if the scheme were to become too distant from the point of delivery. This risks breaking the local connection between development impact and compensation. The Wildlife Trusts believe that it is important for credits to be invested directly in third sector delivery within each area. Organisations with a long standing presence and a direct relationship with local communities value direct relationships with local companies that may be developing land. This is a key part of building community ownership and engaging people in shaping the vision for a local *Living Landscape* scheme and area, and in supporting them in taking action. Capacity can also be built by endowments associated with S106 agreements being directly held by voluntary sector bodies without a “middle man”.

2.3 We support the principles outlined in the recent *Making Space for Nature* report (September 2010) which we believe must underpin the system if it is to be effective. Our key issues are:

To achieve nature's recovery, the new system should be triggered by ***loss of opportunity for restoration and damage to natural processes*** as well as damage to protected sites.

A new system should provide for:

- Firm protection for irreplaceable wildlife assets eg SSSIs, Local Wildlife Sites, as ancient woodlands, ancient soils, peatland etc.
- Permanent habitat creation and restoration in the best possible locations.
- Investment in re-establishing ecological processes to allow natural and semi-natural ecosystems to function.
- Added value: The land that is to be restored and/or re-created may already have a pre-existing "value" to nature and/or to people. This will need to be considered when deciding whether to proceed and when calculating the mitigation or compensation required.

The governance of a new scheme should allow for:

- ***Pooling of developer contributions at a landscape scale***, the proximity principle should be geared around "ecological restoration zones", opportunity maps or similar that are locally derived and relevant. It is not appropriate to offset damage to biodiversity in one part of England with another.
- Local authorities to work in partnership with local delivery organisations and one another to ensure implementation. New mechanisms may be needed to ensure for ***cross-boundary co-operation*** between local authorities and ecological expertise must be secured either within, or by, local authorities.
- Retaining ***direct financial and delivery relationships*** between companies and charities involved in the contribution and the delivery. Conservation charities are ideally placed to continue delivering high quality habitat restoration; and benefit from endowment funding.
- ***Timing and risks of implementation***: Compensation should, wherever possible, happen ahead of development. In determining the scale of compensatory measures or restoration required, consideration of the risks to successful delivery must be taken into account, and a suitable ratio of offset area to impacted area assigned accordingly.
- ***The cost of ecological surveys to remain the responsibility of the developer.***

3. *The impact of the taxation system in general on sustainable development*

3.1 The Wildlife Trusts is concerned that the principle of hypothecation in relation to some "green" taxes is being diluted or removed eg Aggregates Levy Sustainability Fund.

4. *Aggregates Levy Sustainability Fund*

4.1 Until its closure by Defra in March 2011, The Aggregates Levy Sustainability Fund (ALSF) was a vital funding stream for the natural environment and for frontline voluntary organisations such as The Wildlife Trusts. Each year, up to 10% of the £330 million revenue from the Aggregates Levy had been distributed through the ALSF by bodies including local authorities (£3 million per annum) and Natural England (£3.5 million per annum). The Wildlife Trusts have been able to invest £1 million each year over the last couple of years in local community initiatives through grants from the ALSF. Wildlife Trusts have received funding for land purchase, skills training for volunteers, improvements to nature reserves, education centres and visitor facilities and other purposes. An independent report assessing the ALSF for the Government in May 2010 concluded that "overall, the value for money assessment is good and many areas offer evidence of excellent potential value for money, particularly in the medium to long term".

5. *Landfill Communities Fund (LCF)*

5.1 The Landfill Communities Fund (LCF) has promoted regeneration, created jobs and improved quality of life in our local communities. Over the last 10 years, around £50 million has been allocated to 500 Wildlife Trust projects through the LCF. It has supported land reclamation, the provision and maintenance of nature reserves and initiatives to benefit particular habitats and species. The LCF is already heavily oversubscribed and The Wildlife Trusts believe that the Government should increase the proportion of landfill tax receipts diverted to 7%.

6. *How policy proposals in "The Plan for Growth" will affect sustainable development and environmental protection (ie planning, green growth, low carbon investment, regulations etc)*

6.1 "The Plan for Growth" and the Localism Bill have not provided the planning policy framework needed for the natural environment following the abolition of Regional Spatial Strategies. The forthcoming National Planning Policy Framework and Natural Environment White Paper must fill that gap.

7. National Planning Policy Framework

7.1 The National Planning Policy Framework must ensure that planning delivers true integration of environmental, social and economic priorities and objectives. We believe there should be a common, overarching definition of sustainable development included within the framework and preferably on the face of the Localism Bill, rather than leaving this for local interpretation. The Wildlife Trusts support the definition of sustainable development given in PPS1 “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” and the principles in the UK Sustainable Development Strategy.

7.2 In achieving sustainable development, planning must take a strategic approach to consider the spatial organisation and use of land and natural resources. *Making Space for Nature*, the recent independent review of England’s wildlife sites and ecological network, led by Professor Sir John Lawton, concluded that “England’s collection of wildlife sites, diverse as it is, does not comprise a coherent and resilient ecological network even today, let alone one that is capable of coping with the challenge of climate change and other pressures.” This presses home the urgency of effectively managing the use of our natural resources and minimising the impacts of development on the environment through good planning policy and practice. The review makes a number of recommendations in this regard:

- “local authorities should ensure that ecological networks including areas of restoration are identified and protected through local planning. Government should support local authorities in this role by clarifying that their biodiversity duty includes planning coherent and resilient ecological networks.” (Recommendation 1).
- “Ecological Restoration Zones need to be established that operate over large, discrete areas within which significant enhancements of ecological networks are achieved, by enhancing existing wildlife sites, improving ecological connections and restoring ecological processes. We further recommend ERZs should be proposed and implemented by consortia of local authorities, local communities and landowners, the private sector and voluntary conservation organisations, supported by national agencies....” (Recommendation 3).

These recommendations recognise that the natural environment cuts across administrative boundaries and that planning for its protection, restoration and creation will require a “larger than local” approach. The Wildlife Trusts believe that the NPPF should provide the spatial framework and the mechanisms by which stakeholders should cooperate to achieve these recommendations to secure our national ecological infrastructure, building on existing good practice and initiatives that have already been developed across much of England (for example regional opportunity maps and Living Landscape schemes). It is important that the NPPF recognises that natural “green infrastructure” is every bit as important to the country as conventional infrastructure (for transport, energy, water supply & treatment, waste management, etc). The ecological network is the basic infrastructure that will enable biodiversity assets to recover from deficit and become resilient to climate change impacts, and thus deliver ecosystem services which are of social and economic value.

7.3 Regional planning policy has provided a mechanism for local authorities and other partners to plan strategically and develop cross-boundary, sustainable development objectives. The obligation on the Secretary of State to undertake strategic environmental assessments prior to revoking the regional spatial strategies is a significant opportunity to ensure that the best elements of regional planning (especially, but not exclusively, those concerning the natural environment) are taken forward into a new national planning policy framework. With the abolition of the regional tier, Clause 90 of the Localism Bill introduces a duty to cooperate. As it stands there is a lack of clarity about how this will work in practice and whether it will go far enough to allow strategic planning for nature conservation as an integral part of sustainable development. Furthermore, we have concerns that some local authorities may choose cooperate primarily through Local Enterprise Partnerships, which are economically driven and lack any environmental remit.

7.4 In the absence of a stronger duty, it will be critical that the NPPF sets out a new framework for cooperation between local authorities and other key stakeholders to take a strategic, spatial approach to sustainable development which includes the identification and inclusion of Ecological Restoration Zones in local plans. This will need to draw on local knowledge and understanding of the area, and involve representatives from across local government departments, NGOs, landowners, businesses, utility companies, local communities and individuals.

Making Space for Nature also recommends that:

- “Planning policy and practice should:
 - continue to provide the strongest protection to internationally important sites and strong protection from inappropriate development to SSSIs; and
 - provide greater protection to other priority habitats and features that form part of ecological networks, particularly Local Wildlife Sites, ancient woodlands and other priority BAP species” (recommendation 2).
- “The government should ensure that the remaining areas of high conservation value that currently are not well protected are effectively safeguarded” (recommendation 9).

The Wildlife Trusts strongly support these recommendations and do not wish to see the protection afforded to the natural environment weakened through the consolidation of existing planning policy statements and their associated policies and good practice guidance. The Wildlife Trusts recommend the NPPF provides a strong presumption against inappropriate development which might affect any components of the ecological network. This is particularly important for components of the ecological network such as Local Sites which have no statutory protection beyond the planning system. As well as providing the strongest protection for existing natural assets, reforms to the planning system should retain objectives for their restoration and creation.

8. Natural Environment White Paper

8.1 The Natural Environment White Paper in June 2011 will need to create a new policy framework to drive nature's recovery, building on existing statutory protections. The Wildlife Trusts believe that England needs a new Nature Act to create the necessary impetus for significant restoration of habitats and ecological processes on a landscape scale. In particular, the White Paper should lay the foundations for the establishment of Ecological Restoration Zones across England and new Local Nature Partnerships to help drive this process. The key functions of Local Nature Partnerships would be to:

- Identify zones for ecological restoration through enhancing existing landscapes and national and local wildlife sites, taking action for priority species, restoring the processes that drive ecosystem health and restoring and creating new areas of habitat;
- Integrate land management policies, incentives and decision-making locally to ensure efficient use of resources and the provision of key ecosystem services such as clean water, food, flood protection and control of our climate;
- Work with local authorities to identify ecological networks as part of the Local Plan, including zones for restoration.

21 April 2011

Written evidence submitted by Transform UK and E3G

This evidence is focused on the Green Investment Bank.

1. BUDGET ANNOUNCEMENT

In the Budget on 23 March 2011 the UK Government made the following announcement on the Green Investment Bank:

*“The Government is committed to ensuring that the Green Investment Bank (GIB) has the resources to help the UK to move towards a low-carbon economy. **The Government announces that the initial capitalisation of the GIB will be £3 billion** and that the GIB will begin operation in 2012–13, a year earlier than previously anticipated. Government investment alongside private finance should mean that there is in the region of an additional £18 billion of investment in green infrastructure by 2014–15 as a result of the GIB. The Spending Review allocated £1 billion for the GIB and the Government is aiming for the remaining £2 billion to be funded from the sale of assets. This will include the £775 million net proceeds already received from the sale of High Speed 1, ensuring that funding is in place to allow GIB investments from 2012–13. **The Government will enable the GIB to have borrowing powers from 2015–16 and once the target for debt to be falling as a percentage of GDP has been met.**”*

2. CAPITALISATION

We consider the total capitalisation figure of £3 billion to be a reasonable start but still too low. The benchmark for success set by Ernst & Young⁹⁵ is £4–6 billion and is supported by the Transform UK Alliance of leading financial institutions, business and NGO stakeholders. This higher level is the amount required to ensure the GIB can raise the scale of finance required to fill the looming low carbon energy finance gap. Ernst & Young estimates that £450 billion of investment in energy supply and demand infrastructure is required in the UK by 2025 but that only 10 to 20% of this funding is likely to emerge from the traditional investors in this sector. To ensure the investment gap of 80 to 90% is met the Government needs to provide £1 to 3 billion more capital over this parliamentary term alone. Based on the investment leverage ratio of X5 outlined in the Budget statement, an additional £1 to 3 billion of Government capital would leverage in an extra £5 to 15 billion of private capital into the low carbon economy. This would be clearly beneficial but is still not enough. To have the transformational investment impact required the GIB also needs to borrow.

3. DELAY IN POWER TO BORROW

The Government has given initial capitalisation of £3 billion to the GIB which it estimates will leverage an additional £15 billion in private investment—a total of £18 billion. If allowed to borrow and issue Green Bonds the GIB could leverage far more private investment into the low carbon economy. For example, if it was also allowed to borrow £10 billion it could leverage an additional £50 billion of private capital, representing another

⁹⁵ “Capitalising the Green Investment Bank” (October 2010)—Ernst & Young

£60 billion. This would create a total investment of £78 billion in the low carbon economy—approximately four times more than the investment set to be achieved under current proposals.

It is therefore of great concern that the Government announced a serious delay to the power of the bank to borrow which will severely constrain its ability to act as an engine for green growth and economic recovery. This is a great disappointment given the Green Investment Bank represented within the Budget the most innovative policy with the greatest potential to generate growth and jobs in the UK economy.

Furthermore, the detail of the announcement on the delay in borrowing powers has created even greater uncertainty because it is not clear when national debt will be declining as a percentage of GDP. If growth occurs more slowly than forecast then it could be well after 2015.

The 2011 Budget announced that the Office of Budget Responsibility's growth forecast for 2011 and 2012 had been downgraded, citing rising oil prices, higher than expected inflation and the fall in UK GDP at the end of 2010. While the OBR forecast growth will increase to 3% in 2014 (based on assumptions that inflation will fall and household consumption increase), this assessment does not factor in rising world oil prices. It also seems optimistic given the Coalition Government's limited announcements on new drivers for growth and the delay on borrowing it has imposed on the GIB.

The borrowing powers for the GIB have been delayed because of concerns by the Government on the impact on the UK balance sheet. However, it is not the GIB borrowing potential that poses a threat to the UK's fiscal credibility, it is the failure of the UK economy to grow enough.⁹⁶ Many other development banks in Europe (eg the European Investment Bank and Germany's KfW) have been making use of their borrowing powers in the face of the European economic crisis. It seems perverse and short-sighted that the GIB should be restricted from doing so at time of such critical need.⁹⁷

It should also be noted that the Government has more than £3 trillion in off balance sheet liabilities that could be brought back on balance sheet at ONS say so. Proposed GIB borrowing in comparison is minimal.

4. NEXT STEPS FOR GIB CREDIBILITY—BORROWING POWERS & LEGISLATION

The Budget announcement did not state whether the GIB would have its borrowing powers enshrined within its constitution and in legislation. It is essential to do both in order to give the market as much certainty as possible that the Green Investment Bank will be able to borrow, that the GIB will not be subject to political risk and that it will be able to operate independently and at sufficient scale to meet the UK's carbon reduction targets.

The Green Investment Bank should be allowed to borrow as soon as it is up and running. Just like other development banks, the Green Investment Bank can protect itself by ensuring its portfolio of investments does not present a risk to its financial sustainability by operating a transparent risk management system and by conducting professional due diligence.

It is essential that when the Government publishes its detailed GIB plans at the end of May 2011 it announces legislation to set up the Green Investment Bank and that the power to independently borrow will be enshrined within this legislation.

Without legislation the market will perceive a strong risk that the GIB may never turn into a proper, fully functioning bank and if it does so it may have those key borrowing powers quickly rescinded or heavily restricted. This will have a damaging impact on the entire low carbon investment market.

Legislation will also enable Parliamentary scrutiny for the Green Investment Bank which is essential for the establishment of an institution that is getting £3 billion + of public money and is central to the UK's commitments to reduce greenhouse gas emissions.

In addition, legislation offers the best way to establish the bank in terms of creating the custom built governance structure, mandate and transparency requirements it needs to operate effectively. Legislation can also play an important role in helping to smooth the path to EU state aid clearance for the GIB.

By announcing legislation, ensuring the power to borrow is enshrined within this legislation and by giving the GIB the power to borrow from the beginning, the Government can still enable the GIB to fulfil its enormous potential to maximise the UK's climate and energy and economic security.

E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G is not a campaigning NGO, a thinktank or a consultancy, although its activities overlap with all of these models. E3G is an attempt to build a new type of organisation which can help drive change inside existing global frameworks at a rate consistent with preserving critical ecological limits. E3G aims to creatively reconcile the conflicting imperatives of day-to-day politics

⁹⁶ SME R&D tax relief will be increased to 200% in 2011 and 225% in 2012.

⁹⁷ Moody's warned that poor growth could hit the UK's AAA sovereign debt rating.

and long term climate change risks, and E3G senior staff have unique experience at the highest levels of Government and from the private and NGO sectors. In its first five years E3G has:

- Played a critical role in Russian ratification of the Kyoto Protocol.
- Gained agreement to cooperation on a full-scale EU-China CCS demo plant.
- Delivered €6–8 billion for 10 CCS power plant demos in the EU.
- Developed the concept of Low Carbon Zones and gained agreement from the Chinese government to five LCZ pilot projects in areas of five to 15 million people.
- Proposed a public UK Green Investment Bank to support low carbon infrastructure, and played a critical role in delivering UK government agreement to establish it.
- Initiated and supported the first UN Security Council debate on climate security.

www.e3g.org

Transform UK

Transform UK is a programme of E3G and is an alliance of business, finance, union and charity organisations that campaigns together to accelerate investment into the low carbon economy.

Transform UK founded the campaign for the Green Investment Bank in January 2009. It seeks to build consensus among key stakeholders on the most effective model for the GIB to support the rapid transition to a low carbon energy system and co-ordinates the alliance campaign for its delivery.

21 April 2011

Written evidence submitted by Flybe

Flybe welcomes the opportunity to submit a response to the Environmental Audit Committee's inquiry into the Budget 2011 and environmental taxes.

We have restricted our comments to the tax system's ability to create a "modal shift" from high carbon transportation to low carbon alternatives, including Air Passenger Duty, and issues the Government should consider when developing strategies for sustainable aviation.

1.0 SUMMARY

- Flybe supports the view that human activity, including air travel, is contributing to global climate change.
- We welcome the Chancellor's move to freeze Air Passenger Duty and to consult on the tax banding.
- We do not believe that Air Passenger Duty as currently structured, represents the best mechanism to promote sustainable growth in the aviation industry.
- Flybe believes that aviation taxation should be directly related to emissions, so that those who have invested in cleaner fleets are rewarded and those who have not are incentivised to cut their CO₂.
- Reform of taxation to promote sustainable transportation must not be at the expense of the UK's regions that rely on aviation.

2.0 INTRODUCTION TO FLYBE

2.1 Headquartered in Exeter, Flybe is Europe's largest regional airline and the UK's number one domestic airline. Employing nearly 3,000 staff, we currently operate 69 aircraft on 188 routes from 38 UK and 37 European airports in 13 countries and carried more than seven million passengers in 2010. The airline began life in 1979 as Jersey European Airways, later renamed British European in 2000 and was then re-launched as Flybe in July 2002.

2.2 Flybe has established a regional route network and its spread of airports is intended to offer customers a convenient point-to-point network operating from regional airports which we believe are a preferable alternative to having to travel to more distant major hub airports. In addition, the domestic route network is structured with the aim of minimising the competitive threat from alternative forms of surface transport (alternative road or rail options give journey time of four hours or less.) Not only is the average flight time of a Flybe flight less than one hour, our route network attracts passengers in locations which are more dependent on air transport such as Northern Ireland and other locations where surface transport may be a less attractive option, such as Inverness, Newquay and Aberdeen.

2.3 Since October 2008 Flybe has also operated a franchise arrangement with the Scottish airline Loganair, under which 16 Loganair aircraft fly using the Flybe brand across 28 franchise routes between 18 airports throughout the UK.

3.0 ENVIRONMENTAL POLICY

3.1 Flybe supports the view that human activity, including air travel, is contributing to global climate change. Although aviation accounts for just 2% of global CO₂ emissions Flybe is committed to leading the industry and minimising its environmental impact wherever possible while continuing to provide vital services to our passengers. Such leadership is exemplified not only by one of the youngest fleet of aircraft in the world but also by the implementation of the Flybe Ecolabel in June 2007. The label, modelled on those used in the sale of white goods like fridges, microwaves and washing machines, shows a full range of environmental indicators per aircraft and informs the passenger, in a transparent way, of the environmental impact of their flight.

4.0 BUDGET 2011 AND AIR PASSENGER DUTY

4.1 We welcome the Chancellor's move to freeze Air Passenger Duty and to consult on the tax banding. APD disproportionately penalises the UK domestic passenger given that, unlike those flying abroad, they have to pay the tax on both legs of their journey, so the freeze is very much a step in the right direction.

4.2 We are also pleased that the Treasury has chosen to widen the scope of the tax to include private jets. We have been calling for this level playing field for some time and would encourage the Treasury to go further and include freight flights.

4.3 However, we do not believe that Air Passenger Duty as currently structured represents the best mechanism to promote sustainable growth in the aviation industry.

4.4 Climate Change will not be solved by increasing taxation. Only by providing incentives for businesses to promote low carbon alternatives to existing technologies and business models will we begin to reduce emissions and tackle Climate Change. It is far more efficient to reduce the emissions of aircraft than to seek to put an end to low cost air travel, which provides jobs, innovation and investment in the British economy.

4.5 If the Government is committed to reforming Air Passenger Duty to promote low carbon alternatives, taxation must be in proportion to emissions, so that those that have invested in cleaner fleets are rewarded and those that have not are incentivised to cut their CO₂. Only when the polluter pays will the wider aviation industry begin to invest in cleaner fuels, green aircraft, more efficient air traffic control management and other similar initiatives.

5.0 REGIONAL CONNECTIVITY

5.1 We understand that for some shorter trips road and rail can offer a more convenient and low carbon alternative for many passengers, especially when the journey time is less than two and a half hours. However, it is a London-centric view to suggest that there are always realistic low carbon alternatives to aviation for passengers.

5.2 The rail network remains based around the terminals in the capital city, whereas regional air travel offers the flexibility and convenience of non-London-centric journeys. For example, a trip from Southampton to Newcastle by train takes up to six hours, including a tube journey through London. By contrast this would take 80 minutes on a Flybe flight.

5.3 Regional economies rely on fast, reliable air links and any reform of taxation to promote sustainable transportation that limits such services runs the risk of damaging local businesses and communities and undermining the UK's economic recovery.

5.4 With this in mind we welcome the Chancellor's focus on the importance of the UK's regional airports in the APD consultation document, published alongside the Budget, and will strongly be arguing that regional and domestic aviation should be subject to a lower rate of Air Passenger Duty in our response.

26 April 2011

Written evidence submitted by the British Air Line Pilots' Association

EXECUTIVE SUMMARY

1. The British Airline Pilots' Association (BALPA) is not indifferent to the environmental impact of our industry, but believes that Air Passenger Duty (APD) is a poorly designed tax which will continue to do nothing to tackle carbon emissions. APD is not an environmental tax, and there is evidence that it can and will actually encourage activity which will increase carbon emissions. But there are ways that the Government and industry could work together to make flying more efficient and reduce carbon emissions.

ABOUT BALPA

2. Over 80% of the UK's commercial pilots are members of BALPA and we are recognised as the main partner in 26 airlines covering all major UK operations. In addition over 1,000 commercial pilots have joined us even though their airline has no partnership agreement with BALPA and this includes a swath of Ryanair pilots.

3. BALPA was formed in 1937 following the antics of the CEO of Imperial Airways who was forcing professional pilots to operate when it was not, in the professional judgment of those pilots, safe to do so. This led to the Cadman report. Those origins remain a key feature of our DNA today and which is why our vision as an association is still “to make every flight a safe flight”. It is also perhaps why a recent public poll by YouGov found that airline pilots belonged to one of the most trusted professions. It is a responsibility we take seriously.

SETTING AVIATION’S ENVIRONMENTAL IMPACT IN CONTEXT

4. BALPA is certainly not indifferent to the impact that aviation has on the environment. We believe that there is scope for the industry to reduce its carbon emissions, and do more to promote efficiency. This submission will go on to suggest ways of doing that, but it is important to set the industry’s impact on the environment in context. Of all polluting industries and activities, aviation is far from the worst.

5. 2005 figures show that domestic flying accounts for 0.4% of the UK’s CO2 emissions by source.⁹⁸ If we grounded every flight in the UK it would cut global man-made CO2 by 0.1%.⁹⁹ Adding domestic and international aviation emissions together accounts for approximately 6% of UK CO2 emissions compared to 31.1% from power stations and 21.6% from road transport.¹⁰⁰

THE GOVERNMENT’S AVIATION POLICY

6. The Government has acknowledged the importance of aviation to the UK economy and to the lives of a huge number of people in the UK.

7. The Government has recently stated, “Air transport provides the international connectivity the country needs to succeed in a competitive global economy. It makes possible long-distance travel that connects the remoter regions of the UK and connects the UK to other countries. It enables people to travel for business, for employment, for leisure, and to visit friends and family, and it enables business to transport goods rapidly to and from markets overseas.”¹⁰¹

8. HM Treasury has made the case for the economic importance of aviation too: “The importance of a strong and healthy aviation sector to the UK economy is evident from the economic data. In 2009 aviation contributed around £18 billion to UK output and represented around 2% of gross value added. The sector employs over 250,000 workers directly and supports an estimated 200,000 additional jobs through the supply chain.”¹⁰²

9. We agree with the Government on the importance of air transport to the UK’s economy. We believe air travel is a force for good and its growth has supported businesses, increased the ability of families to maintain contact across continents, provided thousands of extra jobs and held down prices.

10. However, we do not believe that the Government is clear about whether, in spite of the acknowledged importance of aviation, it sees its aviation taxation policy as a way of constraining growth in the industry by discouraging flying or whether it sees it as merely a revenue-raising instrument which has no negative impacts on the economy.

11. For instance in the introduction to *Reform of Air Passenger Duty: a consultation* one of the Government’s objectives is to establish “...a simple tax system for air transport services in the UK, **which does not hamper growth...**”¹⁰³ [emphasis added] and yet often talk of APD is couched in environmental terms which can only mean constraining the sector.

12. If the Government does see aviation taxation as an environmental tax then we would have severe doubts about the effectiveness of the current regime.

THE CONCEPT OF AIR PASSENGER DUTY

13. The intended nature of APD is a fundamental question and we are sure it is one that the committee will be keen to examine: does the Government intend APD to be an environmental tax in order to restrict growth in the industry or is it intended simply to raise much-needed revenue for HM Treasury?

14. If the intention *is* to constrain the industry we do not believe that is a proportional response given its importance to the economy, its role as a social good and its contribution to CO2 emissions vis-à-vis other sectors.

15. In any case, the impact of APD has been and will to be to encourage passengers to look for ways of avoiding the tax which can, in fact, encourage behaviour which would increase carbon emissions (see *Global action and international competitiveness* below).

⁹⁸ House of Commons Official Report
<http://www.publications.parliament.uk/pa/cm200607/cmhansrd/cm070423/text/70423w0008.htm#07042311000883>

⁹⁹ www.enviro.aero

¹⁰⁰ House of Commons Official Report
<http://www.publications.parliament.uk/pa/cm200607/cmhansrd/cm070423/text/70423w0008.htm#07042311000883>

¹⁰¹ Department for Transport, *Developing a sustainable framework for UK aviation: Scoping Document*, March 2011, pg 6

¹⁰² HM Treasury, *Reform of Air Passenger Duty: a consultation*, March 2011, pg 7

¹⁰³ HM Treasury, *Reform of Air Passenger Duty: a consultation*, March 2011pg 5

16. Any effort to restrict the industry from growing by means of fiscal policy and/or capacity constraints will also have the effect of forcing up prices (again, see *Global action and international competitiveness* below).

17. APD is necessarily a very blunt tool to effect behavioural change, if that is the goal. The banding structure is very crude and, as mentioned elsewhere in this document, bears insufficient relation to the true environmental cost of the flight.

18. And we do not believe that APD is a fair tax. Indeed, we have previously suggested that APD is the “poll tax of the skies”.¹⁰⁴ The overall cost of APD on an airline fare is often very significant, it does not apply equally to all carriers, it penalises UK passengers harshly compared with passengers from other EU countries, there is a concern about the taxation levels for different cabins (premium economy passengers are taxed at the same amount as first class passengers), and it bears no relation to the efficiency of the aircraft flown.

GLOBAL ACTION AND INTERNATIONAL COMPETITIVENESS

19. More than possibly any other industry aviation has a global context. Not only is our business inherently international in nature, but we will never be able to tackle climate change without working with other countries and international bodies.

20. We acknowledge the legal difficulty reconciling the desire to link taxation to carbon emissions given the UK’s commitments under the Chicago Convention but we believe that more should be done to investigate this avenue which would be a much fairer way to take account of aviation’s true externalities. For instance, we would be broadly supportive of an international, global emissions trading scheme.

21. It is important to note that the UK is in competition with other EU countries for air transport business. Flying from UK regional airports to Amsterdam for example to connect onwards is becoming an ever more attractive proposition for many due to Schiphol Airport’s five runways, 264 destinations and no aviation taxation (compared to Heathrow’s two runways, 183 destinations and the highest aviation tax in Europe).

22. In a recent poll for BALPA 76% of people said that they would prefer to transfer via Amsterdam if it meant saving £85.¹⁰⁵ This is rational behaviour which would actually increase the amount of CO2 emissions and is an unintended consequence of APD and capacity constraints in the UK.

23. We are pleased that the Government is reviewing Air Passenger Duty and has published a consultation document on that basis. However, we think that this is a missed opportunity for a more fundamental review of aviation taxation; one which really considers how best to reduce aviation’s contribution to climate change while not penalising people who want to enjoy a holiday or visit friends and family. We believe that is possible.

ALTERNATIVE WAYS OF REDUCING CARBON EMISSIONS

24. BALPA supports aviation’s inclusion into the European Union Emissions Trading Scheme (EU ETS) but like many parts of the industry is concerned about the double taxation situation that will come about with both EU ETS and APD forming part of the ticket price.

25. Putting a price on carbon, which is what EU ETS effectively does, incentivises carriers to operate more efficient aircraft more efficiently. ETS provides a far better approximation of the externalities of flying and links that to a financial penalty.

26. Development of new technologies will continue to be the main and fairest way to tackle climate change across the board including in respect of aviation. To that end we would encourage the Government to look at using some of the revenue it generates from APD to off-set the industry’s carbon emissions and also to provide material incentives to airlines and manufacturers to invest in research and development and new technologies as a long-term solution.

27. The International Air Transport Association (IATA) estimates that Air Passenger Duty produces enough revenue for HM Government to offset all of the UK’s flights four times over.¹⁰⁶

28. We believe doing this would make APD a more palatable tax for the many millions of business, individuals and families who pay it every year. Indeed, encouraging research and development into these new technologies would be a massive boost to UK industries such as Rolls Royce and academic institutions which are very much at the global cutting edge in this area.

29. There are other things that could be done relatively easily to improve efficiency. We would support making the airways as efficient as possible by providing more direct routings. The introduction of the Single European Sky should encourage this type of direct routing more and more.

30. Mixed-mode operations at airports—notably Heathrow—would reduce hold times and provide a more efficient operation.

¹⁰⁴ <http://www.balpa.org/News-and-campaigns/News/APD-POLL-TAX-OF-THE-SKIES-STRANGLING-AVIATION.aspx>

¹⁰⁵ Ipsos-Mori Online Omnibus poll, conducted 15–19 May 2009

¹⁰⁶ <http://www.iata.org/pressroom/speeches/pages/2011-02-09-01.aspx>

31. And increasing the capacity of Heathrow, which among UK airports suffers the most from being overcrowded, would relieve the situation of many aircraft having to circle for many minutes before commencing their approach, needlessly burning fuel and releasing additional carbon emissions. This is a notorious problem for carriers and passengers alike, especially during peak times.

OVERALL LEVEL OF TAXATION

32. As stated above, the current level of taxation on the industry is sufficient to off-set its impact on the environment several times over. The industry more than accounts for its environmental impact.

33. The impact of APD on an average family can be very substantial indeed. Take as an example a family of four travelling from the UK to the Caribbean to visit family. If the family chooses to book seats in a “premium economy” cabin they will pay £656 in Air Passenger Duty from April 2012 on top of the air fare.

34. It is also worth noting as a side issue that the family would pay the same amount in taxation if they were travelling on the same route in a First Class cabin.

35. BALPA believes that the current level of APD is very high and is an excessive burden on many families who wish to enjoy a holiday or visit friends or family.

36. While we recognise the Government’s need for revenue we do not believe it is fair to expect families, individuals and businesses to pay ever-increasing amounts for their flights when doing so will have no direct impact on carbon emissions unless there is a significant change of policy on carbon off-setting.

37. The overall price of tickets is also likely to increase with the introduction of aviation into the EU ETS which will place further burdens on people wishing to travel.

38. And contrary to those who claim that aviation in an under-taxed industry, it is important to remember that the aviation industry pays for all of its own infrastructure costs (airports, air traffic control, security) which other industries have subsidised.

39. We believe the overall level of taxation is placing an undue burden on the industry and on passengers. There is a feeling that aviation is being squeezed until the pips squeak.

CONCLUSION

40. Air Passenger Duty is not an environmental tax. It may hamper growth in the UK aviation market—whether by design or not—but the impact of that will not be a reduction in global carbon emissions. Passengers will be more likely to connect to long-haul flights in European hubs. Such activity is likely to actually increase the amount of carbon emitted while adversely hitting the UK-aviation industry which the UK Government has acknowledged is so important.

41. The Government often reaffirms its central aim which is to encourage economic growth. BALPA believes that substantial reform of APD, and dedication of that revenue to research and development into new technologies, would assist in that laudable aim while doing much more to tackle aviation carbon emissions than the current regime.

42. We hope that BALPA’s submission is of use to the Committee. We believe pilots have unique points of view with regard to this issue and would be happy to provide more practical ideas about ways the industry can be more efficient to the Committee in the future.

28 April 2011

Written evidence submitted by the Chemical Industries Association

EXECUTIVE SUMMARY

1. Our key comments relate to the Budget 2011 decisions on Carbon Price Support (CPS). It is clear that establishing a carbon price floor will help to deliver a key objective by incentivising increased investments in low carbon sources of power. We support the need to renew our aging electricity generators and so move towards a secure, low carbon mix in the UK’s base-load generating capacity, but believe that feed-in tariffs (FiTs) could have been a more focussed and cost effective way to achieve this.

2. While Budget 2011 included many measures which meet with business support, the introduction of CPS on a UK only basis without adequate mitigation poses a risk to UK competitiveness and British jobs in energy intensive and internationally exposed sectors like chemicals. This is because CPS is contributing to the already high outlook for the cumulative impacts of the UK’s climate change and energy policies on our energy related costs. Based on the policies which are in place and announced, the latest update of an independent report suggests these so far unmitigated costs could double by 2020.

3. It is important that proposals for the mitigation of undesirable impacts such as these are addressed at the same time as the taxation measure. However, we understand that the Government’s strategy for energy intensive industries, which will consider the cumulative policy impacts on our energy related costs, is not expected until

this summer. Delays such as this only contribute to prolonged uncertainty and can be detrimental to long term business decisions about the UK.

4. It is vital that the UK ensures a sustainable business environment for energy intensive sectors like chemicals which have a contribution to make to both rebalancing and greening the economy (as the chemical industry is an enabler of climate change solutions). Surely the optimal way to achieve a green economy is through the retention of the whole supply chain for green products including the contribution from energy intensive sectors?

THE CHEMICAL INDUSTRIES ASSOCIATION

5. The Chemical Industries Association (CIA) is the organisation that represents chemical businesses throughout the UK. The chemical sector is both energy intensive and exposed to international competition in terms of both trade in our products and attracting investment. At the same time, the UK chemical sector has an excellent track record for reducing our own emissions, and we are also enablers of climate change solutions: globally, the greenhouse gas emissions saved by our products and technologies are twice the level of our own production emissions. For further information, see the annex to this submission.

DETAILED COMMENTS ON INQUIRY THEMES

Whether Budget 2011 furthers the Government's green objectives, including the impact of the cut in fuel duty on greenhouse gas emissions and air pollution

6. Our key comments relate to the Budget 2011 decisions on Carbon Price Support (CPS) which is designed to deliver a carbon price floor target for the electricity generators. Whereas the cut in fuel duty is designed to reduce the impact of market developments and international events on the *strength* of fuel prices, the objective of CPS is to contribute to an increase in electricity prices by addressing the perceived *weakness* of carbon prices in the EU Emissions Trading Scheme. We have no comment on whether the temporary reduction in fuel duty impacts on the government's green objectives, but it is clear that establishing a carbon price floor will help to deliver a key objective by incentivising increased investments in low carbon sources of power.

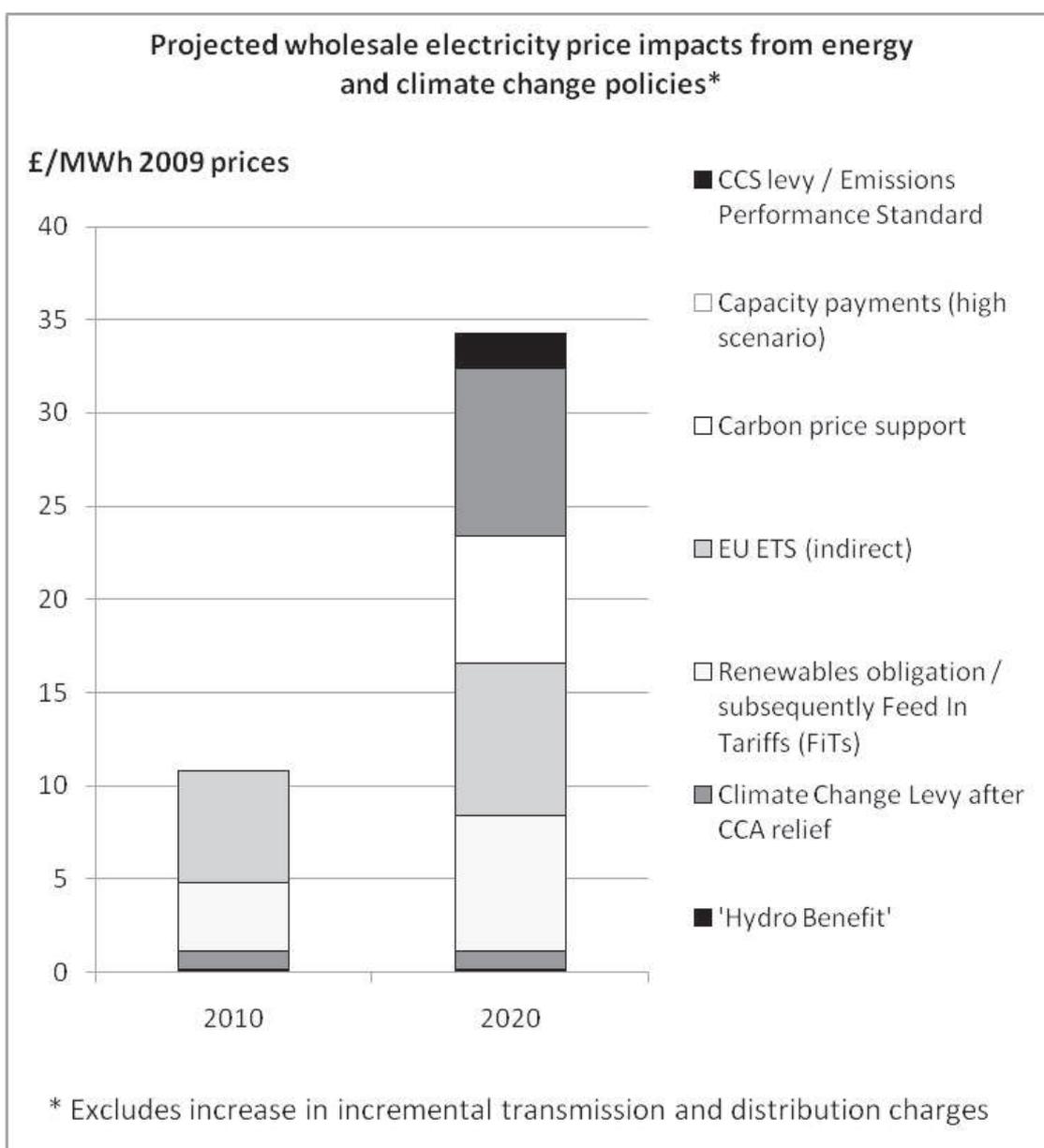
7. We support the need to renew our aging electricity generators and so move towards a secure, low carbon mix in the UK's base-load generating capacity but believe that feed-in tariffs (FiTs) could have been a more focussed and cost effective way to achieve this. Furthermore, while the Government's carbon price support (CPS) proposals are designed to bring long term certainty to investors in low carbon generating capacity, we are concerned that our members in the chemical sector should enjoy a similar level of certainty to support their long term business decisions on UK investments up to 2020. While Budget 2011 included many measures which meet with business support, the introduction of CPS on a UK only basis without adequate mitigation poses a net risk to UK competitiveness and British jobs in energy intensive and internationally exposed sectors like chemicals. This runs counter to the objectives of rebalancing the economy towards manufacturing and also to greening the economy (as the chemical industry is an enabler of climate change solutions).

8. The offsets for CPS impacts on business provided by the Government in Budget 2011 (as further explained in its response to CPS consultation submissions) offer no direct mitigation for CPS because they are based on avoiding further increases to the levies which impact our energy bills rather than mitigating the effect of policies already in place or announced. In particular: Government will not introduce a levy to fund the carbon capture and sequestration (CCS) incentive, and there will be an increase in relief from Climate Change Levy (CCL) on electricity for Climate Change Agreement (CCA) participants to 80% in 2013 (from the current level of 65%).

9. The increase in CCL relief on electricity only reinstates the rate of relief that applied prior to 1 April 2011 and represents a small proportion of CPS costs. The table below shows that CCL savings are expected to be worth less than a third of the cost of the CPS pass-through to electricity prices in 2013 (based on 100% pass-through) and around a tenth of the cost of CPS by 2020 as it escalates to support the target rate of £30/tCO₂ for the carbon price floor (based on DECC carbon price projections).

	2013 £/MWh, current prices	2020 £/MWh, 2009 prices
15% relief from CCL on electricity	0.70	0.70
CPS rates	2.47	6.85

10. We welcome the reduced corporation tax rates announced in the Budget but, regrettably, this will be of little benefit to energy intensive companies when the cumulative impact of the UK's climate change and energy policies could see our energy related costs double by 2020. This is the impact projected in latest update of an for the Energy Intensive User's Group and TUC. In addition to the unrelieved costs of CCL and CPS, further contributors to cumulative costs include the EU Emissions Trading Scheme (EU ETS), the Renewables Obligation (RO) and Feed In Tariffs (FiTs). The chart below shows the projected impact of the main announced and expected policy measures on the wholesale electricity prices faced by energy intensive industries.



11. Note that the chart reflects Budget 2011 CCL announcements and also the projected cost of measures in the Government’s Electricity Market Reform (EMR) proposals. The combined CCS/Emissions Performance Standard figure is now, in part, illustrative of the value of the Budget 2011 offset. The chart does not reflect the additional increases in energy market prices expected due to additional infrastructure costs which are particularly driven by the Renewable Energy Strategy—these are included in the full WatersWye Associates assessment.

12. The results of the WatersWye Associates study underline the need for the Government to develop a plan to mitigate the cumulative impacts on energy intensive sectors from existing and announced policies, including CPS.

Approaches to shifting the burden of taxation from “goods” (eg labour) to “bads” (eg emissions) and factors that need to be considered when designing and introducing green taxes

13. When shifting the burden of taxation from “goods” to “bads”, it is important to properly assess the potential impacts on sectors of the economy and to plan for their mitigation where they will be severe. In the context of the cumulative impact of the UK’s climate change and energy policies on energy costs household fuel poverty is clearly undesirable and needs to be addressed. In addition, as long as these costs arise from unilateral UK and EU policies, there will also be a need to address the risk of carbon leakage from exposed energy intensive sector sectors like chemicals. Carbon leakage refers to loss of jobs and investment to less carbon efficient production locations overseas and is a term usually associated with the EU ETS but, as the WatersWye Associates study demonstrates, the risk of carbon leakage stems from a wider range of instruments than EU ETS alone. It is vital that the cumulative context is considered rather than the isolated impact from an individual instrument.

14. It is important that proposals for the mitigation of undesirable impacts are addressed at the same time as the taxation measure. Unfortunately, the regulatory impact assessment (RIA) for last December's CPS consultation looked at general business impacts and did not evaluate the specific effects on energy intensive sectors—it was simply noted in the CPS consultation document that BIS and DECC were evaluating the cumulative impact of energy and climate change policies on energy intensive industries in the UK and would use this to advise Ministers on how to decarbonise the economy while maintaining the competitiveness of these industries. While this assurance appeared positive, delays such as this only contribute to prolonged uncertainty and can be detrimental to long term business decisions about the UK.

15. At the time of writing we understand that the Government's strategy for energy intensive industries is expected this summer. We hope that this strategy will include fully developed proposals for mitigating cumulative impacts on energy intensive sectors at an early opportunity. We recommend that the key areas considered for mitigation solutions should include:

Fully implement existing proposals for measures to address the risk of carbon leakage—in particular:

16. Build on the welcome confirmation in Budget 2011 that a new phase of the CCAs will go ahead and extend to 2023 by ensuring that the New CCA participants qualify energy intensive sectors for the maximum CCL discount permitted under the EU Energy Tax Directive.

17. Follow through on the intention, signalled in Budget 2011, to provide Good Quality Combined Heat and Power plant (CHP) with relief from CPS by providing this technology with full exemption from direct CPS on fuel inputs for both heat and power generation. This will help to ensure that CHP is no worse off than other heat generating sources and would encourage CHP in line with the continued emphasis placed on this energy efficient technology in the rest of Europe.

18. Implement the financial compensation measure for the electricity price impact from Phase 3 of the EU Emissions Trading Scheme (EU ETS) to the full letter of DG Competition's forthcoming state aid guidance.

Address the existing cumulative impacts for which there is no current mitigation:

19. Develop a solution to provide full alleviation of the indirect cost of CPS passed through by the generators to power prices for exposed energy intensive electricity consumers like chemicals. We propose that the New CCAs could be used to define the businesses that should be eligible for this solution.

20. Develop a solution to provide full alleviation from CPS for the chemical processes that currently qualify for CCL exemptions for wholly non-fuel uses of electricity in electrolysis.

Avoid adding further policies which increase cumulative impacts on energy related costs:

21. The EMR proposals should focus on the most cost effective policy options proposed. We still believe that if a targeted Feed in Tariff (FIT) with Contracts for Difference (CfD) was correctly implemented, this could be the most cost-effective way to incentivise low carbon investments and there would be no need for a less focussed and more expensive measure like CPS. It is important that any further measures do not unduly result in a more "managed/regulated" electricity market. We would prefer a light touch approach and fear that the number of reforms proposed under EMR would make the electricity market unnecessarily complicated and costly.

22. We welcome the commitment outlined in the Budget to cap the impact of DECC's levy funded spending on energy bills but have yet to see a full definition of this commitment. In general we propose that mitigation of the impact of existing policies or additional measures should be funded from central government revenues. We note that central government funds will benefit from significant revenues from auctioning EU Allowances under Phase 3 of the EU ETS as well as monies from CPS. From a wider perspective, it's important that exposed sectors like chemicals carry a realistic and equitable share of the cost of making the transition to a low carbon economy. While it's absolutely right that fuel poverty should be addressed this should not be accomplished by protecting the whole of the domestic sector.

How policy proposals in "The Plan for Growth" will affect sustainable development and environmental protection (ie planning, green growth, low carbon investment, regulations etc)

23. It's vital that the UK ensures a sustainable business environment for energy intensive sectors like chemicals which have a contribution to make to both rebalancing and greening the economy. We therefore hope that the Government's anticipated strategy for energy intensive industries will include fully developed proposals for mitigating the cumulative impact of its climate change and energy policies on our energy related costs. Until that time exposed sectors like chemicals will face an uncertain business environment in the UK.

24. The chemical sector has a contribution to make to the greening of the UK economy because we are enablers of climate change solutions: globally, the greenhouse gas emissions saved by our products and technologies are twice the level of our own emissions. Examples of solutions include: building insulation, PVC and soda ash for double glazing, fertilisers and crop protection (to reduce land use), lightweight components for cars and planes, low temperature detergents, biofuels and materials for wind turbines.

25. We welcome the contribution the *Plan for Growth* makes to stimulating demand for the green products we enable (eg: through the Green Deal) and wish to contribute to the greening of the economy. We believe that the optimal way to achieve a green economy is through the retention of the whole supply chain for green products including the contribution from energy intensive sectors. If these customer-supplier relationships fall within national boundaries, it is more likely that the related research and innovation will take place within the UK and that the development of green products will make a larger contribution to UK GDP.

The announcement in Budget 2011 on the Green Investment Bank

26. We welcome the funding the Government is providing to gear-up Green Investment bank resources. We note that a key focus will rightly be infrastructure for low carbon energy but lack clarity on the type of projects other it may finance. The UK chemical industry already has a excellent track record for reducing our own emissions, having improved our energy efficiency by 35% since 1990, and will continue to target making improvements. However, it is increasingly the case that further significant abatement will only be possible through the replacement of high cost long term production assets or the development and innovation of step change technologies. We believe that this could make the chemical sector a potential candidate for Green Investment Bank funding should appropriate projects be identified.

ADDITIONAL COMMENTS ON THEMES COVERED BY THE INQUIRY

The scope for the tax system to create a “modal shift” from high carbon transportation to low carbon alternatives, including Fuel Duty, Vehicle Excise Duty, and Air Passenger Duty and issues the Government should consider when developing strategies for sustainable aviation and motoring

27. We generally agree with the principle that there is a need promote modal shift from high carbon transportation to low carbon alternatives, but the introduction of environmental taxes alone does not provide an adequate means of achieving this.

28. More specifically, haulage companies based outside the UK already benefit from cheaper fuel before arriving into the UK and once their vehicles are in the UK there are no charges imposed for the use of UK roads. This is in contrast to a UK haulier who not only pays Vehicle Excise Duty (VED) and an increase price for fuel, but is also required to pay road usage charges in other countries. Introducing environmental taxes will only increase the number of haulage businesses forced out the UK.

29. Instead, the UK’s strategy for sustainable transport should focus on promoting modal shift to businesses by providing opportunities and incentives with specific consideration to the level of service provision to industry from the UK rail infrastructure.

Annex

MORE ABOUT THE CHEMICAL INDUSTRY

30. With an annual turnover of £60 billion, chemical businesses in the UK are a key contributor to the economy. Every working day, our sector adds £30 million to our country’s balance of trade. The jobs of 600,000 workers in the UK depend on chemical businesses. Workers in chemical businesses earn on average 40% more than other parts of manufacturing.

31. The UK chemical industry is exposed to the risk of carbon leakage. We are highly energy intensive, accounting for 22% of total UK industrial consumption. We are also highly exposed to international competition in terms of both trade in our products and attracting investment. This is because our businesses compete in global markets and pricing of basic chemicals is very similar across Asia, North America and Europe. In addition, about 70% of sites are headquartered outside the UK (2/3rds of these outside the EU).

32. The UK chemical industry already has a excellent track record for reducing our own emissions, having improved our energy efficiency by 35% since 1990, and will continue to make improvements. But we are also enablers of climate change solutions in a wide range of applications across sectors of the economy including: households, transport, energy and agriculture. Examples of solutions include: building insulation, PVC and soda ash for double glazing, fertilisers and crop protection (to reduce land use), lightweight components for cars and planes, low temperature detergents, biofuels and materials for wind turbines. An independent study has confirmed that the global chemical sector currently delivers two tonnes of greenhouse gas savings for every tonne we emit in our production processes and that, with the right policy framework, this could rise to more than four tonnes by 2030. These results are summarised in which also includes case studies to demonstrate that many of these solutions are already produced in the UK.

Written evidence submitted by PricewaterhouseCoopers PwC

SUMMARY

- In the budget the Government’s main green tax policy measure was the introduction of the carbon price support mechanism (CPSM) which gives a level of certainty to the EU Emissions Trading Scheme (EU ETS) carbon price for electricity generators.
- Our view is that introducing a carbon floor price is broadly a sensible policy approach that should help to underpin investment in low carbon infrastructure. However, it is likely to lead to at least some increase in energy costs experienced by trade-exposed UK energy consumers that their overseas competitors will not experience. This impact should be assessed through further consultation with the affected industries.
- We also have concerns about the proposed methodology for implementing the CPSM. Setting the price two to three years in advance without flexibility to respond to carbon price movements could lead to greater variability in the actual carbon price experienced, thereby undermining the intent of the floor.
- By introducing a floor price unilaterally, the UK has shown strong leadership on green tax policy compared to other countries. However, the floor would have greater effect and less adverse side effects if it was implemented across the EU and more widely. The Government should engage its EU counterparts on this issue, whilst commending its approach actively at COP17 in Durban to other participants.
- Additional funding, an earlier start date, and the potential for links to the government’s wider enterprise and manufacturing support packages announced in the budget are good news for the proposed Green Investment Bank. Whilst the reduction in fuel duty could be described negatively in green terms, it is unlikely to have any real impact on behaviour given the high levels of fuel prices in the UK. The longer policy objective of Air Passenger Duty (APD) needs to be considered in terms of the actual impact of its current design.
- The changes proposed in the budget have furthered the green tax agenda, but have not addressed the issue of the growing complexity of carbon taxes and price signals and other green taxes and incentives. To succeed in mobilising the substantial private sector activity required for the transition to a low carbon economy a more coherent and clearly articulated approach is needed to green taxes and broader environmental policy. This has the potential to deliver “win-win” environmental and economic outcomes for the public and private sector.
- We believe that there is a case for a more thorough review of green tax policy, founded on six principles, namely:
 - Clarity of policy objective.
 - Coherence.
 - International integration.
 - Policies that address real policies on the ground.
 - Cross party consensus.
 - Balance.
- Energy security/independence is an important feature of the UK’s energy policy. Both the CPSM and the North Sea tax increases should be considered in this context.

A CLEAR, COHERENT GREEN TAX STRATEGY

1. Alongside the changes announced to the Green Investment Bank noted in the summary, there were two main “green tax” measures announced in the budget: The carbon floor price and the cut in fuel duty funded by North Sea oil and gas tax increases.

The carbon floor price

1(a) Broadly, the CPSM is a sensible policy and the Government should be commended for showing leadership on this issue for Europe. Below we consider four questions in relation to the new CPSM:

1(b) *Is a carbon price support mechanism conceptually the right approach for the UK in 2011?* Broadly we consider this to be a positive policy development which underpins the market price for carbon. Variability of market prices was too high to enable proper inclusion of carbon prices in long term energy investment models and the expected trajectory for carbon prices too low to sufficiently incentivise the low carbon investment decisions required by the UK to meet emissions reduction targets. The longer term stability of the carbon price at a level above the market’s expectation should help address these problems. Although the UK is the only country in the EU ETS to adopt this approach at the moment we believe this unilateral approach is justified. Significant investment is required over the next 5–10 years in the UK in particular to renew ageing electricity generation capacity. Whilst the Electricity Market Reform and other measures will be crucial to ensuring this investment, action was required now to ensure that those

investment decisions are able to include a predictable carbon price and a level which will help encourage low carbon choices for these investments to be made.

1(c) *Have the prices been set at the right level?* The levels set are £16 moving to £30 per tonne in 2020 in real prices, expected to be £19 to £40 in nominal prices. IDEACarbon research shows that the floor prices will lead to UK emitters paying a significant premium over EUA prices. Consistency is also an issue as it is not clear how the UK CPSM price will relate to lower carbon prices under the Carbon Reduction Commitment scheme (initially set at £12 per tonne, with auctioning planned post 2014).

1(d) Given that the UK is taking a lead in this area, there are concerns about the impact on competitiveness of the higher prices for differing sectors of the UK economy operating in a global environment. We would recommend further research and consultation with the affected industries in this area. It is also important that the Government engages its EU counterparts on this issue, whilst commending its approach actively at COP17 in Durban to other participants. See also paragraph 1f below. While managing the impact on competitiveness should be a priority, the reality is that higher carbon prices are likely to be needed to achieve the government's ambitious greenhouse gas reduction targets as set out in the Climate Change Act. Whether overall the price is right could be better understood through economic forecasting of the impact of the price on UK carbon emissions. Key factors in this will be the elasticity of carbon consumption in electricity generation to changes in the price which in turn will be impacted by the availability of substitutes.

1(e) *What is the impact of the mechanism chosen to implement the policy?* The carbon floor price is effected through a pre-set tax on fossil fuel supplies. The Government appear to be proposing that the tax rate is set based on carbon futures markets two to three years in advance. This is an impure application of the floor price concept as there does not appear to be flexibility to adjust the tax rate to accommodate changes in the carbon price after it has been initially set.

1(f) For example in the first three months of 2011 there was a 20% increase in carbon prices, attributable at least in part to unexpected events: the earthquake and nuclear disaster in Japan and the North African and Middle East political disturbances. The effect of this could be that when the pre-set floor price is applied to the actual price of carbon the actual total carbon price (EU ETS price plus the top-up tax) exceeds the floor set by the Government. To avoid this price risk, those affected would need to set their carbon prices by buying futures at the same time (two to three years in advance) that the Government sets the CPSM rates. This may not be commercially desirable for participants and may create a degree of complexity for those businesses not geared up to actively manage their participation. This places greater emphasis on the importance of carbon price hedging strategies and could constrain participant's carbon management practices.

1(g) *Has the impact on UK competitiveness been adequately assessed and addressed?* The Government has taken the view that the increase in energy prices in the short to medium term will be offset by a longer term reduction: The UK will develop a more sustainable electricity generation infrastructure and be less reliant on increasingly expensive imported fossil fuels. This is a reasonable rationale, but the short term impact of increasing energy prices, albeit small in 2013, should not be underestimated or ignored because of the positive long term impact. This is particularly important in a global economy where businesses recovering from recession are deciding where to focus capital investments and expansion plans. At least some of the CPSM revenues should be spent on policies to help UK commercial energy users facing higher energy prices than their overseas competitors as a result of this policy.

1(h) The Government should now encourage primarily other European, but also non-European nations, to follow suit to help address the competitiveness issues that have arisen from this approach in the UK. There are two strands to the impact on competitiveness. First, there is the impact for trade-exposed energy consumers that now have an additional cost that their competitors overseas will not have. Second, there is a threat to UK electricity generators—their overseas counterparts can produce power without the CPSM applying and sell to the UK market at an advantage. We would encourage the EAC to test the Government's assertion that this risk is immaterial because it is limited by current UK to Europe interconnector capacity (2% of overall generation capacity). The inconsistency could encourage future interconnector capacity expansion. We suggest that the Government monitors developments in this area and opens appropriate channels of communication with the energy industry to understand the impact.

1(i) Energy security/independence should be a core part of the green tax policy. Current political tensions over fossil fuel supplies are likely to increase as these resources become scarcer. As well as the threat posed by the CPSM, the additional North Sea oil and gas taxes are also a threat to energy security. This is discussed in the following section.

Fuel duty cut funded by increased North Sea oil and gas taxes

1(j) The government has announced an intention to fund the 1p cut to fuel duty by additional North Sea oil and gas taxes. In principle the 1p reduction is counter to the policy objective to increase the use of green taxes. However, given the extremely high rate of environmental tax implicit in the existing fuel duty rate (see paragraph 5b), the inelastic demand for fuel and the far greater impact of increasing oil prices, the effect of this policy change on the environmental efficacy of fuel duty is negligible. North Sea taxes (Petroleum Revenue Tax and 62% Corporation Tax including the Supplementary Charge) are not typically considered environmental taxes, but by increasing them it is possible that a positive

environmental effect will arise—encouraging a shift to cleaner energy sources. However, in reality the lack of suitable substitutes to fossil fuels with quickly scalable volume increases will minimise this effect.

1(k) Gas extraction in the North Sea has been disproportionately affected by this policy as the tax rate makes no distinction between oil profits (inflated by rising oil prices) and gas profits (suppressed by low global gas market prices). Gas is a less carbon intensive electricity generation source than coal and cannot be transported as easily. By applying a disincentive to exploit UK gas reserves, this policy could have an environmentally detrimental impact by shifting the balance for fossil fuel based electricity generation to coal.

1(l) This additional tax could have a long term effect on North Sea productivity and investment, even if it is eventually reversed. There is a limited window for the North Sea while the infrastructure and skills are in place to produce efficiently and any loss of production now may never be recovered. As a result, this policy is likely to result in greater reliance on imported oil and gas. The first few months of 2011 alone have highlighted the volatility and sensitivity of global energy markets:

- For energy generally the short and long term impact of the Japanese nuclear disaster is still becoming clear, but will inevitably lead to an increase in demand for fossil fuels.
- In the oil markets, the current unrest in North Africa and the Middle East has led to a significant price spike.
- For gas, global markets are suppressed by the material unconventional source (such as shale gas) discoveries, particularly in North America. However, the political sensitivity in Russia and other former Soviet states, key suppliers of gas to Western Europe, remains a strong lever to domestic gas prices that is very difficult to control or predict.

1(m) These developments acutely highlight the importance of keeping the proportion of energy that the UK produces domestically as high as possible. We would suggest that the North Sea tax increases are counter to this objective. On the assumption that energy independence remains a policy objective for the Government, we recommend that progress towards this objective is reviewed, in consultation with the industry, and appropriate policy responses are formulated.

2. The budget continued a regularly recurring trend in recent years by focussing on adding to or amending slightly the existing green tax policy mix. We believe there is a justification for a separate process to review green taxes. This paper sets out the justification for this process and what we believe the guiding principles should be.

3. The UK now has a more complex mix of green taxes and incentives than ever before. This is understandable given the ever increasing prominence of green issues, but there is a danger that the cumulative effect is less than the sum of the parts because the policy mix is too disparate. For example there are now four carbon “tax” points in the electricity supply chain. The point of a carbon tax is to encourage a change in behaviours and shift in investment to lower carbon substitute products and services. However, particularly with regard to investment, the effect will be dampened if the investors are unable to distil a single and reliable carbon price that has a reasonably predictable future trajectory. As explained below in section 5e, the private sector is currently frustrated in their attempts to understand the carbon prices currently applying.

4. The CPSM achieves this aim in isolation, but when considered alongside the other three overlapping carbon pricing policies (Climate Change Levy, CRC Energy Efficiency Scheme and the EU Emissions Trading Scheme) inconsistencies, confusion, overlaps and uncertainty undermine the signal to low carbon investment.

5. To ensure that green tax policy properly resonates with individuals and businesses and has the behavioural impact desired by the Government, we believe some broader changes and consolidation are needed. Some key guiding principles must be embedded, with cross-party consensus as a worthwhile ambition to cement these principles over the long term investment horizons that are implicit in this sector.

Clarity of policy objective

5(a) Environmental policies, particularly green taxes, should be targeted at changing behaviours. This is in essence the purpose of a green tax—to deliver the core environmental objective. At the moment there is a tendency towards using loosely defined environmental objectives to justify what is ostensibly a revenue raising tax.

5(b) Fuel duty is a good example of this. If this is considered a full environmental tax, as defined in Appendix 2, then the implicit carbon price is £247 per tonne of carbon. To put this into context the existing EU ETS carbon price is around €17 and the UK Government have set price levels at £12 (CRC Energy Efficiency Scheme) and £16 (EU ETS carbon floor price) recently. There are clearly two elements to fuel duty—an environmental element and a revenue raising element. Environmental taxes should be used to change behaviour in line with clearly set environmental targets. In line with this principle, the element of fuel duty that is an environmental tax should be measured against the reduction in driving that it achieves. This should be benchmarked against the element of the carbon reduction target set out in the Climate Change Act that has been allocated to road transport.

5(c) The same can be said for Air Passenger Duty. This is currently included in the definitions of an environmental tax (see Appendix 2). We understand that the Government more recently has taken the

view that this is a “revenue raising” rather than an environmental tax, consistent with the statements made by Kenneth Clark when he introduced the tax in 1994. If this is the case then decreasing the number of passengers flying to, from and within the UK is not the overall policy objective. This viewpoint may be justified on the basis that the overall benefits to the economy of passenger travel outweigh the environmental cost. If the Government wishes to impose an environmental tax on aviation and remain consistent with the policy objective not to constrain the number of flights, then environmental goals can only be achieved by a policy that encourages greater fuel efficiency. Air Passenger Duty is not fit for this purpose as it is not linked to the fuel consumption of the aircraft. We recognise the Government’s effort to address this problem and introduce a “per plane” or fuel based tax. The 1944 Chicago Convention has been cited as a roadblock to this, deeming taxation in this area as illegal. If this roadblock can be overcome, aviation tax policy should be developed through close consultation with the aviation industry. Unilateral aviation tax by the UK carries a material threat of simply shifting the takeoff or landing points from the UK to nearby neighbours. This could in some case increase overall emissions rather than reduce them. The consultation will need to consider this “emissions displacement” threat thoroughly together with the broader competitive impacts of any changes on the UK’s aviation industry.

5(d) The Treasury Committee Report on the budget identified “trailing” or “presenting policies in the best possible light” as a weakness in existing policymaking. There was an element of trailing with the carbon floor price—the Government was keen to avoid the description of a “pre-set” tax in describing the policy, which led to some surprises when the details became available. Trailing should be resisted. The clear, coherent framework can only be properly delivered if the policy objectives are set out clearly from the outset.

Coherence

5(e) Green taxes are only one arm of policy. There are three pillars of green policy—subsidies/financing support, regulation and market based mechanisms, of which tax is a subset. The Government’s green policy ambitions should be clearly set out within these three categories. Coherence also means coherency across Government departments. There are some signs that joined up thinking is not as strong as it could be, for example between DECC and HMT, on the Electricity Market Reform policy package. The Government has stated that it is committed to using market-based approaches to simplify this policy landscape, minimising the costs of transition and reducing burdens on business. There needs to be a step change in approach if this can be achieved. This is a strongly held and consistent view throughout the private sector and within the public sector. The House of Commons Treasury Committee Budget 2011 review, published on 9 April 2011, makes several references to the lack of coherence in green policy. The report concludes:

“The Budget contained a number of measures that have an impact on energy prices, from the cancellation of the fuel duty escalator to the introduction of the Price Floor for carbon. Whilst we do not comment here on the likely impact of individual measures, we note that, as a package, they lack overall coherence.”

Reference is made to a quote which, in our experience, provides a fair representation of the view held by many in the private sector (source not specified):

“if you read the stuff on low carbon here, on the various grants, subsidies, price floors, levies, caps and so on, it is impossible to work out what the overall impact is, what the strategy is. Frankly, if you were an investor trying to decide whether to invest in low carbon technology or in electric vehicles, I think you would look at this and not know what to think.”

It is also important to note that there are non-fiscal instruments available to achieve policy, including the provision of alternatives, clear communication and education.

International integration

5(f) One of the greatest barriers to environmental policymaking is the threat to international competitiveness. The policy will inevitably price the consumption of an environmental resource that others will continue to use for free. Global integration and consistency of policy is unfortunately not a realistic near term prospect, illustrated by the often frustrated negotiations that are a recurring feature of the UNFCCC climate negotiations. We urge the Government to continue efforts to engage on international policymaking by all mechanisms available.

5(g) One such mechanism is the OECD’s green growth project which PwC have been linked into via the BIAC industry representative group. The objective of the project is to provide a framework and set of tools to enable countries to measure and compare their environmental policies against a consistent set of environmental metrics. The executive summary of the green growth strategy report is to be presented to ministers in May. There are at least two strong benefits of this approach. First, it enables countries to compare progress and identify areas of policy that need improvement. Second, it enables international sharing of policy ideas and success stories.¹⁰⁷

¹⁰⁷ A graphic showing an example of an OECD co-ordinated framework is set out in the PwC submission, but is not reproduced here.

Policies that address the real problems on the ground

5(h) A current example of the problem on the ground that is not currently addressed by policy is access to finance. Green projects investors and banks are often uncomfortable with the level of perceived risk in markets which are usually less mature and tested than high-carbon or resource intensive alternatives. In the current global financial market where capital is scarce and expensive, this threatens to be a material barrier to the level of green growth desired and required to meet the Climate Change Act and other environmental targets. The Green Investment bank can help to address this but the extent to which it is successful will depend how well aligned it is to the specific financing challenges that arise. To maximise the chances of success it will be important to ensure that private sector consultation is fundamental to defining how the Green Investment Bank will operate. Further targeted policies may also be required. The tax system can be part of this. One such policy could be extending the ISA scheme with “Green ISA’s” exclusively for low carbon investments.

5(i) The Government should have a process in place to ensure that they are quick to identify and respond to current and future real issues as they arise.

Cross party consensus

5(j) Whilst it is recognised that achieving political consensus has a number of challenges, it is important that to the extent possible, areas of common ground are established and publicised so that all stakeholders can have confidence in policy regardless of a change in government, particularly where long term investment decisions are involved.

Balance

5(k) Put simply, the policies could temper penalties for polluting with incentives for cleaner behaviour. It cannot be all stick and no carrot. The private sector recognises that in the current fiscal climate it is extremely difficult to justify new incentive schemes. However, efforts could be made to take green tax revenues and invest them in providing tax or other green incentives to accelerate the shift to a low carbon economy. As the fiscal position improves, these efforts must be increased as a priority. There is strong competition internationally to attract green growth, for example South Korea recently committed 80% of fiscal stimulus measures to environmental incentives.

5(l) In addition any use of the taxation system to achieve green policy needs to ensure that there is no disproportionate or unfair impact on the more vulnerable sections of society. The system should ensure, for example, that any significant increase in energy costs is counterbalanced by relevant incentives for investment in fuel efficient capital equipment.

6. If these six principles can be achieved the rewards for the UK can be great, but the damage to green growth from failing to achieve this can also be significant.

6(a) Rewards for getting it right. It is a well established, empirically proven, fact that green taxes can be “win-win” for the public and private sector. They deliver a “double dividend” economically. This effect arises from the economic impact of pricing externalities—damages to natural capital that arise through pollution. Carbon pollution externalities (societal “bads”) are not currently sufficiently priced, so good green tax policy allows these prices to be captured (the first dividend) while allowing other taxes on the “goods” in society—labour and profits—can be cut (the second dividend). In the current fiscal climate a “cut” in a good tax may not be possible. Instead it may be possible to consider the “cut” as reducing the amount that this tax would otherwise have to rise. The economic effect of the reduction is the same, but this does make the task of communicating this as a tax “cut” more challenging. A policy framework that meets the criteria above can unleash the private sector to deliver the green investment and growth. The effect is likely to be positively self-reinforcing and accelerate as long as these six principles are adhered to.

6(b) Penalties for getting it wrong. Without this approach there is a danger that the effect on green investment will be too weak. This could be negatively self-reinforcing. More and more “emergency” additional measures are needed to keep up with the legally binding carbon targets. These would further add to the complexity of the green policy framework and therefore further weaken the overall potential for green growth.

7. It is worth observing that the UK Government has the benefit of an electorate that appear more amenable and a political environment that is more conducive to green policymaking than elsewhere. The challenges for environmental policy advocates in the USA are well documented and show no signs of diminishing. If anything the anti-environmental movement is gaining momentum through current efforts to challenge the EPA’s authority to regulate greenhouse gases. In Australia Julia Gillard’s carbon tax is attracting intense criticism and is threatening to become a key electoral issue. The UK electorate are resistant to fuel duty increases, particularly in the context of rapidly increasing oil prices, but introduction of the CPSM tax has attracted, relative to the Australian carbon tax, low levels of resistance from energy consumers. It is likely that a significant factor in this is that the impact of the CPSM is not visible to the majority of the electorate. If it had been described as a carbon tax policy the perceived understanding of the impact would probably have been greater, and the resistance to the policy enhanced may have been enhanced accordingly. However, research by the Green Fiscal Commission reveals that environmental taxes designed properly with clear “green spending” of the proceeds

are relatively well accepted by the public. The challenge with the low likelihood of international action is the potential competitiveness disadvantage created by unilateral action.

8. The Government could benefit from ensuring a robust assessment of the “instability impact” of policy announcements such as the recent proposed changes to the feed-in-tariffs. Investors have limited capital, particularly in the current climate of restricted access to bank lending to supplement equity. The UK needs to persuade them to invest here. It is possible that the long term damage to confidence in the UK clean technology market in general (not just the part that qualifies for feed-in-tariffs) will be more expensive to repair than the relatively small savings (for example, £40 million in 2013–14) achieved from the proposed cut to feed-in-tariffs. Although “investor confidence” is difficult to assess and quantify, it is still an important factor to consider when carrying out impact assessments. The key theme of the Plan for Growth (objectives A to C) is to create a more attractive tax environment. This should be broadened to policy environment. It is no use offering a solar company a simpler corporation tax regime and few percentage points lower headline corporation tax rate if the promised subsidy (the feed-in-tariff) that was fundamental to their business model is unexpectedly halved.

APPENDIX 1

REFERENCE TO SPECIFIC QUESTIONS ASKED IN THE REQUEST FOR SUBMISSION

This appendix addresses the six questions that the EAC have asked in their request. We believe the answers are contained within the document and have included references accordingly.

Whether Budget 2011 furthers the Government’s green objectives, including the impact of the cut in fuel duty on greenhouse gas emissions and air pollution

See paragraph 1.

Approaches to shifting the burden of taxation from “goods” (eg labour) to “bads” (eg emissions) and factors that need to be considered when designing and introducing green taxes

It is a well established, empirically proven, fact that green taxes are “win-win”. They deliver a “double dividend” economically. It can be challenging to communicate complex economic theory to the vast majority of the electorate who have not studied economics. This is why clarity of policy objectives is paramount. See paragraphs 5a–5d.

The scope for the tax system to create a “modal shift” from high carbon transportation to low carbon alternatives, including Fuel Duty, Vehicle Excise Duty, and Air Passenger Duty and issues the Government should consider when developing strategies for sustainable aviation and motoring

A pure green tax has one objective, to encourage behavioural change. Where there is a lack of suitable substitutes, such as for driving or flying at the moment, the behavioural change impact is extremely difficult to achieve. The impact of a policy seeking to engender a behavioural change in travel where practical alternatives do not yet exist is to suggest that people should travel less. We do not believe this is the objective of the Government. This highlights the needs for carrots as well as sticks—to encourage the rapid development of alternatives like electrically powered cars that perform and look as good as their fossil fuel counterparts, and to encourage fuel efficient planes.

The scope for the taxation system to protect and increase stocks of natural capital and the possible role of proposed “natural accounts”

Properly executed tax policies are proven to change behaviour, where alternatives to the item being taxed exist. One good example of this is the Irish Plastic Bag tax which has seen a significant reduction in the use of plastic bags in Ireland. Provided alternatives or substitutes exist, there is no reason why the tax system cannot be asked to protect natural capital or support the principle of capital “banks”.

The impact of the taxation system in general on sustainable development

The UK has some valuable environmental tax levers. As this submission notes, improvements could be made but tax should always remain as a key behavioural change tool in any environmental policy mix.

How policy proposals in “The Plan for Growth” will affect sustainable development and environmental protection (ie planning, green growth, low carbon investment, regulations etc)

We do not comment on this in detail. It is fair to say that “green” and “growth” can go hand in hand and can be mutually reinforcing. There is a danger with some environmental policies that they will generate some green but not enough growth, if the impact on competitiveness is not addressed and incentives do not accompany additional costs / taxes on business.

The announcement in Budget 2011 on the Green Investment Bank.

The tripling of initial funding for the Green Investment Bank from £1bn to £3bn is a major step forward for the low carbon economy and the Government should be commended for this given the current fiscal constraints. They should also be commended for the decision to bring forward the establishment of the Green Investment Bank to 2012. The next stage is to consider the Green Investment Bank's remit. Estimates of the amount of capital needed in the next 10 years to address green infrastructure challenges range from £200 billion to over £500 billion. Defining this challenge and working through the detail of where the money is expected to come from will help test whether the Green Investment Bank is fit for purpose. Lifting the ban on the borrowing is likely to be a crucial step to enabling the Bank to be able to help deliver the amount of investment required. See paragraphs 5(h) and 5(i) for further comments relating to making sure that policies address the real problems faced.

APPENDIX 2

DEFINITION OF GREEN TAXES FROM THE EAC SUBMISSION REQUEST

There is no single definition of what a green or environmental tax is, but they are generally considered to be taxes which have been designed specifically to meet environmental aims; taxes that have been restructured to reflect environmental objectives; or taxes not specifically introduced for environmental reasons, but which have an environmental impact.

Environmental taxes, as classified in the UK Environmental Accounts: Fuel duty, VAT on Fuel duty, Renewable energy obligations, Climate change levy, Vehicle excise duty, Air passenger duty, Landfill tax, and Aggregates levy. 7.4% of all taxation revenues collected in 2007 were from environmental taxes (mostly from Fuel duty and VAT on fuel). Environmental taxation as a proportion of GDP has fallen from 3.5% in 1998 to 2.7% in 2007.

The Coalition agreement set out the Government's overall approach to taxation for this Parliament: "the Government believes that the tax system needs to be reformed to make it more competitive, simpler, greener and fairer. We need to take action to ensure that the tax framework better reflects the values of this Government." HM Government, The Coalition: our programme for Government, May 2010. It has adopted the previous Government's policy aim of shifting the burden of taxation from "goods" (such as employment) to "bads" (such as pollution).

On 30 March 2011 the Department for Transport published "Developing a sustainable framework for UK aviation: scoping document" which can be found here: <http://www.dft.gov.uk/consultations/open/2011-09/>

5 May 2011

Written evidence submitted by British Airways plc

British Airways welcomes the opportunity to contribute to the Committee's inquiry—"Budget 2011 and Green Taxes."

British Airways is one of the world's largest international airlines, carrying almost 32 million passengers worldwide on around 750 daily flights in the financial year to 31 March 2010. The airline employs almost 40,000 people, the vast majority of these at its sites throughout the UK.

The airline's two main operating bases are London's Heathrow and Gatwick airports, with a smaller base at London City airport serving New York and European business destinations. From these, British Airways flies 237 aircraft to 152 destinations in 75 countries. In addition to passengers, the airline also transports cargo. In the last recorded full year of 2009-10, it carried 760,000 tonnes of cargo around the globe.

In 2010, the airline completed its merger with Iberia of Spain to create the International Airlines Group (IAG). Our combined business offers flights to 205 destinations throughout the world on a fleet of 415 aircraft. It also commenced a joint business agreement with American Airlines, which further extends the benefits for its customers. The combined network of British Airways, Iberia and American Airlines serves 433 destinations in 105 countries with more than 5,180 daily departures.

1. OVERVIEW

1.1 Air Passenger Duty (APD) was introduced in the UK in 1994 as an environmental tax but is regarded today as a general revenue raising tax.

1.2 Aviation is a key driver of economic growth but taxation of the industry is a tax on UK growth, on UK business and on UK families.

1.3 Taxes are recognised as being ineffective in reducing aviation emissions. The aviation industry agrees with the UK Government that an international solution based on emissions trading is the most effective approach and as a first step, aviation joins the EU Emissions Trading Scheme in January 2012.

1.4 Adjusting the design of aviation taxes will not improve their environmental effectiveness, but can significantly worsen their impact on the economy, jobs and the competitive position for airlines. We therefore welcome the decision not to introduce a per-plane tax.

1.5 Only three other major EU countries levy some form of air passenger/travel tax—Germany, Austria and France. The Dutch and Irish governments have recently acknowledged the impact of aviation taxation in their economies and scrapped their taxes.

1.6 UK APD raises almost three times more than the second highest charging nation, Germany, and 35 times more than Austria, where implementation of the tax for 2011 was delayed.

1.7 The UK aviation industry has an established track record in improving its environmental performance and is seen as a world-leader in this field. Continual innovation, new technologies and ongoing operational improvements are fundamental to its existence today.

1.8 “Sustainable Aviation”, a UK coalition of aircraft and engine manufacturers, airlines, airports and air traffic service providers, is committed to improve the performance of the industry and to minimise its impact on the environment.

1.9 With a multi-billion dollar fuel bill annually, airlines already have a major incentive to be as fuel-efficient as possible. An over-layering of policies and taxes that create an uncompetitive tax regime will only damage efforts to improve its environmental performance.

1.10 The oft-repeated statement that aircraft fly around “half-empty” is a myth. The average load factors for UK-departing aircraft are high: in 2010, the CAA reported seat occupancy of around 80.9%. Airlines further utilise spare weight capacity of aircraft by carrying “belly-hold” freight in addition to passengers.

2. UK AVIATION & TAXATION

2.1 In 2010–11, Air Passenger Duty is projected to raise £2.2 billion in revenue. By 2014–15, this is expected to rise to £3.6 billion.

2.2 UK air passengers are being taxed more than bankers. This tax on aviation raises more than the bank levy over the period 2010–11 to 2015–16, as forecast by the Office for Budget Responsibility in its “Economic and Fiscal Outlook” published on 29 November 2010.

2.3 British Airways recognises the exceptional difficulty of the country’s fiscal position and we are content to pay our fair share. But the UK airline industry is already the most heavily taxed in the world and any further tax burden would be counterproductive to the country’s economic recovery.

2.4 The *raison d’être* of any airline is to transport passengers between two points as safely, securely and profitably as possible. To do this, they must perform as efficiently as they can, despite constraints in the operating environment beyond their control that hamper them daily. These constraints include inefficient air traffic management systems in Europe; a shortage of runway and airfield capacity at South East airports; international competitive distortions; and a level of taxation that fails to recognise that profitability is vital for investment in new technologies that will reduce the environmental impact of the industry.

2.5 To date, UK aviation has been a success story, leading the way in a deregulated European aviation market with more competition, constant innovation and relative operational effectiveness to minimise the impact of these constraints. UK airlines have taken the leading role in worldwide environmental issues, and are instrumental in developing a global framework for dealing with the industry’s carbon emissions.

2.6 Importantly, UK aviation pays for its own infrastructure. It receives no public subsidy. It pays for the airports, air traffic control and its own regulator. It generated £11.4 billion to the UK’s GDP in 2004 and currently supports 500,000 jobs.

2.7 But faced with increased taxation and competitive disadvantages compared to its European neighbours and those based in the Gulf, UK airlines will find it harder to grow and develop new markets, routes and connectivity. And the impact will be felt across the entire UK economy.

2.8 If the UK is to be better connected to the world, especially to the emerging markets, and if UK airlines are to compete responsibly for this growth, then we need to be able to invest in new aircraft for the future. Major technological developments are reducing the environmental impact of flying—as well as being more fuel-efficient and reducing emissions, new aircraft are significantly quieter than the aircraft they replace. If the UK airline industry continues to be taxed at current levels, then this investment in new aircraft and technology is at risk.

3. “DESIGNING GREEN TAXES”

3.1 It is vital when designing and introducing unilateral green taxes that full consideration is given to the UK economy’s competitiveness and need for connectivity to the global marketplace.

3.2 Any tax that imposes disproportionate financial burdens on UK airlines (and thus the UK economy and business) and introduces competitive distortion for the country’s aviation industry must be resisted. British

Airways welcomes the Government's decision, announced in the 2011 Budget, to abandon plans to replace APD with a per plane tax, which would have reduced UK competitiveness; curtailed connectivity to international markets; and encouraged more shorthaul flights to European hubs while doing nothing to improve the environmental impacts of flying.

3.3 When considering "green taxes", consideration must be given to the structure of the industry targeted. In aviation, the cost and lead times for new aircraft, expected to last 20 years or so, are extensive. They cost many tens of millions of pounds and deliveries and replacements are often delayed because of manufacturing schedules and problems, training and financing.

3.4 It is crucial that there is recognition that aviation is an international industry. No other country taxes aviation to the same level as the UK. It is universally acknowledged that aviation is a key driver of economic growth. Indeed, China has announced plans to construct more than 40 new airports, many with multi-runways, throughout the country over the next 20 years. UK aviation taxation fails to take account of the international setting and instead, together with visa restrictions, incentivises the development of air links from rival EU hubs to China and other emerging economies to the detriment of the UK economy and trade.

4. EMISSIONS TRADING SCHEME AND BEYOND

4.1 Aviation taxation is generally ineffective in reducing emissions. Some modes of tax, such as the proposed per plane tax, are considerably worse than others in their negative consequences for the UK economy's competitiveness and connectivity.

4.2 British Airways agrees with the UK Government's position that emissions trading is the most cost-effective policy instrument to reduce aviation's carbon emissions.¹⁰⁸ Taxes on aviation, no matter how they are designed, have been shown to be extremely ineffective in reducing emissions.

4.3 Emissions trading has a guaranteed environmental outcome—as defined by the emissions target set for aviation and the overall limitation placed on emissions through international agreement.

4.4 Emissions trading ensures that the sector is able to meet its obligations and make a significant contribution to emissions reductions by a combination of efficiency improvements from within aviation and purchase of certified reductions in other sectors.

4.5 It is sensible and reasonable for aviation to purchase emission reductions from other sectors where it is less costly and easier to achieve than forcing all reductions to come from within the aviation sector. The key objective is that emission reductions are made, so the overall environmental objective is achieved, and, through trading, the abatement efforts are shared between sectors of the economy in the most cost-effective manner.

5. AN INTERNATIONAL SOLUTION

5.1 British Airways agrees with the UK Government position that an international solution to aviation emissions is essential.

5.2 Unilateral and regional policy instruments are unsuitable in the long term in an industry that is highly globally competitive.

5.3 British Airways is playing a leading role within the aviation industry in developing and promoting robust global climate policy through the International Air Transport Association (IATA) and a dedicated group of companies called Aviation Global Deal (AGD).

5.4 We believe that governments should collectively adopt a framework for reducing aviation emissions based on carbon trading that is applied equally to all airlines. The alternative is a build up of uncoordinated, environmentally ineffective, national and regional measures that will cause unintended distortion in markets. Distortions occur when some airlines face higher climate policy costs than others in the same market.

5.5 At their October 2010 ICAO Assembly meeting, governments took a positive step forward by adopting a resolution that introduces the concept of a global sectoral framework for managing aviation CO₂ emissions, aspiring to deliver a target to cap emissions by 2020 and outlines principles for environmental economic measures. Considerable effort will be required from both governments and industry to further strengthen and elaborate a global climate policy for aviation, and British Airways is determined to proactively contribute to this effort.

6. GREEN INVESTMENT BANK

6.1 British Airways supports the establishment of the Green Investment Bank as an important initiative to accelerate sustainable technologies. The Bank should prioritise first-of-a-kind advanced technology solutions for commercial scale of aviation biofuel using second-generation sustainable feedstocks.

12 May 2011

¹⁰⁸ DfT, Developing a sustainable framework for UK aviation: Scoping document, March 2011

Written evidence submitted by the Parliamentary Office of Science and Technology

SUMMARY

In May 2010 the government announced that it would allow the construction of new nuclear generators but stated that they would receive no public subsidy. The definition used for “public subsidy” excludes any support that is general for low carbon generators rather than specific to the new nuclear industry. The government has also stated that it does not rule out taking on financial risks or liabilities related to new nuclear power.

In this context, there has been debate over what can be defined as a subsidy. This document describes broad and narrow definitions of the term “energy subsidy” and considers existing and proposed support mechanisms for electricity generation technologies including new nuclear power stations in the UK.

DEFINITIONS OF ENERGY SUBSIDIES

State financial interventions in the energy sector have been common for many years. Governments have used subsidies to enhance security of supply, reduce air pollution and emissions of greenhouse gases, strengthen competitiveness, provide social benefits and protect employment.¹⁰⁹ This sometimes involves supporting novel technologies until they become competitive with established ones.

BROAD DEFINITION

The International Energy Agency (IEA) define “energy subsidy” broadly, as “any government action that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by consumers”.¹¹⁰ A similar approach has been used by the OECD to define subsidies in general.¹¹⁰ Both approaches capture direct subsidies, such as grants from governments to consumers or producers, but also a variety of other interventions that directly or indirectly affect prices or costs. Table 1 summarises government interventions that fall within the IEA definition.

Table 1

TYPES OF ENERGY SUBSIDY AS DEFINED BY THE IEA¹¹⁰ AND EEA¹¹¹

Government Intervention	Examples
Direct financial transfers	<ul style="list-style-type: none"> • Grants to producers • Grants to consumers • Low-interest or preferential loans to producers
Preferential tax treatments	<ul style="list-style-type: none"> • Rebates or exemption on royalties, duties, producer levies and tariffs • Tax credit • Accelerated depreciation allowances on energy supply equipment
Trade restrictions	<ul style="list-style-type: none"> • Quota, technical restrictions and trade embargoes
Energy-related services provided by government at less than full cost	<ul style="list-style-type: none"> • Direct investment in energy infrastructure • Public research and development
Regulation of the energy sector	<ul style="list-style-type: none"> • Demand guarantees and mandated deployment rates • Price controls • Market-access restrictions • Preferential planning consent and controls over access to resources
Failure to impose external costs	<ul style="list-style-type: none"> • Environmental externality costs • Energy security risks and price volatility costs

An example of a simple and direct subsidy scheme in the UK was the Low Carbon Buildings Programme, which provided grants to consumers installing small scale generators such as solar panels. Another example of a direct subsidy is the Deep Geothermal Challenge Fund, which subsidises producers (rather than consumers) by providing grants to support the development of geothermal projects. There are a number of other government interventions that fall within the IEA’s broader definition of an energy subsidy. These include the government’s plans to provide up to £60 million for the development of infrastructure at UK ports for offshore wind turbine manufacturing, and funding for the Nuclear Skills Academy and the Nuclear Advanced Manufacturing

¹⁰⁹ European Environment Agency, 2004, *Energy Subsidies and Renewables*

¹¹⁰ UNEP and IEA, 2002, *Reforming Energy Subsidies*

¹¹¹ European Environment Agency, 2004, *Energy Subsidies in the European Union: A Brief Overview*

Research Centre led by the University of Sheffield. Funding for research and development across of wide range of energy technologies is also provided through the Research Councils.

NARROWER DEFINITION: SUBSIDIES IN NATIONAL ACCOUNTS

A narrower definition for subsidies is used when countries report their economic activity in the form of National Accounts. The UK and other European Union (EU) countries follow European guidelines, in which subsidies are described as “current unrequited payments made by general government or the European Union to enterprises”.¹¹²

The Office for National Statistics (ONS) is responsible for producing the UK’s National Accounts. Like similar statistical offices throughout the EU, it interprets the European guidelines in order to do this, sometimes in consultation with the relevant government department or Eurostat. Whenever the classification is not straightforward it is referred to the National Accounts Classification Committee (NACC) within the ONS.¹¹³

The Renewables Obligation (RO) is an example of an unclear, energy-related classification that was referred to the NACC and deemed to provide subsidies. The RO is not a straightforward subsidy to renewable generators because it does not involve a flow of money from the government to the producers (generators) themselves. Instead, it places an obligation on electricity suppliers to buy a growing percentage of the electricity they sell from eligible renewable generators. Eligible generators receive Renewable Obligation Certificates (ROCs) for each unit of electricity that they generate, which they sell in a marketplace to be bought by suppliers who thus demonstrate their compliance with their obligation. If suppliers do not meet their obligation in full they can pay into a “buyout” fund, which is later redistributed to suppliers in proportion to the number of ROCs they presented.

The National Accounts Classification Committee (“the Committee”) concluded that the Renewables Obligation is an imputed tax and subsidy.¹¹⁴ The renewable generators are effectively being subsidised by the ROCs, which are funded by a “tax” on electricity suppliers (and their customers, to whom the costs are likely to be passed). As an imputed tax and subsidy, ROCs appear in the National Accounts as money flowing to and from the government as taxes and subsidies, although these transactions do not in fact take place.

The Committee also concluded that the trading of allowances within the European Union’s Emissions Trading Scheme (EU ETS) should be treated as an imputed tax and subsidy. In this case, however, there has been disagreement at an international level and Eurostat are yet to issue formal guidance to national statistical offices on how they should be treated.¹¹⁵ The EU ETS is not, therefore, treated as a tax or subsidy in the UK accounts as yet. The Committee are currently considering classifications for a range of other energy-related interventions. These include the Carbon Emissions Reduction Target, the Renewable Transport Fuels Obligation, and Feed In Tariffs for small electricity generators (of less than 5 MW in rated output).

CONTINGENT LIABILITIES

In addition to the costs of current subsidies, the UK government has commitments to cover certain future costs related to energy supply. These do not necessarily appear in the National Accounts which, just like many balance sheets, include only those liabilities that fall within a relatively narrow definition. To support effective fiscal policy, and in the interests of transparency, the ONS has published an assessment of “wider measures of public sector debt”,¹¹⁶ which includes liabilities that are contingent on future events.

A significant example of contingent liabilities relates to nuclear decommissioning. The Nuclear Decommissioning Authority estimated that in 2004–05, gross decommissioning commitments for its estate were £24.1 billion, and that these increased each year to reach £44.5 billion in 2008–09. Of this latter figure, only £5 billion will be recoverable under commercial arrangements,¹¹⁶ presumably with funds generated by the NDA’s remaining magnox nuclear generators. As contingent liabilities, these figures do not appear in the UK’s National Accounts, but are nevertheless costs that the public sector will ultimately cover.

NEW NUCLEAR IN THE UK

In May 2010 the Coalition government said that it would allow the construction of new nuclear generators “provided that they are subject to the normal planning process for major projects (under a new National Planning Statement), and also provided that they receive no public subsidy”.¹¹⁷

¹¹² Eurostat, 1995, *European System of Accounts 1995*. These guidelines are themselves based on the international *System of Accounts 1993*, which the ONS indicates are being adopted throughout the world. The full definitions relating to subsidies may be found at

<http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/een00162.htm>

¹¹³ http://www.statistics.gov.uk/about/national_statistics/cop/downloads/NAclassification.pdf

¹¹⁴ Gazely I, 2006, *UK Environmental Taxes: Classification and Recent Trends*

¹¹⁵ Stokoe P, National Accounts Classification, Office for National Statistics, 2011, Personal Communication

¹¹⁶ Hobbs D, 2010, *Wider Measures of Public Sector Debt: A Broader Approach to the Public Sector Balance Sheet*

¹¹⁷ The Coalition, May 2010, *Our Programme for Government*

On 18 October 2010 the Secretary of State for Energy and Climate Change, Chris Huhne, confirmed this policy and clarified what is meant by “no public subsidy”, saying:

- (a) there will be no levy, direct payment or market support for electricity supplied or capacity provided by a private sector new nuclear operator, unless similar support is also made available more widely to other types of generation. New nuclear power will, for example, benefit from any general measures that are in place or may be introduced as part of wider reform of the electricity market to encourage investment in low-carbon generation.
- (b) I would also like to make it clear that we are not ruling out action by the Government to take on financial risks or liabilities for which they are appropriately compensated or for which there are corresponding benefits.¹¹⁸

In contrast, there are at least three ways in which commentators have argued that new nuclear power will or may effectively be subsidised:

- (c) Through the carbon floor price and proposed feed in tariffs that form part of the government’s programme of electricity market reform;
- (d) By agreeing fixed costs for decommissioning and waste management costs, and;
- (e) By limiting the liability of nuclear operators in the case of an accident.

Each of these areas is explored below in the context of both the government’s stated position on new nuclear power and the previous IEA and NAO definitions of subsidies.

ELECTRICITY MARKET REFORM

The government recently proposed various reforms of the electricity market to encourage a significant expansion of low carbon generation. A white paper is due in late spring 2011 that will outline the associated legislative proposals. Two elements of the proposals that some have argued would be subsidies for nuclear power are the introduction of both a carbon price floor (confirmed by the Treasury in the 2011 Budget) and a full system of feed in tariffs for new electricity generators.

The carbon price floor will be imposed through amendments to the climate change levy and fuel duty and will be introduced in April 2013. It involves a tax imposed on top of the market price for tradable carbon credits under the EU ETS, and is set at a level that increases the price of carbon to a guaranteed £16 per tonne of emitted carbon dioxide in 2013–14. The tax will be adjusted such that the floor price increases linearly to £30 per tonne by 2020. The aim is to provide an increased and certain price for carbon and thus encourage investment in low carbon rather than high carbon generation.

Producers of low carbon electricity such as existing and new nuclear generators will benefit from the increased price of electricity that the tax will presumably cause. According to the IEA definition of energy subsidies, the intervention could therefore be considered a subsidy. In the government’s terms, however, the intervention is not specific to the nuclear industry and hence does not contravene its stated definition of “no public subsidy for nuclear”.

In addition to the carbon price floor the government aims to introduce a system of feed in tariffs (FITs). These are long term contracts that guarantee an increase in the price of electricity for low-carbon generators above the wholesale market price. Again, the aim is to encourage investment by providing attractive and more certain rates of return to generators. The specific design of the FITs is yet to be determined but in any of the proposed forms it would, under the IEA definition, be considered an energy subsidy since it increases the price of electricity for low-carbon generators. Once again, though, if the intervention is non-specific regarding technology it would not contravene the government’s stated definition of “no public subsidy for nuclear”.

Some have argued that the FIT system will need to be designed differently for different technologies. EDF Energy, for example, gave evidence to the Commons Energy and Climate Change Committee saying that “a single flat payment is unlikely to provide sufficient returns to deliver all ... technologies and ... some renewable technologies in particular will require higher payments until they become mature.”¹¹⁹ Indeed, it is for this reason that differentiation between technologies was introduced into the existing Renewables Obligation in April 2009, providing greater payments to (more expensive) technologies that are further from market and thus encouraging a wider portfolio of technologies. If such differentiation is introduced into the proposed FITs, it is possible that there would then be a specific “subsidy” for the nuclear industry.

COSTS OF DECOMMISSIONING

The Energy Act 2008 requires nuclear operators to arrange financing to cover the full costs of decommissioning and their share of waste management costs. Prior to construction, operators must submit a Funded Decommissioning Programme (FDP) for scrutiny by the Nuclear Liabilities Financing Assurance Board and approval of the Secretary of State.

¹¹⁸ HC Deb, 18 October 2010, col 42–46WS. Also reproduced in Appendix A.

¹¹⁹ Energy and Climate Change Committee, EMR Written Evidence No.25 (EDF)

Currently, Section 48 of the Energy Act 2008 allows the Secretary of State to propose a modification to the FDP after it has been approved, and this may include adding additional obligations on the operator. Additional obligations might be required, for example, if there were issues with stored waste or if a new safety feature were developed that ought to be installed.¹²⁰

Clause 102 in the Energy Bill 2010–11 would alter this situation. It would allow the Secretary of State “to agree to exercise, or not to exercise, the Section 48 power” in a particular manner and over a particular period. This has raised concern that the Secretary of State could guarantee, at the outset, not to amend an agreed Funded Decommissioning Programme. This would reduce risk for investors but potentially expose the public to unforeseen decommissioning or waste-related costs. The Shadow Secretary of State for Energy and Climate Change has said that it “could leave taxpayers facing liabilities in the future”, and Friends of the Earth said that by shifting financial risks to the public sector, it would represent a hidden subsidy. In response, DECC said that it would not pave the way for taxpayer funding, however, since the Secretary of State must aim to ensure prudent provision for all the costs at the outset.¹²⁰

LIMITED LIABILITY FOR NUCLEAR OPERATORS

The UK is a signatory to the Paris Convention on nuclear third party liability and Brussels Supplementary Convention, and has been since their inception in the 1960s. The Conventions establish an international (largely western European) framework for compensating victims of a nuclear accident and are implemented in the UK by the Nuclear Installations Act 1965. The Conventions have been revised periodically and most recently in 2004, and the government recently published its proposals for implementing these most recent amendments.¹²¹

Significant among the proposals is a sevenfold increase in the liability of nuclear operators from the existing level of £140 million to €1200 million, which is €500 million more than required by the amended Conventions. Operators will also become liable for a wider range of potential claims and geographical scope. The increased limit will be phased in over five years starting at €700 million and increasing annually by €100 million. Although the government is proposing a greater limit than the minimum required, the Conventions do in fact allow countries to set an unlimited liability for private nuclear operators. If an accident were to involve costs that exceed the defined limit, the government and hence the taxpayer would presumably cover the excess.

Furthermore, the government has indicated a willingness to step in as an insurer of last resort if the operators cannot find private insurance or other financial security to cover all of their new and increased liabilities. It would do so for a charge based on its assessment of the risks it would be taking on. This would again involve the transfer of risk from the private to public sector.

FURTHER ISSUES

As indicated in paragraph 5, there are a range of other support mechanisms that some consider as subsidies. For the nuclear industry these include funding for the Nuclear Skills Academy and the Nuclear Advanced Manufacturing Research Centre led by the University of Sheffield. The Secretary of State has indicated¹²² that these forms of support fall outside of the scope of what the government means by “public subsidy” for new nuclear power.

APPENDIX A

The following contains more of the written ministerial statement by the Secretary of State for Energy and Climate Change on 18 October 2010 that relates to public subsidies for nuclear power. Hansard reference: HC Deb, 18 October 2010, col 42–46WS, also available at http://www.decc.gov.uk/en/content/cms/news/en_statement/en_statement.aspx.

FINANCING OF NUCLEAR WASTE AND DECOMMISSIONING

The Energy Act 2008 puts in place the framework to ensure that operators of new nuclear power stations meet in full their waste management, waste disposal and decommissioning costs.

Today I am laying in the House the Nuclear Decommissioning and Waste Handling (Designated Technical Matters) Order 2010. This order will give operators greater clarity over which liabilities require monies to be set aside in segregated funds.

The Order will proceed under the affirmative procedure and, if passed, will be followed by the Decommissioning and Waste Handling (Finance and Fees) Regulations 2010.

The Order and the Regulations together complete the statutory framework for the financing of nuclear waste and decommissioning.

¹²⁰ Harvey F, 4 April 2011, *Loophole in energy bill could see UK taxpayers funding nuclear bailouts*. Available online at: <http://www.guardian.co.uk/environment/2011/apr/04/loophole-energy-bill-nuclear>

¹²¹ DECC, Jan 2010, *Implementation of changes to the Paris and Brussels Conventions on nuclear third party liability: A Public Consultation*

¹²² HC Deb, 18 October 2010, col 42–46WS. Also reproduced in Appendix A.

NO SUBSIDY FOR NEW NUCLEAR POWER

Alongside the other announcements being made today on steps the Government are taking to enable new nuclear power, I should like to take the opportunity to reconfirm the Government's policy that there will be no public subsidy for new nuclear power.

To be clear, this means that there will be no levy, direct payment or market support for electricity supplied or capacity provided by a private sector new nuclear operator, unless similar support is also made available more widely to other types of generation.

New nuclear power will, for example, benefit from any general measures that are in place or may be introduced as part of wider reform of the electricity market to encourage investment in low-carbon generation.

I would also like to make it clear that we are not ruling out action by the Government to take on financial risks or liabilities for which they are appropriately compensated or for which there are corresponding benefits.

Specifically, within the framework of the Government's policy under the Energy Act 2008, that new nuclear operators must have arrangements in place to meet the full costs of decommissioning and their full share of waste management costs, we will not rule out taking title to radioactive waste, including spent fuel, at a fixed price provided that price properly reflects any financial risks or liabilities assumed by the state.

In addition, the Government are committed to the Paris convention on nuclear third-party liability and the Brussels supplementary convention. These conventions establish an internationally agreed framework for compensating victims in the unlikely event of a nuclear accident. The UK is already a party to them and currently caps operators' liability at £140 million. The UK is also bound, with other Brussels signatory states, to contribute to a fund that will compensate victims both in the UK and other convention countries should a serious nuclear incident happen.

The Government will consult later this year on our proposals to implement amendments to the conventions. These amendments impose a more stringent regime for operators than the current one, and alongside these improvements, the Government will be consulting on whether to continue to include an upper limit on operator liability, as permitted by the conventions. Accordingly, in line with the policy I am outlining, and without prejudice to the outcome of that consultation, the Government have not ruled out the maintenance of a limit on operator liability set at an appropriate level provided that it is justifiable in the public interest, is the right way of ensuring that risk is appropriately managed, and that, overall, any potential cost or risk to the Government can be justified by the corresponding benefits of the Paris/Brussels regime.

Arguably, few economic activities can be absolutely free of subsidy in some respect, given the wide-ranging scope of state activity and the need to abide by international treaty obligations. Our "no subsidy" policy will therefore need to be applied having regard to proportionality and materiality.

We will not rule out the Government providing support to industry in the normal course of the business of government, for example through the activities of the Office for Nuclear Development in taking forward the actions to facilitate the deployment of new nuclear power in a similar manner to the facilitation of other energy types. The Government will continue to meet their international obligations and support wider activity in the nuclear sector, including support for research and development, supply chain and skills activity.

The Government will also continue to provide funding to the Nuclear Decommissioning Authority to ensure the efficient and effective clean-up of the UK's civil, public sector legacy nuclear facilities.

21 April 2011
