House of Commons

Environmental Audit Committee

Autumn Statement 2012: environmental issues

Fourth Report of Session 2012–13

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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 current staff of the Committee are Simon Fiander (Clerk), Nicholas Beech (Second Clerk), Lee Nicholson (Committee Specialist), Andrew Wallace (Senior Committee Assistant), Anna Browning (Committee Assistant), Yago Zayed, Committee Support Assistant and Nicholas Davies (Media Officer).

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Summary

Our aim in undertaking this short inquiry was to explore some of the issues we expect the Chancellor of the Exchequer and the Treasury to address as part of Autumn Statement 2012 and future Budgets. We had previously raised concerns after Budget 2011 that the Treasury viewed protecting the environment as a block or cost to the economy. More recent comments by the Chancellor intensify our concerns. These, along with mixed messages emerging from Government on energy policy, are undermining investor confidence and are damaging growth and investment.

Autumn Statement 2012 must therefore provide a clear message that the Treasury supports the transition to a green economy. We have identified a number of practical ways in which the Treasury can achieve this, including:

- explaining how any new incentives for gas-powered energy generation are consistent with legally binding carbon targets;
- identifying how the environmental impacts of tax measures will be better reflected in future Autumn Statements and Budgets;
- following the recently published Energy Efficiency Strategy, identifying ways that the Treasury can support the measures detailed in the Strategy, and analysing possible additional incentives to further boost take-up of energy efficiency measures and reduce demand for energy (such as variable council tax and Stamp Duty Land Tax rates, or energy efficiency feed-in tariffs);
- reporting the proportion of tax revenue accounted for by environmental taxes in accordance with the definition used by the Office for National Statistics (as well as the Treasury's definition); and
- setting out its longer term ambitions for Fuel Duty and Vehicle Excise Duty, as well as longer term plans for the future of motoring taxes.

1 Autumn Statement 2012

Introduction

1. We examine the environmental aspects of the Budget each year as part of our role to scrutinise the Government's efforts to embed sustainable development principles in its policy-making. Budget 2012 did not contain significant environmental tax announcements. It did, however, identify a number of areas where policy was being developed and we decided to look at these aspects ahead of the Autumn Statement, in which relevant decisions are expected to be announced. We received 18 written submissions and on 31 October we took evidence from the Aldersgate Group, Friends of the Earth, Green Alliance, E3G, Association for the Conservation of Energy and the Environmental Industries Commission. We would like to thank all those who gave evidence. The Treasury declined to provide us with evidence "as it would not be proper for ministers or officials to opine publically on Budget-related matters so near to the Autumn Statement or any other fiscal event".[1]

The Treasury and the environment

Investor confidence

2. We have previously called on the Government to strengthen its commitment to the green economy, and have raised concerns that the Treasury viewed the environment as a cost or block to economic development.[2] Recent statements by the Chancellor intensify our concerns, including his reported reference to environmentalists as the 'green taliban'.[3] Friends of the Earth believed that too often the environment and the economy "are painted as oppositional" by the Chancellor, citing:

- his speech at the 2011 Conservative Party Conference where he said "we're not going to save the planet by putting our country out of business";
- the Autumn Statement 2011 in which he said "we will make sure that gold plating of EU rules on things like habitats aren't placing ridiculous costs on British businesses"; and
- and Budget 2012 in which he stated that "environmentally sustainable must be fiscally sustainable too".[4]

1 Unpublished correspondence with HM Treasury.

2 Environmental Audit Committee, Twelfth Report of Session 2010–12, *A Green Economy*, HC 1025 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/1025/1025.pdf).

3 "Green groups hit out at Osborne's 'taliban' tag", Independent online, 19 October 2012 (www.independent.co.uk/environment/green-living/green-groups-hit-out-at-osbornes-taliban-tag-8217387.html).

4 Ev 27; Speech to the Conservative Party Annual Conference 2011, 3 October 2011 (www.conservatives.com/News/Speeches/2011/10/Osborne_together_we_will_ride_out_the_storm.aspx); HC Deb, 29 November 2011, Col 808 (www.publications.parliament.uk/pa/cm201011/cmhansrd/cm111129/debtext/111129-0001.htm), HC Deb, 21 March 2012, Col 793 (www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120321/debtext/120321-0001.htm).

Outside the Treasury, recent comments by the Energy Minister John Hayes MP on the limits of onshore wind power projects, before being contradicted by the Secretary of State for Energy and Climate Change Ed Davey MP,[5] have also added to an impression of inconsistency in environmental policy making.

3. The UK Green Building Council saw the Chancellor's comments as a "source of much uncertainty for business".[6] Friends of the Earth believed that as green investment was a "new, and to a certain extent, untested field", "cheap talk costs money".[7] Similarly, the CBI believed that "mixed signals" from the Government were setting the UK back and argued that the "so-called 'choice' between going green or growth is a false one".[8] A "string of sudden and unexpected policy changes" (such as the increase in North Sea oil and gas tax allowances, removal of revenue recycling from the Carbon Reduction Commitment, and cuts to solar feed-in tariffs) had damaged business confidence,[9] with "government-induced policy risk" seen as the "single biggest deterrent to investment".[10] Uncertainty was "beginning to have tangible impact on businesses investment strategies".[11] In a similar vein, Ingrid Holmes from E3G told us:

> According to Treasury's own estimates, [investment needed in UK infrastructure] is around £40 billion to £50 billion a year, low carbon or low carbon enabling investments [account for] upwards of 75% of it. Currently, it is beyond the capability of banks and many companies to deliver that investment, so we are talking about the institutional investor community, who are inherently cautious. When that cautious community sees mixed messages from Government, that adds up to increased uncertainty over a long-term commitment. The political risk adds to costs ... but also remember that this capital can go anywhere in the globe, and if there are clearer opportunities to pursue elsewhere, that is what will happen.[12]

4. The CBI believed that because global competition for green growth opportunities is "fierce", in the UK we "cannot afford to take our foot off the pedal".[13] Similarly, the Aldersgate Group believed that there was a "race towards a new economy" in which companies have a range of competing opportunities and will choose to invest in the countries that can provide the most attractive returns at least risk. Supply chains were increasingly global in nature, giving greater scope to source components and set up

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5 "Coalition row erupts with Lib Dem Energy Secretary slapping down Tory Minister who declared 'enough is enough' onshore wind farms", Daily Mail online, 30 October 2012 (www.dailymail.co.uk/news/article-2225531/Minister-signals-end-wind-farm-We-pepper-turbines-country--declares-energy-minister.html); DECC press release, "Statement by Edward Davey on onshore wind", 31 October 2012 (www.decc.gov.uk/en/content/cms/news/edd_onshwind/edd_onshwind.aspx).

6 Ev w15

7 Ev 27

8 CBI press notice, "Green or growth is a false choice", 5 July 2012 (www.cbi.org.uk/media-centre/press-releases/2012/07/green-or-growth-is-a-false-choice-%E2%80%93-cbi-chief/).

9 CBI, *The Colour of growth: maximising the potential of green business*, July 2012 (www.cbi.org.uk/media/1552876/energy_climatechangerpt_web.pdf).

10 "Cameron must commit to low-carbon economy", Financial Times, 15 October 2012 (www.ft.com/cms/s/0/4d468dc2-13bb-11e2-9ac6-00144feabdc0.html).

11 Ev 33

12 Q 88

13 *The Colour of growth: maximising the potential of green business, op cit.*

production facilities around the world.[14] The UK had a 3.7% market share of the £3.3 trillion global environmental goods and services sector in 2010–11, employing 940,000 people.[15] The CBI believed that ongoing policy uncertainty could cause the UK to lose out on almost £400 million in annual net exports by 2014–15.[16] ('Sales of environmental goods and services' is one of the 37 draft Sustainable Development Indicators—the subject of another inquiry on which we will report soon.)

5. Certainty and consistency in both policy and "government messaging" is key for giving confidence to investors.[17] The Aldersgate Group wanted the Prime Minister to show greater leadership on the green economy, with that support reflected across the Cabinet, and all departments, not just those directly tasked with green programmes to set clear "market signals" in all policy-making.[18] Friends of the Earth wanted to see the Chancellor "talk a good game" on the green economy with a "change of track" in the Autumn Statement and Budget 2013 to reassure investors about doing 'green business' in the UK.[19]

Energy 'pathways' and a second 'dash for gas'

6. The forthcoming Energy Bill is intended to provide the financial support mechanisms to make different energy sources viable and to meet the country's energy security needs. Over the last three years DECC has developed and progressively refined a range of energy 'pathways' to model how particular types of energy could be included in the overall energy mix, while still meeting renewables obligations and the Climate Change Act's emissions targets and delivering the required energy output. By putting forward "illustrative" energy pathways, to be determined by "diversity and competition between technologies",[20] the Government has used a veil of apparent transparency to hide its real intentions, which has itself contributed to the uncertainty about energy policy. That uncertainty has affected industry confidence in the viability of new nuclear energy (the subject of a separate inquiry by the Energy & Climate Change Committee[21]) as well as onshore and onshore wind power. It has also allowed the Government to belatedly raise the prospect of a second 'dash for gas'.

7. Concerns were raised with us that the Treasury was spearheading such a dash for gas, which could make meeting statutory carbon emissions reduction targets unachievable.[22] In his Budget 2012 statement the Chancellor "underlined" the costs associated with supporting renewable energy, but described gas as "cheap" and "the largest single source of our electricity in the coming years". He announced in the Budget that the Government

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14 Ev 33

15 *ibid*

16 CBI press notice, "Green or growth is a false choice", 5 July 2012 (www.cbi.org.uk/media-centre/press-releases/2012/07/green-or-growth-is-a-false-choice-%E2%80%93-cbi-chief/).

17 *The Colour of growth: maximising the potential of green business*, *op cit*; Ev w15

18 Ev 33

19 Ev 27

20 National Audit Office, The government's long-term plans to deliver secure, low carbon and affordable electricity, June 2012, paragraphs 2.2 and 2.5 (www.nao.org.uk/publications/1213/electricity_landscape.aspx).

21 www.parliament.uk/business/committees/committees-a-z/commons-select/energy-and-climate-change-committee/inquiries/parliament-2010/building-new-nuclear-the-challenges-ahead-/

22 Ev 27, Ev 33

would set out a gas generation strategy to secure investment in the Autumn,[23] and subsequently launched a consultation on a tax allowance regime for new shale gas drilling operations.[24] The Chancellor justified further support for gas to the Treasury Select Committee:

> The plethora of environmental policies that were put in place by the previous Government and that exist under this Government do not, we think, provide adequate support for investment in the gas industry.[25]

8. However, shale gas resources in the UK are "not expected to be a game changer to the same extent as they have been in the US", where they have led to lower gas prices.[26] We found in earlier inquiries that it has been the price of gas that has driven increases in energy bills, not renewable energy policy, and that as global demand for oil and gas increases prices would be volatile.[27] Against a background of ambiguity over the future role of gas, the Energy and Climate Change Committee, the Committee on Climate Change and others support the introduction of a decarbonisation target in the Energy Bill to give a clear 'signal of intent' to drive the decarbonisation of energy generation infrastructure.[28] A group of seven energy companies wrote to the Secretary of State for Energy and Climate Change in October stating that their plans for significant further investment were "critically dependent on a long-term stable policy framework" and that a decarbonisation target would help "reduce long-term political risk".[29] The Aldersgate Group believed that a decarbonisation target in itself would not be enough, and wanted to see the rest of the Electricity Market Reform programme, including strike prices set in the "Contracts for Difference" and the cap on fiscal support to low carbon technologies through the Levy Control Framework, to be made consistent with meeting such a target.[30]

9. In a recent letter to the Energy Secretary, the Committee on Climate Change concluded that:

> The apparently ambivalent position of the Government about whether it is trying to build a low-carbon or a gas-based power system weakens the signal provided by carbon budgets to investors. It makes more pronounced the perceived risk that the

23 HC Deb, 21 March 2012, Col 793 (www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120321/debtext/120321-0001.htm).

24 Speech to Conservative Party Annual Conference 2012, 8 October 2012 (www.conservatives.com/News/Speeches/2012/10/George_Osborne_Conference_2012.aspx).

25 Treasury Committee, Thirtieth Report of Session 2010–12, *Budget 2012*, HC 1910, Q 383 (www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1910/1910i.pdf).

26 Energy and Climate Change Committee, Fifth Report of Session 2010–12, *Shale Gas*, HC 795 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenergy/795/795.pdf).

27 Environmental Audit Committee, Twelfth Report of Session 2010–12, *A Green Economy*, HC 1025 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/1025/1025.pdf).

28 Energy and Climate Change Committee, First Report of Session 2012–13, *Draft Energy Bill: Pre legislative Scrutiny*, HC 275 (www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/275/275.pdf); Committee on Climate Change letter to the Energy Secretary dated 13 September 2012 (http://hmccc.s3.amazonaws.com/EMR%20letter%20-%20September%2012.pdf); Letter from 50 businesses, industry bodies and NGOs dated 8 October 2012 (www.aldersgategroup.org.uk/asset/download/832/Letter%20to%20Chancellor.pdf); Ev 27, Ev w30; Q 90.

29 "Go green or we quit Britain, energy firms tell Osborne", The Times, 8 October 2012 (www.thetimes.co.uk/tto/news/politics/article3561457.ece).

30 Ev 33

> Electricity Market Reform will perpetuate the current stop-start approach to investment in low-carbon technologies. As a result, the cases for low-carbon business development, capital allocation, innovation and supply chain investment are undermined, damaging prospects for required low-carbon investments. This has been made clear to us in our extensive discussions with the energy and supply chain companies who it is hoped will fund the very significant investments needed in power generation over the next two decades, and who have suggested to us that the sector investor climate is currently very poor.[31]

On 11 November 2012 the Energy Secretary sought to provide some clarity:

> Government policy has not moved in favour of a dash for gas, and the amount of unabated gas generation we expect in 2030 ... has in fact reduced slightly ... Unabated gas will continue to play an important role in our electricity mix into the 2020s and beyond, increasingly being used to back up intermittent generation such as wind and to provide variable supply alongside less flexible generation such as nuclear. That continued role is perfectly consistent with our legally binding carbon budgets, to which the Coalition Government remains utterly committed. Indeed, with carbon capture and storage, gas-fired power stations have an even longer-term place in the low-carbon economy of the future.[32]

10. **Autumn Statement 2012 provides the Treasury with an opportunity to help secure the 'step change' in the pace of emissions reductions repeatedly called for the by the Committee on Climate Change. The Chancellor must reflect on his comments that present the 'environment' in opposition to the 'economy'. They are wrong and counterproductive. Mixed messages from the Government on energy policy are undermining investor confidence in the green economy. A clearer route is needed, helping to rebuild investor confidence in the energy sector, which allows proper scrutiny to begin on definitive plans for our energy mix which move beyond the so far apparently illustrative and permissive nature of the energy 'pathways'. Such greater certainty would be signalled by the introduction of a carbon intensity target in the forthcoming Energy Bill.**

Support for fossil fuels

11. There were two major announcements to boost further exploitation of North Sea oil and gas in Budget 2012. The first aimed to give certainty to fossil fuel companies about the tax relief they will get when decommissioning assets, and the second introduced a new £3 billion 'field allowance' for deep oil and gas fields off the coast of Shetland.[33] Oil and Gas UK, an oil industry group, saw these announcements as "greatly encouraging ... a very significant step forward, ... a turning point for the UK's oil and gas industry", and predicted that the decommissioning announcement would directly lead to £40 billion of new investment in fossil fuel infrastructure and result in the recovery of an additional 1.7 billion

31 *Committee on Climate Change letter to the Energy Secretary, op cit.*

32 Secretary of State letter to The Guardian, 11 November 2012 (www.guardian.co.uk/environment/2012/nov/11/the-big-issue-energy/print).

33 HM Treasury, *Budget 2012*, HC 1853, March 2012, paragraph 2.125 to 2.126 (http://cdn.hm-treasury.gov.uk/budget2012_complete.pdf).

barrels of oil and gas.[34] The Treasury estimated that this would increase tax revenues by £1.14 billion up to April 2017.[35] Friends of the Earth calculated that the additional oil and gas recovered as a result of these tax reliefs, once burnt, would result in the equivalent of a year's worth of UK current greenhouse gas emissions.[36] Further allowances were announced in July 2012 (a £500 million allowance for large shallow-water gas fields[37]) and in September 2012 (a new allowance for existing, mature 'brown fields'[38]). The Energy Minister explained how the Government saw these incentives as being compatible with commitments to tackle climate change:

> We are fully committed to meeting our carbon budgets, and to meeting our international commitments on action to avoid dangerous climate change. However, our energy needs today are predominantly supplied by oil and gas. Despite our ambitious programmes to shift supply to low-carbon sources and to improve energy efficiency, projections point to the need for a substantial proportion of our overall energy needs to be supplied by oil and gas for years to come. The choice is therefore between obtaining these supplies from indigenous sources, with all the benefits that provides to UK employment and the economy, or paying to obtain supplies from abroad. Though some 40 billion barrels of oil equivalent have already been produced from the UK Continental Shelf, there may be 20 billion more which could yet be produced. Our work on oil and gas licensing, exploration and development therefore aims to secure over time the maximum economic recovery of these resources.[39]

12. Oil & Gas UK estimate that in 2011–12, the UK oil and gas industry is forecast to pay £11.2 billion of tax on production, or one quarter of all UK corporation tax.[40] Friends of the Earth, however, believed that fossil fuels are "very heavily subsidised as they do not pay the full costs of the damage they impose on society from climate change and air pollution".[41] In April 2012, after the Budget, the then Economic Secretary, Chloe Smith MP, did not agree that the measures announced by the Treasury amounted to a 'subsidy'.[42] In an evidence session shortly before the UN Rio+20 Summit, Caroline Spelman MP—the then Environment Secretary—indicated that the Government would be seeking to tackle the issues of environmentally harmful subsidies.[43] The 'outcome document' subsequently agreed by all countries at the Summit stated that:

34 Oil and Gas UK press notice, "Industry body greatly encouraged by Treasury's moves to stimulate UK Oil and Gas Investment", 27 March 2012 (www.oilandgasuk.co.uk/news/news.cfm/newsid/705).

35 *Budget 2012, op cit.*

36 Friends of the Earth, *Oil and gas tax breaks*, April 2012 (www.foe.co.uk/resource/media_briefing/tax_breaks.pdf).

37 HM Treasury press notice, "New tax support for gas in the North Sea", July 2012 (www.hm-treasury.gov.uk/press_66_12.htm).

38 HM Treasury press notice, "Chancellor announces further action to stimulate investment in the North Sea", September 2012 (http://hm-treasury.gov.uk/press_78_12.htm).

39 HC Deb, 2 November 2012, Col 422W (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121102/text/121102w0001.htm#12110250000071).

40 *Industry body greatly encouraged by Treasury's moves to stimulate UK Oil and Gas Investment, op cit.*

41 Ev 27

42 Oral evidence session—25 April 2012, Q 53 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/c1931i/1931i.htm).

43 Oral evidence session—2 June 2012, Q 35 (www.publications.parliament.uk/pa/cm201213/cmselect/cmenvaud/c172-i/c172i.pdf).

> Countries reaffirm the commitments they have made to phase out harmful and inefficient fossil fuel subsidies that encourage wasteful consumption and undermine sustainable development. We invite others to consider rationalising inefficient fossil fuel subsidies by removing market distortions, including restructuring taxation and phasing out harmful subsidies, where they exist, to reflect their environmental impacts ... [44]

The European Union is examining 'market distortions' in the 'internal energy market', including direct and indirect subsidies for fossil fuels.[45]

13. **We support the Rio+20 commitment to eliminate environmentally harmful subsidies, and call on the Government to set out how it will implement this agenda in the UK. In the Autumn Statement, the Chancellor should set out a timetabled programme for eliminating such subsides, and explain why North Sea tax allowances announced during 2012 should not be regarded as subsidies.**

Measuring the impact of tax measures on the environment

14. Tax Information and Impact Notes (TIINs) were introduced at Budget 2011 to provide a "clear statement of the policy objective, impact on the Exchequer, the economy, individuals, businesses and civil society organisations, as well as any equality and other specific impact".[46] David Powell from Friends of the Earth thought them of "little use as they contained "very cursory information".[47] Andrew Raingold from the Aldersgate Group wanted to see more robust analysis in them, citing as an example, the TIIN for 'Field Allowances' for the North Sea. That TIIN did not expect increased extraction of North Sea oil and gas to lead to increased emissions because the 'market' was highly globalised (and therefore increased domestic production would mean less being imported) and because oil and gas installations fell within the scope of the EU Emissions Trading System. This did not take into account, however, that the low carbon price in the EU ETS was failing to provide an "adequate incentive to decarbonise".[48] More fundamentally, Friends of the Earth believed that the analysis in that TIIN, risked creating 'stranded assets' and that the opportunity cost of tax breaks for supporting fossil fuels was support for the green economy.[49] David Powell of Friends of the Earth wanted to see the Chancellor discuss the environmental impacts of new tax measures openly, rather than providing a TIIN that was simply a "longer piece of paper".[50]

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44 UN, *The Future We Want*, June 2012, paragraph 225 (www.uncsd2012.org/content/documents/727The%20Future%20We%20Want%2019%20June%201230pm.pdf).

45 Ev 27

46 TIINS section of the Treasury's website (www.hmrc.gov.uk/thelibrary/tiins.htm).

47 Qq 93, 94

48 Field Allowances TIIN on the Treasury's website (www.hmrc.gov.uk/tiin/field-allowances.pdf); Qq 53, 93

49 Ev 27

50 Q 94

Infrastructure and the 'guarantees scheme'

15. The Infrastructure (Financial Assistance) Act received Royal Assent in October 2012. The Act allows the Government to provide financial assistance of up to £50 billion in support of infrastructure investment. The Act defines "infrastructure" as including water, electricity, gas, telecommunications, sewerage or other services, railway facilities, roads or other transport facilities, health or educational facilities, court or prison facilities, and housing.[51] Whilst the Aldersgate Group welcomed the scheme for supporting important infrastructure projects which might otherwise struggle to secure full funding, it noted that amongst the five criteria that would be used to judge prospective projects there were none on sustainability. It believed that without sustainability criteria, "there is a risk that the scheme will lock the UK into high carbon infrastructure".[52] Andrew Raingold from the Aldersgate Group cited the positive example of the construction phase of the Olympics where ensuring sustainability was a priority at the outset led to new industry best practice whilst saving money.[53]

16. Some of the Government's financial commitments under the 'guarantee scheme' will presumably be accounted for in the National Accounts and score against the Government's deficit reduction plans, in the same way as any borrowing by the Green Investment Bank.[54] There is potentially, therefore, an inconsistency between on the one hand, the provision of immediate financial guarantees under the new scheme, and on the other, the Government's prohibition on the ability of the Green Investment Bank to borrow from capital markets until Government debt is falling as a percentage of GDP (predicted to be 2017). The Bank is needed to leverage in private sector financing for low carbon infrastructure and this lending cap will "hamstring" the Bank from delivering on that objective.[55] The Aldersgate Group believed that the Bank, if allowed to borrow £18 billion (by leveraging the £3 billion of government funding), would enable £90 billion of finance to be drawn in (compared with the £15 billion of funds that the Government expects the Bank—without borrowing powers—to achieve).[56] On 29 October 2012 the Green Investment Bank became fully operational.[57]

17. The Infrastructure (Financial Assistance) Act requires the Treasury to report on expenditure and liabilities under the Act at the end of each financial year. **In the Autumn Statement the Treasury should clearly identify whether such liabilities will lie on the public sector balance sheet and, if so, it should explain why the Green Investment Bank is not also immediately being allowed to raise its own funds.**

51 Parliament website (http:// services.parliament.uk/bills/2012-13/infrastructurefinancialassistance.html).

52 Ev 33

53 Q 122

54 Ev 33

55 Environmental Audit Committee, Second Report of Session 2010–12, *The Green Investment Bank*, HC 505 (www.publications.parliament.uk/pa/cm201011/cmselect/cmenvaud/505/505.pdf); Ev 33

56 Ev 33

57 HC Deb, 30 October 2012, Col 7WS (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121030/wmstext/121030m0001.htm#12103034000135).

Energy efficiency

18. In their pre-legislative scrutiny of the Draft Energy Bill, the Energy and Climate Committee found that the Government had "fallen into the trap of focusing far too closely on the supply side of the energy system, while neglecting to consider the contribution that demand-side activities could make to security and climate change objectives". It called on the Government to give much higher priority in the Bill to demand-side measures because these could "deliver much more cost effective solutions than building ever greater levels of generating capacity".[58] ('Housing energy efficiency' is one of the 37 draft Sustainable Development Indicators—the subject of another inquiry on which we will report soon.)

19. There are government initiatives on both the domestic and non-domestic sectors to improve energy efficiency. On the latter, the Government announced at Budget 2012 that it would consult on simplifying or replacing the Carbon Reduction Commitment energy efficiency (CRC) scheme to reduce administrative burdens on business by Autumn 2012. Should the Government not be able to identify "significant administrative savings", it announced that it would replace the CRC with an alternative environmental tax.[59] A consultation was launched on a package of reform proposals in March 2012, which the Government estimated would cut administrative costs by almost two-thirds, equating to around £330 million up to 2030.[60]

20. Whilst the Aldersgate Group welcomed many of the measures in the consultation, it believed that the scheme remained "too burdensome" and that the simplification measures proposed were "tinkering at the edges", and not "fundamentally addressing the root of the problem". It urged the Government to consolidate energy reporting obligations in a single, mandatory reporting framework, which was transparent and consistent with international reporting requirements.[61] Similarly, the Society of Motor Manufacturers and Traders saw the CRC as part of a myriad of energy tax and efficiency regimes that resulted in "complex, overlapping compliance obligations under differing processes".[62] If retained, the energy efficiency performance league table would need to be replaced to ensure that it could act as an effective reputational driver for the organisations being ranked.[63] There was some evidence, however that the CRC might have contributed to a reduction in emissions. Preliminary data show that by the end of July 2012 participants in the scheme had reduced their energy costs by 10%, but more analysis was needed to establish that the CRC scheme had driven these reductions. Final verified figures are expected in December 2012.[64]

21. On domestic energy efficiency, our witnesses believed that increased support through the tax system and other fiscal incentives was needed. Friends of the Earth calculated that

58 Energy and Climate Change Committee, First Report of Session 2012-12, *Draft Energy Bill: Pre legislative Scrutiny*, HC 275 (www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/275/275.pdf).

59 Environmental Audit Committee, Sixth Report of Session 2010-12*, Budget 2011 and environmental taxes*, HC 878, paragraph 2.167 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/878/878.pdf).

60 DECC press notice, "CRC simplified to saves businesses millions", 27 March 2012 (www.decc.gov.uk/en/content/cms/news/pn12_031/pn12_031.aspx).

61 Ev 33

62 Ev w6

63 Ev 33, Ev 40

64 Endsreport, "Early CRC data point to surprise emissions fall", October 2012.

by 2013, spending on energy efficiency targeted at the fuel-poor will have been cut by over 50% since 2009–10. Penny Holland of the UK Association for the Conservation of Energy told us that the ambition of energy efficiency schemes, such as the Green Deal and Energy Company Obligation (ECO), has been downgraded, so that the Green Deal would now only deliver 30% of the carbon savings that had been anticipated a year ago (4 million homes rather than 14 million) and the ECO scheme would be funded with £1.3 billion rather than the originally anticipated £2 billion.[65] The Government recently announced a £125 million 'cashback' fund available for early adopters of the Green Deal.[66] The Green Deal was nevertheless "widely expected to see a significant decline in the installation rates of cost-effective energy efficiency measures".[67]

22. Our witnesses listed a number of mechanisms to support energy efficiency:

- Feed-in-tariffs for demand reduction to create a market for measures reducing the amount of energy consumed in an area, in a sector or in a business. Lessons could be learnt from a reportedly successful scheme in the State of Texas.[68]

- Council Tax rebates for energy efficient homes, variable rates of Council Tax depending on the energy efficiency of the home, or variable rates of Stamp Duty Land Tax to reflect the energy efficiency of the property. These would "start to embed the value of energy efficiency into properties".[69]

- Extension of the 5% reduced VAT rate on energy efficiency measures to cover A-rated boilers and B-rated windows.[70]

- Extension of the 'landlord energy saving allowance' beyond 2015, to help spur improvements in the private-rented accommodation sector before the minimum energy efficiency standard comes into force in 2018.[71]

- 'Recycling' revenues from the Carbon Price Support and EU ETS into a "major programme of support for ending fuel poverty via energy efficiency".[72]

23. There were clear macro-economic arguments for supporting greater energy efficiency.[73] E3G calculated that government energy efficiency policies have increased real annual GDP by 0.1% (£1.29 billion) between 2000 and 2010.[74] The Aldersgate Group believed that if the UK were to "seize first-mover advantage in this area, the economic benefits from export of

65 Q 84

66 DECC press notice, "Hundreds of pounds up for grabs with £125m green deal cash back offer", 19 October 2012 (www.decc.gov.uk/en/content/cms/news/pn12_127/pn12_127.aspx).

67 Ev 27

68 Qq 112–118

69 Q 110

70 *ibid.*

71 *ibid.*

72 Ev 27

73 Q 112

74 Ev 33

skills and services could be significant".[75] DECC published its Energy Efficiency Strategy the day before we agreed this report, so we have not had time to investigate it in detail. We note, nevertheless, that there is little radically new being prescribed in the Strategy and little information on the costs of the necessary measures. **The Autumn Statement should signal the Treasury's commitment to DECC's Energy Efficiency Strategy, reflecting the macro-economic and fuel-poverty benefits that this would bring. It should set out the costs of the measures in the Strategy and identify the extent to which these will have to be met from within DECC's existing budgets. Investing some of the revenues from carbon taxes to reduce energy use could help to make real progress in this crucial area.**

75 Ev 33

2 Environmental tax follow-up

Definition of an environmental tax

24. The Government's response to our July 2011 Report on *Budget 2011 and Environmental taxes* came seven months after our report and was incomplete.[76] It failed to address recommendations that sought a more coherent approach by the Government to the management of environmental taxes; specifically the need for, and content of, an environmental taxation strategy, supported by a clear definition of what constituted an environmental tax.[77] We learnt little more when we took evidence from the then Economic Secretary to the Treasury, Chloe Smith MP, in February 2012.[78] A full year after our report, the Treasury set out its final definition of environmental taxes in July 2012. Its failure to prioritise its redefinition of an environmental tax is indicative of its complacency towards environmental protection. The Government classify environmental taxes as "those that meet all of the following three principles:

- The tax is explicitly linked to the Government's environmental objectives; and
- The primary objective of the tax is to encourage environmentally positive behaviour change; and
- The tax is structured in relation to environmental objectives—for example, the more polluting the behaviour, the greater the tax levied."[79]

25. Based on these principles, the Government has classified the Climate Change Levy, Aggregates Levy, Landfill Tax, EU Emissions Trading System, Carbon Reduction Commitment Energy Efficiency Scheme and Carbon Price Support as environmental taxes. These will form the baseline against which the Coalition Agreement commitment to "increase the proportion of tax revenue accounted for by environmental taxes" will be measured.[80] The principles that the Government has set out are the very same as those tentatively and provisionally outlined to us by the then Economic Secretary Justine Greening during one of our original *Budget 2011* evidence sessions in May 2011.[81] **We are disappointed by the slow speed at which the Government has addressed the tax definition recommendations in our report on environmental taxes.**

76 Environmental Audit Committee, Sixth Report of Session 2010–12, *Budget 2011 and environmental taxes*, HC 878 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/878/878.pdf).

77 Environmental Audit Committee, Sixth Special Report of Session 2010–12, *Government Response to the Committee's Sixth Report of Session 2010–12*, HC 1527 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/1527/1527.pdf).

78 Miss Chloe Smith MP took over as Economic Secretary to the Treasury, in place of Rt Hon Justine Greening MP from whom we had taken evidence from during our earlier inquiry. The Committee took evidence from Miss Chloe Smith MP on 1 February 2012 as part of the Committee's Green Economy inquiry (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/c1025-v/c102501.htm) and 25 April 2012 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/c1931i/1931i.htm).

79 HC Deb, 16 July 2012, Col 95WS (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120716/wmstext/120716m0001.htm).

80 HC Deb, 16 July 2012, Col 95WS; HM Government, *The Coalition: our programme for government*, May 2010, page 31 (www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_187876.pdf).

81 *Budget 2011 and environmental taxes, op cit*.

26. The Treasury does not consider motoring taxes (Vehicle Excise Duty and Fuel Duty) nor Air Passenger Duty as environmental taxes[82] because, although the Treasury recognises that they may have environmental benefits, they are "primarily designed to raise revenue or to achieve other objectives".[83] This treatment differs from that used by the Office for National Statistics (ONS), who are responsible for publishing Environmental Accounts which include statistics on environmental taxes (using its definition).[84] As we have noted previously, we favour the ONS's definition, which considers the 'effects' of a particular tax, because the most important characteristic of an environmental tax is that it promotes more sustainable and less environmentally damaging behaviours, regardless of why it was introduced.[85] Indeed, the ONS state that the "aim of a tax for raising government revenue rather than reducing environmental degradation does not preclude it from being defined as an environmental tax".[86]

27. The Aldersgate Group thought that "mixed messaging" resulting from different definitions would undermine confidence in the Government's commitment to green targets. It saw the Government's recognition of environmental taxes based on their primary purpose as a "false distinction", as "all taxes should have multiple targets, measured against economic, environmental and social criteria".[87] Friends of the Earth believed that there was an inconsistency between the Government "passing the buck" to the ONS in deciding whether policies constitute "imputed tax and spend", and therefore within the Treasury's spending control framework, yet "explicitly rejecting the well-established ONS definition of an environmental tax". It believed that this inconsistency was the result of "political expediency", since those duties that now fall outside the Government's definition were "most contentious" at the time of the Budget.[88]

Motoring taxes

28. In our *Budget 2011* Report we raised concerns that if the Treasury did not classify Fuel Duty as an environmental tax it would loosen the link between the rate of the tax and the cost of environmental externalities associated with motoring, thereby reducing further the likelihood of using the Duty as a lever of behavioural change.[89] Fuel Duty and Vehicle Excise Duty raise significant revenues: £33 billion in 2011.[90] However the costs to society—'externalities'—from motoring, such as congestion, road casualties, air pollution, greenhouse gas emissions and physical inactivity, have been estimated to be much higher—

82 The ONS consider the renewables obligation as imputed tax and spend and therefore falling within the definition of an environmental tax [Office for National Statistics, *Government revenues from environmental taxes*, November 2011].

83 HC Deb, 16 July 2012, Col 95WS (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120716/wmstext/120716m0001.htm).

84 Office for National Statistics, *Environmental Accounts 2012*, June 2012 (www.ons.gov.uk/ons/rel/environmental/uk-environmental-accounts/2012/stb-ukea-2012.html).

85 *Budget 2011 and environmental taxes, op cit.*

86 Office for National Statistics, *Government revenues from environmental taxes*, November 2011.

87 Ev 33

88 Ev 27

89 *Budget 2011 and environmental taxes, op cit.*

90 *Environmental Accounts 2012, op cit.*

up to £56 billion.[91] The Institute for Fiscal Studies and RAC Foundation believe that the current tax system does a "poor job at targeting these external costs", "most notably the costs of congestion".[92] The Government's ambitions for motoring taxes, and whether it intends that these externalities could be better reflected in taxes, continue to be vague.

29. The Government announced in Budget 2011 that the 'fuel duty escalator',[93] introduced by the previous Government, would be replaced by a 'Fair Fuel Stabiliser'. Fuel Duty was cut by 1 pence,[94] and planned above inflation rises were deferred or cancelled to help "ease the burden on motorists when money is short"[95] at an estimated 'cost' to the Treasury of nearly £14 billion of tax revenues over the following five years.[96] The Treasury calculated that these changes would result in pump prices being 10 pence per litre lower than had the fuel duty escalator been kept.[97] The 'Fair Fuel Stabiliser' works by allowing above inflation rises only when the oil price falls below a 'trigger price' of £45 per barrel on a "sustained basis".[98] The stabiliser will be funded by higher taxation of profits from oil and gas companies.[99] The oil price is expected to stay above this trigger point for some time. The Office for Budget Responsibility's central forecast in March 2012 assumed that oil prices would fall from around $120 per barrel to around $95 dollars per barrel by 2017.[100] The OBR's next assessment is expected alongside the Autumn Statement.

30. There is ongoing debate about the economic and personal costs of currently high fuel prices. The Institute for Public Policy Research believe that in relation to the costs of motoring, "there remains a gap between perception and reality". It estimated that fuel accounted for a third of an average household spend on motoring, and that Fuel Duty rates on petrol and diesel, although high, were "actually 7% lower in real terms in 2011 than in 2001". Compared to other EU countries, "the British motorist is not highly taxed" because, although the UK has "generally higher rates of fuel duty than other EU countries, this is

91 There are also costs such as community severance, disruption to landscape and waste and water pollution that are difficult to estimate [Institute for Public Policy Research, *The war on motoring—myth or reality?*, August 2012 (www.ippr.org/press-releases/111/9551/osborne-should-support-squeezed-rail-a-bus-users-not-another-tax-giveaway-for-motorists)].

92 Institute for Fiscal Studies and RAC Foundation, *Fuel for thought: The what why and how of motoring taxation*, May 2012 (www.racfoundation.org/assets/rac_foundation/content/downloadables/fuel_for_thought-johnson_et_al-150512.pdf).

93 A fuel duty escalator' of above inflation rises to "support fiscal consolidation" was announced in Budget 2009 [HM Treasury, *Budget 2009*, HC 407, April 2009, paragraph 7.51 (http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/bud_bud09_repindex.htm)].

94 HM Treasury, *Budget 2011*, HC 836, March 2011, page 4 (http://cdn.hm-treasury.gov.uk/2011budget_complete.pdf).

95 The previously-planned April 2011 inflation-only increase was deferred until January 2012 and then subsequently cancelled in the Autumn Statement 2011. The 3 pence increase due in April 2012 was deferred to August 2012, and then subsequently delayed until January 2013.[HM Treasury, *Autumn Statement 2011*, Cm 8231, November 2011, page 8 (www.hm-treasury.gov.uk/as2011_index.htm)]; HC Deb, 21 March 2012, Col 793 (www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120321/debtext/120321-0001.htm), HC Deb, 26 June 2012, Col 146 (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120626/debtext/120626-0001.htm#12062679000005); HM Treasury press notice, "Chancellor announces support for motorists", 26 June 2012 (www.hm-treasury.gov.uk/press_52_12.htm).

96 *The war on motoring - myth or reality?, op cit*.

97 *Chancellor announces support for motorists, op cit*.

98 HC Deb, 21 March 2012, Col 58WS (www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120321/wmsindx/120321-x.htm).

99 The rate of supplementary charge on oil and gas production is currently 32% but will reduce to 20% if the oil price falls below the 'trigger price' on a sustained basis.

100 Office for Budget Responsibility, *Economic and Fiscal Outlook March 2012*, March 2012 (http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/).

offset by lower motoring taxes and charges elsewhere—for instance, the UK has no car registration tax and very few motorway tolls". It calculated that while the cost of motoring had risen between 1997 and 2010 by 33%, this was less than rail fares (66%) and bus and coach fares (76%).[101]

31. Longer term changes to the structure of motoring taxes may be needed. The RAC Foundation disapproved of the Government's approach of putting off Fuel Duty rises. It argued that it was "not possible to make a credible promise to protect consumers from the consequences of variation in the global US dollar price of crude oil". Instead, it urged the Government to set out the "principles by which it intends to set tax rates, and thereby establish a greater degree of stability". The RAC Foundation predicted, furthermore, that with continuing increases to fuel efficiency, future revenue from motoring taxation would fall by £13 billion by 2029 (in today's terms), despite forecasts of traffic growing by 44%.[102]

32. Budget 2012 announced that the Government was considering whether to reform Vehicle Excise Duty over the "medium term" to reflect continuing improvements in vehicle fuel efficiency and to ensure that "all motorists continue to make a fair contribution to the sustainability of the public finances".[103] The think-tank Centre Forward suggested replacing Vehicle Excise Duty for new cars with a one-off tax on the purchase of new cars, which it thought would be more effective in reducing emissions.[104] This would operate in a similar way to a 'feebate scheme', advocated by the Campaign for Better Transport, and would encourage vehicle buyers to consider fuel economy more fully at the point of purchase.[105] Others favoured road pricing schemes and the wider roll out of congestion charging to better reflect the environmental costs of motoring and provide funds for new transport infrastructure.[106]

33. The National Infrastructure Plan prioritises investment in roads, and funding has been announced for a number of road schemes.[107] Progress on feasibility studies into new ownership and financing models for the road network is expected in Autumn Statement 2012, and a consultation on a new long term 'national road strategy' is expected by the end of 2012.[108] The then Environment Secretary told us in February that this investment would help tackle congestion and pinch-points to "help to improve air quality and supporting sustainable growth" and would therefore be compatible with a green economy.[109] The Campaign for Better Transport understood that the Government was "actively considering

101 *The war on motoring—myth or reality?, op cit*.

102 *Fuel for thought: The what why and how of motoring taxation, op cit*.

103 HM Treasury, *Budget 2012*, Cm 1853, March 2011, paragraph 1.206 (http://cdn.hm-treasury.gov.uk/budget2012_complete.pdf).

104 Centre Forum, *Cutting emissions and making cars cheaper to run: a new approach to vehicle excise duty*, October 2011 (http://centreforum.org/assets/pubs/cutting-emissions.pdf).

105 Ev w27; Environmental Audit Committee, Sixth Report of Session 2010–12*, Budget 2011 and environmental taxes*, HC 878 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/878/878.pdf).

106 *Fuel for thought: The what why and how of motoring taxation*, *op cit*.

107 HM Treasury and Infrastructure UK, *National Infrastructure Plan 2011*, November 2011 (http://cdn.hm-treasury.gov.uk/national_infrastructure_plan291111.pdf).

108 Department for Transport press notice, "New plans to reform strategic road network", 24 May 2012 (www.dft.gov.uk/news/press-releases/dft-press-20120524c/).

109 Environmental Audit Committee, Twelfth Report of Session 2010–12, *A Green Economy*, HC 1025, Ev 60 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/1025/1025.pdf).

an approach of using Vehicle Excise Duty as an income for private investors to borrow against to fund new capacity". It believed that this could turn the duty into a "hypothecated tax used solely for road spending".[110] This would be a significant change from the Treasury's established view that hypothecation "imparts inflexibility in spending decisions and can lead to a misallocation of resources, with reduced value for money for taxpayers".[111] The Campaign for Transport also believed that an approach where the Government's principal objective for Vehicle Excise Duty was that it should raise a minimum level of revenue could potentially compromise the ability to use it to deliver any environmental objectives.[112]

34. In the meantime, in the current economic climate, the high price of oil might itself act as an incentive to drive less (and thereby produce less CO_2). We reported in 2011 that there was then evidence that high oil prices had led to a modal shift to trains and that drivers were cutting their journeys.[113] Oil prices have fallen recently from a high in April 2012, in large part down to deteriorating Eurozone economic prospects and the knock on impact on the world economy.[114] The UK has the eighth highest petrol price in Europe and second highest diesel price—59% and 57% of the price of petrol and diesel respectively is taken as tax.[115] The average prices of petrol and diesel are still close to their record highs.[116] Recent statistics from DECC indicate that nearly half a billion fewer litres of petrol and diesel were sold between April and June 2012 than during the same period last year.[117]

35. There have been efforts to increase the transparency of the constituent parts that make up the price of vehicle fuel and motor taxation. A Private Members' Bill currently before Parliament provides for receipts for vehicle fuel to show separately the amount of Fuel Duty paid and the amount of that duty to be spent on road building.[118] In September the Office of Fair Trading launched a review into whether reductions in the oil price are being passed onto motorists and will report in January 2013.[119]

36. In a separate inquiry on *Transport and the accessibility of public services* we have received evidence that in the absence of an adequate public transport system and

110 Ev w27

111 Environmental Audit Committee, Sixth Special Report of Session 2010–12, *Government Response to the Committee's Sixth Report of Session 2010–12*, HC 1527 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/1527/1527.pdf).

112 Ev w27

113 *Budget 2011 and environmental taxes, op cit*.

114 Commons Library standard note, *Petrol and Diesel prices*, 2 October 2012 (www.parliament.uk/briefing-papers/SN04712).

115 AA, *Fuel Report,* October 2012 (www.theaa.com/resources/Documents/pdf/motoring-advice/fuel-reports/october2012.pdf).

116 Average UK price for a litre of petrol and diesel in October 2012 were £1.39 and £1.42 respectively. The record highest average price for petrol and diesel were £1.43 and £1.48 respectively. The AA reports the average price of oil during October 2012 was $113 per barrel [*Fuel Report, op cit*].

117 DECC, *Energy trends*, September 2012 (www.decc.gov.uk/en/content/cms/statistics/publications/trends/trends.aspx); "Spring petrol sales decline despite lower forecourt prices", BBC news online, 3 October 2012 (www.bbc.co.uk/news/business-19810276).

118 Vehicle Fuel Receipts (Transparency of Taxation Bill) 2012-13 (http://services.parliament.uk/bills/2012-13/vehiclefuelreceiptstransparencyoftaxation.html); HC Deb, 16 October 2012, Col 181 (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121016/debtext/121016-0001.htm#12101642002733).

119 Office of Fair Trading press notice, "OFT issues call for information into petrol and diesel prices", 5 September 2012 (www.oft.gov.uk/news-and-updates/press/2012/76-12).

appropriately designed public services, high fuel prices can reduce accessibility to public services for certain groups.[120] A 'significant proportion' of people living on low incomes in the UK are finding it increasingly necessary to own and drive cars just to maintain a basic lifestyle.[121] Research by the AA indicates that many families are spending more on fuel than on their weekly food shopping.[122] Some families outside London which could previously have relied on having minimum transport needs met by bus services can no longer do so, making a car "a necessity". According to the Joseph Rowntree Foundation, this increased by £5,300 the income a family would need to earn in a year to be able to afford a "minimum, socially acceptable standard of living".[123]

37. **The Government's decision to not count Fuel Duty and Vehicle Excise Duty as environmental taxes is short-sighted and reduces the policy imperative to tackle the significant social and environmental costs to society from motoring. And in the longer term, falling receipts from these taxes due to continuing fuel efficiency would challenge the future efficacy of these taxes. The Government should use the Autumn Statement as an opportunity to set out its longer term ambitions for these taxes and how motoring taxes might be reformed more generally.**

38. **The receipts from motoring taxes could be hypothecated to fund new transport provision. But new roads would be the wrong way to go. Instead, greater investment in public transport is needed and would benefit from a dedicated revenue stream. To demonstrate that it has embedded the principles of sustainable development, and to better illustrate the trade-offs reached, the Government should set out the relative social and environmental benefits of investment in the road network compared with similar investment in public transport.**

Increasing the proportion of environmental taxes

39. In 2009, the Green Fiscal Commission advocated a 'shift' to environmental taxation—reducing taxes on the things that are valued by society (jobs, incomes and profits) and funding the lost revenue by increasing taxes on things that damage society (pollution and environmental damage). The Commission found that such a change could help the UK meet its 2020 climate change targets with little cost to the economy overall and with an increase in employment. It identified two main 'political' obstacles to a significant environmental tax shift—its perceived effects on, first, the international competitiveness of some vulnerable business sectors (energy intensive industries) and, second, poorer households who pay proportionally the greatest percentage of their income on energy.[124]

120 Environmental Audit Committee website (www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/inquiries/parliament-2010/transport-and-the-accessibility-of-public-services-/)

121 Evidence from Transport Studies Unit, University of Oxford (www.publications.parliament.uk/pa/cm201213/cmselect/cmenvaud/writev/570/contents.htm)

122 "Families spending more on petrol than food", The Telegraph, 19 April 2012 (http://uk.finance.yahoo.com/news/families-spending-more-petrol-food-231606036.html).

123 Joseph Rowntree Foundation, *A minimum income standard for the UK in 2012*, July 2012 (www.jrf.org.uk/publications/MIS-2012).

124 Environmental Audit Committee, Sixth Report of Session 2010–12*, Budget 2011 and environmental taxes*, HC 878, paragraphs 5, 6 & 7 (www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/878/878.pdf).

40. The current Government has committed to increase the proportion of tax revenue accounted for by environmental taxes in the Coalition Agreement.[125] In our July 2011 report, we recommended that in order to aid transparency the Government should publish statistics to enable this commitment to be measured using both its, and the ONS's, definitions.[126] Disappointingly, the Treasury is still to implement this recommendation and so we have ourselves prepared such a comparison using tax projections from Budget 2012 and the Office for Budget Responsibility (Figure 1). That clearly shows that on the ONS definition the proportion of environmental taxes is set to fall, rather than increase, over the Spending Review period.

Figure 1: Forecast portion of environmental taxes, using both the ONS's and Treasury's definitions of an environmental tax.

	2010/11 (£ bn)	*2011/12 (£ bn)*	*2012/13 (£ bn)*	*2013/14 (£ bn)*	*2014/15 (£ bn)*	*2015/16 (£ bn)*
Total Revenue from Environmental Taxes - Treasury definition	2.5	3.1	3.5	5.1	6.1	6.6
Total Tax Forecast Receipts	550.8	570.4	591.5	622.5	658.4	692.0
Proportion of total tax receipts - ***Treasury definition***[127]	0.5%	0.5%	0.6%	0.8%	0.9%	1.0%
Total Revenue from Environmental Taxes - ONS definition	43.4	43.5	44.5	45.7	47.5	49.5
Proportion of total tax receipts - ***ONS definition***[128]	7.9%	7.6%	7.5%	7.3%	7.2%	7.2%

Source: Committee analysis of Written Ministerial Statement on environmental taxes/Environmental Accounts 2012.

41. Friends of the Earth told us that because the six taxes caught by the Government's definition were "going to rise anyway" there was no "strategic change of focus" needed by the Treasury to meet its commitment. They also noted that the Treasury will be in the "surreal position" of being able more readily to meet its environmental tax commitment by actually lowering Fuel Duty, Vehicle Excise Duty or Air Passenger Duty.[129] David Powell from Friends of the Earth believed the Government was not meeting the spirit of the

125 HM Government, *The Coalition: our programme for government*, May 2010, page 31 (www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_187876.pdf).

126 *Budget 2011 and environmental taxes, op cit*.

127 Treasury definition includes: Climate Change Levy, Aggregates Levy, Landfill Tax, EU Emissions Trading System, Carbon Reduction Commitment Energy Efficiency Scheme and Carbon Price Support [HC Deb, 16 July 2012, Col 95WS (www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120716/wmstext/120716m0001.htm)].

128 ONS definition includes: Fuel Duty, VAT on fuel duty, Renewable energy obligations, Climate Change Levy, Vehicle Excise duty, Air Passenger Duty, Landfill tax, Aggregates Levy [Office for National Statistics, *Government revenues from environmental taxes*, November 2011].

129 Ev 27

commitment in the Coalition Agreement to take a strategic look at environmental taxes across the board, but was essentially "redefining the problem away".[130]

42. A number of ideas for new environmental taxes were suggested to us that could be used by the Treasury to increase the proportion of environmental taxes. An *incinerator tax* was favoured by some, which would embed the 'polluter pays' principle into the cost of waste disposal and encourage the reduction or recycling of waste materials. It would also meet the Government's definition of an environmental tax.[131] The Campaign to Protect Rural England suggested a *charge on single-use carrier bags* in England,[132] primarily to reduce litter and cut environmental damage. The number of carrier bags issued had increased in 2011 in spite of voluntary initiatives. In Wales, a 5p charge had reportedly led to a fall in single-use bags issued of 70-96%.[133] On a broader sustainable development theme, Sustain advocated a *sugary drinks duty* or revisions to the VAT system so that it related to the healthiness of foods, to help nudge consumers to buy more healthy and less unsustainable foods.[134]

43. **We repeat our July 2011 recommendation that to build greater stakeholder confidence, the Treasury should publish progress yearly against the Coalition Agreement commitment to increase the proportion of environmental taxes using both its definition and that of the Office for National Statistics.**

130 Q 100

131 Ev w1, Ev w8; Q 95

132 A charge is to be introduced in Northern Ireland in 2013 and the Scottish Government is consulting on the introduction of a charge.

133 Ev w40

134 Ev w18

Conclusions and recommendations

Autumn Statement 2012

1. **Autumn Statement 2012 provides the Treasury with an opportunity to help secure the 'step change' in the pace of emissions reductions repeatedly called for the by the Committee on Climate Change. The Chancellor must reflect on his comments that present the 'environment' in opposition to the 'economy'. They are wrong and counterproductive. Mixed messages from the Government on energy policy are undermining investor confidence in the green economy. A clearer route is needed, helping to rebuild investor confidence in the energy sector, which allows proper scrutiny to begin on definitive plans for our energy mix which move beyond the so far apparently illustrative and permissive nature of the energy 'pathways'. Such greater certainty would be signalled by the introduction of a carbon intensity target in the forthcoming Energy Bill.** (Paragraph 10)

2. **We support the Rio+20 commitment to eliminate environmentally harmful subsidies, and call on the Government to set out how it will implement this agenda in the UK. In the Autumn Statement, the Chancellor should set out a timetabled programme for eliminating such subsides, and explain why North Sea tax allowances announced during 2012 should not be regarded as subsidies.** (Paragraph 13)

3. **In the Autumn Statement the Treasury should clearly identify whether liabilities arising from the 'guarantees scheme' will lie on the public sector balance sheet and, if so, it should explain why the Green Investment Bank is not also immediately being allowed to raise its own funds.** (Paragraph 17)

4. **The Autumn Statement should signal the Treasury's commitment to DECC's Energy Efficiency Strategy, reflecting the macro-economic and fuel-poverty benefits that this would bring. It should set out the costs of the measures in the Strategy and identify the extent to which these will have to be met from within DECC's existing budgets. Investing some of the revenues from carbon taxes to reduce energy use could help to make real progress in this crucial area.** (Paragraph 23)

Environmental tax follow-up

5. **We are disappointed by the slow speed at which the Government has addressed the tax definition recommendations in our report on environmental taxes.** (Paragraph 25)

6. **The Government's decision to not count Fuel Duty and Vehicle Excise Duty as environmental taxes is short-sighted and reduces the policy imperative to tackle the significant social and environmental costs to society from motoring. And in the longer term, falling receipts from these taxes due to continuing fuel efficiency would challenge the future efficacy of these taxes. The Government should use the Autumn Statement as an opportunity to set out its longer term ambitions for these taxes and how motoring taxes might be reformed more generally.** (Paragraph 37)

7. The receipts from motoring taxes could be hypothecated to fund new transport provision. But new roads would be the wrong way to go. Instead, greater investment in public transport is needed and would benefit from a dedicated revenue stream. To demonstrate that it has embedded the principles of sustainable development, and to better illustrate the trade-offs reached, the Government should set out the relative social and environmental benefits of investment in the road network compared with similar investment in public transport. (Paragraph 38)

8. We repeat our July 2011 recommendation that to build greater stakeholder confidence, the Treasury should publish progress yearly against the Coalition Agreement commitment to increase the proportion of environmental taxes using both its definition and that of the Office for National Statistics. (Paragraph 43)

Formal Minutes

Tuesday 13 November 2012

Members present:

Joan Walley, in the Chair

Peter Aldous
Neil Carmichael
Zac Goldsmith
Mark Lazarowicz
Caroline Lucas
Caroline Nokes
Dr Alan Whitehead

* * *

The following declarations of interest relating to the inquiry were made:

27 April 2011

Peter Aldous declared an interest as a member of the Aldersgate Group.

Draft Report (*Autumn Statement 2012: environmental issues*), proposed by the Chair, brought up and read.

Ordered, That the Draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 43 read and agreed to.

Summary agreed to.

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

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, in addition to that ordered to be reported for publishing on 16 May, and 24 and 31 October 2012.

* * *

[Adjourned till 21 November at 2.00 p.m.

Witnesses

List of printed written evidence

List of additional written evidence

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

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012–13

First Report	The St Martin-in-the-Fields seminar on the Rio+20 agenda	HC 75
Second Report	Protecting the Arctic	HC 171
Third Report	Wildlife Crime	HC 140

Session 2010–12

First Report	Embedding sustainable development across Government, after the Secretary of State's announcement on the future of the Sustainable Development Commission	HC 504 (HC 877)
Second Report	The Green Investment Bank	HC 505 (HC 1437)
Third Report	Sustainable Development in the Localism Bill	HC 799 (HC 1481)
Fourth Report	Embedding sustainable development: the Government's response	HC 877
Fifth Report	The impact of UK overseas aid on environmental protection and climate change adaptation and mitigation	HC 710 (HC 1500)
Sixth Report	Budget 2011 and environmental taxes	HC 878 (HC 1527)
Seventh Report	Carbon Budgets	HC 1080 (HC 1720)
Eighth Report	Preparations for the Rio +20 Summit	HC 1026 (HC 1737)
Ninth Report	Air Quality a follow up Report	HC 1024 (HC 1820)
Tenth Report	Solar Power Feed-in Tariffs (Joint with the Energy and Climate Change Committee)	HC 1605 (HC 1858)
Eleventh Report	Sustainable Food	HC 879 (HC 567)
Twelfth Report	A Green Economy	HC 1025 (HC 568)

Oral evidence

Taken before the Environmental Audit Committee

on Wednesday 25 April 2012

Members present:

Joan Walley (Chair)

Peter Aldous	Mr Mark Spencer
Mark Lazarowicz	Paul Uppal
Caroline Lucas	Dr Alan Whitehead
Sheryll Murray	Simon Wright
Caroline Nokes	

Examination of Witnesses

Witnesses: **Miss Chloe Smith MP**, Economic Secretary, **Jonathan Mills**, Deputy Director, Energy, Environment & Agriculture, and **Helen Dickinson**, Deputy Director, Environment & Transport Tax, HM Treasury, gave evidence.

Q1 Chair: Welcome to this afternoon's session. Minister, I think it is the third time now that you have been before this Committee, so welcome back. I think it is fair to say that we were quite keen to have the Chancellor at some stage, because we did want to have some kind of understanding of the Treasury's role in the whole greenest Government ever business. Nonetheless, we have a serious of quite detailed questions, so we very much look forward to the session and having some feel of the answers that will inform our future work on the Budget in the run-up to the next comprehensive spending review, but also that will inform our Green Economy work, which we are still finalising at the moment. We have those two particular inquiries in mind.

I would like to start off with a detailed question on the carbon reduction commitment. The Treasury said that it is committed to reforming it. In a way, we would like to know what its future role is going to be. Is it going to be scrapped by the autumn? In the work that we have done, it has been very clear to us that this is a green, environmental tax. It is one where DECC has some responsibility. What we would really like to know is what the Treasury's objective and intentions are regarding the CRC, and how that marries with it being an environmental tax. We would really appreciate your comments on that, please.

Miss Smith: Certainly, and may I say again it is a pleasure to be here with you, as you say, for the third time?. Chancellor or not, I hope to be able to answer your questions. Just by way of preamble, may I note that I think what you saw in Budget 2012 was a Government that continues to be committed to its green agenda, being the greenest Government ever, increasing the proportion of revenue from environmental taxes, which no doubt we might come on to? Budget 2012 also picked up much that was laid out in previous years and showed progress. We can go through, no doubt, various areas of that.

The starting point you have picked is very interesting because it also underlines one of the main things we were endeavouring to do in Budget 2012, as we have always had to do, which is to find ways to better support business. The CRC is an example, as you rightly say, of a tax that we are looking at consulting upon, but in the spirit of finding ways to reduce burdens on business.

Q2 Chair: In terms of fighting burdens on business, how do you resolve from the sustainable development perspective, where there are perhaps tensions between different Departments, so that we end up with what is right by way of an environmental tax, but which at the same time gives long-term certainty for investments as far as business is concerned?

Miss Smith: If I may, I will try to answer all of those points in my comments, and we will probe on more, I am sure. At the broadest level, if I try to take first the points about how Treasury and other parts of Government work together, that is possibly there in your questions as well. This is a prime example of where the Treasury and DECC are working together. DECC, as you will know, is leading on consulting with simplifying CRC. The Chancellor emphasised many of those messages in the Budget about the need to reduce the administrative burdens on business. Rightly, you point to there being a desire across Government to achieve many things at once, and that is always the challenge of government, so we need to have regard to business at the same time as having regard to our green commitments. That is absolutely the challenge in front of us.

You asked about intentions specifically with relation to the CRC. We are looking to see if administrative burdens can be reduced on business through it. Should significant administrative savings not be deliverable, then the Government will bring forward proposals in the autumn to replace CRC revenues with an alternative environmental tax. The point that I would press to you is that we are engaging with business before then to identify potential options.

Q3 Chair: How do you give a value to the environmental gains that there would be from that, and the business costs?

Miss Smith: As I say, first of all, we are talking to business. That is a piece of that jigsaw. That is a very important piece, because for much of CRC—

admittedly, the public sector is on the list as well and you will appreciate that—those large organisations are those that have to carry it out, conduct it, make it happen. That means you do need to talk to them about how they think some of it can be done.

Q4 Chair: It has taken two years, hasn't it, from the original talks in 2010 to what the new CRC would actually look like? We are two years down the road now and there is still no degree of certainty about what shape it will be, what it will look like in terms of looking to the future. Are you frustrated by the amount of time that it has taken to sort it out?

Miss Smith: In a sense, no, because good policy does take time to develop. I am happy with the position that we are talking to those who have to play a role in making the tax happen. I do think that is the right thing to do.

You also asked about how you could make it sustainable, if you like, alongside businesses, and how you could have regard to other objectives in that review. In brief, there are ways the Government always endeavours to do that, such as through some of the guidance in the Green Book. Much decision-making across Government does have regard to environmental objectives, and this Committee and others have gone into that in some detail. That is a way in which it may be done.

I have not yet introduced the two officials who are here with me, Jonathan Mills and Helen Dickinson. May I just ask you if you have anything you would add on how those objectives are balanced within that?

Q5 Chair: You don't wish to add anything?

In terms of the frustration about the amount of time it is taking to get the CRC future shape determined, can I just turn to something slightly different, in respect of the mandatory reporting of greenhouse gases? Again, that is something whereby it was a commitment that was clearly set out in the Climate Change Act. Certainly, people who I have spoken to had rather hoped that there would have been a decision by now as to whether or not the Government was going to put that into effect. Again, it seems to be becoming a bit of a key issue, because we had the announcement just a couple of weeks ago or so that the decision on whether or not to do it or how to do it has been deferred still further. Could you perhaps shed light on that for us?

Miss Smith: In brief, I would say that the process of gathering evidence and again trying to get it right does take some time. The Government is currently considering the analysis of responses to a consultation on that point.

Q6 Chair: But what was the Treasury's view on it?

Miss Smith: If you will excuse me, the Government is working on it. We are, after all, a Cabinet Government.

Q7 Chair: Sorry to interrupt. What we are trying to get to the bottom of in this Committee is where there are different perspectives from business and different Government Departments, whether or not the Treasury has a view as to how you would like it to be. Then that view might go and be sorted out in a Cabinet meeting or in the Regulatory Policy Committee, but what is the Treasury's view on how this can be put into effect, because it was part of the Climate Change Act?

Miss Smith: I appreciate that is what you are trying to get to the bottom of. There are indeed always a wide range of views on the way things should be done from what you might term "stakeholders". As I say, this particular piece of policy is subject to Government work and the Government in all of its parts works together to do it.

Q8 Chair: So you don't have a view on what it should be, on whether or not it should be accepted at this stage from the Treasury?

Miss Smith: I don' have one to articulate to this Committee.

Q9 Chair: Have officials been putting a view to BIS and to other Government departments as to what that view should be?

Jonathan Mills: As the Minister has said, we are at a stage of wanting to understand the evidence and evaluate the consultation responses. We have been involved in trying to understand that evidence base with the lead Departments, as we would do on any policy area.

Q10 Caroline Nokes: I wanted to have a bit of a focus—and this might sound counter-intuitive—on the energy-intensive industries and those businesses that are looking for some level of certainty both from the Treasury and DECC going forward as to policy, and a specific question as to the impact assessments that are required for any new regulations and the need for them to be signed off by the Regulatory Policy Committee. Specifically, with reference to mandatory carbon reporting, has that yet been signed off?

Miss Smith: My understanding on the mandatory greenhouse reporting evidence base, as opposed to some of the energy-intensive industries—sorry, forgive me. I think there are two parts to your question, if I am not wrong. There is a bit about energy-intensives and there is a bit about mandatory reporting, unless I am confusing what you are asking. On the mandatory reporting question, the policy, as you will know, is led by Defra. In fact, as Jonathan referred to, there are lead Departments on these things. I think it would be best if detailed questions went to them on that. I am not the lead Minister in that instance.

Q11 Caroline Nokes: Specifically going back to energy-intensive industries, I think the frustration that has been raised by some of Britain's biggest ceramic industries is the lack of certainty from Government and the delay that they feel is ongoing. Specifically, you said you were talking to businesses and engaging with businesses. Do you feel that we are at a point now where they want a decision and some certainty going forward so they know whether to invest or not, or are you happy that we have this ongoing limbo for some of our big manufacturers?

Miss Smith: I suppose that is a very broad question that goes beyond the mandatory reporting point and goes to probably many other taxes or regulations as well. I would say that discussions and understanding of business should continue at all times. I must say that. I think Budget 2012 particularly sought to be business-friendly and I am sure that is a theme we can return to across questions. Therefore, I would say we, in the Treasury, and all Ministers need to continuously have regard to that in order to keep the economy moving.

For energy-intensive industries in particular—you mentioned the ceramics industry—a lot of work has gone into a package especially for them, which I think you will be aware of from the autumn statement, which I do hope is helpful and sets out some certainty for businesses. Predictability and information that assists in investing is absolutely a priority of this Government for business.

Q12 Caroline Nokes: You mentioned the special status in the autumn statement. How would you respond to the allegation from industry that they are still waiting for more detail?

Miss Smith: I would be happy to help them get that if there was a particular thing they have in mind, I think I had best say.

Q13 Caroline Nokes: Okay, a final question: how is the delay in the decision on mandatory carbon reporting linked to wanting to avoid duplication with CRC reporting, and are you looking at that reporting overlap?

Miss Smith: I am confident that the lead Department would absolutely be doing that. I think you draw out an important point about a lot of the policies, whether it be taxes, regulations, or others in the environmental area, there can be perceived to be various parts where they adjoin, abut, overlap and work together. I do think it is important to aim for simplification, particularly across tax. That is certainly something this Government has set out, not only in the environmental arena.

Q14 Chair: I hope you will forgive me for this, but as someone representing also a ceramics constituency, I think it would be remiss of me if I did not just refer back to Caroline Nokes' question and say that one of the concerns that parts of the industry have is that the autumn statement was very much about high electricity users of energy. One of the issues in the ceramics sector is about gas users. Therefore, it might mean that there might be a more detailed discussion that is required to look at the overall issues affecting that sector.

Can I just refer again to this issue about the reporting of the greenhouse gases arising from the Climate Change Act? It might be that your officials might be able to help me here, Minister.

Miss Smith: They are very pleased to.

Chair: In terms of the Regulatory Policy Committee, is it the case that the Treasury has signed this off? I understand there is a set of traffic lights that proposals are either detailed as red, amber or green. I wonder if you can just confirm what the status is of getting the greenhouse gas reporting signed off in terms of the Regulatory Committee.

Miss Smith: I can in very general detail.

Q15 Chair: Specifically, I asked the status of whether it is red, amber or green.

Miss Smith: I am afraid that is not the kind of answer we are able to give you. Yes, the Committee does use that method of decision-making, but I don't think it is appropriate to say what a given Department thinks within that, because it is after all a committee of Government that comes together to discuss such things. Jonathan, would you? Indeed, for what it is worth, this committee is led by BIS.

Q16 Chair: I do find it quite incredible that we are waiting to have some idea as to how the greenhouse gas reporting is going to be incorporated into policy. As I understand it, it has been to the Regulatory Committee twice now and twice been knocked back, but I understand that there is an option that it is fit for purpose. I think we are quite entitled to know which Department it is that deems it is not fit for purpose, or are you saying you cannot tell us that?

Miss Smith: I think you might wish to direct that to a different Minister.

Q17 Chair: Okay, but as far as the Treasury is concerned, can you just help us? Is it the case for the Treasury that you would deem it at least if not green, then amber and fit for purpose?

Miss Smith: That is what is not possible to answer for you, because first the Treasury is not the lead Department on the policy, and second, if you were to ask a non-lead Department for something, I am afraid I cannot do that for you, because it is a collective process of Government.

Q18 Chair: All right, so who could we ask?

Miss Smith: Defra.

Q19 Paul Uppal: Minister, in your previous statement, you were talking about Budget 2012 being very pro-business, very friendly towards business. The feedback from some environmental groups has not really been that enthusiastic. I was interested specifically, as Minister with responsibility for environmental matters, in your input into Budget 2012, your involvement and your role specifically.

Miss Smith: A factual answer to that can be found in my portfolio, which is relevant for today. It covers environmental taxation. Perhaps of less interest to this Committee are the other things I cover, which include welfare, tax credits, charity, excise, and a number of things that I am sure are not of interest to this Committee.

Q20 Paul Uppal: Specifically, can you tell us some more about your involvement with the whole machinations and mechanics of Budget 2012?

Miss Smith: By all means.

Paul Uppal: From an environmental perspective.

Miss Smith: As a junior Minister, it is my role to take decisions that feed into the Budget. I beg your pardon, for the sake of clarity, I missed transport taxation. The two that would be of interest here would be environment and transport taxation.

Q21 Paul Uppal: As a second part of the question, there was not much of an announcement about driving the green economy, but we did hear quite a bit about initiatives in the North Sea. Your perspective on Defra's and DECC's input and what they wanted to see specifically in the Budget, was there anything as a sort of feed-in from that perspective? What would they specifically want to see in Budget 2012?
Miss Smith: Is that with reference to North Sea oil and gas?
Paul Uppal: Yes, specifically.
Miss Smith: There has been a particularly interesting piece of work that has gone on, which I am confident you will be aware of, to look at how we can facilitate production, the right production for the UK from our oil and gas in the UK Continental Shelf. That has been, I would say, a particularly good example of joint working with, in that case, DECC. Charles Hendry and I have jointly run a series of meetings with industry that have brought about, I would say, a good understanding of what the industry seeks. I do think that particular piece of package announced in Budget 2012 is a particularly positive example of where we hope to see significant investment back into British business.

Q22 Mr Spencer: To go back to the actual process, could you give us an idea of the timescale we are talking about? How long before Budget day do the discussions start and, as a junior Minister, do you have a power of veto to say, "Oh my goodness, you cannot possibly do that because of the impact on this green industry"?
Miss Smith: On the timetabling point, to be honest, work proceeds year round. Clearly, you have March in your mind. Clearly, both Government and—as I say that awful word—stakeholders know that the Budget is when the Budget is. There is also the autumn statement in 2011 to have regard to.
On how much time an individual Minister might spend on particular things, it will vary of course piece to piece. Obviously, we endeavour to do things in a timely way.

Q23 Mr Spencer: Can I carry on, Chair? Is that all right? Just turning to North Sea oil, clearly the revenues from North Sea oil are really important to the Exchequer.
Miss Smith: Yes.
Mr Spencer: At the same time, your responsibilities towards the green economy and general green issues are very important. I wondered how you grapple with that sort of paradox, that dilemma between the two.
Miss Smith: I suspect, when I began to reel off my list of responsibilities, you get a sense of the balances that have to take place within any portfolio, within any role. If any of us were to argue that we should make Government larger, you might often find that you have one Minister carrying several subject areas at once in that kind of sense.
By way of trying to bring some of these pieces together, the Government's overall ambition for the tax system is to make it more competitive, to make it simpler, as I have been referring to, to make it fairer and to make it greener. I am sure we will go into that latter one in more detail. We have various tools at our disposal, if you like, to try to achieve that. As I say, we had a package of measures announced at Budget 2012 to contribute to the Government's objective of maximising what we can produce from the UK Continental Shelf. I think that is widely recognised as a benefit to the UK economy. On that note, while we are on the topic, I think it is very important that we support British business to be there doing that. I would far rather see investment come to the UK than to go to, for example, Norway. I would far rather see British firms conducting the work, so that we have skills and work and investment within the supply chain in Britain. I am also very strongly of the view that we have very high standards in our UK oil and gas industry, and I think those need to be upheld there as well.
In fact, that last point takes you on to how you start to balance some of these things. Clearly, I am not going to sit here and here and say it is unenvironmental to have an oil and gas industry. It is not. It is an industry we need. It is an industry we value. It is an industry we should seek to support in the most environmentally helpful way possible.

Q24 Mr Spencer: If you extend that argument, I suppose the argument then from the Treasury is, "If we don't do it, somebody else will." It almost knocks the whole of the green agenda out of the way, really, because you could make the argument that whatever we do in the UK, the Chinese and Indians are moving forward at such a rapid rate that we should not make any effort. Am I understanding the argument?
Miss Smith: Sadly, a lot of that is true, in the sense that we live in a global economy. Of course we do. Clearly, China and India have ambitions for their own economies and capital moves around the world. It would be entirely possible, I am sure, for investment to come from those countries into the UK Continental Shelf. While I make no comment on where investment should come from, I want to see the benefit come back to Britain of our industry there, as I say, not only through maximising the hydrocarbons out of it, but clearly in terms of skills and revenue, also as you have noted in your question.

Q25 Mr Spencer: To be positive about it, let us go through the measures within the Budget that were of benefit to the green economy. Could you give us a quick résumé of what you felt was in there that did support the green economy?
Miss Smith: Certainly, I think to start with, as I mentioned in my brief opening remarks, what you saw in Budget 2012 was consolidation of a number of the things we have had previously. I would point first of all to the Green Investment Bank's Pathfinder, which has now opened for business, which I think is very positive. Secondly, I would point to the carbon price floor, first announced in Budget 2011. Then in Budget 2012, we came forward with figures around it, namely setting the price support rate for 2014–15 at £9.55 per tonne of CO_2.

Then flowing from that headline kind of measure, you then see implementation detail coming forward at Budget 2012. Also, you saw other areas then raised at Budget 2012, which I hope will do service to the green agenda by bringing it into a reasonable debate. I would frame our discussion of CRC in that light. I would say it is far better to have the CRC discussed openly and to ask how we can make this perform best, meeting all the objectives we might set for it, than to not do that, than to ignore it and to see it perhaps disliked by stakeholders.

Q26 Mr Spencer: Finally, the Chancellor said in his Budget that gas is cheap and will be the largest source of electricity in the coming years. He also said that environmentally sustainable has to be fiscally sustainable as well. I wondered, in practical terms, how such considerations drive Government's policy. What has DECC said about that as well? Did DECC feed into that process?

Miss Smith: As I say, on the cross-governmental discussion, such discussions take place, as you know, at all times and in all sorts of ways. Clearly, the Chancellor is the one who stands up to deliver the Budget speech, so clearly they are his words.

The important point is that which the Chancellor made. We cannot do an effective job of meeting our environmental aspirations if we do not have regard to our economy at the same time. We simply would not be in a position to succeed. We need to be fiscally sustainable in order to be environmentally sustainable. As I was just arguing there about CRC, it is really important to help people, in our case businesses or organisations, to meet their environmental responsibilities. The need for fiscal sustainability feeds into that. If people are significantly struggling under debt, whether that be at a household level, or indeed country level, they may well struggle with the notion of spending more, or being asked, or maybe perceived to be being asked, to spend more in an environmental way. We have to find a way to encourage people to do so, and we have to of course keep our country's economy on track while doing so.

Q27 Caroline Lucas: I come in off the back of that just to observe that your list of the things that you thought made this a greener Budget was not a very long list. On the counterside of it, you have the comments from many green NGOs and many others talking about the road-building, the airport expansion, the subsidies for deep-sea drilling, and the list goes on. Even on your positive side, when it comes to the Green Investment Bank, it is still not punching with the weight that many of us would have liked. The carbon floor price is arguably undermined by the EPS announcement on gas. Could you be a bit candid and say that at this particular time Budget 2012 was not as green as it might have been, because the kind of commentary we have seen from the green groups is absolutely scathing of this greenness of this Budget? Are they just wrong?

Miss Smith: They have said what they have said. I would be delighted to provide some rival quotations, which of course I come equipped with. The point is, as I said in my earlier comments, Budget 2012 built upon many of the green—"green" in inverted commas, if you like—proposals put forward in previous years. I say "green in inverted commas" because I don't think there is ever such a thing as a purely green policy. I must say that. In Government, as I began by saying, we have to often try to achieve many things at once across a range of policy areas, so I don't think there is ever such a thing as a green area of the economy. Things naturally have to come together.

Q28 Caroline Lucas: One of the frustrations of those of us who would have liked to have seen the Budget do more for a green economy is that, in fact, investing in the green economy is one of the most labour intensive things you could do, and therefore would create lots of jobs, and be good for the economy. This of course is absolutely counter to the kind of rhetoric we have had from George Osborne along the lines of saying that somehow the green economy is a brake on growth and development in this country. That is the frustration, and I wonder if you would comment on that.

Miss Smith: I will, and I shall use the words of the Prime Minister, in fact, who at the Clean Energy Summit is drawing attention to announcements of £4.7 billion of investment in UK renewables, supporting 15,000 new jobs in the last year alone. That is significant. Clearly, that is the kind of thing we all want to see. It is testament to the excitement that there is in many of these new sectors. We have discussed in other meetings of this Committee and elsewhere about what the green economy is. Can there be such a thing that is separately known as the "green economy" separate to the rest of the economy? My view is that there is not such a separate thing. We have to make the whole of the economy greener.

Caroline Lucas: I agree with you there, but you have to look at doing it.

Miss Smith: I suspect that that is something we would all agree with.

Q29 Dr Whitehead: How are you getting on with your work on a definition of a green tax?

Miss Smith: I knew you would ask me that, Mr Whitehead. I particularly wanted to confirm to the Committee that the work is proceeding. I am not in a position today to complete the announcement, so although you may wish to ask me that, I had best give you the short answer upfront, because the work is still proceeding. As I have laid out in an answer to your previous question, I do think it is important to get the work right, and so to take time over it. I know that my predecessor outlined to you last year the broad principles that we would like to see the definition based upon, which is namely that the tax should be explicitly linked to the Government's environmental objectives and that its primary objective is to encourage environmentally positive behaviour and that the tax is structured in relation to environmental objectives, for example around polluting behaviour. Work absolutely proceeds using those principles as a bedrock, and I hope that assists the Committee.

Q30 Dr Whitehead: Last November, I think you answered one or two questions saying the Government was finalising its work. Is proceeding a step back from finalising?
Miss Smith: No, no, there is no cigarette paper there.

Q31 Dr Whitehead: So you are finalising and proceeding—you are proceeding to finalise. Is that fair to say?
Miss Smith: We are doing the work—words of fewer syllables.

Q32 Dr Whitehead: And in proceeding to finalise, are you talking to other Departments that would have an interest in this, such as DECC and Defra on what they think about the definition?
Miss Smith: Of course, in short, yes. Again, this kind of area would naturally be discussed between Government Departments, although because it rests on taxation, clearly the Treasury would be in the lead.

Q33 Dr Whitehead: Do they support your predecessor's view that green taxes might exclude fuel and aviation taxes?
Miss Smith: As I said, we are in the process of the work—we are in the process of finalising the work. The point is those principles are strongly agreed. As the Committee will be well aware, there is legitimate debate over what might be in such a list. There is no getting away from that fact. The ONS uses one list. The OECD has a different one. EuroStat has an approach. All give rise to slightly different items being on that list. There is indeed a range of opinion. As I have referred to in answer to your other questions, this is a piece of work that the Government is doing, and we should be able to announce the results.

Q34 Dr Whitehead: When the Chancellor announced in the Budget that he was proposing a simplified CRC that has been discussed, which is not at present within the extant definition of the green tax as put forward by ONS, if no resolution was reached on how that could best be simplified, that could be replaced by a different environmental tax.
Miss Smith: Indeed, he did announce that, yes.
Dr Whitehead: How could he have said that when he does not know what the environmental tax is going to be?
Miss Smith: I think the two pieces of work proceed, as I say.

Q35 Dr Whitehead: When the new definition of green tax is finalised, will the possible new definition of environmental tax that might take over from CRC, which is not an environmental tax, be an environmental tax according to the new definition, or maybe not?
Miss Smith: I counted four hypotheticals in that sentence, so I would hope so in all cases.

Q36 Dr Whitehead: Is the answer yes?
Miss Smith: No, I am sorry. I am being flippant. I do think there were a number of hypotheticals there. There are two very serious pieces of work there, one on CRC and one on this definition. Clearly, you would seek for there to be read-across between them. Helen, would you like to come in at all on anything that I have noted there about taxation?
Helen Dickinson: I was just going to add to the principles that you described previously for what might now be seen as an environmental tax, and the Carbon Reduction Commitment would fall within that.

Q37 Dr Whitehead: Would it fall within the current ONS definition or the new definition that is being worked on?
Helen Dickinson: The Minister previously set out principles for what might count as an environmental tax, and the Carbon Reduction Commitment would fall within those principles.
Dr Whitehead: You mean the new definition.
Miss Smith: Alan, I think it is hard to refer. We are working towards a definition. The three items I read out to you would be, I would say, principles that sit behind that definition. For clarity, those three principles are not the definition themselves.

Q38 Dr Whitehead: Alongside that, are you working on the issue that this Committee highlighted previously, which is the concern that environmental tax is becoming increasingly complex and difficult to understand? Are you looking at how, for example, green taxes carry out the implied definition of what a green tax is, which is to change behaviour, and presumably in principle to be applied for green purposes?
Miss Smith: I would say that work continuously goes on. It should absolutely be in the aspiration of any policy to be understandable and possible to carry out. I would go back to the discussion we have had about the CRC as a good example there.

Q39 Dr Whitehead: Would the general idea that the green tax is a tax on bads and is allocated for goods be something you support in terms of that review and definition?
Miss Smith: In terms of taxing bads, that is certainly in the principles we spoke about. For example, the third one I mentioned, where you might focus on polluting behaviour, and you would seek for a green tax to be one that is structured in relation to tackling bads, as you say. In terms of allocating towards goods, the principle will remain across British taxation, if you like, that you do not hypothecate every last pound to an explicit objective. Clearly, we need to operate a range of public services from the revenue available, and I do not think there has ever been an explicit allocation all the way down the line.

Q40 Dr Whitehead: That is what the CRC was originally supposed to do though, was it not—reallocate to goods?
Miss Smith: As the Chair said, it has moved on in its time and clearly it is under review now.

Q41 Chair: Can I just follow that up? If in the autumn you do decide to replace the CRC with an environmental tax, is it the Treasury's intentions that

if there were to be a new tax, you would want to have the commitments of the carbon reporting and greenhouse gas reporting in that?
Miss Smith: It is hard to answer that as fully as you would like me to without the work yet being completed, but I would be happy to come back to you as soon as I am able to on that note.

Q42 Chair: The problem we have is that it is all very well and good to have a fait accompli as to what the Treasury position is once it has made that decision. What we are trying to do in this cross-cutting way is to understand how that decision is arrived at, so that it has the opportunity as far as the environmental aspect of it is concerned and the requirements of the Climate Change Act to be as far-reaching as possible. Not knowing any of the thought processes coming out of the Treasury in this process of decision-making is really difficult for us.
Miss Smith: I understand the point you make. Certainly, I understand the point you are making, considering how many Departments your Committee has to work across. I am sure that has taxed you over decades in this Committee. I would dispute slightly the premise perhaps of your point in terms of the CRC work that is going on. I do think it has been laid out relatively clearly why we would be undertaking that piece of work, how we are going to go about it, which I noted at the beginning in terms of discussing with business. It is a matter of public record, for example, the CBI's views on it. That is, no doubt, a contribution that will be made to that process. Equally, the Chancellor has also been clear about how that process will then finish, so I would certainly expect the CRC to be clear in the autumn.

Q43 Chair: It is just really difficult to know, as far as the Treasury is concerned, what are the circles that have to be squared. We do not even know what that reference point is really, and the resistance there appears to be. Is there resistance towards the reporting of greenhouse gas emissions—the disclosure of that?
Miss Smith: I am sorry. As I said in my previous answers on that, in terms of greenhouse gas reporting, that is a Defra lead. I am afraid you would wish to direct your Committee there on that one. In terms of squaring the circle more generally—

Q44 Chair: Do you have a personal view on it, Minister?
Miss Smith: There are many squares and there are many circles in government.
Chair: I know, but do you have a personal view on it? I mean, are you urging your officials, when they are negotiating this on your behalf, to go down a certain route, go for this or go for that? It is just very difficult whether or not the Treasury has any views on it.
Miss Smith: In terms of policies on which other Departments lead, we—

Q45 Chair: No, but the Treasury has input into that decision-making. I am not asking you to tell us what is going to come out of the sausage machine; I am just trying to find out what Treasury view is put into it.
Miss Smith: Indeed.
Chair: You have no view on it?
Miss Smith: I only wish that government wasn't like making sausages, and I am sure all of us do, as elected representatives, wish that, but I am trying to be as clear as I can be on the areas for which I can speak. You will appreciate that I can only speak on my portfolio, and hopefully I have done that for the Committee.
Chair: It just makes it very difficult, and I wonder what the purpose of a Committee session is, if we cannot have any inkling as to what the thought processes are inside the Treasury. Anyway, I think perhaps we will just move on.

Q46 Simon Wright: The Coalition Agreement includes a commitment to increase the proportion of revenue raised from environmental taxes. Why wasn't that commitment referenced in the Budget documents?
Miss Smith: Not for any sinister reason, I don't believe. It absolutely remains part of the Coalition Agreement. There is no dispute about that, and as I said to Alan, it is a piece of work that we are very much proceeding with.

Q47 Simon Wright: But in the meantime, where are we able to look to see the figures showing progress towards that commitment?
Miss Smith: I think with regard to the principles I have set out, and indeed with regard to somebody else's words earlier this morning, extant definitions, of which there are several, I hasten to add, you would of course be able to track various figures which are in the public domain about what a given line item raised year on year.
Simon Wright: So over the last couple of budgets what is the overall effect? What has the change been?
Miss Smith: Against which definition are you asking?
Simon Wright: This is the issue, I suppose, isn't it? We are the sort of middle period where we cannot clearly see how we are supposed to reference what we are measuring, so what definition would you be using as an internal measure at this time to show your own progress towards that Coalition commitment?
Miss Smith: As I say, the work proceeds towards that definition, so I think at this point, it is not possible for me to give you a clear answer in the form you are seeking.

Q48 Simon Wright: So we don't know the answer? All right. Can you say then, while we don't have a definition, how this Budget does deliver progress towards the ambition towards that commitment?
Miss Smith: Certainly, and I think just drawing on the notes of clarity that Helen provided, I have six items I could briefly list that meet the three principles laid out already, which are climate change levy, aggregates levy, landfill tax, the EU ETS, the CRC, which you have now gone over quite some way, and the carbon price support, and in answer to your question, I would particularly pick the carbon price support and say that clearly that Budget 2012 set out the price, at what level. I have already quoted that. I am happy to go over that again, but that is a very clear example where

specifically Budget 2012 moved on and provided very helpful, I think, updates on something was announced at Budget 2011, something that is really very important policy for the Government. We are very, very proud of the carbon price law. It puts us out as quite a leader, I think, in Europe to be able to say that we are doing that, and it is something which we—and I do hope the Committee—can be very proud as a strong environment signal within a policy.

Q49 Simon Wright: Could I also ask a point of process? In the run-up to the Budget, what roles do you play with other Departments in supporting and encouraging them to bring forward environmental tax proposals of their own?
Miss Smith: As I answered to Mark, clearly as a Minister I have a range of portfolio areas. Within that, I would have regular conversations that come under these general topics. I would have regular conversations with DECC Ministers and Defra Ministers, for example. There are others in other policy areas, but not for this Committee. In the course of those conversations, of course we cover plenty, and as I also said, it is certainly no secret when the Budget is, so I hardly need often to encourage people to come forward; so there is a conversation on both sides.

Q50 Simon Wright: Were there any Departments bringing forward what we might think of as green taxes, but which were not ultimately carried forward into the Budget?
Miss Smith: I think if I remember rightly, you were with me in Exeter when I spoke to Caroline Spelman about this at a previous Committee session, and I think you went through some material there. There are conversations which go ahead year round, there are ideas which go ahead year round, some in the Cabinet room, some, if you like, in the tearoom, some in the front page of the newspaper. There are conversations in all sorts of ways, and the Budget has to, by its very nature, take a very careful balance across what can be afforded and what can be provided.

Q51 Chair: Just on that point, in our previous report, one of our recommendations was that the Treasury should publish statistics, including in its annual report, on the proportion of environmental tax under both the Treasury and ONS definitions, and it was a great regret to us that when the Government responded to our report, that was not one of our recommendations that the Government gave a response to. In response to the questions from Simon Wright just now, it would be useful if you could tell us whether or not you are starting to provide that measurement on both sets of statistics, because without that measurement, it is really difficult to be able to progress and chart how we are getting along this path of sustainability.
Miss Smith: I do see the point you make, of course I do, and I just take this opportunity to reiterate, the Government wishes to meet the point laid out in the Coalition Agreement. There is no doubt about that, and there is no doubt that there is a—
Chair: But on the measurements?
Miss Smith:—question of measurement to be done. However, it is particularly difficult for me to answer that question for you here today, because as I have already said, the Treasury has not—

Q52 Chair: But this is our sixth report, 2010. It is some time since we published that report. Are we ever going to get a response to it? It is outstanding. It was July 2011 when we did that report. We are still waiting for an answer. It just gets very frustrating.
Miss Smith: The work is proceeding, is being finalised and I hope to be able to update you shortly.
Chair: So when might we expect to have some response formally to our recommendation there?
Miss Smith: I hope to be able to update you shortly.
Chair: Okay, thank you very much indeed.

Q53 Caroline Lucas: I wanted to go back to the North Sea, if that is all right, and the Chancellor said that his aim was ensuring we extract the greatest possible amount of oil and gas from our reserves in the North Sea, but in a sort of introduction to that section in the Budget, one of the objectives of the tax changes that were made is listed to be meeting the UK's carbon reduction targets. That being the case, have you calculated what the measures in the Budget will mean for increased emissions from burning oil that would otherwise have stayed in the ground? In other words, as a result of the changes that you are making on oil in the Budget, what will that mean for the emissions therefrom?
Miss Smith: I understand the question you are asking. I don't believe I have that figure. If I may, I will just check with Jonathan.
Jonathan Mills: I think this goes to the point that was being raised earlier about the impact of activity in the North Sea on emissions, and the Committee will be aware that it is worth highlighting here that the system of emissions monitoring and reduction that is in the UK is embodied in the Climate Change Act and the Carbon Budget, and in the international framework is based on where the emissions are territorially produced, so what the emissions in the UK will be is the thing that is targeted by the Climate Change Act, and other countries are responsible for all the emissions in their territories. Helen will correct me if I am wrong, but I don't think that the modelling suggests that the level of activity in the North Sea in such a highly globalised market, as is the case for oil, would be likely to have an impact on UK territorial emissions.

Q54 Caroline Lucas: Does that mean that the emissions have been calculated or they haven't been calculated, because presumably you have to calculate what the emissions will be to then work out whether or not it is going to have an effect on the carbon reduction target?
Jonathan Mills: What it is saying is you would not expect the extraction of oil from the North Sea to be having a measurable, significant effect on the amount of possible fuel use in the UK.
Miss Smith: In part that is because the emissions are driven by usage, not by extraction. What we use comes clearly from what we extract plus what we import, broadly speaking, so what we use will then drive the emissions.

Q55 Caroline Lucas: Are you therefore saying that the extraction in the North Sea would simply displace oil and gas that would otherwise be imported? You would not foresee that that would be displacing any other kind of energy generation form, whether that be renewables or anything else? The concern of many in the Green lobby is that by giving a subsidy to more drilling in the North Sea, there will be cumulatively more emissions as a result of that than there would be under the status quo if you had not done that.
Miss Smith: I do not agree with their fear there. I think the point is that the UK is an economy that still uses fossil fuels, clearly still has a demand for fossil fuels. That will not stop in the immediate future. What this Government is doing is of course moving that on towards our emissions reductions targets, which of course we are committed to and I hope to the satisfaction of your friends you are referring to. To get us there to that far longer-term objective, of course we are encouraging other sources of energy to come forward, renewables in particular, through, for example, the measures laid out in the electricity market reform proposals.

Q56 Caroline Lucas: But presumably by choosing to put £3 billion into this by subsidising it, you are expecting to get more out of it than you would do if you were simply importing it as usual. The UK estimates an additional 1.7 billion barrels of oil will be extracted from the decommissioning relief, for example. So it looks to me as if more oil and gas is being extracted under this scenario than would have been the case without this particular measure being put in place.
Miss Smith: I believe we will get more out of the UK Continental Shelf, and as per the reasons laid out before, I think that is very good for the British economy.

Q57 Caroline Lucas: Even if it not very good for British carbon emissions?
Miss Smith: As I say, I believe it is very good for the British economy, but that does not have to affect the statement that you have just made.
Caroline Lucas: No, but there are trade-offs there and that is kind of what we are trying to get at.
Miss Smith: Indeed, there are trade-offs.

Q58 Caroline Lucas: I would suggest that if we don't even know how many emissions are going to be created as a result of this particular tax measure, then it is hard to know how the Treasury has made that trade-off explicit.
Jonathan Mills: I think the trade-off that you are implying is that the amount of petrol and diesel used in the UK is a function of the amount that we extract from the North Sea. The modelling and analysis that we would do would suggest that, in a highly integrated global market such as that for oil, that is not the case. The things that will be driving fossil fuel consumption in the UK, vehicle fuel consumption in the UK, will be a function of a whole range of other variables related to the overall economic situation, locational choices, alternative vehicle technologies, energy efficiency, fuel efficiency standards for vehicles and so on, and so the amount that happens to be extracted from the North Sea in respect of global markets doesn't have a material impact, as I understand it, on the levels of fossil fuel consumption and therefore emissions from UK vehicle fleets.

Q59 Caroline Lucas: Imports from which countries will be displaced as a result of the measures announced here and the extra oil that you are going to be getting from the North Sea?
Jonathan Mills: The interactions of different suppliers in international oil markets are extremely complicated, and lots of speculators make fortunes from guessing rightly or wrongly on that, and I wouldn't want to claim to be able to do that at the moment.
Chair: Caroline, I think Sheryll just wanted to come in on that point.

Q60 Sheryll Murray: Just on the point of the North Sea oil extraction, surely it follows that if we don't utilise the oil closest to our shores, we are going to have to import that quantity of oil from perhaps the Middle East or somewhere else, and so that would have a higher carbon footprint than the oil that we are producing in the North Sea anyway.
Jonathan Mills: That could be true.
Miss Smith: Yes, I would certainly expect that to be true. A barrel of oil, tangible as it is, has to travel.
Sheryll Murray: That is right, and so really that would mean that doing it the way we are is the greenest and most sustainable way.
Miss Smith: It could be possible to draw that conclusion, and I would particularly just return to the objective that that section of Budget 2012 really laid out and really stress, which is that we considered the changes that would be most effective in unlocking investments in the UK. Forgive me, before you arrived, Sheryll, we were talking about the importance of that up and down the UK supply chain, not only for what you put in a car, but clearly for the jobs that hinge on it in the UK, and I do feel it is particularly important to unashamedly focus on that.
Sheryll Murray: Thank you.

Q61 Caroline Lucas: Would you not say though that if one of the objectives of the Government as a whole is to wean ourselves off fossil fuels, which it is—that is an objective of Government, as stated—then by investing more in our own industry, we are going to have more of a vested interest and therefore more difficulty in extracting ourselves from that than if we continued imports for a shorter time? If we are working towards a scenario whereby we are going to be ultimately replacing fossil fuels with green energy sources, then the more that we are locked into a whole set of processes in our industry, the more difficult it will be to extract ourselves from that.
Miss Smith: There are probably two things I need to say in answer to that. One is to split off gas from oil at this stage, and perhaps you may wish to go into a broader set of questions around gas, which is separately very interesting.
Chair: We will come on to gas in a moment.

Miss Smith: Exactly, I had a feeling we would. So if I may, Caroline, just to finish, the other important thing to say is, don't forget that one of the major pieces that was announced in Budget 2012 relating to oil was about decommissioning. By its very nature, that is about stopping using oil, and you will be as aware as anybody that the stuff runs out, and in the UK Continental Shelf, we can be fairly clear about when that will occur. It will occur in the coming decades. What we are talking about is putting in place a structure that supports the taxation that we have placed on oil production from the UK Continental Shelf in such a way that allows an orderly reduction, an orderly wind-down in production, certainty in the investment that you might need in order to facilitate to wind-down of production, all of which is geared towards the wind-down of production.

Q62 Caroline Lucas: But if the British taxpayer is subsidising the wind-down of individual rigs in order then to be able to invest in more, because you have just put more investment into this whole field, that doesn't help us very much, does it? Why is the British taxpayer having to subsidise extremely rich oil companies to decommission individual rigs? Presumably they will use that money anyway simply to go and invest in greater drilling, so somehow painting this as a helpful, green measure does not add up.

Miss Smith: To be fair, I am painting it as a helpful economic measure.

Caroline Lucas: Okay, that is at least good. But why are we subsidising it?

Miss Smith: I think through the decommissioning we are not. What we are doing is putting in place certainty that will allow the orderly decommissioning. It is about the point at which companies can be sure they will gain the relief that they were always going to gain anyway. That is not a new subsidy invented by Budget 2012 and I would be very happy to discuss that in more detail if needed, and you would be welcome to discuss with officials, if required.

The point therefore is that the decommissioning work cannot be said to be a form of subsidy in that sense. The point that you might also then find interesting is about what else those firms always have the choice to do, and as I said at the beginning, they always have the choice to take their capital to Norway, or indeed to Canada, and I do think it is important that we attract capital and investments to the UK for solidly economic reasons, but I do also think it is important that those firms can see that the UK is also a centre for renewables. If you think about the location of the North Sea, it is also a place where you will find that many companies are putting up infrastructure that relates to renewables, which is to be welcomed.

Q63 Caroline Lucas: The very last thing I was just going to say was thank you for the clarification. If it is not going into decommissioning, that is helpful to know. Nonetheless, there is a £3 billion tax break essentially that is going to oil companies, while, in the renewables field, the solar power scheme has been massively scaled back, because there wasn't enough money in the pot. There are strategic choices to be made here and it just feels that the signal being given out from this Budget is one that suggests that it is business as usual when it comes to fossil fuels and the revolution to renewables simply isn't really happening.

Miss Smith: Hopefully I could perhaps try to complete the clarification by pointing out the line items that you might have in mind in the Budget. We have a copy here, but I am sure you will be familiar with it yourself anyway. The large number that you see coming back in as a result of the oil and gas measures in Budget 2012 is about revenues that have then been unlocked. It is about the taxation revenues coming back into the Exchequer, and you will find that is one of the largest numbers there in the book. That comes about through having encouraged investment. In my view, that is extremely helpful, and if a tax regime can achieve that kind of revenue, then I think it is on at least some counts doing a very good job, because I think it plays directly to jobs and growth in the UK, which of course we all seek.

Q64 Dr Whitehead: On the impact assessments of the field allowances, there is a statement here, "Carbon assessment: oil and gas production installations produce carbon emissions. However, oil and gas installations are within the scope of the EU emissions trading system". What do you think that means?

Miss Smith: If you will forgive me, I am just checking the item here.

Chair: By all means.

Helen Dickinson: I think this is saying that emissions produced by oil and gas installations will be required to purchase allowances under the EU Emissions Trading Scheme to cover those emissions, and hence there is a cap on the overall level of emissions within the EU trading system.

Q65 Dr Whitehead: This is the emissions they produce in the process of extracting?

Helen Dickinson: Yes.

Dr Whitehead: So is that an implicit indicator that the Treasury has some understanding of the idea that there may be a cap on the emissions that may result from oil and gas production overall and that they may then have to take a view about what those emissions mean in terms precisely of that overall European emission cap?

Jonathan Mills: Going back to the previous answer on this, I understand the specific reference in the impact assessment is to the emissions that are created just through the industrial process of extraction, which then produces the fuel. Where fossil fuels are consumed in the UK, then that would count under the Carbon Budget, as previously described. I may be misinterpreting your point, but what that is not saying is that in some way the EU ETS covers the total emissions that might be associated with every barrel of oil that is extracted from the North Sea wherever it is consumed, because of the basis on which emissions are monitored in the UK under Carbon Budgets, under the Kyoto Protocol. Those emissions are scored at the point in the place where somebody burns them, where the activity takes place, which is the question I think that we were exploring earlier.

Q66 Dr Whitehead: That is rather similar to disassociating the production of guns in the UK with anybody shooting anybody with them.
Miss Smith: If there were an international trading scheme for it, I am sure it would be on it. I beg your pardon, that is another flippant answer, but the point is that in terms of emissions, clearly there is an international scheme in place to trade with the EU ETS, and clearly there is a requirement to monitor those emissions in an orderly way. Indeed, they would have to be measured somewhere, and international agreements bind that, the Kyoto Protocol being one of them.

Q67 Dr Whitehead: Yes. I think my point is that that may be the case, but apparently not in the Treasury.
Miss Smith: Indeed. The impact assessment is a Treasury document, and indeed, by virtue of that, yes, the Treasury recognised that there are emissions from oil and gas installations, as Jonathan has explained.
Dr Whitehead: But forgive me, that is not a tough call to conclude, is it, really?
Miss Smith: I am sorry, I thought that was the question you were asking.

Q68 Dr Whitehead: I suppose I was being a little flippant, but for an impact assessment to say, "Oil and gas production installations produce carbon emissions", is a bit obvious, isn't it?
Miss Smith: It is better than saying something untruthful.
Dr Whitehead: But that is far as we go, is it, as far as the Treasury is concerned in terms of its understanding of the effect of these policies?
Miss Smith: Absolutely not, and I hope that is partly the point of the Committee session. Yourself, myself and officials have clearly had an exchange on that, which I hope assists.

Q69 Paul Uppal: Sorry, we are going to stick with the oil obsession, but I will try to cut out some of the stuff, so that we can get on to gas as well. The Office for Budget Responsibility has spoken at length about the corrosive effect of high oil prices, and I seek a Treasury view on that, and then I will probably just link that to another question I was going to ask, but I will put it in the round as well. Does the Treasury have any plans to see oil companies shoulder more of the burden in terms of reducing structural deficit and putting their shoulder to the wheel in that respect.
Miss Smith: Certainly, and I would peg that right back to something specifically in Budget 2012, which is details of the fair fuel stabiliser, which I think is very important in answering both of your questions. Budget 2011 set out the genesis of that idea and said that when oil prices are high, it is right that oil and gas companies make a proportionately higher contribution to the public purse. That is what we asked them to do at Budget 2011, and then at Budget 2012, we followed that up with details of the way in which we can make that work for the future. So I think the answer to both halves of your question is that indeed we recognise that the global oil price is certainly high at present, and we have laid out a way in which we hope to use that to ensure that global—or indeed any—oil and gas firms operating in the UK can contribute properly to our economic challenge, to our public finances challenge.

Q70 Peter Aldous: I think I am right in saying that the Government are soon going to be consulting on a package to support further investment in gas. Can you just outline what form that consultation would take, and will you be considering further tax incentives to boost investment in gas?
Miss Smith: The Government has announced plans to publish a new gas generation strategy. That is to be published in the autumn. Its focus will be on ensuring security of supply by setting out any Government interventions that might be needed to look at barriers to investment in gas generation. The Government will be issuing evidence very shortly which would, I hope, speak to industry investors and indeed obviously interested parliamentarians as well, and I know that your constituency will take a very solid interest in it, as will many of the areas around my neck of the woods. We share an East Anglian interest in that matter, which is looking very hopeful, I would say, for our local economy.
You asked about tax measures within that. I think clearly if we are doing a call for evidence, we would like to hear from the industry about what ideas might be out there. I would note something just briefly with reference back to the work done on oil and gas in terms of the field allowances, for example, where we were very open and said we wanted to hear from industry. I think we were particularly open in the way we ran that process. I am confident that the dialogue with industry will continue there. I am afraid it is probably unsurprising that I can't quite sit here and announce a whole batch of tax policies for you, but I have confidence that that is a robust process for getting in solid views from industry and investors.

Q71 Paul Uppal: How much do the levy exemption certificates for combined heat and power cost the Treasury each year?
Helen Dickinson: I can have a look. Excuse me.
Miss Smith: Excuse me, if you want a specific number, we can ensure we get that to you. Would you like to ask a different question in the meantime?

Q72 Paul Uppal: I will just move on, because it was a leading question. The Combined Heat and Power Association has very much expressed concern that half of the existing capacity will be switched off as a result of removing the levy exemption certificates, and that will then obviously increase emissions and the amount of gas we import. I was just wondering whether that analysis was something that had been taken into account in making the decision on the levy, and whether it was an analysis you shared.
Miss Smith: A lot of discussion of course took place with the industry on that point, on the various matters around combined heat and power, of which LECs is one. I do think the LECs question is quite interesting. It is hard to find a defender of them that says they

worked really well. I do think they were an obvious candidate for reform for a number of reasons.

Q73 Paul Uppal: What were those reasons? I know it is slightly unfair, because it was done before you were in.
Miss Smith: Indeed, but I think I would point to the obvious point, that it was not an efficient functioning market, I am given to understand, in those certificates. I don't believe they ended up doing the function that had been hoped of them. I think also clearly again, taking this right back to Budget 2012, you saw various measures there that seek to absolutely underline our support for CHP in various other ways and to seek for that to be effective and functional.

Q74 Paul Uppal: The Government's heat strategy says that combined heat and power plant, often powered by gas, can increase efficiency by 30% when compared to separate gas and electricity plants combined. Will you be revisiting that decision on removing the levy exemption certificates or perhaps looking at other incentives for combined heat and power?
Miss Smith: As I say, I think you saw various other items of support in the Budget for CHP. On LECs, Budget 2012 effectively confirmed what Budget 2011 set out, which is that the exemption for CHP electricity supplied by electricity utilities, for example, through LECs, would end. So I think that is a fairly final type of confirmation across two Budgets. Just to briefly give some examples of what then was in Budget 2012, input fuels used to generate heat in CHP plants will be exempt under the carbon price floor, which I think is in fact very much what industry asked for and should be very welcome, subject to—
Dr Whitehead: I didn't quite catch what kind of plants, sorry.
Miss Smith: I am sorry. It is CHP, Combined Heat and Power.
Dr Whitehead: What kind of plants were they?
Miss Smith: I am sorry—
Chair: No, it is okay. I think we are going to answer Mr Aldous' original question, which is what the Treasury—
Dr Whitehead: I didn't hear the answer.
Chair: No, and I think it would be helpful if perhaps you could just speak up a little bit so we can all hear.
Miss Smith: I am very sorry. I am so sorry.
Chair: The acoustics are very bad in this room.
Miss Smith: I am clearly mumbling into my notes. I was saying, just for absolute clarity, hopefully for the record, that input fuels used to generate heat in CHP plants will be exempt under the carbon price floor.

Q75 Dr Whitehead: All input fuels?
Miss Smith: Yes.
Dr Whitehead: Regardless of origin?
Miss Smith: Yes.
Helen Dickinson: Those input fuels used to generate heat will be exempt under the carbon price floor.
Miss Smith: So it is about generation, not origin, yes.

Q76 Dr Whitehead: How do you distinguish generation of electricity from generation of heat in CHP plants?
Helen Dickinson: There is a methodology to do that, which means that those input fuels which are used to generate electricity then ensure that the CHP electricity is on a level playing field with other forms of electricity.
Chair: I think it would be very helpful to have whatever analysis the Treasury are using to calculate that.

Q77 Dr Whitehead: What if you switch the electricity output/heat output depending on the time of the day and according to the heat load?
Helen Dickinson: I think we will need to write you a note with the detail of how that works, but yes.
Dr Whitehead: It would be helpful to explain that, I must admit, yes.
Miss Smith: We are very happy to do that. There is a method for doing that, very happy to share that with the Committee.
Dr Whitehead: Don't be too technical.
Miss Smith: I beg your pardon, may I just begin to answer Peter's numerical question? On page 50 of the Red Book, you will see line item 15, which gives you the answer you required.

Q78 Peter Aldous: Just going back over one of the questions, Minister, as I said, the Combined Heat and Power Association express the concern that by removing the LECs you will increase emissions and there will be an increase in the amount of gas we import. Do you share that analysis or not?
Miss Smith: No, I don't share that concern. As I say, I think the LEC decision was taken over two Budgets with a significant amount of interaction with the industry on that point. It was always a question, as probably so many things are, of trying to weigh up what evidence or viewpoint is presented with what might appear to be robust and certainly what might appear to be affordable as well.

Q79 Peter Aldous: Was there consultation with DECC on the decision?
Miss Smith: Indeed. Yes, again it would be a case of Government discussion on that.
Peter Aldous: That was a view that DECC shared or not?
Miss Smith: As I say, it was a case of Government discussion on those points.
Madam Chairman, I am terribly sorry, may I note I understood we were finishing at 3.45pm on this session, and I wondered if that was your understanding as well.
Chair: We understand it is going to end at 3.45pm and we are almost there, so I would just like Mr Aldous to be able to complete his question.
Peter Aldous: I think I have completed my question.

Q80 Mark Lazarowicz: Just one brief question. I am sorry I was not here, by the way, for the first part of this session, but I was in the main Chamber in the debate.

On this question of the effect of Budget 2012 on CHP, the CHP Association suggests that the removal of LECs would lead to a reduction in the amount of electricity produced by CHP from 7% to 4%, but presumably you must have a different conclusion if there were measures in the Budget. Does the Treasury believe that the Budget decisions would lead to an increase in the amount of electricity produced by CHP or not, and if so, what figure? If you do not have the answer there, could you perhaps supply it later?
Miss Smith: Let me look into that, if there is a data question behind it. I don't believe there is.
Mark Lazarowicz: The question we have is whether the Budget would lead to a reduction in CHP and the electricity, certainly.
Miss Smith: If I may, let me look into that and come back to you if that is a figure possible to come to, but what I would just note that is really important, I think, to say from Budget 2012 is that CHP does remain incentivised through public subsidy. You have the example I just gave on input fuels being exempt under the carbon price floor. You then have the point about climate change levy rates and the difference made there. I think there are multiple measures therefore in Budget 2012 that seek to assist the CHP industry.

Q81 Dr Whitehead: Can I just briefly follow up the question—and I appreciate we are coming to an end—of the exemption of input fuels for heat purposes and the calculation by CHPA that the ending of LECs is likely to reduce the provision of electricity, reduced from 7% to 4%? Part of that may be a rational calculation on what component of CHP gets a better deal, so if you are the operator of a CHP plant, there are a number of circumstances under which you may decide to produce less electricity and more heat and vice versa, and that depends to some extent on the loads, the demand at any one particular time, but may also depend on the extent to which you get penalised for one and an advantage for the other. Has the Treasury done an examination of that?
Miss Smith: We are certainly well aware of the behavioural point you raise. I think the point of analysis I would refer you to is what industry was telling us, which is that they would prefer the relief to be on heat, so in many ways we were responding to what we were hearing directly from industry on that point.

Q82 Chair: Just for a point of clarity, just finally on this: is it likely that the Treasury could revisit its decision on removing the levy exemption certificate?
Miss Smith: As I said to Peter, as Budget 2012 confirmed effectively the Budget 2011 decision, I would say that clearly much analysis has gone into it over a considerable period of time, and I would say it stands as a decision.
Chair: Okay, fine. I think we have reached the end of the session, so can I say thank you very much indeed to you and to your officials for coming along? I hope we have put the message through that we would like some feedback from the Treasury about our earlier reports, and certainly we shall be taking up the evidence and look forward to the return of further pieces of information that you have promised in the course of this. Thank you very much indeed.

Wednesday 31 October 2012

Members present:

Joan Walley (Chair)

Peter Aldous
Neil Carmichael
Martin Caton
Katy Clark
Zac Goldsmith
Mark Lazarowicz
Caroline Lucas
Sheryll Murray
Caroline Nokes
Mr Mark Spencer
Dr Alan Whitehead
Simon Wright

Examination of Witnesses

Witnesses: **Andrew Raingold**, Executive Director, Aldersgate Group, **Alastair Harper**, Senior Policy Adviser, Green Alliance, **David Powell**, Economic Campaigner, Friends of the Earth, **Ingrid Holmes**, Programme Leader, E3G, **Jenny Holland**, Head of Parliamentary Team, Association for the Conservation of Energy, and **Andy White**, Director, Davis Langdon, An AECOM Company, gave evidence.

Q83 Chair: Everyone has their papers and their seats, so a very warm welcome to all of you to our session this afternoon. We do understand that, Mr Powell, you have to leave early, so please feel free to leave when you need to catch your train, and thank you to Andy White for stepping in at the last moment. I think that this inquiry is an important one for the Environmental Audit Select Committee. We have a lot of ground to try to cover this afternoon, lots of different areas, and also, as we are all aware, a lot of witnesses as well, so it is going to be very difficult to try to cover the ground. Please do not feel that you each have to comment on every single area of questioning, otherwise we will not be able to finish by an agreed time.

The inquiry is also relevant, given the statements that we have heard from Michael Heseltine about growth, and it obviously links up to the Budget as well. In that context, could I start by asking you to comment on whether there is confidence in this whole *Green Budget* agenda. Certainly I for one was concerned by alleged reports in the press about the Chancellor referring to the "environmental Taliban". It has not been disputed or not, but could you give the Committee some sense of how important confidence and proper dialogue with the Treasury is in terms of informed understanding of the issues that we are covering in this afternoon's session?

Alastair Harper: To kick off, I think the reason why we are having so many problems and why energy at the moment is too often on the cover of the newspapers is that policy certainty matters for the green community in a way that it doesn't for other revolutionary industrial changes. ICT didn't need that certainty to bring about the change it made to all the rest of industry, but green does because it is about changing things in environmental terms. So when you don't have that certainty, you don't get the movement in all the different sectors. As you saw on the cover of *The Times* during the Conservative Party conference, some major investors into the UK were saying, as the paper reported it, "Go green or we quit". They are saying that because when you are making a choice between one region and another for your low carbon investments, you need to know if the government has made a choice to support the renewable sector or is opting for the nothing but gas approach; you need to know exactly where you are going to be in terms of *Fourth Carbon Budget*, because it can't be delivered unless you have certainty for electricity and the electricity market. That is why this odd signal from the Chancellor is causing some uncertainty in the private sector.

Q84 Chair: Does that uncertainty matter?

Alastair Harper: I think that we will get a green economy whether the Government wants one or not. The difference will be that the change will come much slower and it will be a lot more expensive, because the uncertainty is increasing costs and we will also be importing a lot more. If we don't build it here, if we don't give the certainty to global investors—companies from France, companies from Germany and capital that is coming from China, India, America—and if we don't tell them what we are wanting them to deliver they will put their money elsewhere and we will have to import all this stuff anyway at a much greater disadvantage to the British taxpayer.

Jenny Holland: Can I just come in with a very concrete illustration of the really damaging effect that negative and ever-changing signals from Government about policy can have on a particular sector, in this case the insulation industry? We all remember, I think, the heady days after the general election when we were told that the Green Deal was going to bring energy-saving measures into 14 million homes. On the basis of those kinds of signals and the kind of confidence that gave the industry, the insulation industry took steps to invest, sort of confident in the notion that there was going to be a rosy future ahead. We were also told that the energy company obligation was going to be to the tune of £2 billion, so it all looked pretty good. But as time has worn on, of course the signals have become more and more negative and confidence has diminished as a result. The ECO is now only worth £1.3 billion, presumably due to the Treasury putting its foot down, and DECC's impact assessments of the Green Deal and ECO have seen anticipated installations of insulation dropping further and further.

We feel that it would have been the right time a couple of years ago to put in place a proper system of structured incentives and for the Treasury to have released some money for a proper marketing exercise, instead of what we have seen, which is that ambition has been downgraded further and further, and with it, industry confidence. We now have a situation where a couple of weeks ago, DECC produced its updated energy and emissions projections, and where we see that the Green Deal is now anticipated to deliver only 30% of the carbon savings that were anticipated for it just a year ago, so on that basis, 14 million homes by 2020 drops to something like just over 4 million. The industry is anticipating job losses of 16,000—about 45%—by next year, and the situation looks pretty dire. We would say that that really isn't the way for a supposedly joined-up Government to go about giving birth to its supposed flagship energy efficiency programme.

Q85 Chair: I am going to bring Sheryll in a moment, but just on this issue about joined-up Government, do you feel that the Treasury is sufficiently in touch with the other departments to resolve the issues that give that certainty for investors?
Jenny Holland: To be frank, I think the problem is that the Treasury doesn't particularly want to be in touch with other departments. The feeling I get is that the likes of DECC and others find it really quite difficult to knock on the door at Treasury, which is certainly closed, if not downright bolted.

Q86 Sheryll Murray: You mentioned that you would have liked to have seen moves introduced two years ago. One of the problems is of course we are in an unprecedented financial situation, and two years ago, it was a very new Government, and do you not accept that perhaps some of the problem was that we inherited a debt that would not allow the Government to progress any quicker than they have? We are only now just seeing the Green Deal coming in, and it is really unfair to criticise a new Treasury team when there were contributory factors that it inherited.
Jenny Holland: I would agree, but only up to a point. The thing is this was the flagship programme of the new Government. The kinds of sums of money that would have been required to do a little bit of Government marketing and a little bit of Government underwriting would have been absolutely infinitesimal in Treasury terms and it would have given a great deal of confidence both to the industry and to the public at large that the Government was as committed as it said it was to this flagship energy efficiency programme. These were small sums of money. Generally speaking, the kinds of financial incentives that might have been required, that would have been helpful to put in place or to signal at that time can be made to be revenue neutral, so they are not some huge incumbrance by any means on Government commitments and Government coffers.

Q87 Sheryll Murray: In my constituency, the local council and other local people have come together to formulate what they are calling Cornwall Together, which is a scheme people can join so that they source an energy provider using the bulk purchase deal to perhaps secure better energy efficiency and prices. Do you think these sorts of schemes will benefit everybody if they are rolled out nationwide?
Jenny Holland: Absolutely.
David Powell: Just to come back to your original question, Chair, we are talking about inherently long-term investment here, we are talking 20, 30, 40 years. Of course it matters to people right now what messages they are getting about how serious the Government is about that. If the Chancellor is spreading doubt about whether he will stick to the *Fourth Carbon Budget*, then of course you are going to worry about whether or not your investment is sound. Lord Stern has said that Government-created policy uncertainty is the single biggest deterrent to investment in the green economy, and so these things do matter. I think what the Committee on Climate Change and what everybody probably around this table would say is that it matters. The Government isn't going to fund all of this stuff itself. What the Government needs to do is open the door to the private sector to come and build this, and the way it does that is by getting the cost of capital as low as possible, and the way it does that is by not spreading the wrong messages about how serious it is about this agenda. So it does matter.
For all of that though, I would say, Ms Murray, that when you are talking about inherently long-term investments, it is the wrong framework to continually put that through two to three-year spending constraints, and we will probably talk later on about the levy control framework that Treasury has brought in. That is having a material impact on risk because the Contracts for Difference, which will fund the future energy system, are going to be part of that. If you know there is going to be a cap after which you won't be able to use them, that has a material impact on risk. So I would say that it isn't appropriate for 20-to-30-year investment timescales to put everything through a short-term spending lens.
Andrew Raingold: Just following on from David's comments, the businesses and investors we interact with, either through our membership or wider network, believe that the Government's perceived commitment to the transition to a low carbon economy is being severely undermined by both the inconsistency of ministerial messaging, and in particular, the commitment and statements regarding the role of unabated gas in the power sector post-2030. It was for this reason that we wrote to the Chancellor on 8 October—that was the day of the Chancellor's speech to the Conservative Party conference and the same day as the Siemens' letter that Alastair mentioned—and we cited the Committee on Climate Change's evidence that a significant role for unabated gas post-2030 is inconsistent with meeting carbon budgets, and it is also damaging, right now, infrastructure investment, business development and investment in supply chains. It relates very well to a CBI report called *The Colour of Growth* which said the UK risks losing out on £400 million worth of

net exports in 2014/2015 if this policy uncertainty continues.

Q88 Chair: You were talking there about perceptions of what the Treasury is or isn't considering. Are you in direct dialogue or are you and your organisations in direct dialogue? Do you have channels of communication that provide an informed opportunity to address some of these issues?

Andrew Raingold: As far as the Aldersgate Group, we were invited to stakeholder roundtables with a Treasury Minister in the run-up to all Budgets, but those meetings have been discontinued, as far as we are aware, so dialogue has been quite limited.

Ingrid Holmes: We are managing to have some limited dialogue, but it is through relationships with officials rather than at a political level, and I think perhaps some of what is going on at official level is quite different to the political message.

I just wanted to come in on this issue of confidence in the forward green agenda in the UK. When we look at the amount of investment needed across the UK's infrastructure, according to Treasury's own estimates, it is around £40 billion to £50 billion a year. If you break that down into what could be accounted for as either low carbon or low carbon enabling, it is upwards of around 75%. Currently, it is beyond the capability of banks and many companies to deliver that investment, so we are talking about the institution investor community, who are inherently cautious. When that cautious community sees mixed messages from Government, that adds up to increased uncertainty over a long-term commitment and questions about whether it is really an opportunity or not. The political risk adds to costs, as David said, but also remember that this capital can go anywhere in the globe, and if there are clearer opportunities to pursue elsewhere, that is what will happen.

Q89 Peter Aldous: Andrew referred to a limited dialogue with the Treasury. Was it ever thus, or is that a particular characteristic of this Parliament?

Andrew Raingold: Just to pick up on Ingrid's point, we have quite regular dialogue at an official level, but we have had much less dialogue in this Parliament at a ministerial level than we did in the past.

Andy White: Yes, I just wanted to make the point from a business viewpoint that, as Ingrid mentioned, uncertainty about the CRC and the feed-in tariffs makes it more difficult to attract private investment and has kept business investment out.

I represent the Environmental Industries Commission and one of things they were looking for is a fully-funded sponsoring unit for the UK's environmental industry within Government to co-ordinate the cross-departmental policies affecting the growing of a green economy. That means having a dialogue not just with the people who are interested in these sort of things in a greater detail at DECC or Defra, but across the Treasury.

Q90 Chair: You have given us one example of something that you would like to have in the Budget to restore confidence. In a sentence, do you each want to offer something you would like to see?

David Powell: About two sentences. I would like to come immediately back on that.

Chair: Do it quickly, then.

David Powell: I think the fundamental reason for the policy uncertainty is that the Treasury and the Government seem to see the green economy as something you do on the side; you do it as well as the non-green economy. You have a high carbon economy and a low carbon economy, and one bit—to answer your question, Chair—of the energy community that probably does have policy certainty is the fossil fuel industry in the UK. They have had five separate tax breaks given to them in the last seven months alone—if it is still October; yes, it is—and that is extraordinary at a time when we are supposed to be decarbonising, weaning our economy off fossil fuels. We want to see an end to tax breaks for fossil fuels in the Autumn Statement and the Budget, and the current consultation that the Chancellor is proposing on tax breaks for shale needs to be done, and we haven't had any dialogue on that, for example. Nobody has approached environmental groups, as far as I know, to see what they think. If that is not done transparently and openly, then we think that is of limited use and should be abandoned.

Ingrid Holmes: I would endorse that, but also this is linked to the Budget, but we have an Energy Bill coming up and the clearest signal that could be given to investors would be that piece of legislation, a clear target for 50 grams per kW hour, carbon emissions by 2030. That is a clear direction of travel.

Andrew Raingold: I would say firstly the high-level messaging is really important, so a clear commitment to the green economy and the role that is playing, even at the moment, in driving growth, competitive advantage and jobs, and then, to echo Ingrid's point on the Energy Bill, we would like to see the adoption of a 2030 decarbonisation target combined with a levy control framework that will allow that target to be met effectively.

Jenny Holland: In the Autumn Statement we would like to see fiscal incentives for energy efficiency. I hope I will get more of a chance to talk about that later on.

Chair: We will come on to that.

Jenny Holland:, I completely agree with Ingrid and the others about the Energy Bill. We would also want to see the capacity market mechanism modified in such a way as to properly bring forward low carbon solutions and demand-side solutions. The insulation industry, whose plight I was referring to earlier on, would like to see some sort of transitional arrangements in place whereby they will not see their industry fall off a cliff at the end of 2012. That could include some kind of arrangement where, for the first year of ECO, low-cost cavity wall and loft insulations were included.

Andy White: Nothing specific from me, just generally more coherence.

Alastair Harper: I think we will get to energy efficiency and infrastructure issues, but I definitely agree about the importance of the levy control framework. I think £9 billion by 2020 will be really vital if the Government are going to deliver their *Fourth Carbon Budget* stance.

Chair: Thank you. We will move on to energy-related issues.

Q91 Caroline Lucas: Allowing further investment in gas is one of the most significant announcements in what we are expecting from the Autumn Statement. Can you just say how damaging you think another dash for gas would be? I don't know who to direct that to.

Ingrid Holmes: Do you want me to pick up on that? Over the last five years, gas has been responsible for around 80% of our energy price increases, so I think it is far from clear that gas will continue to be cheap in the future, and I think the key question is, do we want to burn or do we want to build energy? We have undertaken some analysis, looking at various investment-based scenarios through the future energy system, and found that if the Government delivers less on any of the key technologies it has in mind—so CCS, energy efficiency or even nuclear—then under a gas-heavy system, we could see consumer costs increase by nearly 100%, whereas if you go forward on a renewable-energy heavy system, you risk manage that much better with costs likely to go up by around 8%. So I think we need to be framing this not just around the environmental impacts, but also risk managing the ability of policy to deliver and technologies to deliver.

David Powell: I would say that I am not sure that gas is cheap now. When the Chancellor says that gas is cheap, it is in defiance of the fact that bills have essentially doubled over the last decade as a result of the rising price in gas, and the EU's estimates are that is only going to go up. We need to get our bills off gas if there is to be consumer narrative around the green economy. Our analysis at Friends of the Earth is we probably need and should be putting in place about 8 GW of gas by 2030. That is the baseload gas that we are looking at. What is currently in the pipeline is, we understand, somewhere in the region of 25 GW by 2030, so either that is going to have to be hardly used at all, or it is going to have be used with CCS, but at the moment, there is no indication that either of those things are the case. We are just getting the dash for gas.

Q92 Caroline Lucas: Does the 25 GW include shale gas as well?

David Powell: I don't think they are specific. I am not sure at this stage.

Just the final thing I would say is it does create a constituency as well, so what worries me a great deal about the dash for gas is that it does create a vested interest, which is another reason to oppose closing down gas. If you build a gas station, you are not going to be very inclined to get rid of it at some point in the future, so I think the whole rhetoric leads to that.

Jenny Holland: I have already said something about the fact that we want to see the capacity market mechanism as published in the draft Energy Bill modified and I think that is in part relevant to your question. The capacity market proposals in the Energy Bill on the face of it do not preclude low carbon generation and demand-side solutions bidding into capacity market auctions, but the lessons from similar capacity markets in the US—there is one in New England and there is one in the Mid-Western and Mid-Atlantic states—are absolutely clear. They have overwhelmingly supported either the continued operation of high-carbon supply side solutions or the building of high-carbon supply side solutions, and because capacity markets are specifically designed to foster rapidly responding reliable capacity, you don't have to make much of an imaginative leap to know that by definition, gas will always be the favoured technology under such a capacity market mechanism. From a demand-side point of view—I have to throw this in, don't I, coming from where I come from—the experience is also very much less than heartening with less than 10% of the capacity bidding into those auctions coming from demand-side resources, of which only about a third was actual energy efficiency as opposed to demand-side response solutions, interconnectors and storage and so on. As I said before, because we want to level the playing field for low-carbon generation and demand-side solutions, we and Friends of the Earth are looking to try to amend the Energy Bill when it is published in its proper form, whenever that will be, to ensure minimum levels of carbon generation and demand-side solutions are included in the auction and that a merit order is put in place when it comes to dispatching the solutions when there are peaks in demand.

Andy White: The question is: are you going to change behaviour if you carry on with the same sort of processes, effectively, and the same suppliers? It is a matter of changing behaviour. On behalf of EIC, I suppose we wouldn't comment necessarily on the gas or whatever, but we are looking more at environmental industries and we are looking at reducing demand rather than on the supply side.

Q93 Caroline Lucas: I know we are going to come to reducing demand shortly, but just while we are still on impacts of some of these proposed tax changes, I have been really struck, first of all, by how all of you can answer much more with very strong economic arguments against some of these measures. In other words, the economic argument and the environmental argument have synergy between them, which I think is an interesting point to underline.

In terms of trying to get the message across to the Treasury, particularly since on this issue as well, as I say, it is not the case that environmental interests would lead in one direction and economic interests would lead you in another, I wanted to ask you about the tax information and impact notes that were introduced last year as a way of trying to do impact assessments on some of the proposed changes in the Budget. How useful have those Treasury-inspired notes been and have you had any influence over them, and have they been a useful forum over which you can have some debate?

Andrew Raingold: I think they have been a step in the right direction and it is very useful to go beyond the direct fiscal analysis and take into account wider economic, political, social and environmental objectives in a more systematic way,. However, they clearly do not contain sufficiently robust analysis. They need to be improved, and in particular, the notes for the field allowances, which outline the tax breaks for the gas industry, because the overall aim in that note is in relation to the Government's overall aim of maximising the economic production of the UK's hydrocarbon resources. When you look at the environmental impact of that assessment, it really just says, "The gas industry is regulated by the EU ETS", without mention of the wider context of the carbon price in EU ETS, which is very low and suffers from an over-allocation of allowances, so that is not an effective driver for decarbonisation.

I think the second point there relates to the wide environmental impacts, and again the note simply says, "This is a very heavily regulated industry so the impact on wildlife is expected to be very minimal", so clearly there is much wider environmental issues that need to be addressed.

Q94 Caroline Lucas: Would you think it is a priority for your organisations to be focusing on trying to get better notes, or do you think it is a bit of distraction in terms of getting the policy change that you would like to see?

Andrew Raingold: I think it could be helpful, but similarly to the impact assessment process, it seems to be done after the policy decision has already been made. So if they were really part of a constructive consultation process, then that would be very helpful.

Ingrid Holmes: I think it is back to the Treasury definition of environmental taxes, isn't it? It is an intent, rather than trying to measure any effect or impact, and if it truly was an environmental tax, you would be trying to change behaviour and therefore measure the effectiveness of that to determine whether it was worth doing going forward.

David Powell: I just really wanted to underline Andrew's point. I think it is very cursory information that is in these things, and I think they are of very limited use, to be honest. Not only is the thing about the potential spillages from oil and gas about a sentence long, it says, "Well, the industry is regulated; that is not a problem". *The Guardian* were reporting at the weekend there have been 4,000 oil spills in British waters since the year 2000, of which only seven have been fined. So clearly that sort of level of information doesn't tell the whole story, and what I would rather see is rather than a longer piece of paper, I would rather see the Chancellor talk about this stuff. When he announces field allowances, I would rather he talked about the environmental impacts and the carbon impacts, because otherwise a piece of paper that sits in a buried bit of the Treasury's website isn't particularly useful, I don't think, particularly not if they are post-rationalisations, which is what it feels like they are.

Q95 Caroline Lucas: Sorry to be jumping around, but my last question is about incentives, and you have already mentioned a little bit with Jenny, for example, talking about the overall decarbonisation target being a useful incentive, if you like, when it comes to the new Energy Bill. But looking at the tax system in particular, you have been understandably critical of tax incentives that have been given to fossil fuels. Where else do you feel that in particular tax incentives could be used or should be used?

Ingrid Holmes: This sounds like an energy efficiency question, but one of the obvious indicators of a need to make properties more energy efficient is to clearly link that to stamp duty and when you buy and sell a property, highly energy-efficient properties have a lower level of stamp duty and inefficient properties have a high level. This sort of malus-bonus idea could be applied to vehicles as well. It has been used in France quite effectively. That seems like a big gap currently.

Jenny Holland: I think I have already outlined what I would want to see. I presume you might be coming to the issue of energy efficiency in more detail a bit later on.

Caroline Lucas: That is very helpful.

Andy White: I want to make one point about the incentives. That is, I suppose, part of what I do, I am a property tax consultant, and certain incentives work very well; certain incentives aren't so good. One of the best incentives was the land remediation relief, which created an industry that now employs a lot of people and we can import/export technology to other countries. I believe the ERC are taking a few representatives to China to talk about sort of decontamination over there and that sort of thing. So that is one of the benefits of incentives, as we see it.

David Powell: I just very quickly wanted to bang the drum for amending the landfill tax. The landfill tax has been done well, which is fantastic, but it is very blunt. There is a proposal that Friends of the Earth supports to modify it so that it starts to incentivise not sending stuff to incineration, so there will be a tax on incineration that would rise over time. That will help maintain the revenues, but also stop materials that are valuable to the economy going into landfill, and we would be happy to send the Committee a note.

Q96 Martin Caton: I would like to return to the issue of subsidies for oil and gas that you have already raised. Of course, in the Rio+20 outcome document, the Government signed up to removing harmful subsidies for fossil fuels at the same time as you have said the Treasury are providing tax allowances and other incentives for North Sea oil and gas. What needs to be done to drive the Rio+20 agenda here in the UK, and in particular, what needs to be done to get rid of these subsidies?

David Powell: What needs to be done is the Chancellor needs to stop giving them out, as I said. So there have been five in the last seven months alone. Just to take the two that were announced in *Budget 2012*, they have been given for one reason only, and that is to get more investment happening in the North Sea. They are not being given for any other reason. The oil and gas industry reaction told you everything you needed to know about whether or not that was going to increase oil and gas. They described it as a turning point for the UK oil and gas industry. It will bring in over £1 billion to the Exchequer in five years alone. That is not compatible with the move to a green economy, not just for carbon reasons but because of the creation of vested interests, because of the opportunity costs. Quite simply, the Chancellor needs to stop actively increasing the production of oil and gas in order to tax it. It is one thing to tax something bad that already exists, that is absolutely fine and we should be doing that, but it should be transitional to ultimately lead to it going away. What is happening here, it is actively encouraging more oil and gas production in UK waters in order to tax it, which is very much against the spirit of a green tax shift, leaving aside how you apply that.

Chair: I think you wanted to come in, Alastair.

Alastair Harper: I think it would be really helpful for the Treasury and all of Government to recognise that a tax break does subsidise an industry. I heard the Secretary of State for the Environment speak a few weeks ago about how he doesn't believe in any subsidy, denying there was any for shale gas. This was a couple of days after a big tax break for shale gas had been announced. I think recognition of where the Government is economically benefiting the sector is really important. It is also important to see that we don't unnecessarily help mature industries and that we give tax breaks or subsidies to develop the new technologies we need, not to prop up something that is very mature, almost senile.

Chair: Does anybody else want to come in, Zac? Because I know Neil wanted to come in as well.

Neil Carmichael: On the subsidy issue?

Chair: Yes.

Q97 Neil Carmichael: Yes. I was going to raise the issue, not about tax, but about infrastructure investment in connection with energy, and that is the need for more connectivity for energy. We discussed this, did we not, at your excellent group, Andrew, the other day? It seems to me that what would really help a sensible energy policy is the ability to have more connectivity both within Britain and between Britain and Europe and I was just wondering your views about that. That could become quite an interesting infrastructure investment project in the Autumn Statement, paving the way for more. Any comments?

Ingrid Holmes: I can pick that one up. We have multi-financial framework negotiations going through in Brussels at the moment. There is a piece called the Connecting Europe facility, EUR £9.1 billion for things like grid infrastructure, energy in particular. That facility would be extremely useful to support these international investments that could enable us to export energy if we have excesses, or import if that is a lower-cost option. I am not sure the UK has been particularly positive on that front at the moment, but that would be very helpful to see that go through.

Q98 Zac Goldsmith: Just quickly on the fossil fuel subsidies, some PQs have been answered recently that I think showed that the Government is willing to allow the use or allow access to—and it has changed the name, so apologies—Export Credit Guarantee Department, Export Guarantee or whatever it is called nowadays. It would allow use of funds through that vehicle to support fossil fuel projects that would not meet our domestic standards. It has been a cross-party agreement for years now that the Export Credit Guarantee Department will be reformed so that those kinds of things would not happen. So I am wondering whether or not you have had any discussions either among yourselves or with Government as to why the Government is finding it so hard to realise the aspiration that was set out, not just before the election, but also in the Coalition Agreement. Why is this a problem that all Governments seem to be unable to grapple with?

Chair: Difficult one. I think that is a pass.

Alastair Harper: I don't have the answer for that, but I do think it is something that it is important, and you are right, if there are mixed signals and if a direction is being lost, then yes, it needs to be part of the discussion.

Chair: This is a cross-cutting Committee, and obviously what happens with Export Credit Guarantee Department—or whatever its latest name is—is important and obviously it is a question of having that consistency. If you have any further thoughts on that, particularly from any of your members, we would be interested to hear it, because such cross-cutting consistency is really important.

Q99 Zac Goldsmith: Can I just make a point, really, rather than a question? I am surprised that is not an issue that has caught on, either among environmental correspondents or if not all NGOs, but many NGOs. It seems to me that this is a really obvious standout issue when we are talking about fossil fuel subsidies and consistency of the Government's approach. I am amazed that this is such a small issue, and it doesn't seem to be on the radar at all. We do not need an answer to that, but I needed to make the point.

Chair: I think it is a carry-on from that. How the Government take forward the sustainable development goals post-Rio should be looked at in detail, so it is something that can be returned to.

Q100 Simon Wright: What do you make of the Treasury's definition for an environment tax?

Ingrid Holmes: The OECD's definition of a tax is it can be about effect, intent or yield. I think you kind of embrace the effect. You could argue that VAT for example produces environmental outcomes because it lowers consumption by raising costs, but I do not think any of us would agree that VAT is particularly a green tax. There is an intent, which is the definition that HMT has adopted—that is, we have decided it is an environmental tax and therefore it is. We can start to pull holes in that argumentation around the carbon floor price in particular. We know that carbon pricing has done very little to change investment behaviour, apart from stimulate some switching from coal to gas. It is not likely to be the main tool with which we change investment decisions around the low-carbon economies. So that leaves you with your last definition, yield. What do you do with that money? This is particularly an issue when you are talking about green taxes, it is about changing behaviour, it is important to have the sticks but also the carrot, so you want to be using money taxed on bad environmental behaviour to incentivise good environmental behaviour. There are adjustments you can make to some of the taxes that have been classified by the Treasury as being green taxes, if you were to use carbon pricing to allocate more money to support the Green Deal, to reduce demand, that could then be seen as a clear green tax. But unfortunately that is not where we are at the moment and very definitely risks eroding support for these sort of instruments.

So, in summary, I don't believe that the Treasury definition does what we need it to do.

David Powell: I agree with that, but I will come to that in a second. I wish I wasn't but I am profoundly cynical about what has happened here to environmental taxes. The spirit of the Coalition Agreement was to take a strategic look at environmental taxes across the board, look at them strategically and try to increase the proportion of taxes coming from environmental taxes. What has happened is essentially that problem has been redefined away. The basket of environmental taxes that ONS had has been shrunk by 90% and you are left with six taxes, all of which were scheduled to rise anyway. There we are, problem solved, we said we would do it and we have done it. It is not in the spirit of an environmental tax shift. It is not in the spirit of taxing bads rather than taxing goods. I wish it didn't look like that had been done just to get around these perennial problems of fuel duty, VED and air passenger duty, but that is how it looks.

The silver lining might well be that there has to be even less justification now for not using the revenues from the taxes that are in the baskets, the six taxes, for explicitly environmental ends. That is something we would definitely like to see as a salvage operation for this redefinition. But we don't feel that the spirit of that commitment is going to be met now and that is a real shame because I think all of our organisations hugely welcomed that commitment in the Coalition Agreement.

Q101 Simon Wright: In regard to that commitment, do you any of you see any activity that you feel there is an appetite beyond the narrow one described there to meet this commitment? Do you think Treasury are playing an active role working with other Government departments to identify where that commitment may be more fully met or more broadly met?

Jenny Holland: No.

Simon Wright: Okay; fine.

Chair: That is clear.

Q102 Simon Wright: As David said, given the strictly defined environmental taxes are already projected to increase, do you see any scope either within those defined taxes or the wholly new environmental taxes that might, nonetheless, fit within the Treasury's broad definition of an environmental tax where more progress could be made in raising revenues from environment taxes?

Alastair Harper: To answer a bit of your previous question, I think there are areas where the Treasury is pushing for revenue from environmental measures, such as the carbon floor price and through changes they made to the carbon reduction commitment. I think the problem with that, especially the CRC, is it is a very negative change to something that was both a carrot and a stick. They removed the carrot. You end up with a situation where the Treasury only sees the environment as something that works if it enriches the Treasury, which might be why they have a limited view of how much of a positive impact it has on the economy as a whole.

In terms of where environmental taxes work, it may not be what the Treasury thinks of as environmental taxes but a CBI report from the summer polled their members who rated landfill tax and vehicle excise duty as highly effective. They had a clear purpose and a function that works well alongside other policy measures; meaning there is no overlap. "Those sorts of environmental taxes work when they are well designed, well implemented, because they encourage investment, drive environmental behaviour and generate Government revenues." It is nice to have businesses that want to generate Government revenues.

Treasury should consider exactly where are the things that could change, that could nudge businesses in the right direction. CRC is an obvious one for that. Right now it doesn't work, how do we fix it to ensure it compels business action to deliver environmental outcomes.

Andy White: You end up with a slight conflict. You are trying to change behaviour but if you change behaviour too much then you lose the benefit of the taxes themselves, or money to the Exchequer. There is that sort of conflict always there. What are environmental taxes there for? It is a big question. Are they there to raise money or to change behaviour?

Q103 Zac Goldsmith: I just want to jump in on that point that Andy just raised. That is always the argument that is used about genuine environmental taxes. What is the best example in your view of a tax that has been so effective that it has rendered itself obsolete?

Andy White: Sorry, "that has rendered itself obsolete"?

Zac Goldsmith: Obsolete maybe is the wrong term. What is the best example of an environmental tax putting itself out of business?

Andy White: I am trying to think of one that would be a good example of that. It is more of—

Zac Goldsmith: It is logical, but it is almost a nice problem to have.

Andy White: Probably you would never apply it because you are looking at something that has an inelastic demand to a certain extent and so you immediately tax something and the demand goes away or it changes the behaviour totally. So it is very difficult to pick that up. I am not sure that you would ever enact something like that, so it is a very difficult to say that I can definitely put my finger on one unfortunately.

David Powell: I mentioned the landfill tax already. That is one such tax, for two reasons; firstly, because the amount of waste being generated has gone down and because the amount of tax levied has gone up. The revenues from that are projected to shelve off over the next few years, which is one of the reasons we are proposing modifying it to make it a less blunt tool to include incineration, which we would strongly argue should be taxed in the way that they currently—

Q104 Zac Goldsmith: So the revenue will come down even though the price is going up?
David Powell: Yes, because for various reasons the amount of waste being generated is going down.

Q105 Zac Goldsmith: So they are not in sync?
David Powell: There is more one factor, yes.
Andy White: Coming from a construction background, there are now interesting ways of dealing with waste on site and that sort of thing, which probably means that you do lose quite a lot of that impact.

Q106 Chair: Looking to where this definition of environmental tax fits and what the Treasury is doing, you mentioned the Coalition Agreement. Given that is up for review at some stage, do you see that as being an important arena, if you like, where some of these discussions can be played out and, if so, what process might apply so that some of these things that we are talking about here can be part of that review?
David Powell: Because you are looking at me I will come in quickly. I am not going to comment on the mechanics of the Coalition Agreement, but what I would say is that it is not a great deal of use putting things in an agreement if you then just redefine your way out of having to meet it. So it is more a broad comment, and the point I would like to make is that you have to be serious about the things you put into the agreement.
Ingrid Holmes: In addition, you want to have your strategy set out and then develop instruments underneath to deliver that. To develop the instruments from a bottom-up process would not make sense, so it depends on whether there is a shared strategy going forward on this, which I suspect would be unlikely.

Q107 Mr Spencer: We missed the breaking news on this side of the table that the Coalition Agreement was being reviewed. Clearly the one thing I think will be in the Autumn Statement is motoring and I was just going to give you the opportunity, one, to say do you think the strategy is right and clear, and two, to give us a wish list, what would you like to see in the Autumn Statement in terms of road strategy and motoring taxation?
Alastair Harper: Some brief comments on it. It is a real pity that we lost the tax benefit for businesses using low carbon vehicles in the Budget because that was a good signal to businesses, it encouraged a new market and the more that we look at taking low carbon vehicles out of the exemption from various car taxes, the more mixed messages we start to give about the trajectory for the green economy. This is an important thing. We have Ford in Dagenham choosing to do their low-carbon R&D work there and then building it next door in the factory. We attract those global companies to do their stuff for Europe in the UK because of the signals we have set. I think anything in the Autumn Statement that undermines that kind of direction would be a real pity because the petroleum engine is not going to be here forever. If we are at the forefront of what comes next that is something that we should be proud of.
David Powell: I think it would be a shame if we continue to have these perennial scraps around fuel duty 3PL and 3PR and 1PL and 1PR. What we desperately need is a strategy for transport. I do not get the sense that there is one. Public transport is getting proportionately much more expensive than driving is. One of the reasons why the redefinition of environmental tax is so frustrating is because the VED is clearly demarcated on different carbon bands and that clearly does make an impact. I spoke to the Campaign for Better Transport about this, and they were very clear about that.
I think we need to see two things. Firstly, we do need a consistent signal. If the Chancellor signals a rise in fuel duty, he will not just back in over public pressure on it, for example. But I think we need to see a whole host of other incentives as well. What you might call de-deployment incentives; for example, the measures that were given before the last election to encourage the recycling of cars, the scrapping of cars, that sort of thing, to trade them in for lower-carbon alternatives. There are all sorts of measure within car use to make that lower carbon but also against the policy certainty idea, you can’t build your tax base on something that is perennially held to political fortune.

Q108 Mr Spencer: Just to be clear, David, obviously you talk about this push and pull between whether it is right for consumers or whether it is right for the Treasury, are you suggesting and would you support an increase in that fuel duty and the Treasury to hold its nerve, if you like? Is that what you are calling for?
David Powell: Fuel duty is a pretty blunt instrument. The overall price of the oil and fuel duty together is what affects the price that people pay at the pump. The oil price is going up, so clearly there is a price incentive operating there. What I think is more important is if the Government says it is going to do something that it sticks to it, because then you do not have these political battles going on. You do not have these political structures of fortune. But there are other instruments like the VED, which have been hugely effective and need to be used more, where you are hitting people at the point of purchase and the point of decision making. There have been some rumours being flooded around in the news this week about a two-tier VED system where some part of VED would be used to pay for a privatised roads network. You don’t know how much of that is just kite-flying. If you start to lose the impact between environmental behaviour and motoring taxes, you start to lose one of your big incentives to change the way people travel. In the absence of a particularly coherent strategy that would be a concern.
Mr Spencer: Everyone is happy, then.

Q109 Chair: Just on that, when we did our air quality report one of the issues that we raised was the need to have a much more informed public debate about the issues. Do you think this is an area that perhaps isn't very well understood in terms of the tension between the short-term cost of living and the long-term environmental aspects?

Andy White: If I may make a very personal comment on that, I think that is absolutely the case that those things are not particularly well understood. The impact of motoring and health and pollutants and health and that sort of thing is not well brought together in terms of the public understanding of the other impacts of motoring.

Q110 Peter Aldous: If I could move on to the area of energy efficiency. This is something we have touched upon. Do you believe the Government is doing enough through the tax system or fiscal incentives to support energy efficiency?

Jenny Holland: This is me, and I guess you have anticipated my answer.

Peter Aldous: I think I have already had part of it.

Jenny Holland: I think the answer is definitely no. I talked earlier on about ever decreasing levels of Government ambition, particularly for the Green Deal and the ECO. If you look at what DECC said in its carbon plan last December, it set out a vision whereby every practicable cavity wall, 7.5 million of them, and every practicable loft, another 7.5 million of them, would have been insulated by 2020, and chuck in 1.5 million solid walls as well. It is quite clear that the policy is not in place at the moment to make that happen. We are not just talking about insulation. DECC commissioned a report from McKinsey, which I am sure you have all seen, in July that looked at capturing the full electricity efficiency potential of the UK and what McKinsey found was that current policies are on course to deliver only a third of the possible energy savings by 2030.

The Committee on Climate Change likewise pointed to the fact that insulation installations are currently well below their indicated trajectory and recommended in their last annual progress report that new fiscal incentives needed to be put in place before the launch of the Green Deal in autumn 2012. You could say it is a bit late for that, but on the basis that Greg Barker tells us that it wasn't launched on 1 October I guess there is still a little bit of time to make up some ground.

The particular incentives that the Committee suggested and many others before them have suggested—and we ourselves—were particularly stamp duty and council tax related incentives. If I can just say a little bit about both of those, I think it is fair to say that most studies to date have focused on rebates, council tax rebates or stamp duty rebates where householders get some money back when they install energy saving measures. There is a lot of literature out there on rebates and I am very happy to send the Committee links to all of them. But over recent times—and I just wanted to focus on that a little bit today—we at ACE have become more attracted to the idea of variable council tax rates or variable stamp duty rates that relate to and reflect the energy efficiency of the property. The key reason for that is that unlike one-off rebates they would, over time, start to embed energy efficiency in the value of the property. We think that is something that is really missing at the moment. The number of bedrooms and the condition of your bathroom and kitchen are amply reflected in the value of your property but the energy efficiency of it is not.

What we are saying is you could have a basic stamp duty rate, say that was the equivalent of band D, and then you would pay, say, 0.5% less if you had a particularly energy efficient property, going up to band A, and you would pay more if you had a rather less energy efficient property. We think that this would, over time, as I say, mean that energy efficiency became embedded in the value of properties, which would be a very helpful overall signal to send out to the populace.

You could do something very similar with rates of council tax, which has the added attraction that it moves through the housing stock more quickly because obviously it is not just reliant on something that is done at the point of sale and purchase. It also would not be masked by other associated transaction costs, because frankly when you are buying a property you do not quite know how much of this enormous overall bill is down to stamp duty or solicitors' fees or whatever. Again, I would be happy to send the Committee more detail on our thinking on that.

Chair: That would be helpful.

Jenny Holland: I would like to list a couple of other incentives that we feel as though we have been banging the drum on for a long time, as has this Committee I know and other Select Committees. The first is an extension to the landlord's energy saving allowance, which is due to finish in April 2015. A number of people in this room on both tables were involved in seeing onto the statute book in the Energy Bill 2011 a minimum energy efficiency standard for the private rented sector, which comes in in 2018. To spur improvements before that date, which is very necessary in our view, the landlord's energy saving allowance should be extended at least to 2018 and be raised from its current level of £1,500 to £3,500, which would be enough to bring about three-quarters of F-and G-rated properties up to band E, which is the anticipated minimum standard level.

Just another one in the residential sector, we would like to see the current 5% reduced VAT rate extended to cover A- and B-rated windows and there would not be any dead weight compliance associated with that because they are not mandated by building regulations. In the commercial sector we have also been banging on for a long time about the need to roll out display energy certificates to the whole of the commercial sector, not just public buildings. We thought we were nearly there—another interesting example of Government not necessarily working in a joined up way—last year on the Energy Bill when Greg Barker said that DECC was very supportive of such a notion, as were BIS and CLG, and somehow or another it all unravelled because some less enlightened forces, shall we say, managed to get the ear of Treasury and scupper it.

Mr Goldsmith will remember this all too well because it was he who brought forward an amendment to try to achieve this during the Committee stages of the Energy Bill.

A couple of other things in the commercial sector—I think we might get into some more detail later—we would like to see the revenue-recycling element of the carbon reduction commitment reinstated and, again, we would be quite interested in seeing some de-deployment incentives in the commercial sector. For instance, the equivalent of scrappage schemes for lighting, heating and ventilation controls. Sorry it was a long answer.

Q111 Peter Aldous: You have actually answered most of the supplementaries, but I will just take one more. Just talking about the Green Investment Bank, Government is supporting the Green Deal and non-domestic energy efficiencies, two of those five priorities of the Green Investment Bank. What would you like to see the Green Investment Bank do in these areas?

Jenny Holland: I think I have already alluded to a couple. Ingrid, do you want to come in?

Ingrid Holmes: On the energy efficiency agenda specifically? I think there is some talk of the Green Investment Bank supporting the Green Deal Finance Company, which is a private sector led vehicle that has sprung up, currently funded with a £7 million loan from DECC, and I think that is the key contribution from the private sector players, which would seem to be right. The Green Investment Bank was originally conceived as a bank that could provides low cost finance to energy efficiency and going through this intermediary pushes the cost of capital up. So they may need an additional layer of funding from Government to bring those costs of borrowing down to the end users, i.e. people wanting to do investment in their home. I do not think we are quite there yet, because we have decided to go through this convoluted route but the GIB will be critical in delivering finance.

Q112 Peter Aldous: One final question. I get the feeling that you think there has not been enough in terms of the incentives to kick start these measures, do you think that is down to the cupboard being relatively bare in terms of finance or a lack of understanding as to the economic arguments for supporting energy efficiency?

Ingrid Holmes: I think it is a bit of both and they are both interlinked. In my opinion some of the issues around growth in the economy relate to lack of consumption and lack of investment and energy efficiency ticks both of those boxes. So the reason we keep coming back to the economic case is that is the way to engage Treasury. We have, through Customer Focus, worked on a piece on the macroeconomic benefits of energy efficiency, so comparing things that Governments might do, like VAT cuts, fuel duty cuts, general capital spending and general capital investment to a ramped up investment programme in buildings to try to stimulate the economy. Both over a 2015 and a 2027 timescale energy efficiency out performs all those other options.

Then you come to the question of how are you going to finance this, and the obvious pot of money, given all of our discussions to date about fuel taxes, is to use those carbon revenues coming through from 2013 onwards to support that as a means to start to deliver scale and socialise this idea of the Green Deal.

Alastair Harper: Also with the Green Investment Bank there is something obvious and quite simple it can do for the Green Deal, which is to cover the first defaults. If that happens it will attract a lot more private sector banks to get involved with the Green Deal because they know the security is there and, more importantly for the consumer, it will bring down the interest rates.

Ingrid Holmes: Can I pick up on that because one thing the Green Investment Bank will say is we cannot do non-commercial high-risk investments without money from Government to underpin that. So that is something they will absolutely definitely say they won't do but that is where the Government funding to underpin that early GIB money comes in, that is the role that that plays. So it is important to understand that distinction.

Andrew Raingold: There are also significant opportunities for large organisations to reduce their energy use that will lead to both cost reductions and environmental savings, but the main problem here is that the policy framework is much too complex. There is a plethora of different regulations and carbon prices and that doesn't provide a clear enough signal to business. Where this needs to be addressed fundamentally is through DECC, who are currently drafting an energy efficiency strategy. Treasury have to be involved in this process and it has to touch a number of areas, not just the regulatory framework but also the Energy Bill and how energy efficiency could be on a par with subsidies for the supply of energy.

Jenny Holland: Can I just come in very quickly? I think a lot of it is about a lack of understanding and, I might say cynically, an unwillingness to understand in some cases, because as I said to you in terms of both stamp duty incentives and council tax incentives, for instance, both of those schemes could be made to be entirely revenue neutral as far as the Treasury is concerned. So we are not looking at some huge raid on the pot. We are not looking at that at all.

Ingrid mentioned the Energy Bill Revolution campaign, the carbon tax recycling campaign that I think most of the organisations, and indeed most of the people in this room are supporting, which is excellent. Again, even the earlier research, let alone the more recent research to which Ingrid alluded, demonstrated quite clearly that recycling those carbon tax revenues in the way that the campaign is calling for could lead to the creation of up to 50,000 direct jobs and up to 200,000 indirect jobs. So those are powerful economic arguments, the likes of which I think we shouldn't be having to struggle quite so hard to make to the Treasury.

Alastair Harper: We need to go beyond heat in tackling energy efficiency, we need to go beyond what the Green Deal does and get at that 38% of electricity consumption that McKinsey reports we can reduce by. Currently the Government is very interested in—or at least the Prime Minister is, I don't know if he has told anyone else—switching as a way of reducing bills. There are only two ways to reduce bills: one is to change the energy you use, and one is to not use that energy, the second part being the cheapest.

We at Green Alliance have argued that the best way is to make a market for energy reduction that rivals the market for energy supply. We think one way of doing that is through an energy efficiency feed-in tariff, where you encourage a market to reduce the amount consumed in an area, in a sector, in a business. To produce, and this is being pretty cheap, 1 megawatt of electricity would be £100, the cost, we submit, of avoiding that should be less. From how it has already been done in certain states in America it would be £30—so a third of the cost to remove the electricity than to create it. If we measure it in the same way, if we use the same system for supply subsidy we can put it straight into the Energy Bill and through the feed-in tariff system that already exists.

Q113 Zac Goldsmith: That is exactly what I was going to ask. The most important part of the proposals originally was to put energy saved on a par with energy generated and create that mark up. There is no doubt that works from a financial point of view. I think the reason why that has effectively been dropped, because that is not currently on the table other than a sort of vague aspiration, is the Government could not work out how to create a reliable benchmark. It is very hard to know how much energy is saved because you can always put more appliances in a building or whatever it is that consume more energy. It is hard to know how much you would save.

The question to you is, how can you get around that problem and what can we do at this stage to ensure that that exciting part of EMR is not lost altogether, because without it we don't have a hope of meeting the targets that we are talking about.

Alastair Harper: The measurement is already there. It already works in Texas. You can see how they have done it and how it has succeeded.

Q114 Zac Goldsmith: There are no problems with the benchmark?

Alastair Harper: No, certainly not. The larger you do it the more that the rebound effect and so on don't matter because you see on the large scale exactly how it succeeds, and the idea—

Q115 Zac Goldsmith: So why is the Government not convinced, then, by the Texas model?

Alastair Harper: I think, frankly, it has not been taken seriously enough within DECC. It has been taken seriously by some at a political level but that has not cascaded to the civil service and it has not been reinforced enough by Government. It is starting to happen now because of recent comments by the Prime Minister to bring down bills and so on, but they need to see that this model works. I have spoken to organisations like Deutsche Bank who have said they can do it right now. They invited DECC officials to come down and see exactly how they would do it.

Q116 Zac Goldsmith: Is that the main obstacle at the moment in DECC? It is a failure to understand how—

Alastair Harper: I think we still need political leadership and we need leadership that sees that switching does not reduce the energy cost for everyone; it just switches who pays the cost. If you want to reduce bills for everybody, energy efficiency is the way forward. That understanding needs to come right from the heart of goivernment.

Q117 Zac Goldsmith: So it is technical rather than political the problems that are holding this up?

Alastair Harper: I don't think the technical was a problem, it was cited as a problem.

Q118 Zac Goldsmith: Yes, but the perception that it is technically difficult rather than lack of political will. There is no other agenda there that you detected that is preventing that from—

Alastair Harper: I think this is something the private sector on the supply side see as a distraction and don't push for that reason, because they see there is a lot going on with electricity market reform now and don't want it—

Q119 Zac Goldsmith: Presumably it is direct competition to them?

Alastair Harper: That would be a conclusion. I think that some would feel that way, some are more open-minded. It is an opportunity anyone can partake in.

Q120 Zac Goldsmith: Have you seen any signs then of undue influence by the big suppliers?

Alastair Harper: I wouldn't want to accuse anyone.

Jenny Holland: I think it is highly regrettable and we are not the only people to be saying it. The ECC Select Committee were pretty excoriating in their criticism of the Government at the time the draft Energy Bill was produced. So it is highly regrettable, in our view, that demand reduction does not feature at all in the draft Energy Bill when it was published before the summer recess.

We do now have assurances from DECC that they are about to produce a consultation on demand reduction options and they are hoping that that will come out at the same time as the Energy Bill has its first reading, which will be some time in November I think is what we understand nowadays. At the same time they have commissioned a lot of research, which arguably they should have done a little while ago, and what they are saying to us now is that if as a result of that research into various demand-side solutions they see that primary legislation is required to bring whatever it is into being, they will take the opportunity of the Bill's second reading, in whatever is its second House, to bring forward a suitable amendment. In the meantime, we, Friends of the Earth, WWF, Greenpeace and Green Alliance have signalled our intention to bring forward some kind of broad framework amendment around an electricity efficiency incentive as soon as possible after the Bill is introduced, which we hope will at least stimulate the kinds of discussions that I think you and others feel have been rather sadly lacking so far.

Q121 Dr Whitehead: The demand-side reduction as such features in the draft Bill, and indeed may only feature in a future Bill towards the end of its passage through the House, which could be a problem. One of the issues going around is the extent to which demand-side reduction measures stand alone in their own right, de-deployment initiatives as it were, as opposed to measures which cut across or duplicate or move into areas where other initiatives are under way. One of the concerns about perhaps placing demand-side initiatives into Contracts for Difference, for example, is the extent to which that then competes with other forms of renewable low carbon energy, especially if that is levy catchers as it is likely it will be. What mileage do you think there is in terms of looking at perhaps capacity payment arrangements for verifiable and active demand-side permanent reductions, such as ND lighting, such as dynamic demand measures, such as the optimisation that can institute demand-side reduction structurally in the system and would not then be dependent on competition with other areas of reduction?

Jenny Holland: We did cover some of that ground before you came in and I was very much making the point that as things stand the capacity market mechanism within the draft Bill, while not precluding the participation of low carbon generation and demand-side solutions, effectively does so because high carbon supply side solutions will be favoured in terms of their ability to bid into the capacity market auctions. I did say earlier on that we are keen to see the capacity market mechanism amended, modified, when the final bill arrives in Parliament in such a way as to perhaps ensure a certain minimum level of participation for demand-side solutions, and in such a way also perhaps to ensure that there is a merit order in place in terms of the despatch of the various solutions when those times of peak demand come about.

Just on the idea of an electricity efficiency fit, unlike Green Alliance, for the reasons that you articulated, I think we would prefer to see a freestanding electricity efficiency fit that cannot then be seen to be competing with renewal technologies in terms of the funding point.

Q122 Martin Caton: We understand we might well see the Treasury setting out further plans to boost infrastructure in the Autumn Statement. What do you want to see from the Treasury on infrastructure?

Andrew Raingold: Firstly there needs to be a more strategic view of how the investment in infrastructure meets the Government's wider aspirations for the transition to a low carbon, resource efficient economy. I think also on a specific level, when you look at the infrastructure loan guarantee scheme, not one of the five criteria against which projects are judged includes sustainability. What we have seen in the past is, if at the beginning of a project sustainability is a high priority, the project can lead to very significant cost savings. This is what happened in the construction for the Olympic Park site, for example. It is not as if the whole of the Olympics was a hugely sustainable Olympics but the construction of the site was pushing boundaries in terms of industry best practice, and in the end, the findings from the Government is that by doing that the Government saved money. So I think ensuring sustainability is a priority on an individual basis for infrastructure projects across the board and would help drive forward the benefits of a green economy.

Q123 Martin Caton: Would you all agree that if there is going to be something on infrastructure, it should be introducing a sustainability criteria in any infrastructure projects?

Ingrid Holmes: I disagree with that. I am not sure that sustainability is particularly part of the infrastructure plan discussions although there were probably efforts to get it in there and similarly with the guarantee scheme that element was probably absent. I think it leads to a question of how we do that. Therein is the trick. You could have some kind of a qualitative criteria around any assets guaranteed, which must be proven not to lead to locking in a high-carbon trajectory in the UK, but we would have to think a bit more about what that would be like in terms of effective screening criteria.

Alastair Harper: If you are doing an infrastructure plan, it must consider two things. What is going to get the most short term injection of capital into the UK and what are we going to need in the long-term? I think at the moment too much of what I read about infrastructure shows the same three things come up—gas, airports and roads. Basically that means the stuff we built last time we thought nationally about what kind of infrastructure we need. I presume people are going back to their old textbooks from then. I think it is important we look at what is the stuff that the UK needs now and needs in the next 20 or 30 years.

Green Alliance analysed the Treasury's own infrastructure pipeline for spending for this financial year and took the top 20 of those projects by cost and split them between low carbon and high. We found 88% of those projects were low carbon. Of that we found that only 6% of it was wholly public money while 61% of the high carbon came from public money. So in terms of the initial return you are going to get, this is where the private sector wants to invest right now, the reasons being pretty obvious. It is building stuff we do not have yet. It is building offshore, onshore wind, it is building fibre optics, building the connectors for all of that, it is building low-carbon transportation. Essentially a gas, road and airport infrastructure push would be a big refurb job, it would be tarting up and embedding stuff that we needed a generation ago rather than looking at what the UK needs for the next generation and where the private sector wants to put its money right now.

Q124 Martin Caton: Thinking about the limitations that we now know are on the Green Investment Bank, both when it is going to be allowed to start borrowing and the cap, would introducing this sort of sustainability criteria into the 50 billion infrastructure borrowing partly overcome the gap that clearly there is now for the Green Investment Bank?
Andrew Raingold: I think it would help. It also opens the door to assess fundamentally if we still need borrowing restrictions on the Green Investment Bank, because the ability of the bank to borrow from capital markets is essential for its success and for the same reason that we need the loan guarantee scheme to drive growth and jobs now, the same argument could be made for the Green Investment Bank. There is no good economic reason to constrain the bank as current Government policy. That needs a fundamental review.
Ingrid Holmes: I think, in addition, there are real risks in continuing to place these kind of responsibilities with essentially Treasury civil servants. We have quite a long track record of underwriting daft projects—Metronet £2 million bail-out by taxpayers. Again this is one of the core reasons for the creation of the Green Bank; it was friendly, arm's length bankers that can negotiate with the private sector and get a good deal. So to have this happening outside of the GIB just seems to make no sense.
Alastair Harper: I agree with what Andrew said about the Green Investment Bank. Now is the time it should take risks because it provides certain for investments when there are so few. Because of the state of the wider economy, in fact what we need is these vast injections of capital; that is why we need the GIB to be able to get out there now. It seems crazy that stuff is having to be made up around it to encourage large-scale investment while one tool ready to go still remains unchanged.

Q125 Chair: Can I just return to what you were saying about the people planning the different projects turning to their textbooks and come up with the same old designs? Is this an issue about academic research and the current thinking and how that is linked to innovation, and how that is linked to understanding the linear investment world? Is there a need to make connections between, if you like, education for sustainability in terms of where the future lies? Is that something that is not being properly brought together?
Alastair Harper: I think that is true. We have discussed that when infrastructure is planned within Government it does not look at it in those terms. I understand that BIS' infrastructure plans consider low carbon but not in the fundamental way that their own data shows it matter. You need to understand this isn't a sweet PR exercise; it is the mainstream. We are finding ways that the environment is dictating the way that our economics can work and our infrastructure can work and we need to embed that understanding into any infrastructure plan.

Q126 Mark Lazarowicz: One last question. In respect of planning, in terms of the loan guarantee grant scheme for infrastructure projects, the Government has 50 billion that it wants to spend, I think by the end of 2013 but it is a very short timetable, and it seems to me the pressure on it to spend that money on anything relating to infrastructure is going to be very strong for all sorts of reasons. I think the possibility about them not being sustainable must be quite high. Are you and your various NGOs, trade bodies, whatever, trying to act formally about debate because it does strike me there is not a great deal of thinking, with respect to colleagues here in the Treasury, about how that sustainability element of 50 billion is going to be provided? Are you giving them ideas? I don't think much else is happening in some quarters. What are you doing to contribute, to make suggestions as to where that 50 billion goes?
Andy White: Personally I think there is an element where a project has to have got to a certain stage for you to be able to do something that quickly. We, as an overall company, AECOM/Davis Langdon, have been looking at putting suggestions forward for certain projects but obviously from our point of view they are projects that we would like to go ahead anyway and give us income as well so there is a vested interest in that. The green agenda does not come into that at all.
David Powell: Slightly off the question but the BBC's Stephanie Flanders did a piece about this. She said, "How many projects are there going to be that meet these criteria that the Government are putting on here". I just wanted to underline your concern that there are going to be many things that are shoved already in the plan, whatever the other criteria are. Duly noted that we should go back and come up with some concrete suggestions, because I do think it is a real concern.
Ingrid Holmes: The other thing to add to that is this platform evolved to try to bring that institutional investor capital in, the inherently cautious money. There are a number of large pension funds very interested in doing direct infrastructure investment but they want to invest in operational assets that have a revenue stream from day one that are proven to work. Where this guarantee scheme is focused is on greenfield assets, new build and there is just a fundamental mismatch there. So I am sceptical, on top of everything else, how much demand there is going to be for this programme.
Alastair Harper: Not in terms of capital need for our economy, but for pure environmental impact. I know the RSPB have been putting in a lot of resource into this, measuring how infrastructure can be truly green, not just in terms of carbon impact but wider impact on water and on our wildlife and so on.
Chair: At this stage I will bring it to an end. We have covered an enormous amount of ground. We have virtually had a full turn-out from the Committee as well. We are sorry that the Treasury is not engaging with us in advance of the Autumn Statement, but hopefully the inquiry that we are doing will lead to an informed Autumn Statement, at least in terms of the debate afterwards. Thank you all very much indeed for coming along.

Written evidence

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

SUMMARY OF RECOMMENDATIONS

(1) Budget 2013 should deliver:

— The right rhetoric and policy certainty for low-carbon investment. The Chancellor should embrace long-term decarbonisation targets and drop his desire to review the 4th carbon budget. He must "talk a good game" on the green economy and reassure worried investors that the UK is the best place to do green business.

— A change of approach on fossil fuel tax breaks and subsidies. A new "dash for gas" is not in the interests of consumers, business, or the long-term sustainability of the UK's economy. The Exchequer must begin weaning itself off tax revenues from the oil and gas industry, rather than actively courting them. There is no excuse for tax breaks for mature and/or polluting industries like oil and gas (conventional and shale).

— A commitment to using future carbon taxes—now firmly classified as "environmental taxes"—for environmental and social ends via the insulation of homes. It is hard to avoid the conclusion that the Government's redefinition of environmental taxes has been done for any reason other than political expediency. The silver lining for what is otherwise a perverse situation is that there is now an even stronger case for those taxes that remain classified as "environmental" to be used for delivering environmental outcomes.

(2) The Chancellor should go back to the drawing board on the damaging Levy Control Framework, which has a deleterious effect on long-term low-carbon investment.

(3) The Chancellor's environmental policies must be clearly designed to deliver on social as well as environmental goals.

(4) The Environmental Audit Committee should:

— persevere in its efforts to have the Chancellor give oral evidence; and

— consider a new inquiry on the "fair transition" to a green economy.

INTRODUCTION

1. Rapidly moving to a green economy is urgent for all countries, including the UK. It must be an environmental, social and economic imperative for the Chancellor. We encourage the Environmental Audit Committee to keep up its efforts to have the Chancellor give oral evidence on the green economy. We share their frustration with the repeated rebuttals the Committee has had in its attempts so far.

2. Friends of the Earth supports the EAC's recommendation that "the whole economy will need to be green… the Government must set out a clear definition of a green economy that addresses all three interdependent pillars of sustainable development, including "social" considerations, well-being and environmental limits."[1] Building a "green economy" means much more than a degree of support for renewable energy, whilst otherwise continuing with business as usual.

3. The main problem is not that the Chancellor is unsupportive of renewable energy or growing green business. But the Chancellor neither wishes to, nor understands the implications of, transitioning the whole economy to a green, fair and genuinely sustainable path. In both rhetoric and effect the Chancellor has actively promoted fossil fuels and sought to give the impression that "the environment" and "the economy" conflict. In practice, for every "green" initiative from the Chancellor follows a "non-green" one.

4. Business needs confidence that it will be supported to take advantage of the window of economic opportunity presented by the market for green goods and services—estimated at £4 trillion worldwide by 2015. It is perhaps a once-in-a-generation opportunity, arriving just as the UK's economy is in sore need of fresh ideas and a change of direction. Lord Stern and Dimitri Zenghelis from the London School of Economics believe we are in the early stages of a "new energy-industrial revolution", but that "economic history tells us these periods of change are characterised by two types of countries: 'those where the new industries are being deployed, and those areas of the world that are left out and falling behind'… investment flows to the pioneers".[2]

5. The committee will be aware that the UK's green sector is at present one of the very few economic success stories in the economy. In 2010–11, figures from BIS say that green business accounted for 8% of GDP, up 4% on the previous year.[3] However as the CBI and others argue, this quiet success has happened every bit as much despite the actions of the Government as because of it. John Cridland, CBI Director-General

[1] Environmental Audit Committee, "A Green Economy" (April 2012) http://www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/1025/102505.htm/

[2] Lord Stern & Dimitri Zenghelis, 'Low Carbon Growth, transformation and the recovery: a presentation to HM Treasury' (May 2012): http://www.foe.co.uk/resource/event_background_documents/low_carbon_growth.pdf

[3] http://www.bis.gov.uk/assets/biscore/business-sectors/docs/l/12-p143-low-carbon-environmental-goods-and-services-2010–11.pdf

says: "The UK has made a great start tapping into green economic opportunities but mixed signals from the Government are setting the UK back. If we can't be sure that the policies of today will still be the policies of tomorrow, we simply won't build business or consumer confidence or secure the investment we need.[4] Mr Cridland also stressed that "the so-called 'choice' between going green or growth is a false one."

6. With the Chancellor under increasing pressure on the economy, and also under pressure from mainstream business groups like Tesco and Unilever to "deliver his promises" on delivering a green economy,[5] both his impending Autumn Statement and Budget 2013 need to represent a change of tack. The Chancellor can not afford to ignore that "green is working", supporting one million jobs in the UK economy already.

7. The green economy must also be a fair economy. This fundamental pillar of sustainable development has no priority in the Government's narrative. The Government's response to the EAC's "A Green Economy" report categorically does not include social justice in its top line definition of a green economy: "Government defines a 'green economy' as one where 'value and growth are maximised while managing natural assets sustainabilty'".[6]

8. It is the poorest that will be hit hardest by both the impacts of environmental problems—here and abroad—and by rising energy, transport, food, insurance premiums or other prices that are set to keep on rising as environmental stresses increase and fossil fuels become (even) more expensive. Critically for the Chancellor, the policies that the Government implements, both explicitly environmental and more broadly, can have either positive or negative effects on different groups. Where the Chancellor delivers environmental policies, they must explicitly deliver on social as well as environmental goals: a prime example of this is the urgent need for a joined-up policy on carbon taxation and energy efficiency, focused on the fuel poor (see later in this submission). Friends of the Earth requests that the EAC conduct a specific inquiry into the "fair transition to a green economy"—a critical issue, and one for which Friends of the Earth would be very keen to provide evidence.

9. The remainder of this submission concentrates on three priority areas for the Chancellor:

(a) POLICY CERTAINTY: Budget 2013 must see the end of harmful rhetoric and mixed messages. No more must renewable energy be painted as an expensive luxury; the environment held up in opposition to economic growth; or the ostensibly reasonable desire to protect households from rising costs used to justify—rather than oppose—a new "dash for gas".

(b) SUBSIDIES: Budget 2013 should scrap the five tax measures for oil and gas exploration that the Chancellor has announced in 2012 alone. It is unacceptable that mature, well-backed and polluting fuels can benefit from tax incentives at such a critical juncture for the UK's energy mix and carbon targets. The Chancellor should also make clear the implicit subsidies received by both fossil fuels and nuclear power, and place these firmly in the public domain.

(c) TAX: Pledge to build public support for "green taxes" by announcing plans to using the revenues from incoming carbon taxes to insulate homes.

The Rhetoric of Policy Certainty

10. If the government is serious about building a green economy, it must provide certainty about the (green) direction of travel. Lord Stern states that "Government-induced policy risk is the single biggest deterrent to investment, with profound consequences for growth, energy security, electricity prices and a low-carbon future."[7]

11. But green business does not have policy certainty. Neil Bentley, CBI Deputy Director-General: "there is a business case for acting… [but] what we hear from those looking to invest [in the green economy] is that unlocking this capital is almost within our grasp, but frustratingly we're not there yet. Businesses need, above all else, policy certainty, consistency and clarity over the long term."[8]

12. In recent speeches, the Chancellor has supported renewable energy, but often with a caveat which firmly underlines its "cost". For example, Budget 2012: "renewable energy will play a crucial part in Britain's energy mix—but I will always be alert to the costs we are asking families and businesses to bear". These costs have been directly contrasted to (heavily debatable, see below) claims about the cost of fossil fuels: in Budget 2012 he went on to claim that "gas is cheap".

13. Too often, "the environment" and "the economy" are painted as oppositional. For example, Conservative Conference speech 2011: "we're not going to save the planet by putting our country out of business"; the Autumn Statement 2011: "we will make sure that gold plating of EU rules on things like habitats aren't

[4] http://www.cbi.org.uk/media-centre/press-releases/2012/07/green-or-growth-is-a-false-choice-%E2%80%93-cbi-chief/

[5] Letter from the Prince of Wales's UK Corporate Leaders Group on Climate Change to the Chancellor (March 2012) http://tinyurl.com/95pv7bd

[6] Government Response to the Committee's 12th Report of Session 2010–12 (September 2012): http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenvaud/568/56802.htm

[7] Financial Times, "Cameron must commit to low-carbon economy" (October 2012): http://www.ft.com/cms/s/0/4d468dc2–13bb-11e2–9ac6–00144feabdc0.html#axzz29OPVoq8g

[8] CBI, "Three Steps to achieving greater resource efficiency" (December 2011): http://www.cbi.org.uk/media-centre/press-releases/2011/12/three-steps-to-achieving-greater-resource-efficiency-cbi/

placing ridiculous costs on British businesses"; Budget 2012: "environmentally sustainable must be fiscally sustainable too."

14. These guarded and leading comparison compare starkly with his statements in opposition that "I see in this green recovery not just the fight against climate change, but the fight for jobs, the fight for new industry, the fight for lower family energy bills, and the fight for less wasteful government… we need to see the whole of the government pulling in the same direction to cut emissions and green our economy." The Chancellor's change of stance on supporting the green economy is one of his largest, least heralded and most damaging U-turns.

15. Cheap talk costs money. Professor David Newberry told the Energy and Climate Change Committee in June 2012 that, in the words of the Chair, Tim Yeo MP, "Treasury rhetoric has a direct influence on the shape of energy policy".[9] Green investment is a new and to an extent untested field. The cost of capital is very sensitive to political risk, which the Chancellor is actively creating. As one example, Richard Nourse of investment bankers Novusmodus said that the Government's illegal attempts to prematurely cut subsidies for solar panels "added to the cost of capital by increasing the risk perception of those investors the Government needs to deliver its vision for the low-carbon economy".[10]

16. Mr Osborne is undermining long-term certainty for the green economy by pushing through a big role for unabated gas "to at least 2030", whilst attempting to muscle down renewable energy subsidies[11]. This directly conflicts with the recommendations of the Committee on Climate Change, who say that the electricity sector should be mostly decarbonised by 2030, and that the Government should introduce a target to cut the emissions of the power sector to 50g of CO2/kWh by 2030.[12] Mr Osborne has also demanded the 2014 review of the fourth carbon budget for years 2023–27. The CBI stresses that "ensuring the ambition of the 4th carbon budget is maintained" is its number one priority for delivering green growth in the UK.

17. The Chancellor must support long-term decarbonisation targets for the economy, including the 50g/2030 target above, and ending the uncertainty he has caused around any potential review of the fourth carbon budget period. The Chancellor must also use Budget 2013 to change his rhetoric on the green economy, reassuring investors that he is serious about the long-term decarbonisation of the UK economy and that Britain is a good place to do green business.

Fossil fuel subsidies and the "dash for gas"

18. It isn't the case that the Chancellor does not "do" policy certainty. If there is one part of the economy that does have certainty that the Chancellor will stand up to bat for them, it is the fossil fuel industry. This is misguided—both economically and environmentally.

19. The Chancellor's recent speeches have provided a narrative of protecting consumers as justification for his pursuit of gas. But it is a false premise that gas is cheap. It isn't. The price of gas is rising fast and is expected to keep doing so in future (DECC);[13] gas price rises are the major factor behind domestic energy bills increasing by between 2004 and 2010 by 60% (electricity) and 90% (gas), according to the Committee on Climate Change.[14] Further price rises in 2011[15] and this month's new price rises announced by most of the "Big 6" energy companies were also largely because of the rising price of gas.[16] The future for the gas price is uncertain, but most experts say that the price is only likely to go in one direction: up. While the Chancellor often uses major speeches to point out the ever-rising nature of the oil price, he does not do the same for gas—quite the reverse.

20. The long-term interest of the consumer or business is not served by a new dash for gas, any more than are the UK's carbon budgets. The CBI has strongly cautioned against an all dash for gas, warning that it would leave us dangerously exposed to rising prices and bust our carbon budgets.[17] And it is the Chancellor, not the Climate and Energy Secretary, who appears to be most strongly behind the dash for gas. It is for example notable that the Chancellor announced his intention to consult on a new tax regime for shale gas before Ed

9 Letter from the Energy & Climate Committee to Chloe Smith (June 2012) http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/letters/csmith200612.pdf

10 Financial Times, "Shift in green rhetoric damps sentiment" (2012): http://www.ft.com/cms/s/0/c8852e7e-2d9f-11e1-b5bf-00144feabdc0.html.

11 Guardian, "George Osborne letter to Ed Davey on gas and wind power" (July 2012) http://www.guardian.co.uk/environment/2012/jul/23/george-osborne-letter-ed-davey-gas-wind

12 Letter from the Committee on Climate Change to Ed Davey (September 2012) http://hmccc.s3.amazonaws.com/EMR%20letter%20-%20September%2012.pdf

13 DECC, "Gas Price Projections" (October 2011) http://www.decc.gov.uk/assets/decc/11/about-us/economics-social-research/2935-decc-gas-price-projections.pdf

14 Committee on Climate Change, "Household Energy Bills" (December 2011) http://www.theccc.org.uk/reports/household-energy-bills

15 Friends of the Earth, "Gas Prices: is the only way up?" (March 2012) http://www.foe.co.uk/resource/briefings/gas_price_briefing.pdf

16 Channel 4 Factcheck: "What does British Gas spend your money on?" (October 2012) http://blogs.channel4.com/factcheck/factcheck-what-does-british-gas-spend-your-money-on/11657

17 Business Green, "CBI rejects calls for all out dash for gas" (September 2012) http://www.businessgreen.com/bg/news/2208266/cbi-rejects-calls-for-allout-dash-for-gas

Davey had formally given the green light to the resumption of shale gas exploration in the UK. This is not the kind of leadership the green economy needs.

21. The real economic opportunity—and the real long-run interests of consumers—is not served by a dash-for-gas. Budget 2013 should put clean, labour-intensive, British energy from renewables at the heart of his vision for short- and long-run economic sustainability.

22. The headline measures of Budget 2012 were two major announcements on tax breaks for oil and gas. The Chancellor promised new legislation for 2013 to give certainty to fossil fuel companies about the tax relief they will get when decommissioning assets like oil rigs, and a new £3 billion "field allowance" for deep and difficult new oil and gas fields off the coast of Shetland. The announcements were greeted extremely enthusiastically by Oil and Gas UK, the industry lobby group, as "greatly encouraging… a very significant step forward… a turning point for the UK's oil and gas industry". The decommissioning announcement alone is predicted to directly lead to £40 billion of new investment in fossil fuel infrastructure—one third of the entire GDP of the UK's young green sector. The 1.7 billion barrels of oil and gas this will unearth will produce when burned approximately one full year's worth of UK carbon dioxide equivalent.[18]

23. These two tax breaks were quickly followed by two more. In July 2012, a £500 million allowance for large shallow-water gas fields,[19] in September, a new allowance for existing, mature "brown fields".[20] In his speech to Conservative Party Conference, the Chancellor then unveiled his fifth tax break for fossil fuels within just seven months: a consultation on a tax allowance regime for new shale gas drilling operations.[21]

24. The two tax announcements from Budget 2012 alone are predicted by Treasury to bring in a net combined £1.14 billion in receipts over the following five years—even allowing for a temporary drop in receipts in the immediate short-term before new exploration flourishes.[22] The September announcement noted that the "long-term tax revenues this generates are expected to significantly outweigh the initial cost of the allowance".[23] It is evident that these tax breaks are directly intended to stimulate increased activity in the oil and gas sector—leading, not accidentally, to more money for the Exchequer. Chloe Smith MP was clear to the EAC in April 2012 that the Treasury considers the revenues it receives from the oil and gas industry to be "important".[24]

25. Clearly, a principle of good taxation is to tax "bads", such as fossil fuels or carbon emissions. For as long as fossil fuels are extracted in the UK, it is right to tax them heavily. But Friends of the Earth believes that an equally important principle for taxation of a "bad" is to seek to discourage that activity, and—in an area of such critical importance as climate change—seek ultimately to end that activity entirely. What is happening with current Treasury tax policy, however, is the opposite: the harmful activity is being actively encouraged and increased to bolster tax receipts. If a bedrock of a green economy is economic as well as environmental sustainability, there is nothing sustainable about building one's tax receipts upon a stock from which we must wean ourselves as soon as possible.

26. There is a parallel to the perennial battles around fuel duty, where Chancellors of all parties regularly struggle with increasing fuel duty, or whether to scrap planned rises. Given the Chancellor's equivocation on the green agenda, it is likely that his decision in Budget 2012 to stick to the planned 3p increase in fuel duty was likely motivated more by the £500 million hole this ended up leaving in the public finances rather than the environmental implications. It was notable that he subsequently backed down on this following public pressure. Taxing "bads" like fossil fuels and pollution must be seen as transitional—the right thing to do in the short-term, but not part of the long-term tax base of the country.

27. Ms Smith's evidence to the EAC did not accept that tax breaks such as these were incompatible with the desire to move to a green economy. But they are. Ms Smith argued that tax breaks that lead to an increase in domestic production of oil and gas do not lead to an increase in net carbon emissions; because oil and, to a lesser extent, gas are fungible, an extra unit of either produced in the UK would simply displace a unit imported from elsewhere; and that it is therefore better for the UK economy that said production occurs here, where the Exchequer can benefit, rather than abroad. There are three major problems with this analysis.

(a) supporting the UK oil and gas industry creates and reinforces vested interests, and risk creating "stranded assets";

(b) basic economics tells us that if the supply of becomes cheaper, then demand for that thing will increase. Announcing his consultation on tax breaks for shale gas, the Chancellor stated his desire that the UK not be "*left behind*" as shale gas prices drop in the USA. Virtually all projections for future EU gas prices are upwards, as the CBI point out.[25] If the Chancellor

18 Friends of the Earth, "Oil and gas tax breaks" (April 2012) http://www.foe.co.uk/resource/media_briefing/tax_breaks.pdf

19 HM Treasury, "New tax support for gas in the North Sea" (July 2012) http://www.hm-treasury.gov.uk/press_66_12.htm

20 HM Treasury, "Chancellor announces further action to stimulate investment in the North Sea" (September 2012) http://hm-treasury.gov.uk/press_78_12.htm

21 George Osborne's speech to Conservative Party Conference (October 2012) http://www.conservatives.com/News/Speeches/2012/10/George_Osborne_Conference_2012.aspx and HM Treasury, "Government action to stimulate shale gas investment" (October 2012) http://hm-treasury.gov.uk/press_92_12.htm

22 HM Treasury, Budget 2012: http://cdn.hm-treasury.gov.uk/budget2012_complete.pdf

23 HM Treasury, July 2012 op cit

24 Chloe Smith MP, Oral Evidence to EAC (April 2012) http://www.publications.parliament.uk/pa/cm201012/cmselect/cmenvaud/c1931i/1931i.htm

25 Business Green, op cit

were to one day get his wish, then lower prices in the UK would seem logically to lead to increased consumption in the UK. If, as is more likely, prices continue to rise, then the Chancellor will have helped to keep the UK in thrall to fossil fuels; and

(c) the opportunity cost. This has a direct and an indirect effect. Directly, because at a time when the economic opportunities of the green economy are so tantalising, it is the technologies of tomorrow, which desperately need it, that should be benefitting from tax breaks, not fossil fuels. Indirectly, because of the signal to green investors that continued support for fossil fuels gives, and the impact this has on the cost of capital.

28. EU State Aid rules are clear that there should be two main conditions for subsidising energy industries: environmental protection and helping infant technologies.[26] The conclusion that follows is that environmentally damaging industries like fossil fuels should certainly not be in receipt of tax breaks. The EU's draft September 2012 paper on the internal market says that Member States should actively work to "remove all… direct and indirect support for fossil fuels".[27]

29. Fossil fuels are in practice already very heavily subsidised as they do not pay the full costs of the damage they impose on society from climate change and air pollution.[28] Although policies such as Carbon Price Support will slowly increase the carbon price—from a very low base—the Committee on Climate Change report that the Government's overall suite of carbon polices is inadequate and the pace must be escalated significantly.[29] Those policies already in place are further undermined by countervailing policies which pull in the other direction—such as the Chancellor's deliberate efforts to lower the economic risk of extracting fossil fuels via mechanisms like tax breaks.

30. It is not just with fossil fuels where the Government is effectively providing massive subsidies to a non-infant, environmentally damaging energy industry. The nuclear industry is in similar receipt of colossal implicit subsidies. Their liability in the case of accidents is extremely limited—only £140 million at present, due to be raised to £1 billion soon.[30] That remains a very small fraction of the estimated $100-$250 billion costs of the Fukushima disaster. At least fossil fuels are required to cover their liabilities in larger part—BP set aside $38 billion to tackle the effects of the Deepwater Horizon disaster. The nuclear industry also has to pay only relatively very small amounts for decommissioning and waste disposal: before the year 2100, waste disposal responsibility will transfer from the industry to the UK Government in perpetuity. By excusing the nuclear industry these costs—and via other measures such as removing a lot of the risk of planning by curtailing public involvement in the planning process, it has massively reduced the risk of construction of nuclear.

31. Budget 2013 should signal a change of direction on fossil fuel and nuclear subsidies—reversing the tax breaks for fossil fuels given over the last seven months; pledging no more; and revaluing the subsidies that it implicitly provides on these industry's behalf. Tax breaks should be orientated towards clean developing technologies that need them. The Chancellor should end his crusade to push through a short-sighted and harmful dash for gas.

Environmental Taxation

32. Friends of the Earth was disappointed by the Government's decision to reclassify an "environmental tax" to exclude Fuel Duty, Vehicle Excise Duty and Air Passenger Duty. The terms of reference for this inquiry ask if the reclassification means that the definition of environmental tax "is fit for purpose and captures those taxes essential to a switch to more sustainable and less environmentally damaging behaviours". On both counts we would say no.

33. It appears as if the Government has done two things with this redefinition. Firstly, made it far easier in practice to meet its coalition pledge to increase the proportion of overall taxation coming from environmental taxes. As the Treasury itself points out, for the six taxes that are left within the definition (Climate Change Levy; Aggregates Levy; Landfill Tax; EU ETS; Carbon Reduction Commitment; Carbon Price Support), the OBR "forecasts the proportion of revenue from these taxes doubling by 2015–16".[31] That is: these taxes were going to rise anyway, so no strategic change of focus is needed by Treasury to meet its commitment.

34. Secondly, removed itself from any obligation to consider increasing the three duties that are now excluded. Chloe Smith noted at the time of the redefinition that "we [Treasury] want a clear approach that delivers a positive environmental impact without adding burdens onto business or households." The duties above accounted for approximately 90% by revenue of the previous basket of taxes defined by the Office for National Statistics. Together, they are estimated to bring in a combined £36.1 billion in 2012–13,[32] fuel duty alone is an estimated £27.3 billion. These duties are also the ones which tend to be the most contentious around

[26] Directive 2009/72/EC of the European Parliament and of the Council, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32009L0072:EN:NOT

[27] European Commission, 2012. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Making the internal market work. Draft 7th September.

[28] Para 26 Stern Review, page 149–152, figure 6.3

[29] Committee on Climate Change, "Fourth Progress Report" (June 2012) http://www.theccc.org.uk/reports/2012-progress-report

[30] Pinsent Masons, "Nuclear providers to be liable for up to €1.2bn damage, Government confirms" (April 2012) http://www.out-law.com/en/articles/2012/april/nuclear-providers-to-be-liable-for-up-to-12bn-damage-government-confirms/

[31] HM Treasury, "Definition of environmental tax published" (July 2012) http://www.hm-treasury.gov.uk/press_60_12.htm

[32] HM Treasury, Budget 2012, op cit

Budget time; although Treasury is hugely reliant upon the revenues it receives from these duties, as shown above the Chancellor has proved to be unwilling in practice to increase fuel duty further in the current climate.

35. Because these three duties are now classified as non-environmental taxes, the Treasury finds itself in the surreal position of being able to help meet its coalition commitment to increase the proportion of tax coming from environmental measures by lowering fuel duty, APD or vehicle excise duty—taxes that the ONS considers to be environmental taxes.

36. At the end of this submission we discuss the Treasury's Levy Control Framework (LCF). It is worth mentioning in the context of the reclassification of environmental tax that one of the Government's state reasons for creating the cap was the decision of the Office of National Statistics (ONS) to classify the Renewables Obligation as an imputed tax, and thus appropriate for Treasury control. DECC's Q&A document on the LCF explains which policies are to be capped and washes its hands of the ultimate decision, stating that "the final decision on which policies are judged to be tax and spend rather than regulation is made by the independent Office of National Statistics".[33] So, when it suits it, the Government passes the buck to the ONS. Yet with the new tax definition, the Government explicitly rejects the well-established ONS definition of an environmental tax.[34] This inconsistency only underlines the impression that the reclassification decision has been taken for reasons of political expediency.

37. The silver lining of the reclassification is that there is even less justification for those taxes left in the basket being used to boost the Treasury's coffers rather than being used for explicitly environmental ends. Two of the largest taxes left in the basket—the Carbon Price Support and sales of permits under the EU ETS—are expected to rise sharply in the future, raising an average of £4 billion a year over the next 15 years.[35] If these taxes are now determined to be primarily "environmental", then it is doubly appropriate to ensure that the revenues are used for environmental ends, and not simply raise revenue for Treasury. Indeed the Treasury's redefinition is now clear that an "environmental tax" is one which is "explicitly linked to the Government's environmental objectives".

38. A comprehensive programme of energy efficiency for homes—focused at first on the fuel poor—should be an economic, social and environmental opportunity for the Chancellor. There are 5 million households in the UK in fuel poverty and treating the illnesses caused by living in a cold home is estimated to cost the NHS over £850m annually.[36] In his recent review for DECC of fuel poverty Prof John Hills concluded: "Our analysis shows that improving the housing of those at risk is the most cost-effective way of tackling the problem, cutting energy waste, with large long-term benefits to society as a whole. We need a renewed and ambitious strategy to do this".[37] However this is not happening.

39. With Warm Front due to come to an end in 2013 spending on energy efficiency measures targeted at the fuel poor will have been slashed by over 50% since 2009/10. Total expenditure targeted on alleviating fuel poverty (including price and income support measures) has been cut by almost 30% in three years.[38] The Energy Company Obligation (ECO) is an inadequate response to rising fuel poverty numbers and the Green Deal is widely expected to see a significant decline in the installation rates of cost-effective energy efficiency measures. DECC's Impact Assessment for the Green Deal and ECO states that ECO will see "a reduction in the number of households in fuel poverty of between 350,000 and 550,000, compared to how many households could have been in fuel poverty at the end of 2022 without the ECO."[39]

40. Friends of the Earth believes that it is not possible to pass the entire cost of tackling fuel poverty and improving the energy efficiency of the housing stock to household energy bills (either as a levy (see below) or Green Deal payment) and that taxpayer funded initiatives must be dramatically expanded over the next few years.

41. Friends of the Earth is a leading member of the Energy Bill Revolution campaign, which calls for future revenues from the Carbon Price Support and EU ETS to be recycled into a major programme of support for ending fuel poverty via energy efficiency. It has been estimated that, done at sufficient scale, this could bring nine out of 10 homes out of fuel poverty, lower people's energy bills by an average of £310 a year, cut carbon

33 DECC, "Control Framework for DECC levy-funded spending, Questions & Answers" (December 2011) http://www.decc.gov.uk/assets/decc/11/funding-support/fuel-poverty/3290-control-fwork-decc-levyfunded-spending.pdf

34 Office of National Statistics, "UK Environmental Accounts 2012" http://www.ons.gov.uk/ons/rel/environmental/uk-environmental-accounts/2012/stb-ukea-2012.html#tab-Environmental-taxes

35 Energy Bill Revolution, http://www.energybillrevolution.org/

36 DECC / ONS, "Annual Report on Fuel Poverty 2012", http://www.decc.gov.uk/assets/decc/11/stats/fuel-poverty/5270-annual-report-fuel-poverty-stats-2012.pdf and DoH, "Annual report of the Chief Medical Officer 2009" http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports/DH_113912

37 Hills Fuel Poverty Review (March 2012) http://www.decc.gov.uk/assets/decc/11/funding-support/fuel-poverty/4672-hills-review-final-report-press-notice.pdf

38 Association for the Conservation of Energy, "National Fuel Poverty Budgets" (May 2012) http://www.ukace.org/publications/ACE%20Briefing%20(2012–05)%20National%20fuel%20poverty%20budgets

39 DECC, "Final Stage Impact Assessment for the Green Deal and Energy Company Obligation" (June 2012) http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/5533-final-stage-impact-assessment-for-the-green-deal-a.pdf

emissions; and create up to 200,000 jobs.[40] In France, President Hollande has announced that he will do just this—use the revenue from EU ETS permit sales to renovate poorly insulated homes.[41]

The Treasury Levy Control Framework

42. The EAC has previously examined, and been highly critical of, the Treasury's unilaterally imposed Control Framework over DECC's levy-funded spending.[42] The Levy Control Framework is a completely inappropriate mechanism for managing levy spending. A framework is needed that whilst guarding against excessive energy bill increases also genuinely facilitates, not increases the risk of, low-carbon investment; and which sits within a broader commitment and suite of mechanisms for funding low carbon infrastructure. The framework as it stands imposes an arbitrary, inflexible and suffocating cap which has material impacts on the cost of capital. As Ian Marchant, Chief Executive of SSE, told the ECC committee earlier this year: "… is the levy control framework the right [framework]? I am not sure… that a two-to-three year politically-driven framework is the right one to manage an industry where we are talking 20 and 30-year investments".[43]

43. The Levy has already been exposed as impractical and damaging to green investment during the debacle over the Government's illegal attempt to prematurely slash Feed-in Tariffs for solar power; it was the fear of breaching the Treasury's Levy cap which prompted such hasty action from DECC in the first place. Unless the Chancellor goes back to the drawing board on the framework, it is likely to have a similarly deleterious impact on renewables investment in the future because the new Contracts for Difference, likely to be enshrined within the new Energy Bill, will be subject to the cap. In its recent pre-legislative scrutiny of the Bill, the Energy and Climate Change committee heard that "rationing CfDs to fit within a levy cap would introduce a new risk to developers, who could not be sure that they would be able to secure a CfD for an otherwise fully consented project".[44]

44. The entire cost of decarbonising the UK and helping the fuel poor can not be put as levies onto energy bills. In addition to scrapping the current levy control framework and replacing it with a mechanism that does not subject critical long-term investment to extremely short-term spending limits, the Chancellor must examine other means of funding the low-carbon transition. These should include the recycling of carbon taxes (see above); allowing the Green Investment Bank to borrow from the capital markets as a priority, irrespective of the situation with the national deficit; and focusing on reducing construction risk for low-carbon infrastructure as a priority within the £40 billion of guarantees and loans enabled by the new Infrastructure (Financial Assistance) Bill.

18 October 2012

Written evidence submitted by The Aldersgate Group

Inquiry Areas

(1) The coherence and adequacy of the Government's existing policies, fiscal measures and investment plans in terms of supporting a green economy; and to what extent these might hinder a transition to a green economy;

(2) What new policies, fiscal measures and investment plans the Government should include within the 2012 Autumn Statement and future Budgets to support a green economy;

(3) Whether the Government's definition of an environmental tax is fit for purpose and captures those taxes essential to a switch to more sustainable and less environmentally damaging behaviours.

Aldersgate Group

The Aldersgate Group is an alliance of leaders from business, politics and society that drives action for a sustainable economy. Its mission is to trigger the change in policy required to address environmental challenges effectively and secure the maximum economic benefit in terms of sustainable growth, jobs and competitiveness.

Introduction

The UK's economic growth, competitive advantage and the health of our job market will increasingly be determined by our response to climate change, energy security and commodity price volatility. Failure to act at sufficient scale and pace will undermine our prosperity and cause us to miss out on the huge commercial opportunities associated with the global shift to a low carbon, resource efficient economy.

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[40] Energy Bill Revolution Campaign Report (February 2012) http://www.energybillrevolution.org/wp-content/uploads/2012/02/Energy-Bill-Revolution_full-report.pdf

[41] Euractiv, "France puts its ETS money into housing renovation" (September 2012) http://www.euractiv.com/energy-efficiency/france-use-ets-money-fund-energy-news-515040

[42] HM Treasury, "Control framework for DECC levy-funded spending" (March 2011) http://hm-treasury.gov.uk/d/control_framework_decc250311.pdf

[43] Letter from the Energy & Climate Committee to Chloe Smith MP, op cit

[44] Energy & Climate Change Committee, Draft Energy Bill: Pre-legislative Scrutiny (July 2012) http://www.publications.parliament.uk/pa/cm201213/cmselect/cmenergy/275/275.pdf

The world is engaged in a race towards a new economy in which companies have a range of competing opportunities and will choose to invest in the countries that can provide the most attractive returns at least risk. Increasingly, companies have global supply chains with greater scope to source components and set up production facilities around the world. In terms of manufacturing, the UK is unlikely to be cost competitive with emerging economies in a number of sectors and so must ensure that it builds on its vast experience and skills for higher value-added manufacturing activities.

The Government must do all that it can to provide the most competitive business environment, building on domestic strengths and incentivising growth in the markets with the best potential in the long term. This requires creating a policy framework that provides a stable environment for investment and giving businesses confidence in the longevity of that framework. This is recognised by John Cridland, the Director General of the CBI, who said "building confidence in new technologies and markets is essential to get ahead of the game. If we can't be sure that the policies of today will be the policies of tomorrow, investors will simply spend their money elsewhere."[45]

In many sectors, the UK has strong green foundations on which to build. It currently has around 3.7% market share of the £3.3 trillion global environmental goods and services sector, having outstripped the global green business growth rate in 2010–11.[46] Already the UK is the green financing capital of the world, with one third of all global asset deals between 2007 and 2012 receiving both legal and financial advice from the UK.[47] By 2015, the UK market could be worth as much as £150 billion and employ over 1.2 million people.[48] This is already making a significant contribution to the UK economy, as the green sector is likely to have accounted for one third of the UK's economic grown in 2011–2012.[49] There is therefore a core source of expertise for transforming the whole economy and costs will increase if this market develops too slowly.

But while the industrialised world has led the way on the new economy, international competitors are catching up. Many developing countries are winning market share and increasing their carbon productivity. Ernst & Young's analysis of the relative attractiveness of countries for renewable energy investments demonstrates that "a new world order is emerging in the cleantech sector with China now the clear leader in the global renewables market".[50] HSBC[51] predicts that the share of the three largest industrialised low carbon markets (EU, USA and Japan) will fall from 60% in 2009 to 53% in 2020, while the share of the three leading major emerging markets (China, India and Brazil) will grow from 25% to 34%.

In the words of Barack Obama, "nobody in this race is standing still".[52] The UK must ensure it has the right policy framework in place to deliver growth, innovation and decent jobs in the markets of the future.

Themes 1 & 2: Existing Government Policies

In 2010 the Coalition Government committed to being "the greenest government ever". Policies launched since that time, such as the Green Investment Bank, Green Deal and the requirement for companies listed on the London Stock Exchange to report their annual greenhouse gas emissions, have been welcomed as evidence of the Government's desire to drive the transition to a new economy.

However there has been a lack of an overarching strategy to accelerate the shift to a sustainable economy and the Government has made a series of retrospective or short-notice changes to existing policies which have undermined investor confidence. In a number of areas, the transition has been undermined by the failure to integrate sustainability principles into mainstream economic decisions (including a number of policy announcements in Budget 2012), and there has been mixed messages from government ministers.

These obstacles were due to be addressed by the publication, *Enabling the Transition to a Green Economy*[53] (ETGE), which sought to provide a coherent vision for a green economy. However, this publication contains no new policy announcements, and was undermined by a lack of clarity on what it is trying to achieve. Other Government publications—such as the Carbon Plan[54] and the Plan for Growth[55]—outline a number of credible policies to meet the UK's emissions targets and to drive growth, but are not effectively aligned. The disjointed nature of policy announcements is contributing to market uncertainty.

The UK urgently needs a strong regulatory and fiscal framework that addresses market failures and works strategically to build domestic strengths, acting as a driver for growth across the whole economy. That framework must provide the stability, clarity and longevity that the private sector needs in order to invest.

With these criteria in mind, the Government must take steps to develop an overarching vision for a transition to a new economy by:

[45] John Cridland writing in the Foreward of CBI's publication (July 2012) *The Colour of Growth*
[46] CBI (July 2012) *The Colour of Growth*
[47] Green Alliance (August 2012) *Green economy: a UK success story.*
[48] Department of Business Innovation & Skills (BIS) (December 2010) *Growth Review Framework for Advanced Manufacturing.*
[49] CBI (July 2012) *The Colour of Growth*
[50] Ernst & Young (November 2010) *Renewable Energy Country Attractiveness Indices.*
[51] HSBC (September 2010) *Sizing the Climate Economy.*
[52] The White House (26th May 2010) *Remarks by the President on the Economy.*
[53] HM Government (August 2011) *Enabling the Transition to a Green Economy*
[54] Department of Energy and Climate Change (December 2011) *The Carbon Plan: Delivering our low carbon future*
[55] HM Treasury and the Department for Business Innovation & Skills (BIS) (March 2011) *The Plan for Growth*

(1) Embedding sustainability into all Government departments, making it the collective responsibility of Ministers and ensuring that policies are consistent with the Government's commitment to build a world leading low carbon and resource efficient economy.

(2) Maximising policy certainty to build investor confidence.

(3) Providing greater high level support for the new economy through public statements by senior ministers, including the Prime Minister and Chancellor.

Targeted actions will be:

(4) Setting a 2030 carbon intensity target for the power sector in the Energy Bill and guaranteeing sufficient support to low carbon energy generation for this target to be met.

(5) Ensuring that the Green Investment Bank has the ability to borrow from capital markets before 2015 and a duty to assess impact on the Climate Change Act 2008.

(6) Prioritising energy demand reduction and ensuring DECC's energy efficiency strategy leads to a step change in corporate energy reductions.

(7) Building on the welcome announcement of the intention to include natural capital in the national accounts, the Chancellor should report on the nation's natural capital stock alongside the annual Budget by the end of this Parliament.

1. Embed Sustainability

The highest priority for action is the implementation of robust policy across the whole economy that is sustainable in the long term.

The Government's own vision for a sustainable economy needs to be reflected in all policies across Whitehall, with greater recognition of the role of regulation to drive new markets and stimulate innovation. There is an increasing disparity between long-term environmental ambitions and the policies and programmes required to meet them, leading to the Committee on Climate Change, for example, to call repeatedly for a "step change" to address the gap. Furthermore, a number of major policy announcements, such as the industrial strategy and UK Guarantees scheme, could incorporate a major greening element without significantly changing the overall policy direction or costs.

The "UK Guarantees" scheme[56] offers welcome support for important infrastructure projects, which might otherwise struggle to secure full funding. However amongst the five criteria against which prospective projects will be judged, there is no sustainability measure, an omission which undermines the credibility of the Government's oft-quoted commitment to being the "greenest government ever". Without sustainability criteria, there is a risk that the scheme will lock the UK into high carbon infrastructure and be a missed opportunity.

In the run-up to 2012 Budget, over fifty companies and organisations signed a letter to the Chancellor, calling for the forthcoming Budget to lay the foundations for sustainable growth and prosperity. The signatories called for delivery against the Government's commitment to be "the greenest ever", supported by strong and consistent communication. It was consequently disappointing that the Chancellor announced new support for gas generation and tax breaks for oil exploration, both of which sit uncomfortably with the UK's statutory carbon budgets. Equivalent tax measures for low carbon investment in early stage technologies would have led to growth in emerging industries and cost reductions through innovation.

The Government's industrial strategy should align economic, with environmental and social objectives. The Business Secretary, Vince Cable, has called for "a clear, ambitious vision; the courage to take decisions that bear fruit over a long period; openness to new opportunities as they develop; focus on the things we do best; and an enduring commitment far beyond a five year parliament or spending review period."[57] BIS should take the opportunity to explore how long-term trends (such as resource scarcity) will affect competitiveness across the priority sectors, and the feasibility of an overlaying strategy that seeks to maximise economic opportunities. The strategy should be accompanied by a set of economic and environmental indicators against which progress towards a low carbon and resource efficient economy may be measured.

Other governments have sought to embed sustainable development in their mainstream economic policies. The Government of Wales Act 2006 set up a legal duty to sustainable development, which is due to be introduced to the National Assembly in Autumn 2013. The Act commits ministers to creating a sustainable development scheme, reporting annually on what has been achieved. The stated goal is to encourage public bodies to take a long-term approach, work better together and take evidence based decisions which better serve the public interest.

2. Maximise Policy Certainty

The Government must seek to avoid sudden and retrospective changes to existing policies. The CRC Energy Efficiency Scheme (CRC), saw its revenue recycling mechanism cancelled which effectively converted it into

[56] HM Treasury (18 July 2012) "Government uses fiscal credibility to unveil new infrastructure investment and exports plan". http://www.hm-treasury.gov.uk/press_62_12.htm

[57] Speech by Dr Vince Cable on 11th September 2012: http://www.bis.gov.uk/news/speeches/vince-cable-industrial-strategy-september-2012

an energy tax, while the solar energy Feed-In-Tariffs were abruptly and illegally cut. Both have created deep-seated wariness among businesses and investors about the political risk of future investment, and signs are emerging that this uncertainty is beginning to have tangible impact on businesses investment strategies.[58]

The most effective policies will provide as much certainty as possible by being:

- Credible. Legal, enforceable, fully deliverable and supported by an overarching vision.
- Consistent. Providing confidence that a policy direction will be maintained, implementing progressive, and avoiding retrospective, changes.
- Bankable. Risk and reward levels are attractive over clear investment timeframes, with no shocks to damage early investors.

The long-term framework provided by the legally binding Climate Change Act has made the UK a world leader in climate change legislation. However, the policies that are needed to deliver carbon budgets have generally not been sufficiently credible, consistent or bankable, leading the Committee on Climate Change to call repeatedly for a step change in delivery.

In the onshore wind sector, for example, a lack of support has resulted in the UK losing out to countries such as Denmark, which has won 50% market share of the global turbine market with annual revenues of £2.7 billion. This was secured through government support measures worth £1.3 billion since 1993.[59] This demonstrates that stringent environmental regulations which force the pace of adoption of renewable energy generation can help foster rapid industrial expansion with high export growth potential. The UK is now scrambling to import wind turbines and solar panels from its European neighbours and paying a higher price when the pound is weak.

The policy framework for zero carbon homes by 2016, in contrast, has generally been regarded as a success. It set out an ambitious timetable for the progressive tightening of building regulations (Part L) in 2010 and 2013, supported by the Code for Sustainable Homes, the Planning Policy Statement on Climate Change and stamp duty relief for zero carbon homes. This timetable has been developed following consultation, and in partnership with business, local government and green stakeholders.[60] Within a relatively short period of time and despite overcoming a number of stumbling blocks (not least defining “zero carbon”), significant progress has been made towards a target that many in the industry thought at the outset was unattainable. The policy framework was credible (a clear regulatory timetable), consistent (no back tracking on commitments) and bankable (generating confidence for investment decisions to be made). This has helped cement UK leadership in the design, manufacture and construction of sustainable new homes.[61]

The Landfill Tax Escalator is another example of a policy that has generally been regarded as credible (increases of £8 per tonne per year to 2013 announced in the 2010 Budget with a long-term floor of £80 per tonne), consistent (a long-term policy that has given a sustained signal that landfill prices will be escalated until technologies can compete) and bankable (sufficient timeframes to invest in alternative waste management facilities, although extending lead times would provide greater certainty). As a result, overall quantities of waste recorded at landfill sites registered for the tax year fell from around 96 million tonnes in 1997–98 to around 72 million tonnes in 2005–06, a reduction of around 25%.[62]

3. High Level Support for the New Economy

The Prime Minister must make more public his support for the transition to a low carbon and resource efficient economy, which will show leadership at this crucial time and help to build business and investor confidence. His support must be reflected across his Cabinet, including the Chancellor of the Exchequer who has repeatedly couched the issue in terms of a false choice between green *or* growth. “If we burden [British businesses] with endless social and environmental goals—however worthy in their own right—then not only will we not achieve those goals, but the businesses will fail, jobs will be lost, and our country will be poorer.”[63] This is directly contradicted by the message from businesses, which “is definitive and emphatic: green is not just complementary to growth, but a vital driver of it.”[64]

It was a major disappointment that *Enabling the Transition for a Green Economy* was launched with no media activity and no endorsement from No. 10 or HM Treasury. This is despite the fact that joined-up government is a prerequisite for success and the document addresses “the whole economy”.

[58] Daily Telegraph (8 October 2012) *Businesses threaten to withdraw investment if Government does not go green enough.* http://www.telegraph.co.uk/news/politics/9593184/Businesses-threaten-to-withdraw-investment-if-Government-does-not-go-green-enough.html

[59] RenewableUK (2010) *Manifesto 2010: Policy actions for wind, wave and tidal energy in the UK.*

[60] www.zerocarbonhub.org

[61] It is unfortunate, given the success of this set of interventions, that the Government has withdrawn its funding contribution to the body that has been mainly responsible for de-risking this policy, the Zero Carbon Hub. The private sector may replace some of the lost public funding, but the Government risks losing some of its ability to shape industry practice in a vital economic sector.

[62] www.defra.gov.uk/environment/waste/strategy/factsheets/landfilltax.htm

[63] Autumn forecast statement by the Chancellor of the Exchequer, Rt Hon George Osborne MP to the House of Commons on 29 November 2011. Full speech can be accessed here: http://www.hm-treasury.gov.uk/press_136_11.htm

[64] CBI (July 2012) *The Colour of Growth*

If procurement and business initiatives are to succeed, the Government must set market signals in all that it does and not just through the departments that are directly tasked with green policy making. The ultimate test is whether its vision for a sustainable economy becomes mainstream and there is shared responsibility for action by all departments. It must be driven right from the top of Government with radical new policies to ensure that British businesses pull ahead of international competitors.

4. Setting a 2030 Carbon Intensity Target for the Power Sector

The Energy Bill represents a once-in-a-generation opportunity to radically decarbonise the UK's power sector—attracting £110 billion into an economy that badly needs investment; providing a hedge against fossil fuel price volatility (which hits households & businesses hard); and lowering the cost of capital for the UK to meet its carbon budgets.

But recent Government statements calling for significant unabated gas in the power sector post-2030 have seriously challenged the Bill's clarity of purpose and undermined the investment community's confidence in the UK as a safe place to build low carbon energy.

The Committee on Climate Change (CCC) made this clear in an open letter to Ed Davey on 13 September 2012[65]: "The apparently ambivalent position of the Government about whether it is trying to build a low-carbon or a gas-based power system weakens the signal provided by carbon budgets to investors. It makes more pronounced the perceived risk that the Electricity Market Reform (EMR) will perpetuate the current stop-start approach to investment in low-carbon technologies. As a result, the cases for low-carbon business development, capital allocation, innovation and supply chain investment are undermined, damaging prospects for required low-carbon investments."

In order to improve investor confidence, the CCC called on Government to set down a 50g/KWh carbon intensity target in secondary legislation, with reference to this in the next draft of the Energy Bill.

The recommendation was backed by over 50 businesses, industry bodies and NGOs—in a letter co-ordinated by the Aldersgate Group—and sent to the Chancellor on the day of his speech to the 2012 Conservative party conference.[66] On the same day, seven major electricity and nuclear technology firms wrote to Ed Davey, warning that uncertainty about the Government's commitment to power sector decarbonisation has caused them to "reassess the level of political risk in the UK". They too called for a binding 2030 target for power sector decarbonisation.

The robust case and overwhelming support for a binding 2030 power sector target has been made absolutely clear. It is now time for the Government to step up to the task. Failure to do so would deliver another severely damaging blow to investor confidence.

But setting a 2030 decarbonisation target will not, in itself, be enough to unleash the £110 billion of investment required to transform our electricity market. The rest of the EMR programme, including strike prices set in the "Contracts for Difference" and the cap on fiscal support to low carbon technologies through the Levy Control Framework, must be consistent with meeting such a target. A policy approach that relies too heavily on an economy-wide carbon price (rather than technology specific support) poses much higher costs and policy delivery risks to delivering low carbon investment in the UK power sector.[67] The Government should take these risks into account when setting support levels.

5. The Green Investment Bank

The transition to a low carbon, resource efficient economy represents a significant financing challenge, estimated at £550 billion to 2020 in key green sectors, including energy, transport, waste, water and flood defences. This financing challenge is even more acute for low carbon energy generation where operational costs are generally much lower but up front capital and construction costs are considerably higher. The Green Investment Bank will not finance the whole of this transition to a new economy but has a key role to play in addressing financial market failures—particularly reducing policy risk and mobilising finance at scale from institutional investors.

Although there is considerable political capital behind the Green Investment Bank, uncertainties have dogged this flagship policy. Treasury insists that the Bank cannot borrow until the public debt is falling as a percentage of GDP, a goal which has already slipped by two years from initial government estimates and is now not anticipated until 2017. This hamstrings the Bank's ability to act as a true bank, leveraging its £3 billion capital to draw in private sector investment.

It is welcome that the Government will enshrine the Green Investment Bank in the *Enterprise and Regulatory Reform Bill 2012*. The Aldersgate Group has argued previously that legislation is vital to establish a fully independent, accountable and enduring institution that will provide confidence to investors.

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65 http://hmccc.s3.amazonaws.com/EMR%20letter%20-%20September%2012.pdf
66 Letter to Chancellor.pdf
67 Pelin Zorlu, Simon Skillings, Nick Mabey, Chris Littlecott (E3G) (October 2012) *Risk managing power sector decarbonisation in the UK.* Download from: http://www.e3g.org/images/uploads/E3G_Briefing_Paper_-_Risk_managing_power_sector_decarbonisation_in_the_UK.pdf

There are a number of positive elements in the *Enterprise and Regulatory Reform Bill 2012*. However, in conjunction with Transform UK and Client Earth (a leading European environmental law organisation), we have identified two areas that require amendments to ensure that the Green Investment Bank maximises its potential to be both credible and effective. These are:

1. Borrowing from the capital markets.
2. Duty to assess impact on the Climate Change Act 2008.

Borrowing from capital markets

The ability of the Green Investment Bank to borrow is critical to its success. To be effective it must be allowed to borrow from the capital markets − otherwise it will be nothing more than a government-run fund.

The link between national debt levels and Green Investment Bank borrowing powers was made when the Government had a very different economic forecast. It should now be discarded. The Government has significantly changed its policies to support infrastructure investment and agreed to £50 billion in guarantees, part of which will go on the government balance sheet. In this context, it seems perverse to continue to handicap the Bank, which with its fifty professional staff can help to deliver the necessary green infrastructure at scale.

The Government's own estimate is that with £3 billion in capital, the Green Investment Bank can leverage an additional £15 billion into the low carbon and green economy. But if it is allowed to borrow commercially it could use its £3 billion capital base to borrow £18 billion. It could then use this to leverage £90 billion—nearly half the amount needed to decarbonise the UK energy system over the next decade.

Duty to assess impact on the Climate Change Act 2008

The Enterprise and Regulatory Bill does not contain any mechanisms to help ensure that the Green Investment Bank will always pursue its investment activities in ways that enhance, or do not undermine, the achievement of carbon budgets and targets under the Climate Change Act. This poses significant risks that the Green Investment Bank could in future pursue an investment profile that that did not align with emission reduction trajectories recommended by the Committee on Climate Change. This risk would be greatly magnified if the Bank is one day wholly or partially privatised.

In its current form, clause 1 of the Bill defines the green purposes of the Green Investment Bank in extremely broad terms and fails to ensure that the Bank's activities will be truly green. One of the statutory purposes is the reduction of greenhouse gas emissions. However, there is nothing to prevent the Bank from funding a project or series of projects that result in a significant volume or intensity of greenhouse gas emissions provided the projects fall under one of the other green purposes in clause 1, such as advancement in the efficiency of the use of natural resources.

The Green Investment Bank is not a policy making institution and there is high value in a legislative amendment to force longer-term assessments of the climate impacts of its investment activities, and to help ensure that the projects it supports under all the five statutory purposes will, as a whole, enhance the achievement of statutory carbon budgets and reduction targets. The amendment can reduce the risk of the Bank deciding to fund high carbon investments in the future, while increasing the overall ambition of the Green Investment Bank's investment portfolio.

6. Prioritising Demand Reduction and Energy Efficiency

There is scope for significant reductions in carbon and energy use for large organisations that will lead to both environmental and financial savings. However, the Aldersgate Group believes that the current policy landscape is too complex and does not maximise opportunities to improve the double bottom line. This is despite the fact that government energy efficiency policies between 2000 and 2010 increased real annual GDP by 0.1%, or £1.29 billion.[68]

The UK is not alone is failing to capitalise. Worldwide, of the $260 billion spent on clean energy in 2011, only $19.2 billion, or 7%, was spent on energy efficiency.[69] If the UK were to seize first mover advantage in this area, the economic benefits from export of skills and services could be significant.

Moreover, government leadership in this area would help support the domestic market. In a recent survey, the Aldersgate Group found that 97% of FTSE 350 businesses believe that energy prices will rise over the next two years[70] due principally to rising fossil fuel prices. Respondents viewed the UK as a more challenging environment than some of its competitors, due to the lack of investment in generation capacity and the prospect of an energy crunch in 2015.

Some early adopters demonstrate the tangible benefits of a focus on energy efficiency. For example, Siemens worked with its own supply chain offering energy audits and financing for energy efficiency initiatives, and

[68] Ingrid Holmes and Rohan Mohanty, E3G (April 2012) *The Macroeconomic Benefits of Energy Efficiency*
[69] Ibid
[70] Aldersgate Group and Green Mondays (July 2012) *Energy Strategy 2012. Policy implications of the corporate energy survey*

since 2010 has removed €1 billion in energy costs from its suppliers.[71] If businesses build greater transparency into their supply chains, they could apply it to the products they sell, giving consumers greater insight into the lifecycle emissions of the products they use.

Nevertheless, most corporates are still in the early stages of working on this area and government intervention is needed. The Aldersgate Group's survey found that while energy efficiency is seen as a major opportunity by the businesses surveyed, only 4% felt that their organisation had made much progress.[72]

To take advantage, the Government must draw up a framework that will create the incentive for action, counter inertia, drive demand and attract private investment. Key areas for consideration are:

- Feed-in-Tariffs (FITs) for demand reduction.
- Smart meters and grid, increasing the information available which could be supported by government communication campaigns around energy saving.
- Energy efficiency projects should be viewed as being on a par with other major infrastructure.
- DECC's energy efficiency strategy, due to be published shortly, must lead to a step change in corporate energy reductions.

CRC Energy Efficiency Scheme (CRC)

The Aldersgate Group supports the objectives of the CRC, a mandatory scheme aimed at improving energy efficiency and cutting carbon emissions in large public and private sector organisations which are collectively responsible for around 10% of the UK's carbon footprint.

However, the removal of the revenue recycling mechanism severely weakened the financial incentives for organisations to invest in energy efficiency and has damaged the reputation of the scheme. It has effectively transformed the CRC into a tax, with revenues directed towards HM Treasury.

The original recycling mechanism gave high levels of reward for the highest performers. The revised scheme now only gives the same marginal return as the Climate Change Levy (CCL) and as a result, the CRC has become a much weaker financial driver for investment in energy efficiency. Energy mitigation strategies have been replaced with compliance strategies. Furthermore, the validity of the performance league table has also been damaged and as a result, combined with a large number of discrepancies, is increasingly regarded as an ineffective reputational driver.

The CRC is overly complex and burdensome. DECC is committed to simplifying the scheme and has outlined a large number of simplification measures in the consultation that was published in March 2012. While many of these measures are welcome (particularly in regards to providing greater consistency with other government reporting guidance), the scheme remains too burdensome for an energy tax (with relatively weak reputational drivers). In the context of the wider energy policy landscape, the CRC simplification measures are tinkering at the edges and do not fundamentally address the root of the problem.

There is significant scope to streamline these regulations whilst maintaining revenues for HM Treasury and increasing carbon reductions. The Government should seek to harmonise carbon and energy reporting obligations in a single, mandatory reporting framework which is transparent and consistent with international reporting requirements.

These simplifications should be made in a way that boosts investment in renewable electricity generation and which rewards best performers and penalises the worst performers. They should also ensure visibility at Board level of the key recognitions made by Government and of a business's own fossil fuel dependency and costs. At the same time, there needs to be full visibility as to the impacts on competitiveness for manufacturing and energy intensive sectors (such as through a system analogous to Climate Change Agreements).

7. The Chancellor Should Report the UK's Natural Capital Stock Alongside the Budget

The Aldersgate Group welcomes the Government's commitment to "take action to capture the value of natural capital on the nation's balance sheet,"[73] putting it at the heart of government accounting.

We call for the Government to build on this commitment, by undertaking to report on the nation's natural capital stock annually, to be published alongside the Budget, by the end of this Parliament.

Theme Three: environmental tax

A strong driver for the transition to a new economy is a green tax shift, reducing taxes on income and increasing taxes on pollution. An extensive research project by the Green Fiscal Commission demonstrates that this will be vital to put the UK on a sustainable trajectory; help develop the new industries that will provide

[71] Ibid
[72] Ibid
[73] HM Government (June 2011) *The Natural Choice: securing the value of nature.*

competitive advantage for the UK in the future; and contribute to restoring UK fiscal stability after the recession.[74]

In November 2011, the Office of National Statistics (ONS) published a definition of environmental taxation[75] in keeping with that used by the OECD and Eurostat. This adopts the physical unit associated with an activity, such as a unit of petrol, as a proxy to measure the negative impact of an activity on the environment. This incorporates taxes related to pollution and also sweeps up energy and transport taxes.

In July 2012, Treasury published a revised definition,[76] which specifies that an environmental tax must have a clear link to the Government's environmental objectives, the aim of encouraging environmentally positive behaviour change and a means of reflecting gradations in environmental goals (with greater penalties for greater pollutions, for example).

The ONS definition is broader, incorporating a greater number of taxes while Treasury's version does not include energy and transport. With the new definition now restricted to climate change levies and the landfill tax, the Government has announced that the proportion of revenue now generated through environmental taxes will double by 2015–16. This will mean the Government will meet its own target, set out in the Coalition Agreement, to increase the proportion of revenues raised by environmental taxes.[77]

This mixed messaging has left the market with differing definitions of the same mechanism, undermining confidence in the Government's commitment to green targets. It is another lost opportunity by the Government to deliver a clear message about its true intentions on both the environment and growth. Moreover the failure to include vehicle excise duty (VED), which is scaled according to carbon emissions per kilometre, and air passenger duty in the final tally of environmental taxes appears to contradict the Government's own revised definition of what a green tax is, since both would appear to be "structured in relation to environmental objectives".[78]

The Government should use its redefinition of environmental taxes as a starting point upon which to build a robust and ambitious green tax strategy. The Treasury currently argues that taxes which fall outside its definition of "environmental", may have environmental benefits, but are not included because their primary function is revenue raising. This is a false distinction and under a Government committed to the transition to a low carbon and resource efficient economy, all taxes should have multiple targets, measured against economic, environmental and social criteria. The distinction of "environmental tax" thereby becomes obsolete, with all taxes measured against the goal of sustainable development.

18 October 2012

Written evidence submitted by the Environmental Industries Commission

The EIC was launched in 1995 to give the UK's environmental technology and services sector a strong and effective interface with Government. With over 200 Member companies, EIC has grown to be the largest trade association of its kind in Europe. It enjoys the support of leading politicians from all three major parties, as well as industrialists, green NGOs, and environmentalists.

EIC's work is split into seven Policy Working Groups:

— Contaminated Land Remediation.

— Resource Efficiency & Waste Management.

— Carbon & Environmental Management.

— Sustainable Buildings & Energy Efficiency.

— Environmental Laboratories.

— Water Management.

— Transport Pollution Control.

The fiscal and policy recommendations within this submission are the result of the discussions which have taken place within these Working Groups, and can be said to reflect the views of experts within the environmental industries who seek to see the flourishing and long-term sustainability of the Green Economy.

Included in this document are a number of specific fiscal recommendations which EIC lobbied for in the lead up to Budget 2012, and which remain relevant (or have been updated as necessary). These were drawn up with the engagement and endorsement of the Policy Working Groups.

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74 Green Fiscal Commission (October 2009) *The Case for Green Fiscal Reform.*

75 Office of National Statistics (November 2011) *Government revenues from environmental taxes.* http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/environmental-accounts/monetary-accounts/government-revenues-from-environmental-taxes.pdf

76 HM Treasury (July 2012) *Definition of environmental tax.* http://www.hm-treasury.gov.uk/press_60_12.htm

77 Commitment made in the Natural Environment White Paper, p37. HM Government (June 2011) *The Natural Choice: securing the value of nature.*

78 Peter Young, Chairman of the Aldersgate Group writing for environmentalistonline.com. (August 2012) *A very taxing change.*

Underlying all of these specific recommendations are two fundamental strands that are required to produce a successful green economy:

— The need for a clear, long-term, and stable policy framework to underpin environmental protection—providing the investor confidence so desperately needed to ensure continuing investment in the green economy. This is particularly prescient in relation to the Green Investment Bank whose success or failure to attract private investment will depend heavily on the policy framework in to which it will invest. The Government's de-regulatory rhetoric does not promote investor confidence within the environmental industries.

— The need for a fully-funded "sponsoring unit" for the UK's environmental industry within Government, whose role is to co-ordinate cross-departmental policies affecting the growing green economy, and ensuring dialogue takes place to enable joined-up thinking between departments. Too often it is felt that this inter-departmental dialogue is not sufficiently taking place, particularly between the environmental industry's more traditional homes of Defra and DECC, and other departments who have an equally important part to play—particularly HM Treasury, BIS, and the Cabinet Office.

By ensuring that the Government is working in unison to promote the Green Economy, it will provide the investor confidence necessary to bolster the sunrise industry of the future, create jobs, and ensure the Government is equipped to meet its many legally binding environmental targets. The UK's Green Economy is currently valued at £122 billion (in a US$3 trillion global marketplace); has a generated trade surplus of £5 billion; and employs over one million people. With a growth rate of 4.7% (or £5.4 billion) between 2009 and 2011 according to BIS figures it is the only sector that has consistently grown during the recession, and it is clear that there are massive wins to be had by getting this right.

We are very happy to provide the Committee with further evidence or commentary in addition to this submission should it be deemed useful.

Policy Recommendations for Green Growth

1. *A Green Investment Bank*

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

The delivery of carbon targets for 2020 and beyond and the tackling the significant challenges of contaminated land remediation; water and resource efficiency; water pollution control; air quality present a major financing challenge for the UK economy, the majority of which will need to be delivered by the private sector.

EIC therefore welcome the establishment of a Green Investment Bank, but believe this must have a wider remit to invest across the entire environmental industry, and not just large-scale infrastructure projects (as vital as they may be).

There is a risk that the GIB will institutionalise a narrow understanding of the economic opportunities of "green investment". If the Bank's mandate is limited to helping the UK meet the low-carbon investment challenge, the UK risks forfeiting the huge investment opportunities that exist across the whole of the environmental sector. It is vital that Bank embraces a full understanding of the economic opportunities of "green investment". By focusing investment on "low carbon" growth at the expense of other, equally important, environmental and sustainability issues, we risk forfeiting a large share of a £3 trillion global environmental marketplace.

Equally important is the need for Government intervention to create these investment opportunities. By intervening in the economy the Government can price in the true environmental cost of doing business and, in turn, establish new markets for green technologies, helping create large numbers of new businesses, jobs and export opportunities. The foundation for all green markets is principally a strong and stable environmental policy and regulatory framework. This will give investors long-term certainty on their investment decisions. A GIB will, therefore, only be as successful as the environmental policy framework which underpins it.

2. *Wider Usage of Tax Increment Financing Across the Environmental Industries*

Tax Increment Financing (TIF) is a mechanism for using anticipated future increases in tax revenues to finance the current improvements that are expected to generate those increased revenues. It would allow Local Authorities to borrow money on the back of expected uplift in revenues that new development would bring.

Tax Increment Financing works on the principle that the supply of new or improved infrastructure usually leads both to new development and to an increase in the value of surrounding property, both of which serve to increase the level of property taxation in the area. Within a designated TIF area, this anticipated increased taxation (the "tax increment") is captured and used to fund the infrastructure that has been provided.

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

- Low and zero carbon public buildings.
- Energy efficiency retrofitting of low-income family homes.
- The construction of low carbon social and affordable homes (on brownfield land).
- The construction of demonstration projects for new zero carbon non-domestic community buildings.
- Energy efficiency retrofitting of public buildings, such as schools and hospitals.
- The redevelopment of brownfield land.
- The construction of new waste infrastructure.
- The implementation of Sustainable Drainage Systems.

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

EIC believe that the 2013 Budget is a 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 legally binding 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, thousands of potential new jobs, and a strong export market.

EIC believe that the 2013 Budget should incentivise energy efficiency improvements across the economy by:

Maintaining and increasing the ambition of the Carbon Reduction Commitment (CRC), including the making of necessary amendments to the CRC Performance League to ensure that it is fit for purpose.

The expansion of mandatory GHG reporting to include all Large Companies as defined under the Companies Act (although it is accepted the Government have already made a commitment to re-asses this in 2015).

(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. Since the adoption of the National Planning Policy Framework, our Members have expressed concern that the Brownfield sector has been neglected especially to scrapping of PPS23, which provided valuable guidance to the industry and Local Government. 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 2013 Budget to support the redevelopment of brownfield sites by:

(i) Urgently improving the Land Remediation Relief by:
  - Allowing developers to claim in year of spend.
  - Extending the Land Remediation Relief.
  - Changing the definition of long term derelict.
  - Allowing the Landfill Tax Exemption for asbestos.
  - Allowing the transfer of the Landfill Tax Exemption.
  - Re-establishing some form of Guidance similar to PPS23.

(ii) Using Tax Increment Financing to help local authorities to develop brownfield land.

(c) Using Waste as a Resource

As a society, we current 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 2013 Budget by:

(i) Maintaining an 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-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 2013 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 five-yearly Periodic Review creates a "boom and bust" financial climate for the supply chain serving the water industry in the UK. Capital expenditure tends to be concentrated toward the middle of the five year period, leaving a noticeable drop off in investment in the final year of one cycle and the first year of the next. This situation leads to financial and managerial inefficiencies and instabilities in the supply chain (leading to sizeable job losses) and, ultimately, higher costs for consumers.

EIC calls on the 2013 Budget to announce:

(i) An immediate study into job losses suffered by the water technology and services sub-sector as a result of Ofwat's current regulation;

(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". This could be achieved by:

- Ensuring Ofwat has a regulatory duty to promote both economic and environmental sustainability in the water management supply chain.
- Staggering the investment cycles within the water industry so that all water companies in England and Wales are not working on concurrent cycles, or have Water Only Companies on a different five year cycle to the Water and Sewerage Companies, thus allowing a more smoothed approach.
- Transition the water industry to a longer-term investment programme.
- Promote employment in the water industry through an annual report to Ministers on the number of jobs in the sector and in the supply chain.

We believe the Budget should be used as an opportunity to build on the joint work of Infrastructure UK (part of HM Treasury) and Ofwat currently being undertaken to relieve the negative impacts of "boom and bust".

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.

The Green Economy Roadmap was a useful starting point, but it was just that—the beginning, not the end. To build on this work, the EIC calls on the 2013 Budget 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.

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