



House of Commons
Environmental Audit
Committee

Autumn Statement 2012: environmental issues

Fourth Report of Session 2012–13

Volume II

Additional written evidence

*Ordered by the House of Commons
to be published 13 November 2012*

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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Publications

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

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

Committee staff

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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COMBINED HEAT AND POWER

This note follows the Economic Secretary's evidence to the Environmental Audit Committee last week, and provides some further information on Combined Heat and Power (CHP) plants, which members of the Committee asked about.

Budget 2012 announced that supplies of fossil fuels to CHP stations intended to be used to generate non-electricity outputs (mainly heat) that are certified as Good Quality under the CHP Quality Assurance programme (CHPQA) would be exempt from the carbon price floor, subject to State aid approval.

Legislation will be introduced in Finance Bill 2012 to amend Schedule 6 to the Finance Act 2000 to achieve this for fuels liable to the climate change levy (CCL). Secondary legislation will make equivalent changes to fuel duty in respect of oils used in a CHP. The introduction of this relief—as called for by the CHP industry—ensures that CHP generation is on at least a level playing field with non-CHP heat generation, which is not subject to the carbon price floor. Furthermore, as non-CHP heat generation is liable to the CCL on input fuels whilst CHP is not, CHP plants overall will continue to be publicly subsidised.

The Committee enquired as to the methodology used to calculate the tax treatments of the heat and power outputs of CHP plants given this policy intention. As the Tax Information and Impact Note published at Budget¹ indicated, Treasury Regulations will set out the details of the heat exemption, and bring the exemption into effect, once State aid approval has been secured. Metered data from CHPQA on Good Quality CHP heat output will be used and converted into “boiler-equivalent” fuel using a conversion factor. This will give a value as to the amount of fuel to be exempted from CPF. The precise details of how the exemption will operate, including how to assess the liability of the inputs based on the CHP's output, will be subject to discussions in due course between HMRC, who will administer the carbon price floor, DECC, who lead on CHP policy within Government, and the CHP industry. The resulting regulations will be published in draft around the time of the Autumn Statement.

The Committee also raised the removal of the exemption from the CCL for electricity generated by a CHP plant and supplied to the Grid (administered through the Levy Exemption Certificates (LECs) regime). As the Economic Secretary indicated in her oral evidence to the Committee, this policy change was first announced at Budget 2011 and the Government has since held a number of discussions with industry, at ministerial and official level. There is recognition amongst many that the exemption was not a perfectly targeted form of support for CHP plants. Given the administrative complexity of the LECs regime, and the cost to the taxpayer of the exemption, the Government took the view that continuing with the exemption and continuing to issue LECs beyond 2013 (when the current State Aid approval expires) could not be justified. This decision, made at Budget 2011, was confirmed at Budget 2012.

The Committee enquired as to the impact of this decision on the CHP sector. During its discussions with industry over the past year, the Government has seen no robust evidence to indicate that this decision will have a significant impact on overall CHP electricity production, though it recognises some individual plants and new investment may potentially be affected. More generally, the Government is committed to creating an environment that supports manufacturing within the UK and will continue to work with industry to develop its longer term strategy for heat in line with wider fiscal and economic policy. The Department of Energy and Climate Change is looking at the long-term future of support for CHP electricity as part of wider energy policy options.

3 May 2012

Written evidence submitted by The United Kingdom Without Incineration Network (UKWIN)

UKWIN was founded in 2007 to promote sustainable waste management and currently has more than 100 member groups.

Summary of fiscal measures that will help to promote the efficient management of waste

- To encourage reduction, re-use and recycling the Government should:
 - Eliminate/restrict existing subsidies to incineration, eg to avoid overcapacity.
 - Introduce an incineration tax that fully internalises environmental externalities and that reflects the environmental benefits of reduction, re-use and recycling.
 - Introduce measure to further support the management of discarded material at the top tiers of the waste hierarchy, including anaerobic digestion (AD).
- To encourage reduced GHG emissions from landfill the Government should:

¹ http://www.hm-treasury.gov.uk/d/overview_draft_legislation_financebill2012.pdf

- Introduce a lower landfill tax rate, ie a middle band, for bio-stabilised waste.

The context of waste-related market failures

1. Market failures impede the efficient management of waste and therefore hamper efforts to achieve a green economy. The Government stated in the Waste Review that they: “will provide the necessary framework to address market failures and deliver the most sustainable solutions”.²

2. According to the Waste Review 2011 (Waste—The Economic Rationale for Action): “...It is... important to make sure that waste is optimally managed, so that the costs to society of dealing with waste, including the environmental costs are minimised. There may be market failures and other barriers that prevent this ideal situation from occurring. These include externalities, for example where the environmental cost of different options is not included in market prices, and information failures, which are situations where businesses and consumers do not have the right information to make the best choices...”

3. The importance of internalising environmental externalities is highlighted in the Impact Assessment of the Waste Review, which rightly points out that: “Failing to price in the environmental cost and benefit of generating waste leads to inefficient production and consumption patterns, and excess waste being produced...”

4. The Impact Assessment goes on to explain that: “...Without government intervention, waste treatment options with better environmental performance may be penalised relative to treatments with poorer performance. Accounting for the environmental impact requires that the costs of various treatment options and levels of the hierarchy fully reflect the costs to society of each option. For example, government intervention such as the landfill tax raises the cost of sending waste to landfill, reflecting the environmental externality of disposing waste in this way. However, it does not reflect the relative scale of the environmental impact of treatment and disposal methods further up the hierarchy; for example, the externality associated with incineration, recycling or re-use. Although the recycling rate has risen, further intervention is required to further move waste to an efficient level amongst the various management options”.³

5. *The Economics of Waste and Waste Policy*, produced by the Defra’s Economics Team, and published alongside the Waste Review, lists the following externalities for the treatment and disposal of waste:

- “On the whole, those treatment options which reduce embedded emissions by reducing energy associated with extraction, primary production etc., such as re-use and recycling, do not have their full external benefits reflected in the price of disposal.
- “The emissions from waste combustion of non-biogenic material (via any technology including mass-burn incineration) are also not comprehensively reflected in the price of disposal. Unless the installation in question is in the ETS (municipal solid waste incinerators are excluded) a negative externality persists—such installations are creating GHG emissions without paying the relevant price.
- “Subject to proving its environmental performance, MBT-landfill does not have its environmental benefits reflected in the price of disposal.”

6. The proposals set out below are primarily intended to work towards addressing the three primary market failures outlined within Defra’s June 2011 *Economics of Waste and Waste Policy* report, namely those relating to the environmental externalities of re-use, recycling, incineration and MBT-Landfill, where the current treatment costs do not fully reflect their full respective environmental impacts.

Introducing an incineration tax to internalise externalities and promote reduction, re-use and recycling

7. The Government already recognises the externality of non-biogenic waste combustion, the environmental benefits of anaerobic digestion (AD) and composting ahead of incineration of food waste, and the need to encourage the top tiers of the waste hierarchy.

8. The price of disposal in relation to incineration reflects neither the full environmental costs of the CO₂ emissions nor the relative environmental benefits of reduction, re-use, recycling and AD.

9. The most effective fiscal remedy would be an incineration tax, which could also be considered as an expansion of the existing landfill tax into a broader “residual waste” or “disposal” tax.

10. The introduction of an incineration tax would help to ensure that the environmental cost of all forms of incineration, ie incineration plant as defined under the Waste Incineration Directive, are reflected in the price of disposal, and also to encourage separate collection of food waste, alongside promoting reduction, re-use and recycling. This will help to address some of the aforementioned market failures and push waste management further up the waste hierarchy.

11. According to the Waste Review 2011 (Waste—The Rationale for Action): “...The potential for greater use of environmental taxes to deliver better environmental and economic outcomes is recognised in the Government’s commitment to increase the proportion of revenues accounted for by environmental taxes. Market-based instruments such as taxes and trading systems are an efficient and cost effective way of pricing

² Government Review of Waste Policy in England 2011, Paragraph 239.

³ Review of Waste Policies Impact Assessment, Paragraphs 10–12.

in the value of environmental resources...Where appropriate, consideration will be given to taxes in waste policy that can support the implementation of the waste hierarchy—reflecting the environmental benefits of shifting waste up the hierarchy...”

12. An incineration tax could meet the three principles that underpin the definition of environmental tax as set out by the Government in July 2012, which are as follows:

- The tax is explicitly linked to the Government’s environmental objectives.
- The primary objective of the tax is to encourage environmentally positive behaviour change.
- The tax is structured in relation to environmental objectives, for example: the more polluting the behaviour, the greater the tax levied.

13. In relation to the requirement that “The tax is explicitly linked to the Government’s environmental objectives”, UKWIN notes that the Government is committed to ensuring that waste is managed in accordance with the waste hierarchy.

14. UKWIN further notes that Government support for AD is currently threatened by incinerators that compete with AD facilities for feedstock, despite the Government’s position that “It is important to treat food waste as high up the hierarchy as possible” (Waste Review, Paragraph 204), and the evidence that: “...of the main options for the treatment of food waste, anaerobic digestion offers the greatest environmental benefit... To be treated by anaerobic digestion, it is best if food waste is collected separately at source...” (Waste Review, Paragraph 196).

15. An incineration tax would encourage investment in the move towards separate collection of food waste for AD, which would provide significant environmental benefits over incineration. The Director of the Anaerobic Digestion and Biogas Association (ADBA) has specifically identified incineration as a threat to this, referring to the spread of incinerators as a “really worrying” threat to separate collection of food waste for AD.⁴

16. The Director of ADBA has also gone on record as saying: “Source-segregation and the treatment of organics through AD is the only way that we can recoup the value both of the energy and nutrients trapped in the food we throw away, as well as saving money. Incinerating valuable resources that can be recycled does not make environmental or economic sense in the long term”.⁵

17. UKWIN has firsthand experience of local authorities that do not collect food waste for AD simply because it is cheaper to send that food waste to incineration as part of the mixed waste stream.

18. Similarly, an incineration tax would make it economic to treat “hard-to-recycle” materials at a higher point in the waste hierarchy and encourage the appropriate investment in collection, sorting and processing infrastructure currently being impeded by the artificially low price of incineration.

19. A tax on incineration would support the implementation of the waste hierarchy, reflecting the environmental benefits of shifting waste further up the hierarchy.

20. In relation to the requirement that “The primary objective of the tax is to encourage environmentally positive behaviour change”, in addition to the points made above, UKWIN notes that an incineration tax would reduce the marginal cost of reduction, re-use, recycling, composting and AD, and thus encourage treating waste further up the waste hierarchy. This would result in better environmental outcomes and would help to avoid excess waste being produced. For example, it has been shown that separate collection of food waste results in a drop in the quantities of food that is wasted.

21. In relation to the requirement that “The tax is structured in relation to environmental objectives, for example: the more polluting the behaviour, the greater the tax levied”, UKWIN notes that without an incineration tax, externalities are not internalised, and as such incinerators “are creating GHG emissions without paying the relevant price”. Thus the current situation improperly subsidises and encourages pollution.

22. The incineration tax could be structured to be set at a rate that remains lower than the higher rate of landfill tax. For example, increasing at increments of £10 per year until the tax reaches half of the standard landfill tax rate, ie £10/tonne from April 2013, £20/tonne from April 2014, £30/tonne from April 2015 and £40 from April 2016, would discourage the incineration of compostable and recyclable material but would not make the incineration of genuinely residual waste prohibitively expensive.

23. UKWIN agrees with Policy Exchange’s *A Wasted Opportunity: Getting the most out of Britain’s Bins* that: “The landfill tax should be reformed into a broader waste tax...By introducing taxation on incineration a clear preference is signalled to reduce, reuse, recycle or compost where possible. To limit uncertainty, escalating rates should be set over a long enough period to encourage investment”.⁶

⁴ Liberation of AD from its shackles. Neil Roberts. MRW, Vol 199, Issue 16. 4 May 2012. Available from: <http://www.mrw.co.uk/opinion/big-interview/big-interview-charlotte-morton-adba/8629581.article>

⁵ Use our understanding of resource efficiency. MRW, 24 February 2012.

⁶ Dated 20 July 2009, available from: <http://www.policyexchange.org.uk/images/publications/a%20wasted%20opportunity%20-%20jul%202009.pdf>

24. The idea of an incineration tax is well established, with many European countries already benefitting from an incineration tax. The OECD Working Party on Environmental Performance recently advised Germany to consider introducing an incineration tax, as follows: “[Recommendations:] Consider creating an effective carbon tax in the sectors not covered by the EU ETS and ensure that other, non-carbon related, externalities are adequately priced...Strengthen waste prevention, for instance by: broadening and strengthening extended producer responsibility systems; expanding the use of economic instruments to promote primary resource substitution (eg incineration tax); and expanding knowledge networks and dissemination of best practices...”⁷

25. In April 2012 European Commission research reported that “higher incineration charges are generally associated with higher percentages of municipal waste being recycled and composted, indicating that higher incineration charges may help to push waste treatment up the waste hierarchy...Landfill and incineration taxes will help discourage disposal of, or energy recovery from, waste that could be dealt with higher up the waste hierarchy”.⁸

26. The need for an incineration tax, and the benefits to be derived from an incineration tax, have also been put forward by various groups in the United Kingdom over the years.

27. The Environment, Transport and Regional Affairs Committee, for example, stated in 2001 that: “There must be no subsidy to the growth of incineration. If fiscal instruments favour the development of incineration, then the result in 20 years time could be a large and overbearing incineration industry which effectively crowds out the more attractive options of minimisation, re-use, recycling and composting...there is considerable evidence that incineration has significant “external costs” or costs to the environment and community which are not currently being met... it is important to remember that landfill is now subject to a tax which will rise progressively in the future. As a result it can be argued that, without a tax on incineration, we risk swapping a landfill-based waste management system for an incineration-based one...”, going on to recommend that: “...the Government introduce a tax on incineration. This tax would ensure that waste management did not simply shift from being a landfill-dominated system to an incineration-centred one...”⁹

28. When he was the Liberal Democrat Shadow Environment Secretary in 2006, Chris Huhne stated that: “...the Government should set a target of Zero Waste for all municipal rubbish in the UK by 2020. This will mean more doorstep collection of dry recyclables and reforming the landfill tax into a broader waste tax, to remove the incentives for incineration and other less sustainable waste disposal options”.¹⁰

29. The September 2007 Blueprint for a Green Economy submission by the Conservative Party Quality of Life Policy Group stated that: “As the landfill tax increases, we need to ensure that waste is not just diverted to the next cheapest or easiest option in the waste hierarchy. An incineration tax would ensure that the relative cost of recycling reflects its environmental desirability”.

30. The July 2009 Policy Exchange report *A Wasted Opportunity: Getting the most out of Britain’s Bins* similarly recommended that: “The landfill tax should be reformed into a broader waste tax covering all disposal processes in line with the waste hierarchy. The rates of this tax would reflect the relative damage done to the environment by different processes and incentivise reuse, recycling and energy recovery, including the separation of food waste where possible. By introducing taxation on incineration a clear preference is signalled to reduce, reuse, recycle or compost where possible. To limit uncertainty, escalating rates should be set over a long enough period to encourage investment.”

31. This recommendation was adopted by Conservative Shadow Environment Secretary Nick Herbert in his *Framework for Action*, which included: “The reform of the landfill tax into a wider disposal tax [that includes incineration], to reflect the waste hierarchy outlined in the revised Waste Framework Directive”.¹¹

32. Funds raised through an incineration tax could be ring-fenced to investment in infrastructure, education and schemes that promote sustainable waste management, eg to support local authorities to introduce separate collection of food waste, or to improve recycling collections, waste minimisation education, etc. Our thoughts regarding areas that would most benefit from such investment are outlined below.

33. In short, by introducing an incineration tax the Government would internalise externalities, whilst promoting reduction, re-use and recycling, and contributing to the green economy.

⁷ Pages 5 and 6 of OECD Environmental Performance Review of Germany—Revised Assessment and Recommendations. Environment Policy Committee/OECD Working Party on Environmental Performance, 19 January 2012. Available from: <http://www.oecd.org/dataoecd/42/28/50067378.pdf>

⁸ European Commission (DG ENV). Use of Economic Instruments and Waste Management Performances. Final Report, 10 April 2012. Available from: http://ec.europa.eu/environment/waste/pdf/final_report_10042012.pdf

⁹ Environment, Transport and Regional Affairs Committee Report on Delivering Sustainable Waste Management. Fifth Report of Session 2000–01, Volume I (published March 2001). Available from <http://www.parliament.the-stationery-office.co.uk/pa/cm200001/cmselect/cmenvtra/36/3602.htm>

¹⁰ http://www.chrishuhne.org.uk/news/15/labour_failing_to_implement_effective_strategy_for_waste_reduction.html

¹¹ Herbert attacks government’s “zero ambition” for waste. [letsrecycle.com](http://www.letsrecycle.com), 21 July 2009. Available from: <http://www.letsrecycle.com/news/latest-news/waste-management/herbert-attacks-governments-zero-ambition-for-waste>

Introducing a new middle-rate tax band for bio-stabilised waste to landfill to reflect relative GHG savings

34. The Government has set out that “the more polluting the behaviour, the greater the tax levied” forms part of the concept of environmental taxes. However, the landfill tax does not differentiate between biodegradable waste that has gone through no pre-treatment and biodegradable waste that has been substantially bio-stabilised prior to landfill to reduce its environmental impact.

35. Introducing a new middle-rate tax band for bio-stabilised waste would address the fact that MBT-landfill does not have its environmental benefits reflected in the price of disposal.

36. This band should be set at a rate that will encourage pre-treatment prior to landfill of residual waste whilst encouraging separate collection of food waste and reduction, re-use and recycling.

37. *The Economics of Waste and Waste Policy*, produced by the Defra’s Economics Team and published alongside the Waste Review, lists the following as an externality for the treatment and disposal of waste: “Subject to proving its environmental performance, MBT-landfill does not have its environmental benefits reflected in the price of disposal”.

38. The report also notes that: “MBT (mechanical biological treatment)-landfill provides the best emissions performance in terms of the treatment/disposal of residual waste”.

Eliminating or restricting existing incineration subsidies and investment, to avoid unintended consequences

39. Existing and additional subsidies and investments for incineration are wholly inappropriate, not least because, as outlined above, even in the absence of such support mechanisms incineration is unfairly advantaged as the price of disposal and the relative benefits of reduction, re-use and recycling are not reflected in the price of incineration. This unlevel playing field results in negative environmental outcomes.

40. Similarly, issues of incineration overcapacity and put-or-pay clauses in incinerator contracts further exacerbate these problems.

41. A question also arises regarding whether subsidies and investments for incineration, if they are to be retained, could be better targeted to reduce undesirable environmental outcomes.

42. Removing subsidies for incinerators where operators have not demonstrated that their incineration facilities treat only genuinely residual waste would be consistent with the European Parliament resolution of 24 May 2012 on a resource-efficient Europe, which calls for “the phasing-out, by the end of this decade, of incineration of recyclable and compostable waste”.

43. A ban/restriction of this nature should include the requirement for metal to be extracted prior to incineration, but must go much further than this to ensure that necessary upstream activities are carried out, eg separate collection of food waste and kerbside collections of a large array of materials in a manner suitable to facilitate high quality recycling.

44. The endgame would be to remove all subsidies and Government investment in the incineration of biogenic materials, as well as the phasing-out of support for the incineration of recyclable fossil-based materials, ie material that could be recycled if the correct facilities, services and/or collection systems were available, with waste that is not recyclable/compostable being the focus of concerted waste prevention efforts.

45. Such measures would address the issue of incineration overcapacity, another unintended consequence arising from the current approach to subsidising and investing public funds to support incineration.

46. According to Eunomia’s National Residual Waste Infrastructure Review (Issue 2, May 2012): “Modelling of our central scenario suggests that the capacity gap between residual waste arisings and available treatment capacity will fall over time, decreasing from the current (2011–12) 19 million tonnes, and moving to a situation of overcapacity in GB of around 1.2 million tonnes in 2015–16...The extent of this overcapacity rises to almost 9.2 million tonnes in 2020/21. It should be acknowledged, however, that this does not include potential future capacity, which has not yet entered the planning system, and which may result in earlier overcapacity...”

47. When looking to the future, and anticipating potential quantities of feedstock that might be available for incineration, one should take into account the European vision to end the incineration of recyclable and compostable material by 2020.

48. This vision is expressed in Section 3.2 of the European Commission’s 20 September 2011 Roadmap to a Resource Efficient Europe: “By 2020...Energy recovery is limited to non recyclable materials...”, and as Action 33 of the European Parliament’s 24 May 2012 Resolution on a Resource Efficient Europe: “[The European Parliament] Calls on the [European] Commission...to make proposals by 2014...for the phasing-out, by the end of this decade, of incineration of recyclable and compostable waste...”

49. This vision is especially important in relation to Commercial and Industrial (C&I) waste. According to the North West of England C&I Waste Survey 2009 for the Environment Agency (Urban Mines), only 1.0% of C&I waste sent to landfill in the North West was considered to be “not recyclable” and “...up to 97.5% of the C&I waste landfilled in the [North West] region could be recycled if the correct facilities and services were available”.

50. Furthermore, one should take into account the advice of the European Commission specifically in relation to the UK: “The big challenge is to reduce the amount of waste that is sent for incineration which could be recycled instead. In the UK there is a decrease in the proportion of waste that is going to landfill, which is good, but this is still a high proportion of the total waste...To solve this, the UK should look to reuse and recycling and not to over capacity of incineration—Countries like Denmark and Switzerland are burning much more than they should and that’s not good. There is an opportunity for the UK to take positively; I hope they will move in the right direction”.¹²

51. If one compares residual treatment capacity with *genuinely residual waste* (ie that which would still remain even when there was appropriate infrastructure, education, collection systems and pre-treatment in place to ensure that waste is reduced, re-used, recycled, composted and anaerobically digested where practicable), taking RDF exports into account, then there is already an overcapacity of incinerators existing and coming on-stream, and this is the case even before consideration of the argument about whether or not incineration should be used for such waste in preference to other approaches, eg MBT-Landfill, and consideration of the combustibility of future genuinely residual waste.

Increased investment in recycling and separate collection of food waste

52. The *Economics of Waste and Waste Policy* report notes that: “Other market failures and barriers to an optimised waste management system” include “lack of access to credit”.

53. Additional financial support is required to promote the management of waste at the top tiers of the waste hierarchy, ie reduction (including waste minimisation education), reuse, recycling, composting and AD.

54. This support could take the form of low-interest loans or grants to encourage: weekly separate collection of food waste; kerb-side sorting; increasing both the quality and the quantity of materials recycled; and zero waste education campaigns.

55. While introducing AD of food waste may be cheaper for the local authority in the long run, such an initiative could require financing of new waste collection vehicles, new bins and new AD facilities, as well as communicating the changes and bringing the community on board.

56. These could be financed through an incineration tax and by discontinuing financial support for incineration. These actions would also have the effect of reducing the marginal cost of treating waste through the top tiers of the waste hierarchy.

57. UKWIN outlined what we feel should and should not receive financial and other support within our November 2011 submission to DCLG’s informal consultation on the Weekly Collections Support Scheme and within our February 2012 submission to HM Treasury’s PFI Reform Call for Evidence.¹³

58. In summary, the following should be promoted: ambitious recycling and waste reduction targets; kerbside sorting; educating householders and businesses about waste minimisation; increasing the types of Local Authority Collected materials accepted for recycling; educating householders about what is and is not recyclable to increase recycling rates and reduce contamination, thus improving recycle quality; promoting re-use, including introducing re-use schemes at Household Waste Recycling Centres as per the Waste Review; and further improving recycle quality through increased waste segregation.

12 October 2012

Written evidence submitted by the Society of Motor Manufacturers and Traders (SMMT)

INTRODUCTION

1. The Society of Motor Manufacturers and Traders (SMMT) supports the interests of the UK automotive industry at home and abroad, promoting a united position to government, stakeholders and the media. The UK automotive industry is dynamic and globally competitive. Our sector is a vital part of the UK economy with £50 billion turnover and £10 billion value added. With over 700,000 jobs dependent on the industry, it accounts for 11% of total UK exports and invests £1.3 billion each year in R&D. The industry plays an important role in the UK’s trade balance, with vehicle manufacturers exporting almost 80% of production. The UK is home to the world’s largest number of low volume vehicle manufacturers.

2. SMMT welcomes the opportunity to input to this inquiry. SMMT has recently outlined the views stated in this paper in its own industrial strategy paper and will also be submitting these views in its comprehensive response to the Chancellor ahead of the Autumn Statement 2012. Should any more information be required please do not hesitate to contact us.

¹² UK edges up European recycling league table. LetsRecycle, 1 March 2012. Available from: <http://www.letsrecycle.com/news/latest-news/waste-management/uk-creeps-up-european-recycling-league-table>

¹³ Both of these documents are available from <http://ukwin.org.uk/resources/consultation-submissions/>

COMMENTS

3. The automotive sector welcomes recent statements on Industrial Strategy and sees long-term sustainable growth, delivered by a re-balanced economy with a stronger UK manufacturing sector, as essential for the UK. The global automotive industry has shown its commitment to the UK through unprecedented levels of investment announcements, totalling almost £6 billion over the last two years. This investment provides a unique window of opportunity to deliver long term growth and capabilities in our sector.

4. We believe that only an explicit UK industrial strategy that delivers long-term policy making and support structures and focuses on six critical policy areas—proactive government-industry collaboration, support for the Automotive Council’s five sticky technologies, a leading ultra-low carbon vehicle market, delivering supply chain opportunities & access to finance, developing the UK’s flexible workforce, and a strong voice in Europe—will secure the long-term growth and jobs prospects that the automotive sector can provide for the UK.

5. Through the Automotive Council industry and government are creating joint commitment and focus on the UK’s strategic opportunities in automotive around ultra low carbon technologies and growth in the supply chain. Making the UK a lead supplier and market for low and ultra-low carbon vehicles (ULCVs) to foster growth, innovation and jobs is an ambition that enjoys support across party lines and is at the heart of the work by industry and government in the Automotive Council and through the Office for Low Emission Vehicles (OLEV).

6. Long-term policy making and support structures which provide continuity are critical, and the annual Budget process needs to reflect this. Until Budget 2012 the UK was leading internationally in offering a consistent, visible and significant package of incentives for consumers, businesses and industry to grow the early market for ULCVs. The Plug In Car and Van grants, support for infrastructure, capital allowances and exemptions for ULCVs under VED and CCT for private buyers and business drivers were critical elements of this package that influence manufacturers’ decisions on where to market and locate manufacturing activity on ultra low carbon vehicles.

7. In Budget 2012, market confidence has been significantly damaged by the decision to raise CCT from zero for electric vehicles to 13% for all vehicles below 95g/km CO₂ by 2015, rising to 15% in 2016, effectively disincentivising ULCVs amongst early adopters. This unexpected announcement has caused fleet market instability and mixed messages on market support and government ambitions. It brings into question the commitment by government and post-2015 prospects for the incentives necessary to accelerate market transformation to match the UK’s industrial ambitions and carbon policies (Carbon Budgets).

8. To rebuild confidence and accelerate the ULCV market, in the Autumn Statement and Budget 2013 government needs to:

- ensure policy alignment on ULCVs across all Whitehall departments, recognising the critical role of a strong and stable framework of fiscal incentives and grant support in the early market development, its global visibility and influence on investment decisions;
- review Budget 2012 decision and announce a revised set of CCT rates from 2015 with greater differentiation below 95g/km and significant levels of incentive for ULCVs;
- increase the use of public procurement and consumer communication to support the early market;
- continue a significant post-2015 incentive package for ULCVs, including UK plug in vehicle incentives, with an extension of support to heavy commercial vehicles; and
- deliver with the electricity industry on strategic infrastructure investment to decarbonise and reinforce the grid and on a comprehensive consumer offer on safe, affordable and interoperable public and domestic charging options.

9. On VED, industry has met with HM Treasury as they progress their wholesale review which was announced in Budget 2012. Industry is keen to continue engaging on this review and hopes for a constructive consultation by government. Industry also seek certainty beyond 2015 to reflect the need to support market confidence and reflect other key policy horizons; retention of the graduated regime for cars; and recognise and replicate business’ commitment to better environmental choices with durable incentives to support market transformation.

10. In addition to measures to ensure long-term market support and development, support for innovation and investment in the UK is also critical for growth. The automotive industry is a leading global investor in R&D, and the Automotive Council’s strategic roadmaps and the identified sticky technologies present the UK with a significant opportunity to increase its share of global automotive R&D investment and leadership in technology development through focus and consistency of support. In particular, industry calls for a Low Carbon Vehicle Catapult to be established at the earliest opportunity, to provide focus and collaboration on low carbon vehicle technologies as the key industrial and carbon agenda for the UK, realising a global growth opportunity for UK automotive.

11. UK automotive is part of an increasingly competitive global industry. In the UK, its use of energy is affected by a myriad of energy tax and efficiency regimes—the EU ETS, Climate Change Agreements (CCAs) and the Carbon Reduction Commitment (CRC), as well as the standard Climate Change Levy (CCL). These

regimes result in complex, overlapping compliance obligations under differing processes and to varying time periods. This is an extra, unnecessary regulatory burden on businesses across our sector.

12. We welcome developments on the new CCA which will ensure greater coverage of the sector in the scheme and appropriately cover the overlap with EU ETS emissions. However, we remain concerned over the lack of development on the CRC. Budget 2012 announced a review of the CRC scheme and we await further information on whether the CRC will remain or be replaced by a simplified taxation measure. We believe the scope of our sector's coverage in CCA and EU ETS means that automotive, like all manufacturing sectors, should be outside of the CRC or its replacement. We also believe the CCA exemption rule in CRC should be retained. We remain concerned that these schemes increase energy costs and reduce competitiveness; which will be further exacerbated by the introduction of a Carbon Price Floor in 2013.

13. As aforementioned, the automotive sector is committed to reducing its environmental impact from both products and manufacturing processes, and would seek for government to ensure policies that support and incentivise investment in measures to achieve this, such as the Green Deal and Green Investment Bank, are readily accessible and deliver for companies of all sizes in global sectors, such as automotive.

16 October 2012

Written evidence submitted by Dr Chris Edwards, External Research Associate at the University of East Anglia, Norwich

SUMMARY

- The Government should impose a tax on the incineration of household waste.
- This should work alongside the existing landfill tax.
- The two taxes could be referred to as waste disposal taxes.
- In a written Ministerial statement of July 16 2012, Chloe Smith (Economic Secretary to the Treasury) stated that; *“a simple, efficient and cost-effective policy framework will meet environmental objectives while supporting growth and maintaining a sound fiscal position. Market-based solutions to price carbon are at the heart of this approach, achieving objectives at the lowest possible cost”* (Written Ministerial Statements, Column 95WS, Monday 16 July 2012). An incinerator tax would meet environmental objectives. The tax could be set to equal the cost of carbon dioxide and other harmful gases estimated to be emitted by incinerators. This would be a simple, efficient and cost-effective solution especially if the landfill tax were also to be set equal to the cost of harmful gases emitted.
- An incinerator tax would meet the three objectives set out on July 16, 2012 by the Economic Secretary to the Treasury, namely:
 - (1) *“the tax is explicitly linked to the Government’s environmental objectives”*; an incinerator tax meets this objective by cutting greenhouse gas and other harmful emissions such as nitrogen oxides;
 - (2) *“the primary objective of the tax is to encourage environmentally positive behaviour change”*; an incinerator tax would deter incineration of household waste and thereby discourage a socially costly form of waste disposal; and
 - (3) *“the tax is structured in relation to environmental objectives—for example the more polluting the behaviour; the greater the tax levied”*; at a minimum, an incinerator tax should be levied, as should the landfill tax, to match the cost of carbon dioxide and other harmful gases emitted.
- A tax on incineration would clearly meet the government’s environmental objectives. Furthermore if a tax on incinerators is *not* levied, there is a strong likelihood of Councils reducing their recycling efforts as they struggle to meet the tonnage guaranteed to be supplied by them in the incinerator contracts.
- In addition, without a tax on incineration, the social cost of incineration will rise (compared to other disposal methods and over 25 years) by more than £300 million for every 1 million tonnes of additional incinerator capacity.
- Finally, the imposition of an incinerator tax would not prevent the UK meeting the 1999 EU Directive on waste.

THE ARGUMENT IN MORE DETAIL

1. At present there is no tax in the UK on waste incineration. By contrast, in the current fiscal year (2012–13) there is a tax of £64 on every tonne of biodegradable waste dumped into landfill. So we have a difference of £64 per tonne in the taxes imposed on incineration as compared to landfill. In addition, the central government has paid PFI grants (in the form of a non-repayable “PFI credit”) for some incinerators. An example of the latter is the PFI grant (“credit”) provided in connection with the incinerator proposed for King’s Lynn in

Norfolk. In this case, the PFI grant is equivalent to £40 per tonne of Municipal Solid Waste (MSW) incinerated over the 25 years of the contract.

2. As a result of the tax and PFI credits, the current subsidy for incinerating MSW is running at between £64 and £104 per tonne. This subsidy leads to a huge waste of resources for the national economy because of the higher cost of incineration compared to landfill. The cost is higher in both financial *and* social terms.

3. In financial terms, according to the latest gate fees report produced by WRAP in 2012, the median gate fee for an incinerator with a capacity of about 250,000 tonnes a year is £76 per tonne. This is more than three times as much as the median gate fee for landfill of £21 per tonne (see WRAP 2012). The excess financial cost is therefore £55 per tonne.

4. It follows that the extra annual financial cost of incineration compared to landfill for an incinerator with a capacity of 250,000 tonnes a year can be calculated as £55 times 250,000—£13.75 million. Over a 25 year life of an incinerator, this amounts to just under £334 million. Therefore, for every million tonnes of new incinerator capacity, the UK economy loses about £1.4 billion over 25 years. The estimates of new incinerator capacity by the year 2020—incinerators with planning consent—cover a wide range but a recent report by Eunomia put the figure at about 7 million tonnes (Eunomia 2012). The excess financial cost of this new capacity will be almost £10 billion over 25 years.

5. The response of those promoting incinerators is likely to be; “*but this is not the whole picture*”. They might claim that incinerators are cleaner and a better alternative than dumping the waste in landfill. They might further argue that if the environmental costs of landfill can be shown to be *very* much higher than those of incinerators, the enormous subsidy for incineration of between £64 and £104 per tonne might be justified by these externalities. But this is not the case. Quite the contrary.

6. The DEFRA, June 2011 paper on *The Economics of Waste and Waste Policy* made this clear when, on page 14, it admitted that; “*the performance of some of the technologies is not much better than landfill*”. It went on to say; “*Moreover, as the assumed biodegradability of wastes falls in the future, landfilling may actually become more GHG-friendly than some other forms of residual waste treatment, according to these figures*” (DEFRA, June 2011).

7. In the same paper, DEFRA admitted that incineration is not paying its proper price in emission terms. On page 25, DEFRA said; “*The emissions from waste combustion of non-biogenic material (via any technology including mass-burn incineration) are also not comprehensively reflected in the price of disposal*”.

8. This is an implicit call for a tax on incineration and it should be noted that DEFRA’s conclusion was reached after looking at GHG emissions only. The DEFRA June 2011 paper did not look in detail at the likely impact on health of emissions (in the form of nitrogen oxides and other pollutants) and of hazardous bottom ash from incinerators (for more on these, see Watson 2009). Therefore once we take account of all the externalities, the difference between the social cost of incineration and that of landfill may well be *even greater* than the financial excess of £55 per tonne resulting from the difference in the gate fees.

9. Note that a higher social cost of incineration is not unique to the UK. It was also highlighted for the Dutch economy in 2004 in a paper written by Dijkgraaf and Vollebergh. They found that the social cost of landfill was 40% lower than that of incineration and they argued that the strong emphasis on incineration in Dutch waste policy was not supported by the evidence on relative costs.

10. DEFRA’s paper on “*The Economics of Waste Policy*” states that it is desirable that waste is allocated to the various management options such that the social marginal cost of each option is equalised. It is obvious that this is far from the case at the moment.

11. An objection to a tax on incineration might be that the UK is less likely to meet its landfill targets as required by the EU Directive of 1999. In fact the EU Directive is now much less of a threat than it was ten years ago. In 1999–2000, the UK recycled only about 10% of its 24.8 million tonnes of household waste. Ten years on, in 2009–10, it recycled 40% of 23.7 million tonnes (DEFRA, May 2011, 17). How does this latest figure compare with the EU Waste Framework Directive? The answer is; reasonably well. The EU Directive requires the UK to recycle, compost or re-use 40% of waste from households in 2010 and 50% by 2020 (DEFRA, May 2011, 29).

12. In tonnage terms, the landfill target for biodegradable municipal waste (BMW) required by the Directive for 2013 is 14.5 million. This was already being met 2009–10. The target for 2020 is 10.1 million tonnes. Surely a continued push towards waste reduction combined with much higher recycling as a result of separate food collection from every urban household would enable this target to be met, without more incinerators coming into operation?

13. Finally, incinerators are not only more expensive but are likely to push Councils into reducing their recycling efforts. This is because in their contracts for incinerators, Councils are normally expected to guarantee a certain tonnage of MSW but they will find this difficult because of falling levels of waste and rising recycling ratios. As a result, there are already examples of Councils discouraging recycling as they worry about there being a shortage of MSW to feed the incinerators. This is alleged to have happened in East Sussex and Hampshire.

14. There is a strong likelihood of overcapacity in waste treatment facilities. The Eunomia 2012 report forecasts an excess of treatment capacity in Great Britain of more than 9 million tonnes by 2020. This is almost a third of the *current* residual waste. Note that, in addition, Eunomia predicts that the total residual waste is itself likely to decline by 5% of the 2009–10 level by 2020.

REFERENCES

DEFRA, June 2011; The Economics of Waste and Waste Policy

Eunomia May 2012; Residual Waste infrastructure Review; high-level analysis—issue 2

Watson A 2009; Modernisation of Landfill Tax Legislation, a paper submitted to the HMRC, Salford

WRAP 2012; Comparing the Cost of Alternative Waste Treatment Options

Written Ministerial Statements, Column 95WS, Monday 16 July 2012

16 October 2012

Written evidence submitted by REG Windpower

1. INTRODUCTION

1.1 This paper has been prepared by REG Windpower in response to the Environmental Audit Select Committee's call for evidence ahead of Budget 2013. Whilst REG Windpower welcomes the Government's stated desire to increase the amount of energy generated from renewable sources, we are concerned that its commitment to certain technologies, including onshore wind, is currently seen as uncertain by investors. This is making it difficult to fund larger scale renewable projects and create the green jobs necessary for the country's low carbon future. In particular, there continues to be a lack of clarity around future support for wind power through the Renewables Obligation as well as in regard to the Electricity Market Reform proposals which will be taken forward in the draft Energy Bill, further hindering investment by wind farm developers and preventing the growth of this vital sector.

1.2 With the low carbon goods and services sector employing 939,600 people in 2010–11, and the green economy estimated to be worth £122 billion, around 9.3% of the overall economy last year, the need for a stable regulatory and policy environment for investors in the renewables sector is vital for the UK's economic recovery. REG Windpower and others in the onshore wind sector would like to see the next Budget set out a firm commitment to support the growth of the sector to help create the green jobs needed for the economic recovery.

Our submission makes the following policy suggestions that we would like to see the Committee recommend to the Government ahead of Budget 2013:

- To maintain market certainty and investor confidence, there should be no reduction in the 0.9 ROC tariffs set out for onshore wind in the Renewables Obligation Banding Review earlier this year. Any further reduction in 2013 would make it extremely difficult to developers to raise finance for projects.
- There should be a commitment to maintain the Renewables Obligation concurrently within the EMR until the Contract for a Difference (CfD) Feed-in-Tariffs have demonstrated that they can act as a suitable replacement.
- The 15 year rate of return on CfDs should be extended to 20–25 years to bring the incentive in line with other EU mechanisms and provide the longer-term rate of return that is needed to attract investment in renewable projects.

2. ONSHORE WIND

2.1 Onshore wind is the UK's most proven and cost-effective form of renewable energy generation. In response to a Parliamentary written question from Caroline Flint in May 2012, Energy Minister Charles Hendry provided estimates that the central levelised cost estimates for onshore wind was one of the lowest, at £90MWh for onshore wind 5MW projects starting in 2011 in comparison to £123MWh for similar offshore wind projects, and the additional cost to the consumer from onshore wind in 2010–11 was only £4.68 on the average bill—approximately 9p per week. Onshore wind has the potential not only to deliver the Government's objectives for a diverse mix and sustainable energy supply, but is helping to create jobs and deliver manufacturing innovation and technological skills training in a highly specialist part of the economy.

3. RENEWABLES OBLIGATION

3.1 Despite the success of the Renewables Obligation in promoting an expansion of wind technology over the past few years, we would like to raise concerns that the policy environment has in the last six months become highly uncertain for investors. All investments rely on a "no surprise" regulatory regime. However, recent statements by ministers that the Government is not minded to support any further expansion of wind

farms, and speculation that the Treasury was pushing for a reduction in support through the RO despite a robust, evidence based approach having been taken through the Banding Review, have severely damaged confidence in the sector. We were pleased to see the Government's final response to the Renewables Obligation Banding Review confirm the level of ROCs for onshore wind at 0.9 ROCs/MWh as initially proposed by DECC based on reputable economic analysis. However, we are concerned that this level of support has only been guaranteed until 2014 with a further consultation this year on whether support levels should be reduced further.

3.2 This is discouraging investors from putting up the capital needed to get projects off the ground and means that finance has become more expensive or difficult to obtain, with the result that some schemes have now stalled or are on hold. This is particularly short-sighted at a time when the Government is trying to encourage alternative sources of funding, such as pension investments, into the renewables sector. As a recent CBI report, *The Colour of Growth: Maximising the Potential of Green Business*, recently commented, uncertainty over the level of subsidy for wind projects has been critical to undermining investor confidence as to the long-term feasibility of onshore wind projects.

3.3 The cost of onshore wind for developers is often underestimated, which we believe is largely due to a tendency for policymakers to focus only on the cost of building and operating consented wind farms, rather than recognising the significant at-risk expenditure incurred in developing projects from greenfield sites through planning. Based on our experiences of operating and maintenance costs for onshore wind developments we see absolutely no justification for any proposal to reduce the level of support for wind power to below 0.9 ROCs. Indeed, a reduction to 0.85 or 0.75 ROCs would be disastrous for the industry as it would mean the difference between the long term viability of many schemes, and the ability of developers to raise sufficient capital finance to get projects off the ground. We would urge the Committee to recommend that the Government urgently confirm future levels of RO support for the industry, and set out its commitment to support the expansion of wind power generation in the forthcoming Budget.

4. TRANSITION FROM THE RO TO FEED-IN-TARIFFS

4.1 We would also like to highlight concerns about the lack of certainty around the details of the Electricity Market Reform (EMR) Contract-for-a-Difference (CfD) Feed-in-Tariff, which will replace the RO for new renewables schemes from 2017, as well as emphasise the need for a smooth transition process to ensure investors are not discouraged by the uncertainty surrounding the move to the new mechanism. Whilst REG welcomes proposals for an overlap period between mid-2014, when the new FiT scheme first becomes available, and the end of the RO in March 2017, there is a significant risk of a "cliff-edge" point in 2015 where the CfD will not yet be proven but it will be too late to choose between the mechanisms in time for the 2017 switchover.

4.2 We would therefore like to see the Government use the 2013 Budget as an opportunity to announce that it will retain the RO for an indefinite period until the new FiT scheme has been thoroughly reviewed and proven to provide the necessary framework to direct investment into renewable energy infrastructure projects.

5. CfD FEED-IN-TARIFFS UNCERTAINTY

5.1 The onshore wind sector is particularly concerned about the continued lack of clarity about how the new CfD FiT mechanisms will work in practice which is again hindering investment and the growth of the industry. The EMR White Paper contained little information about classification, timescales, counterparties for the scheme, and how it is to be rolled out, and the draft Energy Bill fails to provide much further clarification on these issues.

5.2 Of particular importance is how tariff levels will be set and allocated. While the draft legislation notes that National Grid Electricity Transmission Plc will allocate CfDs in line with agreed objectives, it also states that competitive price setting for CfDs could be adopted in the longer term once "market conditions allow". This lack of clarity around whether and when competitive price setting will be used contributes to the already uncertain investment climate. It also appears that during the transitional period to 2017, there will effectively be competition for CfDs given the proposal for limiting the number of CfDs issued under the cost controls outlined in the Bill—an auction or tender process to set tariff levels would act as a huge barrier to investment, increasing price volatility. This would also place independent developers at a significant disadvantage compared to the major utility companies who already have access to bankable power purchase agreements (PPAs).

5.3 The CfD proposals are also unappealing to investors due to the short 15 year rate of return, compared to the 20–25 years offered in other countries, meaning that projects beyond 2017 are currently unattractive prospects compared to those in other sectors which offer a similar rate of return. Longer term tariffs would permit lower cost of capital investment in projects, due to the added certainty this would bring, thus allowing projects to be owned and operated by investors at the lowest cost to consumers. For example, in Canada, tariffs for onshore wind are awarded for periods of 25 years, which allows public and private sector pension funds to play a major role in funding these projects.

5.4 To address these concerns, REG would like to see the 2013 Budget announce that the new CfDs will be set independently on a long term basis with absolute certainty that if a project is ready to build, it will be eligible for the CfD. The next Budget should also seek to extend the 15 year rate of return on CfDs to 20–25

years to bring the incentive in line with other EU mechanisms and provide the longer-term rate of return that is needed to attract investment in renewable projects.

6. PLANNING

6.1 Finally, the difficulties set out above are further exacerbated by problems developers have in obtaining consent for onshore wind farms, with many local authorities often throwing out applications for reasons which prove undefendable at appeal, and which are then over-ruled by the inspectorate. This not only delays projects from coming on stream and adds to the start-up costs, but ultimately costs the taxpayer more owing to the large number of planning cases overturned at appeal, with the considerable legal costs this entails.

6.2 We welcome the announcement from the Department for Communities and Local Government that it will shortly undertake a wholesale review of planning guidance and would like to see the Government take greater measures to increase transparency and accountability in the planning sector. *As part of this review, we would like to see planning appeals being made more available for public disclosure, with a requirement that information about the costs incurred by local councils as a result of any planning appeal be published alongside the Planning Officer's report*, to enable local residents to see the costs of planning appeals to the tax payer and encourage greater accountability amongst planning officers.

7. CONCLUSION

7.1 Ongoing policy uncertainty is deterring investors and hindering the UK's ability to realise the full potential of wind power which can deliver up to a third of all renewables generation by 2020, as well as the investment in innovation and skills necessary to create the jobs that will be essential in a high-tech and value added green economy.

7.2 In the 2013 Budget the Government needs to allay this uncertainty by stating its commitment to the growth of the sector as part of its wider strategy to deliver economic recovery. In particular, we would like to see the Government confirm the level of ROCs for onshore wind beyond 2014 and set out more detailed plans to provide stability to investors during the transition between the phasing out of the RO and the introduction of new CfD FiTs. At a time when the UK is in recession, schemes which have been shown to promote investment in wind farms and other renewables must be maintained and clear signals given that the Government will support wind power over the long-term to reassure developers that their investments will not be undermined by unexpected changes in the policy environment. Given the long time frames involved in wind farm development, the Government also needs to introduce measures to support longer term investments over a 20–25 year period through the CfD FiT mechanism, to ensure wind power can continue to contribute towards the decarbonisation of the electricity market and create the green jobs necessary for the growth of the low carbon economy.

17 October 2012

Written evidence submitted by Agri Energy

1. SUMMARY

1.1 This paper sets out Agri's submission to the Environmental Audit Committee's inquiry into Budget 2013 and outlines the fiscal and economic measures the Government should be taking to support the transition to a green economy and create the conditions necessary for investment in low carbon skills and the creation of green jobs. The submission makes recommendations on how the tax and regulatory regimes in a number of renewable policy areas, including biodiesel and Anaerobic Digestion, could be reformed to encourage greater take up and investment of renewable energy:

1.2 Our submission to the inquiry makes the following policy recommendations:

- A separation of the current joint obligation between biodiesel and bioethanol under the Renewable Transport Fuel Obligation (RTFO) in order to prevent market distortion, as well as greater direction from the Department for Transport to encourage the fuel industry to delay the introduction of E10.
- The 2,500 litre fuel duty derogation for biodiesel producers should be abolished or an Environmental Agency processing permit required for all commercial production of biodiesel, including below 5,000 litre per year, in order to tackle the large black market biodiesel industry and the increased theft of biodiesel feedstock materials.
- Greater certainty for investors in AD through the new Contract for Difference Feed-in-Tariffs (CfD) which will replace the Renewables Obligation as proposed in the Energy Bill, including a pre accreditation process for CfDs to provide investors with the certainty need to take significant up front financial risks.
- A ban on the co-mingling of food waste in commercial catering establishment in the medium term, moving towards an outright ban on food waste to landfill to encourage more waste to be used for bioenergy generation, such as AD.

2. THE RTFO AND E10

2.1 Biodiesel made from UCO is acknowledged to be one of the most sustainable transport fuels. As a waste product, UCO avoids the negative indirect land use impacts traditionally associated with biofuels and is one of the only truly sustainable feedstocks that can help meet the Government's objective to increase the proportion of transport fuel made from renewable sources.

2.2 Figures from the Renewable Fuels Agency based on a life-cycle analysis suggest UCO can deliver emission reductions savings of 84%. Our own measurements using ISO 14064 show savings of at least 90% for biofuel production when the required heat and power is provided by CHP run on a bioliquid. This is higher than any other biofuel feedstock. Agri is proud of this achievement and acknowledges that it has only been made possible by the variety of support mechanisms offered by government.

2.3 However, Agri is concerned that the current joint obligation for biodiesel and bioethanol under the RTFO is acting as a barrier to the future growth of this vital part of the UK renewable energy, as it favours the import of subsidised biofuels from outside the UK. Agri would like to see a separation of the obligation between biodiesel and bioethanol under the RTFO to protect against the volatile fluctuation of certificate prices and resultant market distortion, as well as encourage the domestic production of sustainable biodiesel.

2.4 The Renewable Transport Fuel Obligation currently treats biodiesel in the same way as bioethanol, as part of the same obligation and certificate scheme despite the fact that the international supply chain, markets and economics of these two industries are completely different. As a result of the joint obligation, suppliers can choose whether to meet the obligation with either biodiesel or bioethanol which can result in significant price fluctuations depending on a variety of global market factors. For example, in past experience, when the market is flooded with US subsidised bioethanol, this is immediately bought up by obligated suppliers causing certificate prices for biodiesel to plummet. The UK obligation for biodiesel can therefore be manipulated through imports of subsidised ethanol which do not necessarily reflect the most carbon effective way of meeting the renewable fuel targets and do not support the growth of the UK production sector.

2.5 In addition, certificate prices are prone to significant fluctuations, making long-term planning and revenue forecasting extremely difficult, and this unpredictability is likely to be further exacerbated if fuel suppliers begin to introduce E10 (a blend of petrol and 10% ethanol), as set out in the EU Fuel Quality Directive. Whilst we understand that the introduction of E10 may help the Government to meet its renewable fuel transport targets in the short term, because of the joint RTFO obligation for biodiesel and bioethanol, such a move would have a significantly detrimental impact on biodiesel certificate values as obligated suppliers are likely to choose to meet their renewable fuel targets through new E10 rather than biodiesel. In fact, it is likely that such a move will result in the UK becoming entirely dependent on imported ethanol from unsustainable crops grown in South America for its transport biofuels. Whilst this may help the UK meet its GHG targets in the short term, it will do nothing to create green jobs or provide security of fuel production in the UK.

2.6 Eight EU countries including Germany and the Netherlands operate separate obligations and certificate schemes for biodiesel and bioethanol in order to avoid such difficulties and ensure the biofuel meeting the obligation is sustainably sourced. We believe that this approach should be introduced in the UK in order to better align incentives for renewable fuel across Europe, to provide greater security of demand, and encourage UK dedicated production and the creation of green jobs. This would not seek to distort the market to favour one particular type of biofuel over another, but would rather work to ensure stability of demand for both UK biodiesel and bioethanol producers. In turn this will help support the progressively higher blending of biodiesel with conventional fossil fuels, such as by providing incentives to support the uptake of higher blends of UCO biodiesel in captive fleets, and help the UK meet its long term target to decarbonise the transport sector and reduce its dependency on oil imports.

2.7 In addition, we would like to see the Department for Transport take a stronger stance in recommending the fuel industry delay the introduction of E10 until the department undertakes further reform of the RTFO mechanism in 2014, particularly as forthcoming legislation from the EU on biofuels and Indirect Land Use Change is likely to have further implications for the RTFO. This will provide time for the biodiesel industry to adapt to the changes without deterring investors, whilst also enabling the motoring industry to prepare for the new fuel and ensure that motorists are not forced to buy more expensive fuels.

2.8 A DfT commissioned independent report in 2010 raised concerns that over 700,000 vehicles on UK roads may be incompatible with E10, and that the fuel could cause fuel filter blockages, the corrosion of engines, as well as driveability problems in hot and cold weather. Many in the automobile industry, including the Federation of British Historic Vehicle Clubs (FBHVC), have also been campaigning against the move, claiming that owners of older vehicles which cannot use E10 would be restricted to buying the more expensive super unleaded grades which will be the only E5 fuels available on many forecourts, which will have a detrimental impact on those on lower incomes. We understand the DfT has expressed a preference that now is not the right time to introduce E10, but we would like to see the department take greater action to encourage fuel suppliers and retailers to delay any plans for the early introduction of this new product.

3. THE 2,500 LITRE FUEL DUTY DEROGATION FOR BIODIESEL PRODUCERS

3.1 In 2007 the Chancellor announced that motorists who refine or use less than 2,500 litres of biodiesel per year to run their cars would be exempt from paying fuel duty. This was in response to unflattering news stories of police officers and tax inspectors staking out supermarkets and sniffing exhaust fumes to identify drivers that were buying cheap cooking oil and pouring it straight into their tanks without paying any duty.

3.2 However, this duty derogation has created a lucrative underground industry with black market producers selling their product illegally and ignoring the 2,500 litre limit. Moreover, the proliferation of unregulated biodiesel, which contains dangerous combustible elements and by-products, can pose a serious health and safety threat to those involved as well as to the environment unless it is produced as part of a strictly controlled and monitored process. The fuel duty exemption for those who produce less than 2,500 litres of biodiesel per year has also led to a spate of thefts of UCO from catering establishments. Agri estimates that 25% of all UCO is stolen, equalling 30 million litres of biodiesel with no duty paid. Indeed, Agri's own reporting mechanisms indicate an average of 135 UCO thefts a month in 2011 from its customers and partners. However, these figures are only the tip of a large iceberg as UCO theft rarely goes reported.

3.3 Black market biodiesel is a profitable business. A small processor can be bought for as little as £995, or leased for £7 a week. It costs about 20 pence a litre to turn vegetable oil into biodiesel if you cut corners, use inferior elements and do not follow stringent regulations and processing methods. If a producer steals the UCO, it costs nothing to get the raw material, nor is VAT paid at 20%. Diesel currently costs about £1.32 per litre at the pump. The cost to produce sustainable and professional biodiesel from UCO is around £1.24 per litre, but producing black market biodiesel with stolen materials can cost just 20 pence a litre. It also creates unfair competition for legitimate biodiesel manufacturers, who adhere to strict standards for health and safety and fuel quality.

3.4 As a solution, Agri would recommend the abolition of the fuel duty derogation for those who refine less than 2,500 litres of biodiesel per year. Legitimate producers who meet environmental standards would still benefit from the 20 pence per litre fuel duty differential, should the Government decide to retain it, while black market producers would no longer fly under HMRC's radar and be able to undermine the sustainable biodiesel industry with poor quality fuel sold via the black market. Alternatively, the Government could require an Environmental Agency processing permit for all commercial production of biodiesel, including below 5,000 litre per year, as this would require waste transfer notes to be properly logged and recorded, and will prevent illicit producers from gaming the system by refining much more than 5,000 litre limit.

4. ANAEROBIC DIGESTION

4.1 Agri supports the Government's pledge to seek a large increase in renewable energy generated from AD, and welcomes the broad range of incentives available to generators. Whilst Agri understand the need to ensure value for money under any support scheme for renewables, if the Government is to achieve its aspiration of a rapid expansion of AD, it must provide continued certainty to investors through the new Contract for Difference Feed-in-Tariff (CfD FiT) mechanism which will replace the Renewables Obligation as set out in the draft Energy Bill, particularly for smaller AD plants which are vital to the growth of the sector as a whole.

4.2 Given the long time frames involved in the development of AD installations (often nine–18 months in construction), we would like to highlight the vital importance of preliminary accreditation to provide investors with the certainty required to enable them to take on significant up front financial risks. We therefore would like to see the introduction of a preliminary accreditation process for AD installations under the new CfD FiT scheme based along the process currently pre accreditation process used under the Renewables Obligation, with the installation eligible for the tariff level payable at the time of accreditation rather than completion.

4.3 We would also like to note the need to make the pre accreditation process less burdensome and time consuming for business. The existing accreditation process via Ofgem is often long and laborious, with audit costs to measure the sustainability of projects often extremely high, meaning that they can counter balance any payback from the tariff process for small projects. Therefore any accreditation process under the CfD FiTs needs to be streamlined to ensure it does not impose unnecessary burdens and costs on those seeking to invest in renewable projects, and that applications can be processed as quickly as possible to provide greater certainty to investors. In the longer term, it may also be worth considering a combination of RO and Feed-in-Tariff support. This would have the advantage of keeping a market based support system that responds to the supply and demand of renewable energy as well as giving fixed payments to support technologies that require a greater level of support. In other words all technologies would receive 1 ROC per MW and some technologies would receive a FiT per MW in addition, as per the CfD mechanism described in the draft legislation.

4.4 We would also highlight the need to take into account the cost of collection when examining the cost of converting waste to energy. The current low level of AD power production is largely due to the fact that the total cost of starting up segregated food waste collections and processing this is too high when compared to the cost of dumping food waste in landfill and general waste collections. The growth of the AD sector also depends on the reliability of the food waste supply chain, but this is not recognised when determining project costs. The current system to promote the collection of food waste and convert it into renewable energy is not working for the catering sector, which is estimated to produce 5 million metric tonnes, or 25% of the UK's

food waste. This is because the cost of smaller multi-site collections is more expensive than bulk collection from manufacturing sites, and because there are not sufficient disincentives to using landfill.

4.5 Agri is supportive of the Government's ambition to ban waste to landfill in the long term and would like to see further measures to encourage the commercial catering sector to segregate its food waste, such as a ban on the co-mingling of food waste as an interim solution to help ensure adequate access to food waste feedstocks for the growth of the AD sector. In May 2012, Scotland also approved new regulations around the source segregation of waste, including a requirement for businesses that produce more than 50kg of food waste per week to separate this for collection. Agri would like to see similar measures taken in England to prevent commercial catering establishments from co-mingling food waste with general waste, to ensure as little as possible is sent to landfill while also providing access to viable feedstock of food waste for AD generation.

5. CONCLUSION

5.1 Agri has used this submission to highlight the need for the Government to provide greater certainty to investors to ensure that bioenergy produced from waste has the potential to contribute significantly to achieving the UK's 2020 renewables target and contribute to the growth of the low carbon economy.

5.2 For biodiesel, to address ongoing concerns about the instability of the RTFO certificate mechanism, which is likely to be further exacerbated by the introduction of E10, we believe the most appropriate solution would be to make the current RTFO obligation shared equally between biodiesel and bioethanol, rather than obligated jointly. This would mean that obligated suppliers will have to provide a certain amount both of biodiesel and bioethanol, rather than choosing to meet their renewable fuel targets through either technology. This will provide stability to demand as well as protect the value of RTFO certificate prices, while also encouraging UK dedicated production of renewable fuels and the creation of green jobs. In addition, in order to ensure legitimate businesses are not undermined by black market biodiesel producers that evade tax and do not meet environmental standards in the quality of the fuel they produce, we would like to see the Government take greater measures to ensure that all biodiesel production is properly taxed and has VAT paid.

5.3 For Anaerobic Digestion, whilst Agri welcomes many of the proposals in the draft Energy bill, we would like to see greater clarity about what measures will be in place to support renewable technologies during the transition period from the RO to CfD FiTs, including through a pre accreditation process to give reassurance to investors. Finally, it is important that any financial support offered through the new CfD FiTs is supported by a positive regulatory environment to ensure adequate access to feedstocks for the growth of the bioenergy industry, specifically through a ban on the co-mingling of food waste to support the further development of the AD sector.

17 October 2012

Written evidence submitted by UK Green Building Council

SUMMARY

- The built environment offers the most cost effective carbon mitigation of any other sector, and there is a huge opportunity for encouraging job creation and green growth through energy efficient, low carbon buildings—particularly retrofitting existing buildings.
- Confidence is key. Business needs to know that Government is serious about the direction of travel on green policy, and that a clear policy strategy will mean a stable investment climate. The Chancellor's comments have been the source of much uncertainty for business.
- The Green Deal is vital, but needs support through long-term (probably fiscal) incentives to help it realise its potential, and to create jobs and growth. HMT will hold much sway.
- Commercial buildings policy is not driving the necessary action or investment. Display Energy Certificates are required across the building stock—a move which HMT has blocked in the past.
- The “zero carbon” policy, for both new homes and non-domestic buildings, has stalled in HMT. There remains consensus between NGOs and industry, but house builders need clarity on so-called “Allowable Solutions” as soon as possible in order to allow them to plan investments.

INTRODUCTION TO UK-GBC

1. The UK Green Building Council is a membership organisation that campaigns for a sustainable built environment. We cover homes and non-domestic buildings, both new and existing, and the infrastructure at the community or city scale.

2. Launched in 2007 to offer clarity, cohesion and leadership to a disparate sector, we bring together anyone involved in the complex process of planning, designing, constructing, maintaining and operating buildings. A charity, we work with our members—who are mostly businesses, but also NGOs, government agencies and academic institutions—to deliver radical change.

Government needs a built environment strategy and industry needs confidence

3. Energy used in our homes and buildings is responsible for, respectively, 26% and 17% of our carbon emissions. However, although home retrofit has risen up the agenda in recent years, culminating in the Government's Green Deal policy (of which more, below) there is still no clear and coherent strategy for decarbonising our built environment. This leads to a lack of confidence among investors and the supply chain, meaning we are not yet fully exploiting the opportunities associated with energy efficient buildings.

4. This may be because "the built environment" is not a politically high profile issue, nor a political priority, in the same way that energy generation (eg nuclear, wind, gas etc) is, and buildings have suffered from a lack of policy ownership in government—with relevant policy levers split between CLG, DECC, BIS and (in terms of public buildings), various other departments with an interest in procurement. The European Energy Efficiency Directive provides an opportunity for Government to address this issue, by requiring Member States to develop renovation roadmaps for their building stock. Although not buildings specifically, the Government's Energy Efficiency Strategy needs to be an important step to instil confidence in the market.

5. Leading companies in the property and construction sector, as in other sectors, are nervous about mixed messages from Government on the green economy. Arguably since the last budget in which the Chancellor made, in our view, a short-sighted distinction between going green and going for growth, businesses who are taking the sustainability agenda seriously have been less confident about the direction of travel. Splits in the coalition around renewable policy that emerged in July 2012 exacerbated this problem.

6. In the construction sector there is an analogy which UK-GBC often draws on. The Olympics construction project showed that UK companies can deliver big projects and ambitious sustainability targets if we have a clear direction of travel, confidence that the goalposts are not going to be moved, and a mature partnership between Government, business and other stakeholders. Government should draw on that Olympic spirit to encourage a shared sense of endeavour and excitement around the green growth and green economy opportunity.

Specific policy areas (further information available on request):

Home retrofit

7. The Green Deal started life as the "Pay As You Save" concept, which was proposed by a UK-GBC Task Group in 2009, and adopted in some form by all the main political parties. So we, as much if not more than anyone, want it to succeed. However, there are significant concerns remaining about how successful the scheme is going to be.

8. The Green Deal is an incredibly innovative idea and has much to recommend it. It is a brave attempt by the Government to bring retrofit into the mainstream, and to tackle some of the barriers faced by households that want to make their homes more efficient. That is a huge challenge, so it is not surprising there have been difficulties. It is also reasonable to start slowly and build up momentum over time, iterating and improving the scheme until we have a thriving market that can truly meet the ambition to improve 14 million homes.

9. Unfortunately moving from a relatively small, simple, subsidy-driven market for home energy efficiency to an ambitious, competitive and, most importantly, paid-for one is an incredibly difficult transition to make. The "back-end" systems will not be online until January, and it is unlikely that the scheme will be fully operational until the middle of next year. With CERT and CESP drawing to a close in December, we are therefore faced with the prospect that the transition might lead to job losses (estimates of 16,000 have been made) instead of driving job creation. At the same time, some scheme details are still yet to be finalised, and those that are finalised are not well understood by many outside a relatively small inner-circle of experts. Consequentially, we have only a handful of organisations that have so far had the confidence to sign up as Green Deal providers, installers and assessors.

10. This leaves Government with a real challenge. It is critical that urgent action is taken to ensure that the delays don't lead to a collapse of confidence, activity and investment in the industry that damages both the short and long-term chances of success. Alongside this must be a public commitment (building upon Edward Davey's low key mention of discussions on Council Tax at Liberal Democrat conference) to putting in place the long-term incentives that are needed to turn the Green Deal into an attractive and sustainable market.

11. UK-GBC is currently working with the Construction Products Association, Confederation of British Industry, WWF-UK and others to assess a wide range of fiscal and regulatory incentives with a view to making practical recommendations on implementation. Crucially, we are assessing which could be made fiscally neutral to HMT (eg fiscal incentives could see taxes go up on non-energy efficient homes as well as down on efficient ones).

Commercial buildings

12. Policy that affects non-domestic buildings is complicated and over-lapping. In its report Building the Future Today, the Carbon Trust reported that the carbon footprint of the country's 1.8 million non-domestic buildings can be reduced by 35% by 2020, compared with 2005 levels, with a net benefit of £4 to 5 billion

delivered to the UK economy through energy savings. Beyond that date, their analysis suggests a carbon reduction of 70 to 75% at no net cost to the UK.

13. Government should mandate the roll-out of Display Energy Certificates (DECs), which are currently obligatory only in public buildings, to all commercial buildings. DECs provide a rating for non-domestic buildings based on actual energy use, incorporating all energy uses in the building, which must be prominently displayed to visitors. By contrast, Energy Performance Certificates (EPCs, required on property transactions) provide a theoretical rating based on assumed patterns of use and occupation, and only take account of a limited range of energy uses within the building (those covered by Building Regulations). Evidence is emerging of the value of DECs in public buildings, with substantial year-on-year improvements in DEC ratings and reductions in energy costs. This has happened because there is a reputational driver to improve and because of the financial incentive of reduced energy bills.

14. Government committed, through the Carbon Plan published in March 2011, to “Extend Display Energy Certificates to commercial buildings”, by October 2012. But Government chose to effectively jettison this commitment by not using the Energy Bill 2011 to put in place the enabling legislation needed to meet this commitment and the current status of the commitment is unclear. Media reports have suggested that despite support from relevant departments, the Chancellor blocked this move.

15. We believe that the mandatory roll-out of DECs across the commercial buildings sector is essential, on the basis that:

- DECs would help to resolve the problem of a lack of action on operational energy use in buildings. We simply do not know how most buildings in the UK are actually performing, with building owners and tenants (except for the most engaged) completely in the dark about whether their building is energy efficient or not.
- Rather than representing an additional burden on business, DECs can help increase alignment across various policies affecting the built environment, including the CRC-EES, mandatory reporting, Green Deal for business and compliance with auditing requirements in the Energy Efficiency Directive.
- Once in place, they will also be a key tool to transform the market for energy efficient buildings, as they have done in the case of the NABERS tool in Australia. This would happen because of the reputational driver (companies don’t want to display a poor rating), and because of the financial driver (highlighting where energy can be saved). We should see an increase in innovative financing and delivery methods, for example energy performance contracting. In due course, this market-led transformation would allow for regulation to be pared back while still achieving climate/energy policy goals.

16. There is widespread support from business, although elements of the property sector are concerned about cost and methodology. We believe those fears are misplaced and can be overcome. We see huge potential for a Government backed “campaign”, with support from business and local authorities, for a nationwide audit of our buildings, which would help save money on energy bills for companies, particularly SMEs.

Zero Carbon new homes and non-domestic buildings

17. The Coalition Government scaled back the ambition of the policy for all homes to be zero carbon from 2016, removing all carbon emissions from non-regulated energy from the definition. However, despite this, the policy remains ambitious and there remains a remarkable degree of consensus that we can still meet this target—but time is running out on setting out a final definition and there are serious concerns over Government’s commitment to an interim improvement to standards in 2013.

18. Adding to the uncertain policy environment and hampering innovation is the lack of clarity around energy efficiency standards that will be required in 2013 through Part L of the building regulations. The Government’s consultation on Part L ended in April 2012, but the decision on the final standard has yet to be announced. Developers are highly capable of meeting and indeed exceeding the proposed 2013 uplift in energy efficiency standards, as demonstrated by schemes like the “AIMC4” project. Under this scheme, several house builders have worked together to achieve higher energy efficiency standards at low or no extra cost, indeed in some cases even saving money on construction costs. Government needs to clarify as soon as possible what the Part L energy standards for next year will be, to allow the industry time to understand the requirements and invest in the knowledge and skills to deliver.

19. The zero carbon commitment is one of the most ground-breaking construction initiatives in the world. As a result of progress driven by this policy, the UK house construction industry is starting to compete with companies in Germany and Sweden to produce some of the highest quality, most efficient, innovative, and well-designed new homes in Europe. However, one key aspect of the definition of zero carbon known as “Allowable Solutions” remains unresolved, and this is acting as a brake on investment by developers and local authorities and impeding delivery in the housing sector, which the Government has been seeking to support with the aim of stimulating economic growth.

20. Allowable Solutions would provide developers with an economical way of compensating for the CO₂ emissions reductions that are difficult to achieve through the normal design and construction process. In effect the developer would make a payment to secure emissions reductions through other carbon-saving projects.

Work undertaken by the Zero Carbon Hub, with the support and input of a range of industry and Local Government partners has demonstrated a wide consensus around the necessity and potential value of Allowable Solutions. Stakeholders have united around the shared belief that allowable solutions could unlock third party finance and co-investment in to deliver additional renewable energy infrastructure and energy efficiency retrofits of existing buildings, thereby driving economic growth and creating jobs.

21. However, the continuing lack of certainty, clarity and predictability around a price of carbon for the valuation of measures in the allowable solutions market is having the following impacts:

- (a) Without clarity around a price of carbon for allowable solutions, many developers are unable to plan future developments because of uncertainty around their future compliance costs.
- (b) A number of leading local authorities have already begun to plan and innovate ahead of the arrival of allowable solutions. Whilst this serves to underline the levers for growth which allowable solutions offer, there is a risk that without clarity in how the policy will be implemented in practice, activity could become increasingly fragmented and misaligned to national priorities.

22. There is therefore an urgent need for the Treasury to provide clarity around the carbon price which will underpin allowable solutions. This will enable the private and public sector to make investment decisions with confidence, and trigger local innovation and growth in a range of low carbon technologies and clarify the policy framework for house builders over the remainder of this decade.

23. The uncertainty that exists around the definition of zero carbon in the domestic sector is mirrored in the non-domestic sector. There are some key differences in how energy is used in non-domestic as opposed to domestic properties, but the principles remain the same. If all new non-domestic buildings are to be zero carbon from 2019, industry needs certainty as soon as possible in order to plan its investments.

18 October 2012

Written evidence submitted by Sustain

SUMMARY: TIME TO INTRODUCE FOOD DUTIES TO CREATE A FAIRER FOOD SYSTEM

- Duties are already used to bolster people’s resolve to consume less alcohol and tobacco and there is no reason why duties cannot similarly work to help us buy more good food and less unsustainable food.
- We believe that the health, environment and social problems with our food and farming system have reached such a critical point that better food duties should be devised and introduced. They are an important and powerful policy which, so far, has been under-used or not used at all to help create a good food and farming system.
- We believe that duties placed on foods which are unhealthy and produced unsustainably could pay for much-needed remedial and protective policies to make our food system fit and fair for our children and future generations.
- VAT is already charged on foods that were considered luxuries when the rates were set, but the current system is riddled with bizarre anomalies. A rational VAT system could raise money, for example, from high fat, salt and sugar foods.
- A logical starting point is introducing a duty on sugary soft drinks: these typically provide no nutritional benefit, but help to fuel our country’s obesity epidemic which is causally linked to deadly or debilitating non-communicable diseases such as diabetes, heart diseases and dental caries.
- Sustain has calculated that a sugary drinks duty could raise over £1 billion a year. We maintain that the majority of this revenue should be ring-fenced to help children eat good food and thereby reduce childhood obesity and tooth decay. Examples include providing healthy free school meals, improving children’s food skills, providing free fruit and vegetable snacks in schools, and making free drinking water widely available.
- Using the revenues explicitly for child health would also generate widespread public support. Such a duty would not only help to reduce sugar consumption, but would also show how using fiscal measures on food could work in future to help people choose good food in place of unhealthy and environmentally-damaging food.

“Sugar, rum, and tobacco are commodities which are nowhere necessities of life, which are become objects of almost universal consumption, and which are, therefore, extremely proper subjects of taxation” Adam Smith (1776). The Wealth of Nations

1. About Sustain

1.1 Sustain advocates food and agriculture policies and practices that enhance the health and welfare of people and animals, improve the working and living environment, enrich society and culture and promote equity. We represent around 100 national public interest organisations, and are independent of the agri-food industry. More information about our work is available on our website www.sustainweb.org.

1.2 This submission does not represent the detailed views of all our member organisations. However, it is based on extensive consultations on the issues covered by this response, so the general principles outlined are widely supported.

2. *Food duties will generate money and help make good food choices easier*

2.1 Food duties alone will not fix our unsustainable food system. A whole series of measures (such as protecting children from junk food advertising, clear food labelling, and food skills education, to name just a few) will need to be put in place. Together such measures will help make good food more available, affordable and attractive and, at the same time, make junk food less easily available, more expensive and unfashionable.

2.2 However, food duties could be an ideal source of much needed funds to improve children's health and encourage people to eat more sustainable diets. Money raised from food duties, could be earmarked for measures such as free healthy school meals; improving food education and skills in schools; free fruit and vegetable snacks in primary schools; making free drinking water more widely available; and funding health research.

2.3 There is already a precedent for hypothecation in UK Government fiscal policy including the UK television license to pay for the BBC, and money raised from London's congestion charge to help pay for London's transport system. In March 2012, the Home Office consulted on new laws which would allow councils in England and Wales the option of a levy on late night pubs and clubs to contribute towards the cost of the additional police, street wardens and cleaners required.¹

3. *There is evidence that food duties can work*

3.1 There is a large and rapidly growing body of research on the impact of food duties on consumption, covering both empirical evidence from countries where food duties have been implemented or trials where prices were artificially increased; and modelling studies. Sustain is currently preparing a report for publication this winter which pulls together all the relevant evidence for the effectiveness of food duties.

3.2 Taking stock of the weight of current research, a recent article in the *BJM*² stated the keys to a successful health-related food tax, including:

- Taxing a wide range of unhealthy foods or nutrients is likely to result in greater health benefits than would accrue from narrow taxes;
- The strongest evidence is for a tax on sugar sweetened beverages; and
- Taxation needs to be at least 20% to have a significant effect on obesity and cardiovascular disease.

4. *There is already a long history of food duties in the UK and around the world*

4.1 Much of the debate about food duties is tainted by the idea that this is a new way to raise money. In fact, duties on "the necessities of life" were in place as far back as 1860 with a sugar duty contributing £6 million to the United Kingdom's coffers.³ Duties on sugar were common in many European countries as well as the US throughout the nineteenth century as a means of protecting sugar-producing colonies as well as providing revenue for governments. In 1859, £400,000 in revenue was collected on food items ranging from butter, cheese, and eggs, to ginger and sago. From 1860 it was decided that these items should be free of fiscal regulation, though fruits continued to be taxed since "articles of luxury rather than necessities... may advantageously be taxed for revenue purposes".⁴

4.2 Throughout the history of fiscal measures on food, duties have been put in place for political, economic or behaviour change reasons. Most countries in the world have a Value Added Tax (VAT) system which includes food, and many VAT systems make exceptions for certain categories of food. For example, in Australia, "basic food for human consumption" is tax free and prepared food, confectionary, savoury snacks, bakery products, carbonated and flavoured drinks, ice-creams and biscuits are taxable at a flat rate of 10%.⁵

4.3 There are glaring and arbitrary inconsistencies in the UK VAT system. For example: ginger preserved in syrup is zero-rated while crystallised ginger is standard-rated; toffee apples are zero-rated but "fruit with a coating of chocolate" is standard-rated; chocolate-chip biscuits and Jaffa cakes are zero-rated while chocolate shortbread and gingerbread men "decorated with chocolate unless this amounts to no more than a couple of dots for eyes" are standard-rated.⁶ Ironically, juice is standard-rated despite counting as a portion in people's recommended "5-a-day" portions of fruit and vegetables, while caviar is zero rated.

4.4 Current VAT on foods is clearly not related to the healthiness or sustainability of foods and does not aim to change behaviour. In the words of David Gauke, Exchequer Secretary to the Treasury, "The health benefits of a food product have never determined its VAT treatment."⁷ If it did, cream cakes, unhealthy frozen ready meals, and caramel shortcake would be standard-rated rather than zero-rated.

4.5 It is only in recent years that countries have explored the possibility of using fiscal measures on food to improve people's health, and to date just a small number of countries specifically target unhealthy food to discourage consumption. With the introduction last year (2011) of a tax (unfortunately likely to be repealed) on saturated fats in Denmark, on sugary drinks, sweets and snacks in Hungary, and soft drinks in Algeria and

France, interest in the issue of fiscal measures to promote health has increased rapidly. David Cameron has even been quoted as saying that a “fat tax” might be necessary to reduce levels of obesity and curb soaring health costs.⁸

4.6 International organisations also recognise the role that fiscal measures can play in helping governments raise revenue and promote a healthy diet. The World Health Organization’s “Global Status Report” mentions “food taxes and subsidies to promote healthy diets” as a cost-effective population-wide intervention which can reduce risk factors for non-communicable diseases.⁹ Olivier De Schutter, the UN’s Special Rapporteur on the Right to Food, identified “taxing unhealthy products” as one of the five priority policies for putting nutrition at the heart of food systems across the world.¹⁰

5. *A sugary drinks duty is the logical starting point*

5.1 Soft drinks consumption in the UK reached 14,685 million litres in 2011.¹¹ That is 193 litres of soft drinks per person per year, 713 standard sized cans, representing almost two cans for every person every day. It is also 2,295 million litres more soft drinks than were consumed ten years ago. While a proportion of soft drinks—which include bottled water and fruit juice—are low calorie or no added sugar drinks, sugary drinks make up 39% of all soft drink consumption, equivalent to 5,727 million litres in 2011.¹²

5.2 Whilst healthy food is essential, sugary drinks are nutritionally useless, providing nothing more than empty calories and increasing people’s risk of obesity and dental caries.^{13, 14, 15} Beverages alone contribute almost a third of all sugar consumed by young children.¹⁶ Consumption of sugary drinks has been strongly linked with obesity, which in turn is causally linked to type 2 diabetes.^{17, 18} A systematic review of 30 studies concluded that there was “strong evidence for the independent role of the intake of sugar-sweetened beverages, particularly soda, in the promotion of weight gain and obesity in children and adolescents”.¹⁹

5.3 Part of the problem is that sugary drinks, like other liquids, have a very low satiety value (ie because the liquid does not make us feel full, we do not compensate for the liquid caloric intake by eating fewer calories from solid food). Sugary drinks are even associated with greater hunger after meals, leading people to eat even more.²⁰

5.4 A sugary drinks duty is therefore a logical starting point for a simple and easily understandable fiscal policy on food. Sugary drinks duties are already common in a number of countries (eg Denmark, Finland, France, Hungary, and the USA) and more and more countries are considering adopting them in the near future (Ireland, Romania).

5.5 A sugary drinks duty could be an important way to help shift people’s consumption to healthier and often cheaper (or even free) options like tap water. Our working definition of a sugary drink is any non-alcoholic beverage with added sugar which is consumed cold. This does not include 100% fruit juices which contain only naturally occurring sugars.

5.6 We recommend applying a duty which increases proportionately to the volume of drink purchased. This is important to discourage customers who may be inclined either to buy larger volume containers to reduce the effect of a sales tax, or switch to cheaper brands or own-brand products.

5.7 There is some evidence that an excise tax may be more cost effective than a sales tax at reducing purchases of the targeted food.²¹ The revenue raised from an excise duty would also not be affected if the food industry reduced the price of their products. Any duty should be indexed to inflation to avoid reducing the impact of the duty as the price of the product rises over time.

5.8 The size of the sugary drinks duty applied will be determined in large part by what it aims to achieve. If the duty aims to generate a certain amount of revenue and is less concerned with changing people’s behaviour, then a smaller duty can be effective and might prove less controversial (and therefore easier to implement). A larger duty can both change behaviour and raise a substantial amount of money, though it is also more likely to face opposition from the food industry lobbyists.

5.9 According to the British Soft Drinks Association, approximately 5,727 million litres of sugary drinks were consumed in 2011. A tax rate of 2p per 100ml, or 20p per litre, on soft drinks with added sugar could potentially raise £1,145 million. A slightly less ambitious tax rate of 10p per litre would raise around half of this or £573 million. These estimates do not, of course, take into account an expected and hoped for reduction in sugary drinks consumption which would result from implementing this duty.

5.10 We propose that the majority of this revenue should be ring-fenced for and spent on a range of programmes to improve children’s health and the environment they grow up in. This is important because opinion polls from around the world show that that people generally support food duties if the money raised is spent on health promotion.^{22, 23, 24} It is clear that a food duty must not be used simply to finance budget cuts.

6. *Food duties are the most cost-effective health policies*

6.1 According to a study carried out by the Organisation for Economic Co-operation and Development (OECD), regulatory and fiscal interventions were the most cost effective measures available for improving people’s health.²⁵ In particular, duties were identified as the only interventions likely to pay for themselves. In

other words, they are likely to generate more savings in health than the cost of implementing them. Other studies show similar results, for example identifying a food duty to reduce fat consumption as the cheapest of seven preventative interventions and the only one that would save money.²⁶ A “junk food tax” in Australia was also calculated to be likely to make a sizeable improvement to people’s health as well as being cost-effective.²⁷

6.2 In contrast, the current government’s “Responsibility Deal” is costing money but is not working. There is no evidence that voluntary approaches work, largely because the food industry knows that, by definition, voluntary means a lack of enforcement. As food companies are an integral part of the Responsibility Deal, it is not surprising that the Deal’s pledges represent their interests.²⁸

6.3 The government’s “nudge” approach—“nudging” people to change behaviour without legislation—was criticised as ineffective by a House of Lords report: “Nudging... is not a substitute for government regulation—it needs to be used within a framework of more traditional legislative and financial tools”.²⁹ A *Lancet* editorial on public health in England also suggested that taxes on fatty foods and sugary drinks should be used, among other measures:

*“Effective, evidenced-based public health measures do not include nudging people into healthy behaviours or getting NHS staff to lecture patients on healthy lifestyles. They include measures such as raising taxes on cigarettes, alcohol, fatty foods, and sugary drinks, reducing junk food and drink advertising to children, and restricting hours on sale of alcoholic drinks. The government should show true leadership and make effective legislation the cornerstone of their public health strategy. Focusing on other approaches is foolish. The nudge and nag approaches need one thing: the firm elbow.”*³⁰

7. Food duties will make our food system fairer

7.1 Health inequality is a serious problem in the UK. As a recent report explained: “In England, people living in the poorest neighbourhoods, will, on average, die seven years earlier than people living in the richest neighbourhoods.³¹ People from more disadvantaged groups in the UK are 2.5 times more likely to have diabetes than the norm.³² The NHS costs associated with health inequality currently exceed £5.5 billion per year—around 5% of the total NHS budget.³³

7.2 There is plenty evidence that junk food—high in saturated fat, sugar and salt—is bad for health.^{34, 35, 36, 37} There is also evidence for the negative health effects of individual nutrients such as saturated and trans-fat,^{38, 39, 40} sugar^{41, 42} and salt,^{43, 44} and their association with obesity, cardiovascular disease and other health problems.

7.3 Because of their lower incomes and pressured lives, poorer people tend to eat food which is cheaper and more convenient.^{45, 46} unhealthy foods with added sugar or fats (nutritionally poor foods) often provide the most energy for the lowest-cost.⁴⁷ There is also growing evidence that low income neighbourhoods have a higher proportion of fast food outlets and few, or sometimes no shops selling healthy food options.^{48, 49} These are some of the reasons why people with lower incomes suffer a greater burden of diet-related chronic disease: for example 31% of women in the lowest quintile of household income were obese compared to 20% of women in the highest.^{50, 51}

7.4 There is also evidence that people on lower incomes are more sensitive to price increases^{52, 53, 54} and therefore more likely to change their food choices in response to price changes. This is not surprising, given that poorer people spend a larger proportion of their income on food: lower income households spend 15% of their income on food, while those in the highest income bracket spend only 8%.⁵⁵

7.5 This means that, like duties on tobacco and alcohol, a food duty which encourages people to make healthier food choices will have greater health benefits for people on lower incomes. Due to the health gains made by those on lower incomes, duties on unhealthy food may be considered progressive and, in the long-term, help to reduce health inequality.⁵⁶ Moreover, policies implemented with the money raised from food duties can be designed so that lower income families benefit most. Free, healthy school meals for primary school children is a good example of such a policy.⁵⁷

8. Recommendations

For the many good reasons presented above, we recommend that Budget 2013:

- incorporates a sugary drinks duty for the UK;
- revises our VAT system so that it relates to the healthiness of foods; and
- provides for ring-fencing the majority of money raised from a sugary drinks duty for programmes to improve children’s health and protect the environment they will grow up in.

In the longer-term we recommend:

- developing food duties on unsustainable food, determined by a food sustainability index. This would take into account an agreed set of criteria such as environmentally friendly farming, high animal welfare, ethical trading, low greenhouse gas emissions and water stewardship, and healthy nutrition.

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18 October 2012

Written evidence submitted by Low Carbon Vehicle Partnership

LOWCVP SHORT SUMMARY RESPONSE

- Recent fiscal policy to support the low carbon shift in terms of the car market has generally been consistent and supportive, leading to both environmental and economic benefits. There are opportunities to extend effective policy to vans, trucks and other road vehicles.
- Any moves towards weakening or removing the incentives to cut carbon from vehicles and fuels which are currently embedded in UK fiscal policy would be a retrograde step in terms of environmental protection and would also damage the UK's commercial interests. Tax revenues from road transport have been stagnant or falling as a result of de-carbonisation of road transport; receipts from both fuel duty and Vehicle Excise Duty (VED) have been falling recently leading HM Treasury to review policy.
- A consistent and long-term signal of intent to ensure a carbon-basis of taxation for any vehicles and fuels is vital if we are to achieve carbon reduction targets in road transport and stimulate further UK investments in low carbon technology in this sector. Policy should extend beyond fiscal measures and into other areas, including industrial policy and public procurement.
- LowCVP stakeholders have concerns that the 2012 Budget sent some very unhelpful and contradictory signals in terms of longer-term support for low carbon vehicles, particularly in terms of electric and plug-in products. There needs to be greater consistency between the policies of the various involved Government departments.
- With greater vehicle electrification and the introduction of biofuels, road transport energy policy is becoming more linked up with overall energy policy and needs to be more closely aligned with it.
- Existing mechanisms for assessing environmental impact (eg tail-pipe CO₂) are becoming less useful both as metrics and as taxation tools. Life-cycle impacts (related to vehicle and fuel production and disposal) need to be incorporated in the longer term.
- There needs to be long-term clarity in terms of future tax policy for biofuels and other low carbon fuel or energy options for transport or necessary private investments will not be made.
- There are opportunities through the tax system to encourage changes in the nature of vehicle ownership. Higher levels of shared ownership provide opportunities for further emissions reductions.
- Any future policy changes should result from a wide-ranging and detailed debate with stakeholders. With 180 member organisations from key sectors, the Low Carbon Vehicle Partnership (LowCVP) would provide an ideal forum for this debate.

On question one: *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?*

1.1 Over recent years, Government fiscal policy to incentivise the introduction of low carbon cars, in particular, has generally been consistent and supportive (both in terms of taxes and subsidies). Against the backdrop of European regulation to reduce new car CO₂ emissions, the UK has been successful in both accelerating the rate of new car emissions reduction in the UK and in attracting substantial inward investment to the extent that the automotive sector is now seen as a bright spot in a bleak overall economic picture. (The UK was ranked third in the World in a 2011 study by the International Council on Clean Transportation in terms of policy stringency to incentivise low carbon car uptake.)

1.2 The success of policy in reducing emissions has resulted in a reduction in the planned tax revenues from the road transport sector (in terms of Fuel Duty, VED, and Company Car Tax). The Treasury has been

informally consulting with stakeholders on how to tackle the reduction in revenues resulting from greater vehicle efficiency. There are risks that abrupt policy change in this area could weaken low carbon incentives.

1.3 The LowCVP believes that it is imperative that a consistent and supportive tax regime for low carbon vehicles and fuels continues into the future. In order to meet Climate Change Act targets and to nurture the low carbon investments that have already been made, carbon reduction must continue to be embedded in tax policy and any changes must not be rushed but be clearly signalled and, ideally, be an outcome of wide-ranging stakeholder engagement.

1.4 With 180 member organisations including motor and energy industry representatives, environmental bodies, road user groups and other stakeholders—as well as Government—the LowCVP is well placed to facilitate a coherent stakeholder dialogue on behalf of the Government.

1.5 A shift from vehicle and fuel taxation to road user-based charging has been mooted for some time. It is critical that any moves towards road user charging do not eliminate or undermine the established incentives favouring lower carbon and give long term signals for continued support.

1.6 Strong and consistent regulatory signals from Europe have been effectively backed up by UK fiscal (well-supported by active industrial) policy which has encouraged significant automotive investment by OEMs and others in the UK. This has resulted in the delivery of lower carbon products to the consumer and wider benefits to UK Plc. arising from the investments. The Partnership believes that strong and consistent signals from Europe are very important and provide economic benefits to member states involved in automotive production. The UK has attained a leadership position in this area (through its adoption of the Climate Change Act and proactive policy in other areas) and should maintain this progressive stance in discussions and negotiations with Europe.

1.7 While maintaining a generally supportive stance in terms of electric vehicles (EVs), Budget 2012, did send out some mixed signals with the decision to end the exemption for zero emission vehicles from Company Car Tax and the 5% ultra-low carbon vehicle rate from 2015. This, coupled with the decision to remove 100% FYAs (first year allowances) from the purchase of these vehicles for leasing companies from 2013—and other business purchasers from 2015—will undermine the (already marginal) financial case for fleet users to adopt electric and plug-in vehicles. Policy needs to be urgently reviewed in this area to ensure it does not become a significant barrier to fleet uptake of EVs. A signal in the Autumn Statement is needed to restore confidence in the nascent market. We would recommend that the extension of 100% FYAs for all business users and the introduction of Company Car Tax for zero emitting vehicles should take place over a longer period to avoid too rapid a step-change.

1.8 The UK has pursued an active industrial policy (mainly funded by BIS and administered by the Technology Strategy Board) to support low carbon automotive developments. This, combined with a generally supportive fiscal framework backed by EU regulatory requirements, has been successful in encouraging significant levels of low carbon investment in the UK by leading automotive companies. (There is, however, still an absence of Tier One suppliers of low carbon products in the UK.) It is important that the developing industrial strategy focuses clearly on the opportunities for the UK from the shift to ultra-low carbon vehicles for the UK. We want to make sure that the opportunities this shift offers are realised and become embedded in the sector strategy.

1.9 Changes to the Bus Service Operators' Grant (BSOG) which are to be introduced in 2013 must support the financial case for the adoption low carbon buses. The UK has been successful, and amongst world leaders, in introducing low carbon buses, adopting a range of innovative technologies following Green Bus Funds 1, 2 and 3. These well-applied incentives have resulted in high levels of introduction and considerable new export opportunities.

On question two: 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?

2.1 The LowCVP believes the Government should consider introducing measures to reverse, or otherwise offset, the impact of the decision to end the exemptions for zero emission vehicles from Company Car Tax and 100% FYAs from 2015. There is currently no clear strategy for the extension of incentives for plug-in cars and vans and for EV infrastructure. The UK should re-establish its world-leading package of incentives with consistency and longevity until material levels of ultra-low emission vehicles are reached and the market has been successfully established. A 2011 report for the LowCVP by Element Energy forecast that there is unlikely to be a clear financial case for the purchase of electric vehicles without subsidy well into the 2020s.

2.2 In order to meet legal targets under the Climate Act, it's essential that carbon emissions continue to be embedded in road transport tax policy. In devising tax signals, policymakers should be mindful of complimentary outcomes in terms of emissions of local pollutants and urban air quality (specifically NOx and particulates). There exists significant urban air quality benefits through the appropriate use of Low Carbon vehicle technologies.

2.3 The LowCVP acknowledges the impact of past measures to encourage lower carbon, more efficient vehicles on Government revenues; particularly significant at this time of constrained Government finances. Re-calibrating existing tax incentives, such as VED and Company Car Tax to reflect efficiency improvements, to

provide a continuous motivation both now and in the future and to maintain future revenues without a major overhaul of road transport taxation should be possible.

2.4 Should a significant overhaul of road transport taxation be considered necessary—for example, to incorporate an element of road-user charging, or otherwise—a wide-ranging stakeholder consultation is strongly advised. It is vital that carbon reduction continues to be fully embedded in future tax policy and that there is cross-departmental consultation to avoid sending conflicting signals to investors and consumers.

2.5 The Renewable Transport Fuel Obligation (RTFO) is currently the primary driver of biofuels uptake in the UK. There needs to be greater clarity in terms of future intentions about the taxation applied to lower carbon fuels in general. There is significant potential for the introduction of lower carbon fuels, including certain (especially recycled, non-food crop-based and second generation) biofuels, but the future direction of policy is uncertain and is inhibiting potentially valuable investment and carbon reduction.

2.6 In particular, there needs to be greater clarity over the Government's future intentions for the adoption of E10 (10% ethanol/90% gasoline fuel) and supportive tax measures may need to be applied. Natural gas and biomethane are also promising low carbon fuels, but there needs to be greater clarity in terms of their role in overall energy supply (for example, their use as a fuel for electricity generation or as a road fuel). With the increasing complexity of energy for transport a review of taxation v energy carbon impact should be undertaken and the policy framework adjusted accordingly, (perhaps including long term visibility of the duty rate to be applied for gas as a road fuel). A duty rate based on carbon impact and energy content may provide a more appropriate basis for low carbon fuel development, but note that dieselisation of the fleet has and continues to be, a significant contributor to reducing average new car CO₂. This would be threatened if purely the carbon content of diesel were to dictate higher fuel duty and an even higher pump price for diesel compared to petrol.

2.7 Current measures of the CO₂-intensity of different fuels (and vehicles) are becoming less fit-for-purpose, particularly in the context of biofuels and electricity used for transport. Life-cycle measures, incorporating carbon impacts from production to disposal need to be discussed, agreed and introduced to provide more robust indicators to which fiscal and other measures can be tied. (The LowCVP has been active in stimulating debate in this area for some time.)

2.8 Other countries have introduced a range of fiscal tools to encourage carbon reduction, such as feebates, with some success. Gathering data on the experience in other countries would provide a helpful foundation for a discussion about future policy. The LowCVP is well-placed to facilitate data gathering and wide stakeholder consultation in this area.

2.9 There should be a national framework for policies which ensure that there is consistency between regions and localities. There needs to be coherence, for example, in terms of electric recharging infrastructure or low emission zone criteria between regions, allied with national standards. Plans need to be agreed nationally and be long term and communicated effectively for implementation at regional or sub-regional levels. Only through regional consistency can the economies of scale in vehicle development and the flexibility of vehicle use around the country be delivered to allow realistic vehicle volumes which can deliver locally driven air quality benefits.

2.10 UK fiscal policy has primarily focused on creating incentives for car buyers to choose low carbon options. There is significant potential to translate some of the successful measures in this area to other road vehicles, including vans and larger commercial vehicles. Careful consideration of how best to influence the purchasing behaviour of commercial buyers (eg through total cost of ownership incentives rather than just "ticket" price) will be required.

2.11 UK industrial policy, while relatively successful to date, should be continued and strengthened. Government-industry collaboration has been effective through the auspices of the Automotive Council and has helped to establish the shift to ultra-low carbon technologies, especially for passenger cars, as a key pillar of UK automotive strategy. However, industrial policy focused on vans/trucks, for low carbon fuels and for SMEs has not been so supportive.

2.12 There have been moves towards shared models of vehicle ownership in the UK and elsewhere, including in the form of formal and informal car clubs. Car sharing can enable drivers to choose well-maintained vehicles that are most suited to the journey undertaken. Car sharing may also reduce individual miles driven, optimise vehicle usage, spread high capital costs and encourage the use of other (lower carbon) modes, as well as relieving parking congestion. Tax and fiscal policy could play a role in encouraging shared ownership/use models.

2.13 While not specifically a fiscal measure, appropriate public procurement policies can play an important role in encouraging low carbon vehicle and fuel uptake.

2.14 Over-riding principle: Tax policy needs to be consistent, coherent and to set clear, long-term signals for investors and consumers. (Recent experience in the road transport area shows how this can deliver dividends in both environmental and economic terms.) Policy change should never be "knee-jerk" or driven by short-term political or economic concerns. Policies should be based on sound science and evidence, with consumer acceptance and engagement being delivered through policy transparency and clarity over long term strategy.

On question three: *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?*

No LowCVP comments.

18 October 2012

Written evidence submitted by Campaign for Better Transport

SUMMARY

- With regard to transport, the Government has helped the transition to a green economy in some areas, notably investment in rail infrastructure, additional funding for the Local Sustainable Transport Fund and a third round of the Green Bus Fund.
- However, there is a growing agenda for significant new road building which would add to carbon emissions, destroy valuable natural environments and lock-in car dependency.
- Private finance to pay for new roads would not be value for money and would distort the prioritisation of transport schemes.
- The Autumn Statement and next iteration of the National Infrastructure Plan should instead focus on smaller schemes, catching up on the backlog of local road maintenance, railway station improvements and railfreight schemes.
- A feebates scheme could better incentivise the move to low carbon emission vehicles.
- Tax incentives for bus commuters should be introduced.
- Treasury should review its exclusion of fuel duty, air passenger duty and vehicle excise duty from their definition of environmental taxes.

1. Coherence and adequacy of the Government's existing approach and the transition to a green economy

1.1 Our comments on the Government's approach to supporting a green economy are related to the Treasury and Department for Transport's approach to transport policy. There are some welcome elements to this, with the Government commitment to significant investment in the rail network in Control Period 5 which covers 2014–19. On a smaller scale, an additional £40 million has been made available for the Local Sustainable Transport Fund and £30 million for the third round of the Green Bus fund which was announced in March 2012.

1.2 However, there is an increasing emphasis from some Ministers on the desirability of a large new roads programme. Although the Business Secretary has said that, while congestion is a serious problem, “trying to build our way out of this problem is not a viable option, either financially or environmentally,¹⁴ other Ministers do not seem to share this view, despite many years of evidence that, in the absence of demand management, increases in road capacity do not solve congestion.

1.3 As Vince Cable pointed out, the current fiscal situation makes it difficult to finance a large number of road schemes. Advocates of road building are therefore looking to private finance to pay for the upfront costs of schemes, paid for in the long-term through tolls or private finance initiative (PFI) type schemes involving shadow tolls, where the private investor receives a payment based on the number of road users. Both are likely to lead to higher costs to the taxpayer in the long-term. The International Monetary Fund has warned that decisions about how to finance new infrastructure should be “based on efforts to use public funds as efficiently as possible [and] should not be affected by artificial attempts to limit Government gross debt or near-term expenditure by transforming costs into contingent liabilities that might be realised only later”.¹⁵

1.4 As well as potential higher financial costs in the long run through a push for private finance, there is a danger that decisions about priorities for investment are skewed by what private finance is available. The Government's feasibility study of new ownership and financing models is actively considering an approach of using vehicle excise duty (VED) as an income for private investors to borrow against to fund new capacity. This would turn VED into a hypothecated tax used solely for road spending and would be a major step away from normal Treasury practice to avoid hypothecation because of the need for ministers to have discretion to set priorities for spending tax revenue under a democratic framework. Commercial considerations could outweigh consideration of wider issues, particularly those relating to carbon emissions or loss of the natural environment.

1.5 The necessity for VED to raise a minimum level of revenue could also compromise the ability to use it to incentivise cleaner cars or change to another mechanism altogether, such as feebates (which are discussed below). Campaign for Better Transport's *The Problem with Private Roads* sets out the wider problems of this approach in more detail.¹⁶

¹⁴ Speech at Intelligent Mobility Summit by Vince Cable, Secretary of State for Business, 25 April 2012.

¹⁵ IMF Country Report No. 12/190 United Kingdom, <http://www.imf.org/external/pubs/ft/scr/2012/cr12190.pdf>

¹⁶ Problems With Private Roads, Campaign for Better Transport, August 2012, http://www.bettertransport.org.uk/files/admin/Problems_with_Private_Roads_FinalWeb.pdf

1.6 Instead, the approach to road infrastructure should be about managing the network better and supporting moves to low carbon vehicles and public transport. An approach based on new large road schemes could also take away funding from smaller schemes and for maintenance (for which there is a £786 million shortfall each year¹⁷). Smaller schemes and improved maintenance could incorporate measures to better manage the network and incorporate improved provision for buses, pedestrians and cyclists.

1.7 Campaign for Better Transport is concerned that decisions on transport policy are being driven by Treasury Ministers' desire to be seen to be doing something about infrastructure, rather than an evidence based approach to transport priorities that recognises wider environmental and social concerns. This has led to approval of damaging schemes like the Bexhill Hastings link road, despite its poor value for money and significant impact on carbon emissions.¹⁸

2. *New policies for the Autumn statement and Budget 2013*

National Infrastructure Plan and private investment

2.1 The National Infrastructure Plan should prioritise green infrastructure over grey infrastructure that locks in dependency on fossil fuels and increases carbon emissions. Campaign for Better Transport has identified 191 road schemes being promoted by local enterprise partnerships or local authorities. There has been a marked resurgence of schemes in recent months as the language of Ministers has changed. The Autumn Statement should emphasise instead a programme of smaller capital projects and investment to deal with the large maintenance backlog for existing local roads. We have also suggested that efforts to get institutional investment in transport should focus on railway stations and railfreight terminals, which have clear revenue streams and shovel ready projects.

Feebates scheme to incentivise low emissions vehicles

2.2 The UK already has several fiscal measures designed to encourage the uptake of low carbon cars. These include fuel duties, graduated vehicle excise duty, and graduated company car taxation rules. There is good historical evidence that these taken together have had an impact on average fuel economy and CO₂ emissions. However, they are not consistent or well coordinated, and are still not sufficient to encourage the uptake of new technologies with very low carbon emissions. Nor are they capable of providing sufficient revenue in the current economic climate to meet the need for additional incentives for such technologies on the scale that is needed.

2.3 A new fiscal mechanism is therefore needed and a feebate system might be best placed to meet this need. In essence, this is a system whereby a fee is levied on the purchase of high carbon cars, and the revenue raised is then used to provide a rebate for the lowest carbon purchases.

2.4 Feebate schemes have a number of advantages relative to other more conventional tax instruments:

- In contrast to emissions standards, feebate schemes offer incentives for continuous improvement in CO₂ emissions for all new car models anywhere along the spectrum.
- They incentivise risk averse consumers to factor fuel economy more fully into their purchase decisions by amplifying the price signal upfront, rather than relying upon them to make rational and accurate forecasts of future fuel cost savings, when these are in their nature uncertain and heavily discounted.
- They develop a stronger and undistorted market for fuel economy to which all manufacturers can cater, but in addition, they establish for manufacturers a known price for CO₂ reductions, which can then be factored into their model design and marketing strategies.

2.5 Elements of such a system are already in place in several other countries, most notably France and to a lesser extent Denmark. Several of them have shown clear signs of success both in incentivising the purchase of advanced low carbon cars, and in bringing down the fleet average emissions significantly.

2.6 Such a scheme in the UK would be more effective than current arrangements, because it would operate directly at the point of sale, and would provide a mechanism to discourage the purchase of cars with very high fuel consumption and carbon dioxide emissions, and to transfer funds from the purchasers of such cars to those seeking to buy the lowest-emitting cars.

2.7 A feebate scheme could replace the graduated component of the current VED system. More radically, it could form a component of a more major redesign of the vehicle and fuel taxation system. This will be needed in coming years as the revenue from road fuel duty declines. It is also suggested that some of the revenue from such a scheme might in the initial years be diverted to revive recent scrappage incentives, in order both to

¹⁷ Smarter Spending to Boost the Economy, Campaign for Better Transport, November 2012, <http://www.bettertransport.org.uk/system/files/Smarter-Spending.pdf>

¹⁸ See Campaign for Better Transport briefing on 2011 road schemes: http://www.bettertransport.org.uk/system/files/Dev_Pool_Briefing_2011_FINAL.pdf

speed up the improvement in fuel efficiency across the whole fleet, and to support demand for new and more efficient cars.¹⁹

2.8 There is interest in a feebate scheme among policy makers and MPs, with EDM 567 calling for the introduction of such a scheme being tabled by Zac Goldsmith and other MPs.

Tax incentive scheme for bus commuters

2.9 Campaign for Better Transport has proposed a tax concession for commuters who use buses, which could have positive benefits in terms of reducing the environmental impacts of current high levels of car traffic. There is an effective tax incentive to drive to work because employer-provided car parking at work is specifically exempt from tax as a benefit in kind, whereas nearly all employer-provided support for public transport is taxable.

2.10 The car parking exemption benefits those on higher incomes (for example allowing tax-free parking at Lincoln's Inn Fields in London), while the lack of exemption from personal taxation for public transport disadvantages poorer people and poses a barrier to employment. This is particularly important for part-time workers and those returning to work after a period of unemployment.

2.11 There are some exemptions for public transport support, for example for works buses (as defined by HMRC), but these can only ever form a small part of the market. As far as we are aware, there is no move towards removing the tax exemption for car parking. Campaign for Better Transport's proposal has been designed to target any benefit so as to minimise deadweight costs and ensure that it supports Government objectives of getting people into work and reducing congestion and pollution.

2.12 We envisage employees being able to load their smartcards with employer-provided funding, which would be tax free up to a certain limit. The benefit would only be usable on buses, possibly extended to other local transport in some areas where this makes operational sense. Experience in the US and elsewhere has shown that smart cards make the scheme very easy to deliver, as the benefit can simply be loaded onto the card electronically once the employer has approved the payment. This would also work with contactless credit card payments through the use of an e-purse or similar. Employers could of course offer funding beyond the tax free limit, knowing that this would be taxable—as already happens with authorised mileage rates for business use of private cars.

2.13 The Treasury has raised the issue of deadweight costs, and we have been at pains to minimise these. In particular, we have proposed exempting London-based employers from the scheme, and to limit it generally to bus rather than rail. If smart ticketing were used as the basis for a scheme, businesses and travel within the TfL travel zones could easily be excluded from the scheme.

2.14 One of the key objectives of the proposed scheme is to allow the concession to be used irregularly; maybe only once a week or a couple of times per month. This type of usage is likely to be where the most modal shift will occur as it allows people who do not use public transport at all to try it out and see if it works, or allows current occasional users to become more frequent users. It can also particularly support part-time workers. Salary sacrifice is not appropriate for these types of tickets as the nature of the arrangement involves a regular commitment to a particular amount of "sacrifice". The evidence we have collected so far suggests that some previous salary sacrifice arrangements have indeed simply given discounts to existing users rather than supporting incentives for mode shift by current non-users.

2.15 Campaign for Better Transport is continuing to discuss the potential for this scheme with officials and ministers at the Department for Transport and Treasury.

3. *Definition of environmental taxes*

3.1 The decision by the Treasury to exclude VED, fuel duty and air passenger duty (APD) from their definition of environmental taxes is very questionable. This is particularly true for VED, which is engineered to deliver carbon benefits through higher rates on higher emitting vehicles. We would like assurance that it has not been excluded because it is being considered as an income stream to guarantee private borrowing for road schemes.

3.2 We also note the point that has been made by Friends of the Earth that cutting VED, fuel duty and APD could actually help the Treasury to meet their coalition agreement to increase green tax share of overall taxes. The Treasury should review their exclusion of these taxes for their definition of environmental taxes.

18 October 2012

¹⁹ A Feebate Scheme for the UK: Arguments in Favour and Suggestions for Scheme Design, Malcolm Fergusson for Campaign for Better Transport, January 2012 <http://www.bettertransport.org.uk/media/26-jun-feebates>

Written evidence submitted by RenewableUK

SUMMARY

- Green Investment Bank should be strengthened with the power to borrow as soon as possible.
- Clarification of Government’s position of energy trading between countries is needed.
- Planning for onshore wind should be simplified and streamlined.
- Fair and timely offshore license consenting process is needed.
- Support supply chain development to build factories and create jobs.
- Investment in skills and education are needed to secure jobs within UK.
- Clear steer from Government of post-2020 policy is required.
- Electricity Market Reform should include a 2030 decarbonisation target.
- Feed-in Tariff and Renewables Obligation have worked well to make investment in renewables.

EXISTING GOVERNMENT POLICY

1. The UK economy is in stagnation and the Eurozone crisis is still far from settled, meaning there is considerable uncertainty hampering a full economic recovery. On top of this monumental challenge is the uncertainty surrounding a number of regulatory reforms including Government’s Electricity Market Reform (EMR), and Ofgem’s Retail Market Review (RMR), and Electricity Balancing Significant Code Review (SCR), all currently under consideration. This uncertainty is antithetical to the estimated £110–200 billion in needed investment in UK energy infrastructure by 2030. Private investors including manufacturers require a greater steer into what Government policy will be if there is to be any hope of meeting its energy challenges. After identifying a site, wind project developments typically require a minimum of five years to become a reality. Working with financiers to secure private investment takes significant resources and time. A number of carbon intensive plants are coming offline in the next few years. To meet 2020 targets investment in renewable generation is needed. With a greater steer from Government, investment can be freed up, cleaner power sources can be built to reach our 2020 targets, thousands of jobs can be created and the UK can strengthen its position as a renewable energy leader.

2. The greatest threat posed by Government in securing a green economy is the perceived lack of commitment to green policies. There have been positive steps by Government, such as the establishment of the Green Investment Bank and support of marine energy. However, more should and must occur to fully realise the potential of a strong green economy, including the deployment of onshore and offshore wind, and further support for the wave and tidal industries.

3. Decarbonisation, particularly if based on renewables, opens up significant opportunities to increase economic growth. One major reason decarbonisation can spur economic growth is that renewable sources of energy tend to be de-centralised and therefore can employ local skills, labour, equipment and technology to bring them to realisation. Operation and maintenance of wind farms can result in a number of local jobs, often in rural areas. It is estimated that 88,000 direct and indirect full time jobs will be created between 2010 and 2021 within the onshore and offshore wind, and marine industries if a scenario with 41.5GW of these technologies is realised.²⁰ In addition to operation and maintenance, turbines and other components need to be manufactured. There is steady employment throughout the life of renewable energy technologies that when combined with the positive environmental impact and resulting social benefits make renewable energy a worthwhile investment.

Strengthen the Green Investment Bank

4. RenewableUK commends Government for designing the Green Investment Bank (GIB) in order to counteract persistent market failures in providing finance, while further encouraging private investment—not replacing it. The GIB has the potential to unlock much-needed private financing for green infrastructure to meet 2020 targets. While £3 billion is a significant amount of money, it does not come close to the range of estimates required to upgrade, replace and decarbonise the UK’s infrastructure. The Bank must therefore seek creative new ways to use the money available to it that reduce risks and “crowd in” more private sector funding. RenewableUK urges Government to identify other methods, including cost and risk reduction initiatives, to make additional funds available. By putting more funds into the GIB in the future it can further reduce risks to financiers such as banks, pension funds and even municipalities. By reducing risks, private investment would be freed up. There are concerns that by not having the ability to borrow until April 2015 at the earliest, the bank is not reaching its full potential. Before it is able to borrow it is not acting fully as a bank in the sense of both lending and borrowing money. RenewableUK encourages Government to enable the bank borrowing powers as soon as feasible to ensure it reaches its full potential.

5. Up to 20% (£600 million) of GIB funds will be used to support initiatives outside of its priority areas, and RenewableUK has been making the case for investment in the wave and tidal sector in addition to small loans for the small and medium wind sector. When the Government initially laid out its vision for the GIB, it

²⁰ Working for a Green Britain: Vol 2, RenewableUK, July 2011, page 2, Available at: http://www.bwea.com/pdf/publications/Working_for_Green_Britain_V2.pdf

pointed towards the revolutionary role it would play in catalysing the low carbon industrial revolution by supporting early stage technologies. It is important that the GIB provides a stronger message to investors and demonstrates the Government's commitment to supporting the marine energy as encouraged by the independent Committee on Climate Change (CCC) and others. Exciting opportunities also exist for local communities to develop their own renewable energy schemes, but one obstacle to such projects is private sector funding, as some banks view small and medium wind as too high a risk. We hope Government considers additional sources of funding through the GIB so that local communities are able to get these projects up and running while simultaneously helping small business and putting people back to work.

Clarify energy trading policy

6. Renewable energy trading between other Member States and the UK has the potential to deliver major economic benefits to the development of renewable energy here in the UK as well as the strengthening of the domestic supply chain, as long as the UK becomes a net energy exporting country post 2020, as it has the potential to be at scale. Steps taken to strengthen the renewable industry, such as renewable energy trading, can facilitate the creation of thousands of high quality jobs here in the UK in addition to keeping energy costs to a minimum. However, in the first instance the UK must remain focused on 2020 renewable targets, seeking to employ the most cost effective renewable technologies and retaining economic capital in the UK as far as possible.

7. RenewableUK is not opposed to renewable energy trading. It is, however, important that any trading mechanism is implemented in a way that does not undermine confidence of investors in UK projects. Developers already face a high level of uncertainty as a result of the market reforms being introduced. The introduction of trading, if done in a crude or insensitive manner, could exacerbate the risks developers face. Any decisions to import or export must not have a detrimental impact on the ability of the UK to cost-effectively develop its own resources for its own needs.

Invest in energy infrastructure

8. Investment in major grid infrastructure is regulated by Ofgem. Ofgem's duties include the protection of the interests of current and future customers, including taking account of the impacts of greenhouse gas emissions. This gives Ofgem a pivotal role in securing the delivery of the grid infrastructure required to accommodate renewable generation. However, Ofgem will find it difficult to sanction investment in such grid infrastructure if there is any question of Government commitment to the renewables agenda. This results in misalignment of network company activities, leading to more expensive delivery and subsequent cost to the consumer; uncertainty in the renewables industry leading to slower progress and again higher costs; and overall risks a self-fulfilling prophecy whereby new network is not available for renewable generation that has not arrived. In recent price control announcements for the next eight years, Ofgem has emphasised the risk that the "Gone Green" scenario for renewables deployment may not be reached. RenewableUK calls on Government to reaffirm its commitment to and support for the renewables agenda, with reference to the need for appropriate grid investment and the Gone Green scenario.

9. To take advantage of the UK's natural wind and marine resources a reliable and effective grid system is required. As an example, strong wave conditions exist off the Western Isles, making it uniquely suited for early wave development. Currently it is the only place where wave development is economically viable in the UK and possibly Europe, but due to historical factors, the transmission grid in these areas is not sufficient to support large scale renewable energy projects. The high cost of installing transmission upgrades is hampering the development of marine energy projects here and elsewhere in the UK. RenewableUK is committed to assisting Project TransmiT develop a solution that will make marine energy viable in this area to avoid high charges risking the UK's world leading position.

10. Major investment in energy infrastructure such as grid will be required with or without an emphasis on decarbonisation and renewable technology. However, it is most practical to invest in the technologies adding to a country's competitive advantage and the UK is well placed to reap the rewards of wind, wave and tidal stream technologies. Not acting now has a number of consequences, including the opportunity cost of not being the first mover and thus missing out on industrial development. It is imperative to make these critical investments now to get the maximum benefit. As pointed out in the European Commission's Energy Roadmap 2050, if investments are postponed they will cost more and create more disruption in the longer term.²¹ RenewableUK has been encouraged by the preliminary work of HM Treasury in identifying interdependence opportunities across different infrastructure sectors such as energy and transport. Sufficient infrastructure is necessary to reach sustained economic growth.

Reform planning process

11. Renewable energy plays a key part in achieving sustainable development as it provides clean energy without the unnecessary exploitation of finite resources and the resulting polluting emissions. Receiving planning permission in England and Wales for renewable energy generation such as onshore wind is becoming

²¹ Energy Roadmap 2050, European Commission, page 2. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011PC0885:EN:NOT>

more complex and costly despite the National Planning Policy Framework (NPPF) published last year. The NPPF included provisions designed to spur onshore wind development. However, currently developers face more delays than ever adding to the costs of clean energy. More guidance is needed for local authorities as they weigh the benefits of renewable energy generation. Wind generation not only provides a clean and reliable source of electricity; it also has the added benefits of creating jobs within the supply chain, construction, operation and maintenance.

12. Policy and procedural direction to local authorities is needed on a range of planning matters, from the development of local plans and policies through to the determination of individual applications. There is a very urgent need to have clear priorities and weighting of issues. Local authorities in many cases have a record amount of planning applications combined with fewer resources and expertise. The NPPF does not provide a point of reference when considering an application for onshore wind developments. Some local authorities have been attempting to fill the void by constructing their own policies. However, this is counterproductive as the UK aims to meet its 2020 targets. It has slowed down development, which means we are not creating the number of jobs possible and taking longer to transition to cleaner technologies.

13. RenewableUK has noted the emergence of local policies and supplementary guidance which are contrary to national policy and the fundamentals of the planning system. Urgent clarity is needed from Government on the future role of guidance in the planning system. This includes the status and weight to be afforded to guidance that has been produced already and the opportunities for gaining the Government's support in endorsing guidance produced in the future. One example of an emerging policy of concern is the matter of local planning authorities (LPAs) introducing arbitrary separation distances between dwellings and onshore wind turbines. There are an increasing number of examples of such policies emerging within Supplementary Planning Documents (SPDs) which are not subject to any independent examination in public or scrutiny by a Planning Inspector. SPDs are intended to elaborate and explain existing development plan policies which have been subject to independent examination and scrutiny. In the case of wind energy, the introduction of separation distances is clearly a substantial policy matter, so any attempt to do so must be made through the local plan procedure. RenewableUK believe such policies run counter to requirements in the NPPF to plan positively for sustainable development and would not therefore stand up to scrutiny at a local plan examination.

14. Currently the planning process is overly burdensome and complicated. Landscape and visual studies, for example, can take months or even years to complete. Simplification and consistency across different local authorities could pave the way to more sustainable development, and, while the wind industry has become well established, if more were done to promote the sustainable technology the better the UK would be positioned as a place to locate turbine manufacturing and other supply chain suppliers creating jobs in areas hit hard by the recession. In the past, RenewableUK has recommended considering planning potential at a larger spatial scale than local authority areas. In 2010 the Department of Energy and Climate Change (DECC) funded nine regional energy capacity studies to help local communities in England to identify and maximise low carbon deployment opportunities. These assessments should provide an evidence base to enable local authorities to plan together more strategically for the deployment of renewable energy.

Offshore consenting

15. Consenting remains a major challenge facing the offshore wind industry. Government has taken recent steps to improve the consenting process, but more should be done to ensure a smooth transition to a green economy. Currently a major barrier to deployment involves statutory consultees not being resourced effectively enough for them to robustly deliver the Planning Act. More resources in addition to strict adherence to timetables are needed to ensure confidence within the industry. Both investors and supply chain companies benefit from more efficient project timelines. Currently the oil and gas consenting process is considered more streamlined than for offshore wind. Steps by industry and regulators are needed to allow for a level playing field between the two sectors.

16. Consenting marine energy projects remains a difficult process, mainly due to the lack of experience in this area. While DECC remains engaged in this process, project developers face an extremely onerous burden of proof. Baseline data collection, post-deployment monitoring and impact mitigation methods remain at a level beyond other forms of energy generation and present a significant barrier to the development of marine energy projects. In addition, the lack of capacity of regulators and statutory consultees result in costly delays and means that some projects fail to progress.

Skills and employment

17. Owing to the Government's commitment to reduce carbon emissions, the renewable energy sector has seen sustained growth over the past few years, but the continued success of these industries depends on their ability to resource existing and future projects with skilled workers. In 2010 investments in the wind, wave and tidal industries directly employed 10,800 within the UK, but they have the potential to employ many thousands more by 2020 and beyond.²² This projected growth represents a huge opportunity to engage members of the public in environmental issues and renewable energy.

²² Working for a Green Britain, RenewableUK, February 2011, page 7, Available at: http://www.bwea.com/pdf/publications/Working_for_Green_Britain.pdf

18. To sustain the growing momentum of development and innovation it is critical to promote “STEM” subjects (Science, Technology, Engineering, Maths) at all stages of education as well as opportunities for practical work-based learning to ensure the industry has the necessary skills. One mechanism to achieve this could be to enact a fee structure for key courses that reflects industry demand eg mechanical and electrical engineering, to incentivise increased course uptake and ease the financial burden on individuals accessing university education for STEM related degrees. Overall more should be done to ensure qualifications match the change in employment requirements. This could be partially achieved by stipulating a minimum level of renewables content in relevant higher education courses, eg mechanical, electrical, and civil engineering, to increase awareness and understanding. Government should also take a lead on co-ordination of Sector Skills Councils, activity to minimise duplication of effort and confusion over jurisdiction, to ensure a clear message on skills and make sure that stakeholders know which skills body is able to help. The lead time for workforce planning is on a shorter scale than 2020 and therefore an overemphasis on 2020 targets does not facilitate workforce planning over shorter timeframes. The lead time for skill preparation is therefore a risk area that needs to be further explored.

Supply chain support

19. The Coalition Government has said it remains focused on increasing manufacturing exports to create jobs here in the UK, and RenewableUK believes the same should be said for renewable energy. The UK should aim to harness its abundant renewable resources including wind, wave and tidal, and maximise their value as opportunities present themselves. Without the need to comply with a strong renewable target, there is little drive to trade despite the potential for additional manufacturing plants being commissioned here in the UK. In order to make these kinds of investments a reality the private sector needs a strong understanding of where Government policy is heading. For offshore wind, an opportunity exists to secure an industry for the UK and prevent these investments being made elsewhere.

20. Programmes such as the Regional Growth Fund have the potential to encourage sustainable private sector growth and employment. RenewableUK, the Manufacturing Advisory Service and the Advanced Manufacturing Institute—in partnership—have submitted a bid to develop a programme for the offshore wind supply chain. The funding will essentially allow small and medium enterprises (SMEs) to explore their capability to supply to the wind sector. As it stands, there have been a number of programmes/databases that have identified SMEs with the potential to be a part of the wind supply chain, but have not gone any further in terms of providing specialised business support or financial support to expand their capability to do this. The Offshore Wind Cost Reduction Task Force published earlier this year recommends that Government increases direct engagement with companies capable of entering the offshore wind supply chain.²³ Supporting the RGF funding bid is one way that this can be done, as the money awarded will facilitate SMEs to expand their capacity and capability to enter the offshore wind supply chain. A major conclusion of the cost reduction work was that developers and suppliers will not be able to deliver cost reduction without strengthening the supply chain. Before this can happen the uncertainties that surround investment decisions when establishing wind turbine manufacturing facilities need to be removed.

21. The current air of uncertainty is not aiding the development of the supply chain. The UK needs to be an attractive option for investments and alongside this there needs to be long term support from Government. In terms of developing a supply chain, removing the uncertainty that is hindering original equipment manufacturers (OEMs) from investing and progressing with their plans in manufacturing facilities is a key area. This will then open the door for companies thinking about making investment decisions to facilitate their entry to the supply chain.

NEW POLICIES

2030 target

22. UK and EU investment in decarbonisation through renewables will create economic activity and jobs in the short term to boost the economy and in the longer term will reduce the balance of payments deficit. As a result, capital which would have been spent on importing fossil fuel will be spent within this country, boosting our economy.

23. There is a serious lack of direction coming from Government as to what the renewable energy policy will be post 2020. It is understood Government envisions all technologies competing with one another in the 2020s, but it is still unclear what is exactly meant by this and when this would go into effect. In the meantime there have been mixed messages coming out of Government surrounding renewable energy trading and post 2020 targets, with language being used around 2030 decarbonisation that leaves a lot of “wriggle room” for Government. It is critical that Government gives more insight into its energy strategy post-2020 as soon as possible. If 2030 objectives are clear and ambitious we will get more short-term benefit to the UK economy in terms of manufacturing investments as well as delivering 2030 decarbonisation more cost effectively. Specific renewable energy targets for 2030 may be able to help achieve economic growth and technological leadership, as well as energy security. Due to the uneasiness surrounding EMR and uncertainty concerning post-2020

²³ Offshore Wind Cost Reduction Task Force Report, Offshore Wind Cost Reduction Task Force, June 2012, Available at: <http://www.decc.gov.uk/assets/decc/11/meeting-energy-demand/wind/5584-offshore-wind-cost-reduction-task-force-report.pdf>

targets there is a real sense of concern amongst investors. Critical investments needed to secure our energy future will not happen until investor confidence is restored.

24. The Committee on Climate Change (CCC) says it is “crucial in the context of economy-wide decarbonisation that the power sector is almost fully decarbonised by 2030”.²⁴ The CCC has also outlined the need for early investment to avoid build rate constraints preventing attainment of 2050 objectives. The Committee believes it is not feasible to add sufficient low-carbon capacity to meet the 2050 target without meeting the 2030 decarbonisation goal. Instead, investment is required earlier to achieve the long-term objectives.²⁵

Post-2020 policy

25. The CCC has modelled decarbonisation of the entire UK economy and the lowest cost path to 2050 is to decarbonise electricity by 2030. We concur with this analysis and urge Government to include a decarbonisation target as part of EMR. The forthcoming Energy Bill creates an opportunity to set binding commitments to decarbonise the power sector by 2030. Clarity on Government energy policy post-2020 is needed. Without added certainty investors will be unable to make the investments needed to meet 2050 obligations.

26. The UK has made a tremendous amount of progress within the renewable energy sector. It has led to a record amount of electricity produced by wind and the resulting jobs. Continued investment has the potential to cement the UK as a world leader within the wind and marine energy sectors by taking advantage of its natural resources. This momentum must be sustained. The European Commission has made it clear that there is a real need to have a post-2020 strategy considered as soon as possible, citing the fragile economic environment and the threat of slowing renewable energy momentum. RenewableUK urges UK Government to seriously consider the economic merits of a more explicit post-2020 strategy, including a carbon emissions intensity target for 2030 in the Energy Bill and, possibly, a specific renewable energy target for that date. A comprehensive strategy has the potential to strengthen the UK economy, stabilise prices for consumers and meet legally binding emissions targets.

ENVIRONMENTAL TAX

27. Government’s policies funded through environmental taxes such as support for the renewables industry are subject to the levy control framework. It is important the control framework take into account the Government’s statutory obligation to meet EU and UK climate change targets, including the 2020 renewables target and the 80% reduction in greenhouse gas emissions by 2050. Government should assess the costs of delivering these targets, and make suitable budgetary provisions taking into consideration its own accounting policies.

Feed in-Tariff

28. The Feed-in Tariff (FiT) has been an effective mechanism to support the deployment of small and medium wind generation. However, it is critically important the FiT scheme is fair to all participants. Specifically when it comes to wind generation digression thresholds should be readjusted to prevent an accelerated tariff digression from 2014. Such an accelerated digression would make many small and medium wind projects uneconomic. This would have a disproportionate effect on farmers and community-led projects that typically invest in smaller turbines.

Renewables Obligation

29. The Renewables Obligation (RO) has been an effective support mechanism designed to encourage the development of renewable energy projects. Overall it has led to certainty investors have become familiar and comfortable with. RenewableUK is focused on making the transition from the RO to the Contracts for Difference with Feed-in Tariff (CfD FiT) as smooth as possible. It is important to avoid a serious hiatus in renewable energy development if EMR is delayed further and extending the RO beyond 2017 may need to be considered in that instance.

CONCLUSION

30. Energy prices continue to rise and it is becoming more important than ever to do more to stabilise prices by transitioning toward a sustainable low-carbon economy. Renewables such as wind and marine technologies have the ability to help stabilise prices, reduce carbon emissions and provide employment throughout the UK and it is therefore critical the UK take advantage of its competitive advantage by investing in wind, wave and tidal. For the UK to reach its full potential as a leading green economy more policy certainty, and stability, is needed now. A number of reforms are currently taking place, some in isolation, yet there is a lack of direction of what policy will be post-2020. Investors and businesses need the confidence to build and expand here within

²⁴ The Renewable Energy Review, Committee on Climate Change, page 40, Available at: http://hmccc.s3.amazonaws.com/Renewables%20Review/The%20renewable%20energy%20review_Interactive.pdf

²⁵ The need for early power sector decarbonisation to meet carbon budgets and the 2050 target (attachment), Committee on Climate Change, 13 September 2012, Available at: <http://hmccc.s3.amazonaws.com/EMR%20letter%20-%20September%2012.pdf>

the UK, particularly when they have opportunity to invest globally. Positive steps have been taken by Government, but more is needed to ensure the UK remains a stable and attractive place for investment.

19 October 2012

Written evidence submitted by the Combined Heat and Power Association (CHPA)

SUMMARY

Better supporting industry's role in the green economy

- The CHPA believes that the Government would benefit from a widening of its efforts to reduce emissions and develop a sustainable green economy.
- UK Industry has made important strides in reducing carbon emissions and energy use, but the sector is often viewed as an emissions “problem” rather than a potential partner in the decarbonisation agenda.
- This perception limits the growth opportunities from the UK’s environmental commitments as the UK industrial sector is on the front line of the green economy, producing key products such as chemicals used in highly efficient double glazing. When produced by British industry, these products often have lower emissions than their imported counterparts and there is substantial further scope for additional emissions abatement.
- The CHPA has identified two key options for enabling the participation of industry in decarbonising the emissions where the Treasury would play a key role:
 - Facilitating a new form of support to replace that removed for CHP plants in the 2011 budget. This would enable industrial organisations to invest in energy efficiency, reducing UK emissions and improving security of energy supply.
 - Enabling large scale renewable and Energy from waste projects to “bank” support under the renewable heat incentive for projects that will commission after 2015 where but where the investment decision is taken before the end of this parliament. Such a policy has the potential to unleash significant new investment with no additional spend in this parliament and an overall reduction in cost to the public purse in meeting our renewables targets.

INTRODUCTION

1. The UK Government has recognised that combined heat and power (CHP) provides “one of the most cost-effective approaches for reducing CO₂ emissions”.²⁶ CHP is the simultaneous production of electricity and useful heat. Its emissions benefits arise purely due to its efficiency. As a result of this efficiency, CHP offers a form of emissions reduction which actively improves the cost competitiveness of our energy intensive industries. CHP is an energy efficiency technology and can substantially reduce fuel, or “primary energy”, consumption without compromising the quality and reliability of the energy supply to consumers. It provides a cost-effective means of generating low-carbon energy using gas. In addition, CHP offers a form of carbon reduction which actively improves the cost competitiveness of our energy intensive industries.

2. While there is a significant and growing renewable CHP sector, gas-fired CHP also presents the opportunity to secure cost-effective reductions in CO₂ emissions, with a minimum of 10% energy and CO₂ savings compared to conventional energy generation. CHP accounts for 7% of UK power generation and is responsible for nearly 14 million tonnes of CO₂ abatement per annum. The UK Government has recognised that CHP provides “one of the most cost-effective approaches for reducing CO₂ emissions”.²⁷

3. The UK Digest of United Kingdom Energy Statistics (DUKES) calculates the carbon saved by CHP annually and in 2011 estimated that the 6 GW_e CHP capacity installed to date saves more than 13 million tonnes of CO₂ per annum.

CARBON SAVED BY CHP IN 2011

	<i>tCO₂/MWe</i>	<i>Total CO₂ saved from CHP</i>
Carbon savings vs all fossil fuels	2.29	13.97 MtCO ₂

SUPPORT FOR GAS-FIRED CHP SUPPORT STILL UNCLEAR

4. As the Committee is aware, earlier this year the Government unexpectedly removed the CHP Levy Exemption Certificate (LEC), guaranteed until 2023, costing the industry an estimated £1.56 billion from 2013–14 to 2022–23. As these changes also apply to existing plant, they may well reduce operational output and therefore, emissions abatement. These companies will also experience an increase in their cost of operations which may have a direct impact on profitability.

²⁶ HMRC Notice CCL1/2 July 2010.

²⁷ HMRC Notice CCL1/2 July 2010.

5. The CHPA would like to thank the Committee for its request earlier this year to HM Treasury for further information on its decision to remove CHP's LEC. We read HM Treasury's response to the Committee in May 2012 with great interest.²⁸

6. The Government has consistently assured both Parliament and the Committee that it is looking at the long-term future of support for CHP, and DECC officials have met with the CHP industry and CHPA officers to discuss this matter on a number of occasions. While the Government has repeatedly stated it values gas-fired CHP's role in the green economy, there have yet to be any underpinning measures to support new installations or replace the support removed 10 years before the announced end of that support.²⁹

7. Under these circumstances there is now real urgency for the introduction of alternative support for both new and existing CHP plant, as the lack of support is substantially limiting new investment. The CHP industry has consistently informed the Government that the loss of LECs may lead to a fall in CHP output and reduction in profitability without a replacement support being introduced. The CHPA recently organised for several prominent CHP industry members to provide detailed financial evidence to show how the decision to remove LECs increases costs and reduced appetite for new CHP investments even at a time when Government acknowledges the need for new gas generation.

8. This reality is shown in DECC's own deployment predictions for CHP, which have dropped considerably over the last two years. This reduction in CHP deployment will mean reduced carbon savings and reduced opportunities to improve British industrial competitiveness.

DECC CHP PROJECTED CAPACITY

	2010	2015	2020
June 2009 Projection	6.2 GW	10.3 GW	15.5 GW
June 2010 Projection	6.3 GW	9.4 GW	12.7 GW
October 2011 Projection	6 GW	8.6 GW	11.3 GW
October 2012 Projection	6.1 GW	8.1 GW	8.6 GW

9. The CHPA believes that the latest figures are close to what will actually come forward and a long way short of the potential of 24 GW by 2020 identified in DECC's March 2012 strategy document, *The Future of Heating: A strategic framework for low carbon heat in the UK*.

Providing simple, direct support for CHP

10. The CHPA believes one option which merits consideration as a potentially simple and effective method to support gas-fired CHP is to expand the eligibility for small scale FiT for gas-fired CHP and other technologies. The current small-scale feed in tariff already has provisions for supporting gas-fired CHP but has a capacity limit of 50kW with support being provided for units of up to 2kW. A very simple change to the Energy Act 2008 could remove this capacity limit. The procedures for funding the FiT are already in place and so little, if any change would be required. We were pleased to gain the support of the Energy and Climate Change Committee on this proposal during its pre-legislative inquiry of the Energy Bill 2012.

11. Such a proposal could have the added benefit of expanding a mechanism to support community-led low carbon energy schemes. It would also provide a simpler alternative to the Contract for Difference (CfD) Feed-in Tariff, which is widely anticipated to be too complex and costly for smaller, independent generators.

INVESTOR CONFIDENCE BEYOND 2015

12. A growing portion of CHP plant use renewable fuels, including biomass, biogas and Energy from Waste, contributing key renewable investments to the green economy. This renewable energy is supported by key DECC mechanisms, including the Renewable Heat Incentive (RHI) and the Renewables Obligation. Despite strong interest and steady investment in this technology, the effectiveness of some of the Government's mechanisms to support renewable investment is being limited by the inability for Government or industry to plan beyond the end of the current Spending Review period of 2015. There is an opportunity to strengthen the investment certainty for new renewable energy with no added spend to the public purse if HM Treasury consented to extend funding commitments for particular renewable energy schemes, such as the RHI, beyond 2015.

13. The purpose of the RHI and similar schemes is to incentivise companies to invest in new renewable energy schemes by providing a guaranteed subsidy rate. This allows investors to know that they will have the level of subsidy necessary for a reasonable return on their investment when the renewable generation project is commissioned.

²⁸ M Treasury, Written Evidence to Environmental Audit Committee, 3 May 2012

²⁹ *Budget 2009*, Chapter 7, Building a Low Carbon Recovery, HM Treasury, p 143.

14. The challenge for investors is that large renewable heat schemes can often take, after a planning decision has been reached, at least four years to build.³⁰ That means a company looking to invest in a large renewable heat scheme in 2013 would not expect to commission until at least 2017. But without a firm commitment from Government on the size or existence of the subsidy for new commissioning projects post-2015, a company cannot take Government support into account when making their investment decision. The result is that proposed financial support does not serve as the incentive intended.

15. Large and more complex schemes with long development times are the most susceptible to tariff changes. But large schemes are also the most cost-effective way to generate renewable heat. The CHPA is aware of a number of plants under development or consideration where the ability to secure a guarantee of future RHI support in advance of the final investment decision is key to project viability.

16. By committing support beyond 2015, the Government could encourage large, shovel-ready projects to go forward now. Since schemes like the RHI pay companies for the amount of renewable energy produced, the cost to Government occurs only after the new renewable scheme is commissioned in the next Spending Review period. This would allow the Government to increase investment in the green economy now with no spend needed from HM Treasury until after 2015, and no increase in the total spend of the public purse. Since the private sector investment is occurring within this parliament, it is right that the Government's spending commitment is seen to occur within this parliament as well, giving industry confidence Government is supporting the contributions the private sector is making in today's green economy.

17. A decision to provide long-term certainty maximises the available benefits of the Government's renewable energy schemes and could help unleash investments in large scale renewables, as well as help meet our emissions and renewable targets in the most cost-effective way. Without this commitment, businesses may either assign higher risk premiums to investments in the green economy, or ignore environmental subsidies entirely when making investment decisions.

18. The CHPA would welcome any opportunity to discuss the content of our submission in further detail with the Committee.

23 October 2012

Written evidence submitted by British Council of Shopping Centres

1. INTRODUCTION

1.1 The Environmental Audit Committee is seeking evidence from stakeholders to inform their recommendations about the green economy to the Chancellor ahead of the 2012 Autumn Statement.

1.2 BCSC is proud to represent 2,500 property professionals drawn from over 450 organisations. As you will know, our membership is a broad church, representing investors, developers, owners, managers, retailers and public sector employees. Our membership roster includes industry leaders such as Westfield, Hammerson, Land Securities, British Land, Next, Marks and Spencer, and John Lewis Partnership.

2. SUMMARY

2.1 In the *Enabling the transition to a Green Economy*, government sets out its vision for a green economy. BCSC members are already taking steps to reduce their environmental impacts as part of a green economy.

2.2 However, barriers exist in reaching the full potential of environmental abatement. Organisational and practical barriers present issues of collaboration between landlords and tenants and a lack of accurate information. Policy and political barriers are creating uncertainty and confusion.

2.3 Opportunities do exist in the form of incentives such as the Green Deal and Feed-in Tariffs and voluntary standards such as BREAAAM, but incentives for companies to reduce their environmental impacts should be strengthened to increase up-take.

2.4 Display Energy Certificates (DECs) should be made mandatory to improve the provision of accurate and real life information about the energy management of a building.

2.5 The CRC Energy Efficiency Scheme (CRC) must be reformed to sufficiently reflect other policy changes and to reduce the burden on companies.

³⁰ The CHPA is currently collecting data from members on renewable CHP plant build times to show DECC officials the multi-year process involved in moving from FID to plant commissioning. We will provide this analysis to the Environmental Audit Committee when it is completed in the coming weeks.

3. Coherence and adequacy of 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

3.1 Current Activity in Retail Property Sector

3.1.1 The retail property sector is committed to reducing their environmental impacts. BCSC's Sustainability Charter, launched in 2009, showcases the steps our sector is taking to reduce their environmental impacts. The Charter covers four areas of sustainability: energy, waste, water and community engagement.

3.1.2 The UK non-domestic property sector contributes 12% of total UK GHG emissions. Energy is a key priority for members because there are many regulatory drivers acting here combined with volatile energy costs. Of primary importance is energy efficiency and in 2011 BCSC published a report "*Accelerating Change: Towards low carbon shopping centres*" which provided a framework for which shopping centres can reduce their energy use. The sector is already responding to the challenges of energy efficiency, for example, Realm has set targets for energy reduction, combined with staff awareness raising at its shopping centre locations. A target of 5% reduction was achieved through measures such as site audits, in-house staff awareness raising and regular communication with retailers via meetings.

3.1.3 Shopping centres are also significant producers of waste. The Charter aims to support the reduction of waste to landfill and increase the amount waste that is segregated and recycled. TheCentre:MK in Milton Keynes, owned by Hermes, has exceeded the Government's national target by recycling 41% of its waste, and has now increased its target to have zero-waste to landfill. The underlying approach is to follow the waste hierarchy of "reduce, reuse, refurbish, and recycle". British Land already has a zero waste policy and in 2011 diverted 2,556 tonnes of waste from landfill, saving £144,000 in landfill tax, through collaborative working with retailers.

3.1.4 Although water is not a high a concern as energy and waste, BCSC and its members recognise the importance of water efficiency as the UK becomes increasingly water scarce. Key aims for reducing water use are to make the most efficient use of water and to consider rainwater harvesting and water re-use. Tower 42 in the City of London, also owned by Hermes, upgraded urinals to a waterless system. This has significantly reduced water use in the building from 8,500 units in September 2005 to an average of 2,600 per month in 2006. The financial savings are also significant, from £16,500 to just £7,300.

3.2 Barriers

3.2.1 Whilst the retail property sector is taking great steps to reduce their environmental impacts, a number of barriers exist that impede further action. For example, encouraging engagement can be difficult due to the level and complexity of regulation, a minefield of information and misalignment of objectives. Some of the barriers to improving energy efficiency are due to organisational and practical barriers; but policy and regulatory barriers are also significant.

3.2.2 Organisational barriers occur both internally and between landlords and tenants. Within companies, there can often be a misalignment of objectives in terms of setting out the business case for installing new efficient technologies when payback periods are typically too long. Shopping centres have multiple stakeholders, from a mix of different tenants, the landlord, and the actual owner of the property (which is not always the landlord). This makes it difficult to determine who is responsible for the reduction in impact and can stall action. In addition, there is a genuine concern from members about the lack of consistent and clear advice on which technologies are most appropriate and what really works.

3.2.3 Policy and regulatory barriers remain significant. The 2011 BCSC publication *Accelerating Change: Towards low carbon shopping centres*³¹ found there is broad agreement among BCSC members that the objectives of energy efficiency and carbon reduction policies are correct, but there is little consensus that current policy instruments are providing the right incentives—either through design or implementation. A well used example of this is the change in the CRC to stop the revenue recycling, removing a financial incentive for businesses to improve energy performance.

3.2.4 The retail property sector is subject to a number of regulations for both energy and waste. As well as the concern that energy policies do not create the right incentives, there is also concern that an uncertain and constantly changing policy landscape is further deterring companies from investing in green initiatives.

The retail property sector is subject to a number of regulations in both energy and waste. Legislation that affects the retail property sector in relation to the green economy is as follows:

Energy Efficiency

- CRC Energy Efficiency Scheme.
- Mandatory GHG Reporting.
- Climate Change Levy.
- Part L Regulations for non-domestic buildings.
- Code for Sustainable Homes Programme.

³¹ http://www.bcs.org.uk/media/downloads/2011_AcceleratingChange.pdf

- Potential minimum EPC standards EPC standards for buildings rated below “E” grade.

Waste

- EU Waste Framework.
- Waste Regulations 2012.
- Landfill Directive.

3.2.5 DECC announced an aim to rationalise legislation, but much of this is still ongoing, for example the CRC and RHI, creating uncertainty; BCSC members are stalling on investing in training for the CRC as they are apprehensive about further changes. In particular, the Energy Bill that will be published in November 2012 still has uncertainties: there is a proposal that minimum standards for non-domestic buildings will be introduced by 2018 but it is unclear whether this could be brought in earlier and how stringent the minimum standards will be. Government must make a clear statement about this to allow the retail property sector to ramp in preparation.

3.2.6 Policy uncertainty not only relates to energy efficiency policy but also to decarbonisation of our energy supplies. Currently there is an ambition to decarbonise by 2030, but intervention from the Treasury is putting this in jeopardy, this is in turn detracting investment. This will mean that the UK will reach an energy crisis as coal-fired power stations close in 2015, no new nuclear power stations planned and the collapse of the CCS pilot projects last year, there is currently no significant investment to fill this gap. Land Securities has installed Europe’s largest hybrid ground source energy supply at the One New Change development in the City but, unfortunately, this is still the exception and not the norm. Government must provide clear leadership to encourage further investment for small scale renewables to increase security of supply.

3.2.7 Government must ensure there is a holistic and consistent approach to the green economy without contradictions between departments as stated in the Enabling Transition Report: “the government will work to ensure the system of environmental regulation is effective, proportionate, coherent, clear and implemented in a way that minimises burdens on business, in line with the principles of better regulation” (page 8 para 24).

3.3 Opportunities

3.3.1 It is recognised that there are many opportunities to be had by moving towards a green economy and the retail property sector can take advantage of incentives to reducing emissions and energy consumption, such as the Renewable Heat Incentive, Feed-in Tariffs, Enhanced Capital Allowances, and the Green Deal.

3.3.2 Whilst government policy is powerful in reducing carbon emissions, voluntary agreements are also very successful—the BREEAM and building label schemes such as DECAs are successful examples and should be taken into consideration when assessing the ability to transition to a low carbon economy. BCSC members are taking advantage of voluntary standards such as BREEAM, LEED and Energy Star. While legislation is a powerful tool for enabling action for carbon abatement, voluntary initiatives also have a strong role to play. For example, before the introduction of mandatory reporting, the majority of FTSE 100 companies were already reporting through the Carbon Disclosure Project (CDP). With increasing pressures from rising energy prices, energy efficiency is becoming an increasingly competitive issue for the retail property sector and is at times moving faster than legislation. Therefore legislation may not always be the most appropriate mechanism for effecting behavioural change.

NB: BCSC as part of the Green Property Alliance is commissioning research to look at the impact of financial incentives and penalties on the retail property sector. This is not expected until 2013 but will provide detailed up-to-date information about the impacts of legislation on the sector.

4. 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

4.1 Minimum Standards using Display Energy Certificates (DECs)

The government’s decision to not push ahead with mandatory DECAs is disappointing since it is a good example of a successful voluntary standard and provides much better information than Energy Performance Certificates (EPCs). When considering minimum standards for non-domestic buildings, government should assess the benefits of using DECAs rather than EPCs. BCSC has written to Greg Barker, Energy and Climate Change Minister, to express this.³² Greater and more accurate information about operational building performance (rather than theoretical potential provided by EPCs) is one of the key drivers for carbon reduction. A mandatory scheme that shows the annual operational energy of properties will go a significant way to delivering carbon savings. DECAs can act as an effective driver for carbon savings both through reputation and reduced energy costs.

4.2 CRC Energy Efficiency Scheme

Whilst not a new policy, the CRC has changed significantly since its original implementation. BCSC, among others, has proposed that the government strip away the scheme to become simply an environmental tax and

³² Not printed.

remove the administratively burdensome aspects of the scheme. Reputational drivers can be attached to this scheme to retain this element, but the current Performance League Table should be reviewed to ensure it provides accurate and reflective information about company energy performance.

4.3 Incentives for non-domestic properties

The Green Deal was recently launched but there are still details to be confirmed on, for example, interest rates. The announcement on the Commercial Green Deal is still expected. There is genuine concern among industry that the incentives put forward by the Commercial Green Deal will not be attractive to many businesses. A BCSC study *Carbon You Can Count On* (2012, still draft) has found that although the energy saving case is clear for retrofitting shopping centres and retail units, the costs are still prohibitive. In order to drive investment in energy efficiency, Government needs to ensure incentives are pitched at the right level for the retail property sector.

22 October 2012

Written evidence submitted by Campaign to Protect Rural England

The Campaign to Protect Rural England is pleased to be able to make a short submission to this Inquiry. Our response, in the form of this letter, focuses on our calls for a charge on single-use bags and on some thoughts on financial and tax incentives applicable to the environmental objectives embodied in land use planning.

SINGLE-USE BAG CHARGE

CPRE has joined with Keep Britain Tidy, the Marine Conservation Society and Surfers Against Sewage to form the “Break the Bag Habit” campaign. We are calling on the Government to introduce a charge on all single-use bags in England.

Over the past two years, the number of carrier bags used in England has increased despite a voluntary scheme introduced by the main supermarkets in 2007 to cut the number being given out, and repeated Government calls for retailers to reduce the numbers they hand out. Last year businesses in the UK issued bags at a rate of 254 per second. A total of eight billion “thin-gauge” plastic bags were issued during that year, which was a 5.4% increase on the 7.6 billion of 2010. All of this net growth came from England, the only home nation not to have a single-use bag charge in place or to be actively seeking to implement one.

Our organisations believe that a bag charge would reduce the amount of litter, cut environmental damage to marine and land habitats, reduce costs for retailers, encourage positive behaviour change and raise income for local charitable causes. No-one would be forced to pay the charge, as people would be able to take their own bags with them when they shop, as many already do.

A reduction in bag use could be achieved either through a charge or a tax; we are calling for the former. The charge could be introduced under the Climate Change Act 2008, with no need for new primary legislation, and the revenue from it could be distributed by retailers to charities of their choice.

Within the UK more widely, the Welsh Assembly introduced a bag charge in October 2011, the Northern Ireland Assembly will introduce such a charge in April 2013, and the Scottish Government launched a three month consultation in June this year on the introduction of a charge. In Wales, the five pence charge, which made it illegal for retailers to give away carrier bags without charging, has led to a fall in single-use bags issued, according to retailers’ estimates, of 70–96%. The charge has also led to a significant increase in “own bag use” in Wales (up from 61% of people using their own bag prior to the charge to 82% after) and is widely supported in Wales, backing among the public having risen from 59% before the charge was introduced to 70%.

We believe that the UK Government should now take action to introduce a similar charge in England. Voluntary measures appear to have reached the limit of what they can achieve, and the environmental problems caused by single-use bags are acknowledged at the most senior level, with the Prime Minister having expressed his concern. The Government has said that it wishes to monitor the experience in Wales and to see what Scotland decides to do, but this seems to be a recipe for unnecessary delay. We also understand that the Government is sensitive to the possible impact on household budgets of introducing a charge, but there is no added burden on these budgets if people re-use bags. Single-use bags are not free, so cutting their number would cut the cost to supermarkets and others of purchasing and distributing them in their millions, and we hope the retailers would then pass these savings on to customers. A reduction in bag litter should also lead to reduced costs of litter clearance, which of course fall on the taxpayer.

In 2008, the then Chancellor Alistair Darling said that the Government would legislate to impose a charge on single-use bags if retailers did not make sufficient progress on a voluntary basis. The Government subsequently included a provision in the Climate Change Act 2008 to require a charge for single use bags through secondary legislation. Given that that progress has stalled, and indeed begun to reverse, we hope that the current Chancellor will use his Budget to show the leadership required in this area.

LAND USE PLANNING

We would encourage the Committee to consider the relationship between financial and tax incentives and the environmental objectives of land use planning. These issues need to be more carefully and explicitly considered in order to align public policy and the Budget process.

We believe that, despite a strong historical legacy of theory and practice in addressing the financial and valuation issues that arise from the operation of the planning system (Compensation and Betterment related legislation), these matters have not been dealt with well in recent times. Section 143 of the Localism Act 2011 has further muddied the water by introducing consideration of financial (local government funding-related) incentives directly into the range of material planning considerations. The New Homes Bonus (NHB) and Business Rate Retention (BRR) risk having increasingly environmentally adverse impacts in the next few years.

Recent changes to planning obligations, and now the introduction of the community infrastructure levy (CIL), have been a partial, but very complex, attempt to deal with public capture of land value uplift as a result of development. However, these mechanisms actually create perverse incentives in respect of legitimate environmental aims in planning. There is potential to look afresh at these issues and create new financial and taxation incentives, working alongside existing regulations, that provide strong support to achieving environmental planning objectives.

We believe that the Committee should explore the following particular concerns about the current system:

- The combination of policies in the National Planning Policy Framework around an economic growth priority for development and NHB/BRR creates a strong financial incentive for planning authorities to permit new development, and to disregard spatial planning priorities and different environmental impacts. Effectively this favours development of “cheaper” greenfield sites over brownfield and further dispersal of development (sprawl).
- No financial or taxation advantage is offered to support development on more costly brownfield sites with greater existing use value or high site preparation and remediation costs.
- The NHB/BRR mechanism also works to benefit councils in the more prosperous parts of England because it rewards growth in the areas that are already most likely to offer viable development prospects.
- The mechanisms of planning obligations and CIL operate in a similar way by providing most finance for public needs in the most prosperous areas. Recent Government policy announcements on housing and growth (6 September) promote renegotiation and overturn of planning obligation requirements on grounds of viability. This offer is undifferentiated geographically, or in policy terms. Again, this creates a greater development incentive on the already easier to develop greenfield sites, where land value uplift as a result of development will be greatest. The landowner will profit from this and, effectively, it means more unearned value/income.
- There appears to have been no thought about the use of these financial measures to support environmental objectives. It would be quite possible to create environmentally beneficial incentives using the existing planning-related policy and financial mechanisms (within existing budgets). Policy favouring compact cities and towns, urban regeneration and use of brownfield land could be supported by financial incentives—through payment of NHB and BRR only on regeneration sites and by having a nil, or at least a lower, rate of CIL in such cases (infrastructure costs in existing urban areas are usually reduced).

The Budget could also consider other non-planning related financial mechanisms. In particular, VAT creates a perverse incentive for demolition and new build, as repair and renovation are rated higher. This position should be reversed, to give regeneration/repair incentives and associated opportunities for the generation of employment. In the current recession, house builders have called for financial support and tax breaks to assist development viability and demand. Any assistance given to date (eg First buy support for purchase) has been “environment blind”. Company taxation and first-time buyer financial assistance incentives directed only to the right development in the right place are needed, not undifferentiated financial support for any development.

19 October 2012

Written evidence submitted by the RSPB
SUMMARY

- The Coalition Government’s macroeconomic policy is incoherent with a fundamental contradiction between the sustainable natural resource imperatives articulated in the Government’s National Ecosystem Assessment (NEA) and its short term imperatives of stimulating jobs and growth.
- This incoherence leads to policy uncertainty which undermines investor confidence.
- Progressive Business is ahead of Government on promoting the Green Economy.
- The Green Investment Bank should be given borrowing powers now.

- Aviation emissions must be formally included in the UK Carbon Budget.
- The Government's Definition of Green Taxation is political not economic. It does not have a strategy for environmental taxation reform and its overall approach to intervention runs counter to its own guidance.

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

1. The Coalition Government's macroeconomic policy is incoherent. This incoherence stems from the fundamental contradiction between the sustainable natural resource imperatives articulated in the Government's National Ecosystem Assessment (NEA) and the Government's short term imperatives of stimulating jobs and growth. The NEA has led to the introduction of the Natural Environment White Paper (NEWP), the Natural Capital Committee, its "Transition to a Green Economy" and is reflected in the National Planning Policy Framework. These initiatives share the same conceptual foundation—namely that our long term economic prosperity depends on maintaining the underlying health of the Natural Capital upon which the economy is founded. In stark contrast to these, we have the Government's Plan for Growth, its Infrastructure Plan and its fiscal statements. There is not a single reference to Natural Capital in the Treasury update of these Plans and the modest low carbon initiatives incorporated within them are woefully inadequate to achieve the necessary transitions we need to our energy, distribution and productive systems. Despite the Government having a vision for mainstreaming Sustainable Development, the term only appears in the Plans' update in the narrow context of planning policy.

2. The thinking which underlies the Plan for Growth reverts to the outmoded "sources and sinks" approach to the environment. The environment is regarded merely as a source of raw materials and a sink for our pollution and waste. Protecting nature is seen as a luxury we cannot afford if it gets in the way of creating jobs and growth. Yet the NEA demonstrated the central importance of natural capital to our economic wellbeing and signalled the dangers of depleting it. Unless this central misunderstanding, at the heart of government, can be overcome, we will be compounding the woes of future generations by adding an accelerating ecological debt to the existing financial debt burden.

3. At a sector level, energy policy has been afflicted by inconsistencies that have undermined private sector belief in policy certainty. Governments can do a great deal to foster advances in low carbon technologies. New business needs affordable credit and a stable policy environment. This government is not providing either of these requirements. For some time business has been asking for clarity and consistency from government over environmental issues. There are a range of areas in which the government could do more for the environment—to enable the environment to do more for us.

4. The Government should not forget that the Green Economy extends well beyond low carbon industry. The natural environment is a powerful source of growth and diversified income opportunities. The green economy contributed £122 billion to UK GDP in 2011 and over a third of all growth. Already exporting £11.8 billion of goods to 52 countries; in 2014–15 it is predicted that green and low carbon exports from the UK will halve the trade deficit.³³

5. A further general concern we have with the Coalition's approach to policy making has been a reliance on anecdote rather than evidence. This has been particularly true with regard to environmental regulations, where the presumption against regulation was introduced on the basis of no solid evidence whatsoever. Environmental regulation and protection can be streamlined and made more cost efficient but there is no evidence that removing it will create sustainable jobs or growth. We believe:

- Regulation provides necessary protection for vital environmental processes which protect human health, wealth and wellbeing and economic activities.
- Strong, clear regulatory systems provide a stable environment for private investors to put money into the green economy.
- Evidence shows that environmental regulation is not expensive. For the UK, total environmental protection expenditure as a proportion of industry revenue in 2003 cost £3.4 billion, equivalent to 0.6% of industry revenue.³⁴
- The Government's anti-regulation rhetoric stance ignores the vital role that regulations play in sustaining the UK economy and environment. Across Europe, environmental policy has been shown to be a net creator of jobs.³⁵

6. We believe the context for fiscal policy must be a transition to a green economy: One that introduces economic incentives to drive investment today and which promote employment and growth consistent with environmental sustainability. The Government's lack of clarity on green development has recently attracted criticism from The Aldersgate Group (of which the RSPB are a founding member and includes businesses such

³³ The UK Economy: A green economy success story (Green Alliance 2012)
http://www.green-alliance.org.uk/uploadedFiles/Publications/reports/British_success_story_Issue.pdf

³⁴ Cole, M A and R J R Elliott (2007). "Do Environmental Regulations Cost Jobs? An Industry-Level Analysis of the UK." The B.E. Journal of Economic Analysis & Policy 7(1).

³⁵ Rayment, M, E Pirgmaier, et al. (2009). The economic benefits of environmental policy—Final Report., Institute for Environmental Studies.

as Asda, PepsiCo, Microsoft and the National Grid). They point to a recent report from the Confederation of British Industry which estimates that ongoing policy uncertainty could cause the UK to lose out on almost £400 million in net exports in 2014–15 alone.³⁶ In the same report, the CBI calculate that taking a more coherent and strategic approach to our economy-wide decarbonisation could boost the UK's economy by just under £20 billion." Without greater clarity and a 2030 carbon target for the power sector The Aldersgate Group state that the government will fail to stimulate this new growth in the economy.

7. An example of a coherent, strategic approach to economic planning is set out in the New Anglian Local Enterprise Partnership "Green Economy Manifesto"—a business led strategy drawn up in consultation with local government and civil society. Clearly, business is ahead of Government when it comes to promoting Green economic prescriptions which work.

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

8. Given the enormous gap between what is available and what is required to move towards a more efficient economy the Green Investment Bank should be given borrowing powers now. A £3 billion fund is far too small for the scale of the challenge—we need a bank with borrowing powers. The Green Investment Bank Commission estimated that we need up to £550 billion in investment up to 2020 to shift to a low carbon economy.

9. A credible growth strategy that catalyses investment in renewables and energy efficiency, spurring the economic recovery. Without government intervention to stimulate investment, the market alone will not deliver the carbon reductions necessary nor the natural capital to meet commitments under the UK Climate Change Act and NEWP.

10. Aviation emissions are rising and any expansion of capacity, contributing even more emissions, must only be within the limits of the UK's climate change commitments. International aviation emissions must be formally included in the UK carbon budgets. Emissions from aviation were initially left out of carbon budgets (and the 2050 target) when the Climate Change Act became law. However, they have been accounted for, but not formally included in the carbon budgets to date. Not including all major sources of emissions in the UK carbon budget both threatens the UK's role in a global response to this serious threat as well as placing an unfair burden on other sectors.

11. The government has to date failed to properly engage in EU budget negotiation beyond demanding cuts in any and all areas. There are some areas of the EU budget which provide significant environmental benefits for very little cost. If the LIFE+ budget was increased and Pillar 2 of CAP increased relative to Pillar 1 this would not undermine the overall aim of a cut in the EU budget. The Government should support good value European spend which achieves shared objectives at least cost. LIFE needs to more than double (to only 1% of the EU budget) to meet requirements across the EU. Pillar 2 yields public benefits for public spending and should be protected in CAP negotiations. For instance the £110 million spent in England and Wales on SSSIs yields nearly £1 billion in ecosystem service benefits.³⁷

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

12. The case for using taxation in preference to other forms of government intervention to achieve environmental goals should be based on cost efficiency. Empirical evidence on the scale of the environmental damage is crucial for good policymaking. This is where the NEA and NCC will be vital. The Government's own approach to intervention (the ROAMEFF model as articulated in the Green Book) is well established and makes sense. The problem is the Government's ideological prejudices which distort intervention away from mandatory approaches towards voluntary ones which are frequently ineffective or not the most cost efficient means of achieving outcomes.

13. In terms of the HMTs recently released definition, it will merely ensure that the Government achieves its commitment to increasing the "green" proportion of the tax take. It is more an issue of political sophistry rather than economics. As the Mirrlees Review (2010) argued, a fuel tax closely resembles a carbon tax. Excluding Vehicle Excise Duty and Air Passenger Duty is also unfortunate given both have environmental dimensions. Such taxes, if used in good faith and structured appropriately to address environmental issues, can gain wide acceptance. If reduced to the status of "stealth taxes" designed as purely revenue raising measures on hard to avoid purchases, they lose credibility and wider acceptance.

14. It is very disappointing that the Government have shown no sign of investigating the possibilities for using green taxation more strategically to address environmental externalities. The Fullerton et al (2008) contribution to the Mirrlees Review argues that green taxes are most useful when wide-ranging changes in behaviour are needed across a large number of polluters. But issues of Pollution (such as diffuse pollution from agriculture) are not being actively considered by anyone despite the costs associated with them. There are other

³⁶ CBI (2012) "The Colour of Growth"
http://www.cbi.org.uk/media/1552876/energy_climatechangerpt_web.pdf

³⁷ www.ghkint.com/Services/PublicPolicy/BiodiversityandEcosystemServices/BenefitsofSitesofSpecialScientificInterest.aspx

areas where green taxation could be a cost effective solution. In 2010 the RSPB together with an alliance of other NGOs, retailers and producers proposed the use of a peat levy to reduce peat use in horticulture. This proposal was not given serious consideration by the Government.

15. In terms of Government intervention more broadly, replacing clear, effective, and efficient government regulations with voluntary “self-regulation” is risky; there is very little evidence that such approaches work in practice. The effects of voluntary initiatives are often perverse. Many UK voluntary initiatives have failed to live up to their promises, from agreements on peat extraction and invasive species, to schemes related to vehicle efficiency, plastic bag use, packaging waste, and the protection of the marine environment.

24 October 2012
