



The Political Feasibility of Environmental Tax Reform - the work and findings of the Green Fiscal Commission.

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Green Fiscal Commission

- Formed May 2007
- Final report October 2009
- Independent of government
- 22 Commissioners – to review and advise on work
 - 4 MPs, 3 Lords – politically balanced, senior political representation, shadow ministers
 - business, academic, NGOs (social and environmental)
 - FSA, MPC members
 - government observers – Defra and Treasury
- Director, Paul Ekins, and Secretariat provided by PSI

Green Fiscal Commission - objectives

- To prepare the ground for a significant programme of green fiscal reform in the UK
 - Creation of evidence
 - Raising awareness of evidence – communications and engagement
- To understand the social, environmental and economic implications of a major programme of environmental tax reform

Green Fiscal Commission – starting point

- Working assumption - environmental tax reform is a good idea in principle
- Considered:
 - a substantial tax shift – approx 20 per cent of tax revenues from green taxes by 2020 – quite a challenge
 - Use of proportion of revenues to amplify environmental benefits – technology and behaviour – revenue neutrality?
 - How not to have a disproportionate impact on already disadvantaged groups
 - Taking into account negative effects on business, and fostering new sources of comparative advantage
 - No view on appropriate level of overall taxation – a shift in the basis of taxation. Revenue neutrality vs increasing proportion?

Context

- Has been a challenging communications environment!
- External context has not been conducive to debate
 - Oil price volatility – but symptom of current economic structures
 - Credit crunch – has been hard to talk about tax increases - but they will need to come and ETR less distortionary
 - Media not sympathetic to agenda and uncritical of competing messages, e.g. TaxPayers' Alliance

Green Fiscal Commission - research

New research and review/collation of existing work on:

- Public opinion (including deliberative days)
- Modelling of economic, environmental and social implications of a major tax shift
- Distributional issues
- Experience of UK fuel duty escalator/income tax reduction
- International comparisons on the effectiveness of economic instruments
- ETR and competitiveness
- Border tax adjustments
- ETR and transport

The politics of ETR

Line of argument for green fiscal reform is clear:

- Challenging carbon targets that need action now
- Price is a key driver of energy demand - so need green taxes to if going to meet carbon targets
- But green taxes unpopular with public

But in spite of clear need and evidence of environmental, economic and welfare benefits of ETR...

- ***The evidence isn't enough - the challenge is political***
- Politicians across parties accept intellectual case for ETR, but political case not yet strong enough for action

Key messages from Green Fiscal Commission

Environmental taxes

- Work – they reduce environmental impacts
- Are efficient – lower cost and less distortionary
- Can raise stable revenues

Green fiscal reform

- Alone could be used to meet UK's 2020 carbon targets – 30 per cent emissions reduction and create 455,000 jobs
- Could accelerate development of low carbon industries
- Would mitigate impact of high energy prices

But

- To be fair green fiscal reform requires accompanying measures to address distributional impacts
- The public can be won round to green fiscal reform

Narrative 1 - Targets and the role of price

The imperative of reducing GHG emissions:

- Legally binding targets to reduce GHG emissions
- 2020 targets will have to be met through renewables, energy efficiency and demand reduction – not CCS and nuclear - can't contribute in time
- Current rate of emissions reduction is too slow.

Inconvenient facts about energy use:

- Energy use increases with income
- So energy efficiency alone unlikely to deliver targets, i.e. absolute reductions.
- Increasing energy price reduces demand
- Increasing price also promotes renewables, efficiency and demand reduction

Transferability to non-energy resources?

Narrative 2 - How to increase prices?

By government intervention (e.g. taxes) or leave to the market (price set by supply/demand)

- Both approaches reduce demand for energy
- But green taxes keep revenues in country and generate tax receipts that allow other taxes to be reduced
- Market increase in oil price incentivises development of high carbon substitutes
- Tax can target carbon

Narrative 3 - Green taxes are necessary but problematic...

- People dislike green taxes more than other taxes. Why?
 - Impact on highly valued forms of consumption
 - Not related to ability to pay
 - Green taxes should change behaviour not raise revenue (why?)
- Think they are extra rather than replacement taxes
- Think they affect business competitiveness negatively
- Are seen as unfair

- But in spite of these perceptions, evidence suggests green fiscal reform should lead to widespread aggregate economic, environmental and welfare benefits

- So how to move forward?

Research on Public Opinion - 1

Public opinion - at end of 2007

- **Net support** in principle for green taxes – 51% support vs. 32% oppose.
- There is a significant **increase in support if revenue is hypothecated**. Support rises to 73% and opposition falls to 17%.
- Support for green taxes is slightly **higher if other taxes are reduced** at the same time. Support is 77% vs. 9% opposition.

Deliberative days - end of 2008

- 2 whole days with 50 people each
- Norwich and Birmingham – representative nationally rural and urban
- Explored views on
 - climate change
 - polluter pays principle
 - ETR in principle
 - Specific tax cuts - income tax, VAT, Council tax etc
 - Environmental tax increases on transport and household energy

Research on Public Opinion - 2

- Deliberative days – findings
- **Almost all participants (90%) stated they were concerned about climate change, but only 57% believed it would make an impact on them personally – it's distant in time and space to people**
- Fuel price increases in 2008 were having an impact on car use – so price is important – but tax level at maximum acceptable limit?
- Conditional support for green fiscal reform. Principle supported and seen as effective but concerns about specifics, e.g. fairness, personal impact (mostly negative) of any changes and ability to respond
- But all the proposed tax interventions were supported by significantly more participants than those opposed to them.
- If there is a need for radical action to address climate change - then strong leadership from government and business will be required to implement it
- Need measures to protect the poor and vulnerable groups
- **Trust in government and revenue neutrality is low. Fairness and openness should be key principles underpinning green fiscal reform.**

Narrative 4 - Implementing Green Fiscal Reform

- Need to increase support for reform in two areas:
 1. The need for emissions reduction
 2. That a large price increase is necessary to achieve emissions reductions

When/if agree this consensus implementation likely to require

1. Fiscal neutrality to be monitored by an independent body
2. Needs of vulnerable economic sectors and households must be addressed
3. Some revenues to be spent on improved environmental measures

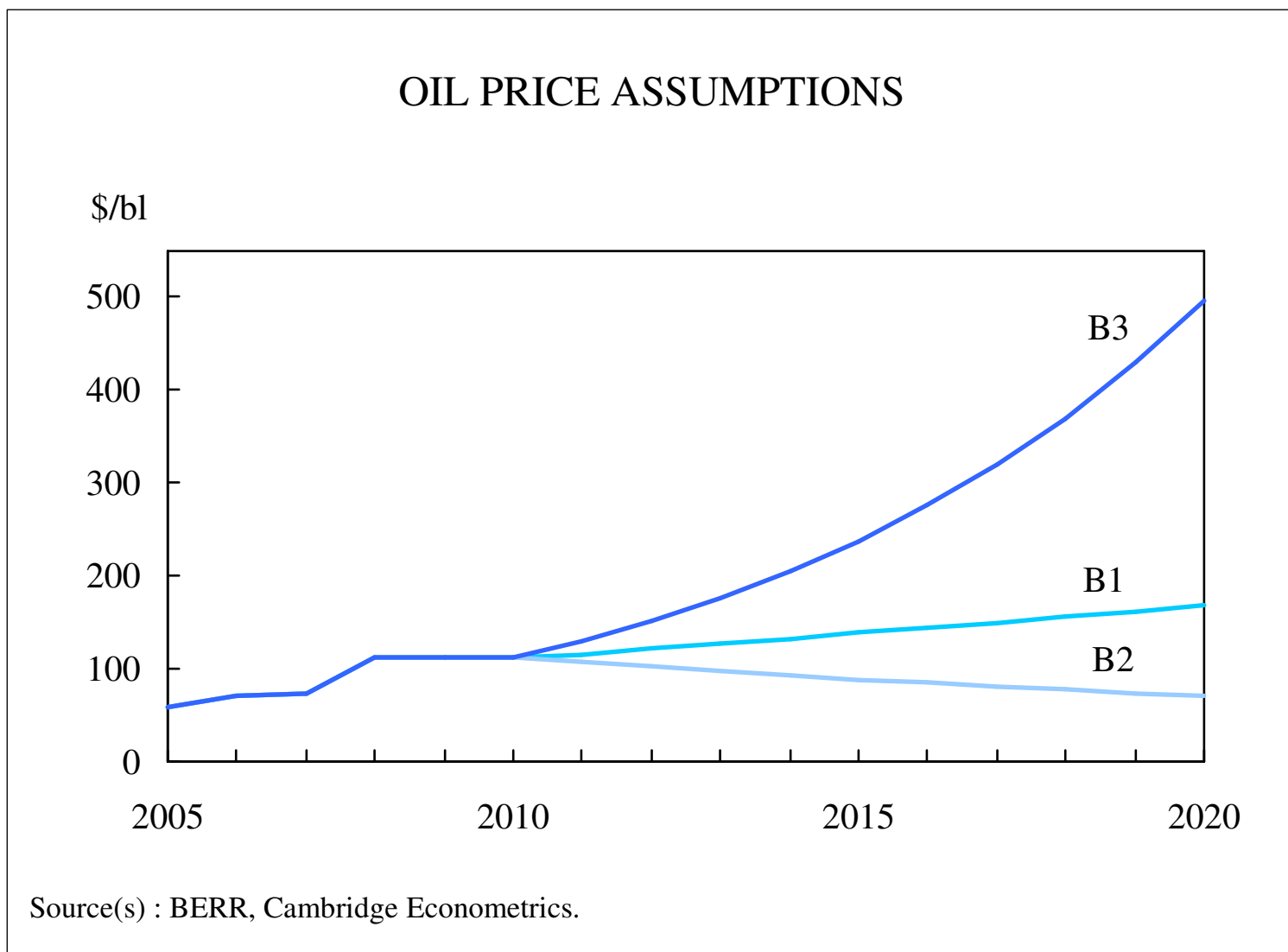
Narrative 5 - Accompanying measures and clear messages

- Reward perceived good behaviour – council tax cuts for energy efficiency
 - Raise awareness of people’s energy use and its impacts - meter, labels, etc
 - Address infrastructural barriers to behaviour change
 - Use regulatory policies to reduce energy use
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- Need strong consistent message that energy prices will increase over time to meet carbon targets and drive low carbon investment
 - When taxes go up – as they must - increase green taxes
 - Will stabilise energy markets – security and stability
 - Agenda is about change – doing nothing is not without costs

Modelling - scenarios

- Three Baselines, with different assumed fossil fuel prices – medium (B1), low (B2) and high (B3)
- Two GFR scenarios (S1, S2) were compared against these Baselines.
- Range of carbon/energy and environmental taxes; reductions in income tax (households) and social security contributions (business)
- B3 same end-user prices as S1, S2
- Two ‘Eco-innovation’ scenarios: 10% of extra green tax revenues invested in household energy efficiency, fuel-efficient cars and renewable energy sources.

Modelling - oil prices



Green Fiscal Reform tax package

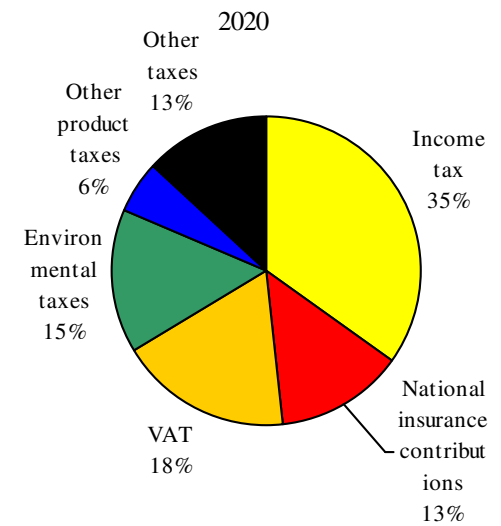
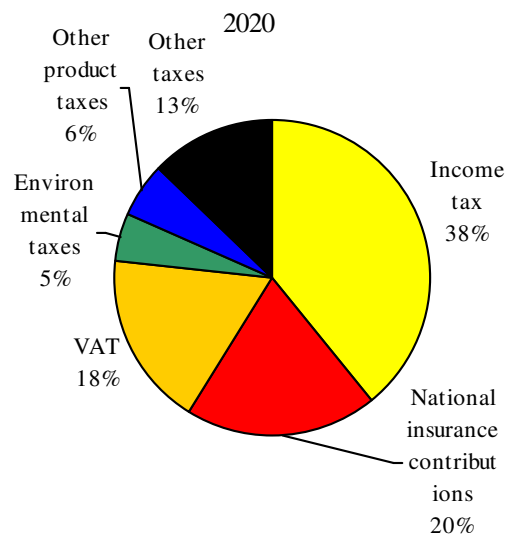
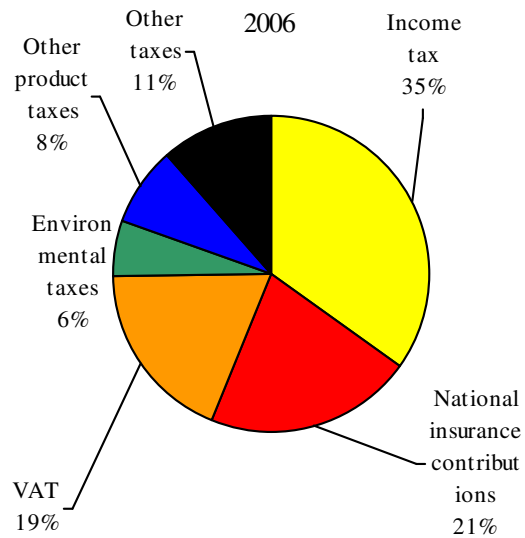
The green taxes for S1 were specified as follows:

- a substantial increase in **CCL rates**, by 25% per annum, from 2010
- a **household energy tax** at the level of the aforementioned increased CCL rates over the period 2010-20
- a **Fuel Duty Escalator** of 10% pa during the 2010-20 period
- **auctioning of EU ETS permits**: 100% auctioning for power generation during 2013-20 and 20% of all other permits in 2013 increasing linearly to 100% in 2020
- the inclusion of **aviation** in the EU ETS beginning in 2013
- a **purchase tax on new vehicles** averaging £300 in 2010 and rising by £300 each year, reaching £3,300 in 2020
- a tax on the business use of **water**, beginning in 2010 at 10% of the average water price in that year and increasing by 10% pa to 2020
- an **aggregates** levy escalator of 10% pa beginning in 2010

Modelling revenues

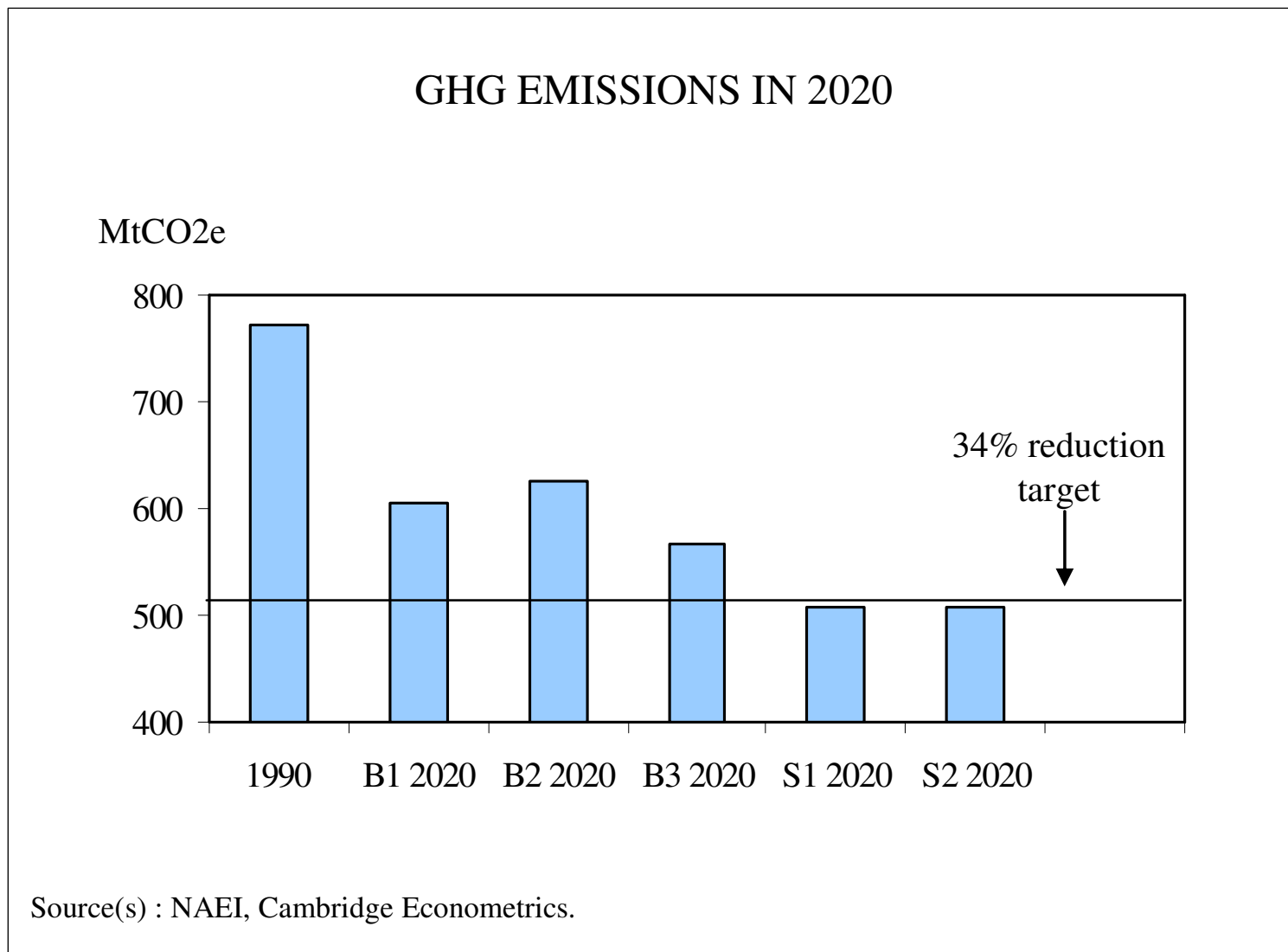
COMPOSITION OF TAX REVENUE IN S1

COMPOSITION OF TAX REVENUE IN B1



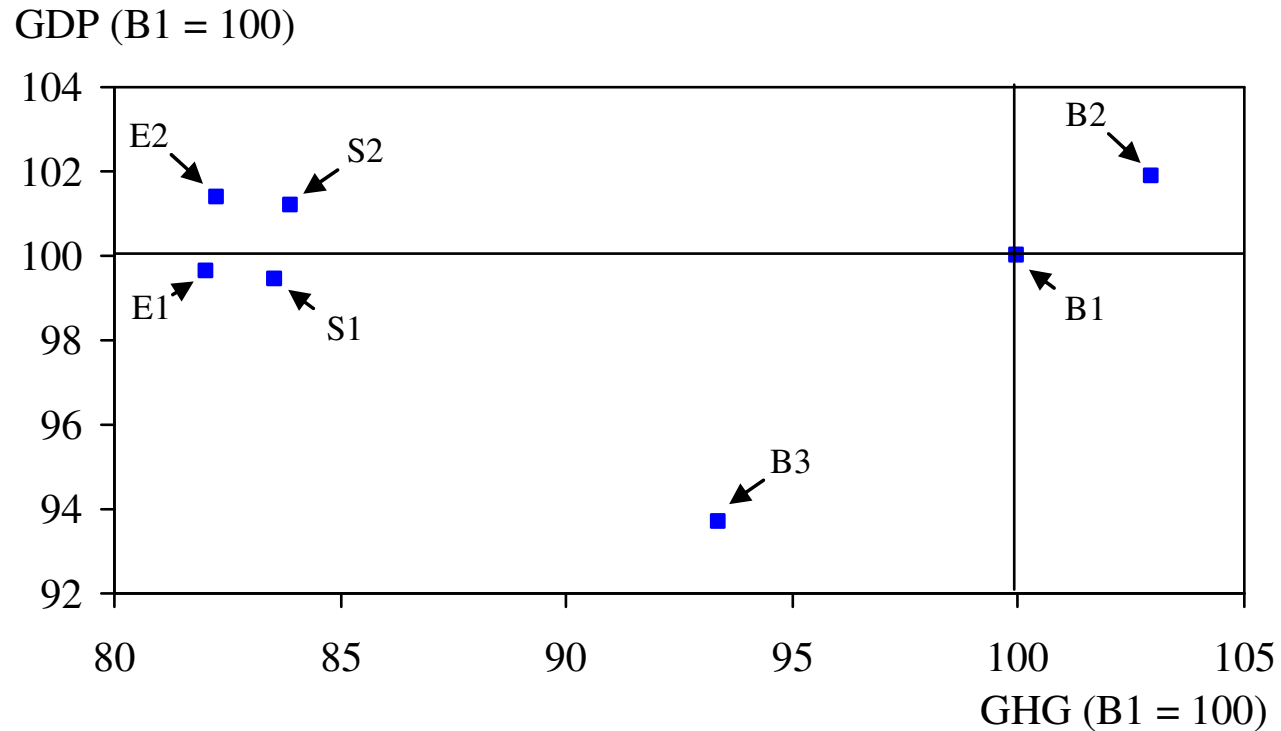
Source(s) : ONS and Cambridge Econometrics.

Modelling - greenhouse gases



Modelling - GDP vs greenhouse gases

COMPARISON OF GDP AND GHG EMISSIONS IN 2020



Note(s) : GHG figures have been calculated on a net carbon account basis in MtCO₂e.

Source(s) : ONS, NAEI, Cambridge Econometrics.

Conclusions

- Climate change imperative
- Changing price vital and can meet environmental and economic objectives
- Tax captures revenues which can be put to public good
- Need clarity on long term signal on carbon price
- Need to do more to build public case
- Business response less of a problem?

Next steps and further information

- Next steps
- Briefings and final report on website
- Book in 2010
- Website: www.greenfiscalcommission.org.uk
- Blog: <http://gfcblog.wordpress.com/>
- Email b.shaw@psi.org.uk