

March 2011



**Friends of
the Earth**

Briefing

Budget 2011: Jobs and Security

With spending cuts starting to bite, the UK desperately needs an economic recovery strategy that delivers new jobs. We also have an economy far too dependent on oil, and spiralling prices are hitting households hard across the country

Weaning our economy off its fossil fuel dependence will make it more resilient and secure, deliver hundreds of thousands of new jobs and help millions of households cope with rising fuel and energy prices.

The Government rightly says it wants to wean the UK off its oil and fossil fuel dependence, and create low carbon growth and jobs of the future. But current policies are not set to deliver on these commitments on anything like the scale required, and action on climate change and low carbon jobs is under threat in many areas. A turnaround is needed to ensure these commitments form the bedrock of this year's Budget and growth strategy. Without it the Government is not set to deliver the resilient, low carbon economy that the UK needs to ensure its future prosperity.

This briefing sets out where the Government's plans fall down and key actions to address this at the Budget.

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A low carbon route out of recession.

The Government will shortly produce its Budget for the year. Alongside this, it will produce a strategy for growth. The context is massive public spending cuts, rising unemployment and price hikes in essential commodities like energy, food and fuel, all of which is contributing to a fall in living standards faster than any time since the 1920s¹. The economy is suffering from a continuing lack of private investment, a cutting back of public stimulus, and a fall back into recession in the last quarter.

As global oil prices continue to spiral higher, Britain is also paying the price for dependence on fossil fuels. Globally, the indirect cost of using those fuels will be even greater – in increased climate change. Without action, catastrophes like the floods in Pakistan last year will become more severe and common. Food prices will be put under further pressure by increased floods and droughts.

The UK urgently needs a strategy to reduce our reliance upon fossil fuels – making us more secure against volatile and ever increasing fossil fuel prices, and reducing the risks of catastrophic climate change. We also need a strategy for creating thousands of new jobs. Action on the green economy can do both together. This briefing sets out actions the Chancellor could take.

Investment in Green Jobs and Industry

The Green Industry sector has the potential to be a big contributor to the UK's economic recovery. The global market volume for environmental products and services currently runs to about €1,000 billion, with a projected €2,200 by 2020. There will be an estimated 8 million jobs worldwide in wind energy and solar PV by 2030². These are huge growth industries - and the UK is well-placed to grab a good share. It is welcome that David Cameron set out green growth as a priority in his speech on economic recovery in January.

However, the Government's current policies for green growth and jobs are neither strong, certain nor clear enough to drive the level expansion needed:

- **Decentralised-energy.** In less than a year, the **Feed-in Tariff** is estimated to have created 10,000 jobs in the UK, and was set to create 17,000 by the end of 2011³. However, this is under threat from the current early review of the tariffs which has caused great and unnecessary uncertainty with much investment now scaled-back or delayed⁴.
- **Renewable Electricity:** using just a third of our marine renewable resource would create 140,000 jobs and save a billion tonnes of carbon by 2050⁵. But

¹ <http://www.telegraph.co.uk/finance/economics/8282354/Bank-of-England-chief-Mervyn-King-standard-of-living-to-plunge-at-fastest-rate-since-1920s.html>

² UNEP, 2011. http://www.unep.org/labour_environment/PDFs/Greenjobs/UNEP-Green-Jobs-Report.pdf

³ www.solarpowerportal.co.uk/news/fit_to_work_over_17000_solar_jobs_could_be_created_in_20115478/

⁴ www.guardian.co.uk/environment/2011/feb/11/feed-in-tariff-review-investor

⁵ The Offshore Valuation Groups, [The Offshore Valuation](#), 2010

the renewables sector is under threat from uncertainty around the funding and scope of the **Green Investment Bank, and Electricity Market Reform** proposals which favour new gas and nuclear investment.

- **Energy efficiency:** An estimated 100,000 jobs would be created by an ambitious programme to improve the energy efficiency of the nation's homes across the UK housing stock and in every area of the UK⁶. It would also cut back on the £860m annual cost to the NHS from ill-health from cold damp homes. However, the Government's Green Deal policy will miss large sectors of the country's housing and is lacking measures to drive take up and demand⁷. Additionally, work to tackle energy efficiency and fuel poverty has been slashed with the Warm Front scheme cut by two thirds at the Comprehensive Spending Review (CSR), to be eventually phased out entirely, and is further threatened due to potential Local Government cuts to energy efficiency work. Prior to the CSR Warm Front directly supported 8,000 jobs and indirectly 2,000 more.
- **Recycling 70%** of the UK's waste would create 70,000 jobs⁸ and save much of the £650m a year of recyclable materials that are currently landfilled or incinerated in the UK. Yet, despite the UK's obligations under EU law to prioritise waste prevention, reuse and recycling ahead of incineration and landfill, efforts to treat waste according to this "Waste Hierarchy" are distorted by Government fiscal policies. Examples include subsidies such as the Renewable Heat Incentive including the incineration of municipal waste, and the continued absence of an incinerator tax⁹.

There is huge potential in green industries, but current Government uncertainty and lack of investment threatens to limit its growth. There are three major actions the Chancellor should take:

1) **Get the money flowing**

A properly funded Green Investment Bank – to leverage in the billions of pounds of capital investment needed in renewable energy and energy efficiency industries, and which does not continue to prop-up nuclear power. Red-lines for an effective bank are:

- It is a proper bank, not a fund, with the ability to borrow and issue bonds;
- It is a Government owned bank, but with day-to-day operational independence,
- It has legislation in 2011 to set it up and is operational by 2012;

⁶ WWF, Low Carbon Jobs for Europe , June 2009 http://www.greens-efa.eu/cms/default/dokbin/290/290203.low_carbon_jobs_for_europe@en.pdf

⁷ http://www.foe.co.uk/resource/briefings/green_deal.pdf

⁸ http://www.foe.co.uk/resource/reports/jobs_recycling.pdf

⁹ Municipal Incinerators are also exempt from paying in the EU emissions trading scheme, despite having emissions greater than the average gas-fired power station.

- It has at least £4 billion of initial capitalization to enable it to leverage private sector capital at scale, as recommended by experts Ernst & Young¹⁰.

2) **Support new low-carbon industries to help the UK lead the way**

Thanks to the Feed-in Tariff (FIT) - which gives people and businesses a financial incentive for installing smaller-scale renewable electricity schemes - the UK renewable industry has been finally catching up with Europe. The purpose of the FIT is to grow an industry and bring its costs down. But at the spending review, the Government imposed a cap on the ambition equivalent to just 2% of the UK's electricity. This tiny cap massively downplays the economic and environmental potential from smaller-scale renewable electricity. Costs are completely manageable, and represent an investment which will repay itself many times over. Costs will spiral down as the industry develops, as the policy intends, and as has happened in Germany. Scare stories and limited ambition from civil servants should not be allowed to derail one of the few current UK economic success stories. The Government has an imminent announcement on the FITs scheme - **it should commit to lifting cap imposed on the feed-in tariff at the CSR and to triple the ambition of the scheme to guarantee to deliver at least 6% of electricity by 2020**, creating certainty for industry and the jobs that go with it.

3) **Kickstart a genuine energy efficiency revolution**

Funding schemes to tackle fuel poverty and energy efficiency is a big job creator. The Government claims that up to 100,000 jobs will be created by its Green Deal, but from what we know about the scheme it will be unable to deliver that level of demand. It will also not work for the fuel poor. A broader, more ambitious strategy is needed, within which the Green Deal would sit. Crucially, public financing for fuel poverty must continue. The Government must **reverse the two thirds cut to the Warm Front scheme and source new funding streams for energy efficiency for when it ends post 2012**.

Making the UK secure and more resilient to global oil and gas shocks

The recent fuel shocks are a warning; a coughing canary in the mine. There will be more shocks and spikes, but the long-term trend is that oil prices are going to keep on rising. The UK is already heavily dependent on fossil fuel imports and this situation is set to worsen as North Sea Oil and Gas production falls. So long as we remain so dependent on oil, this will continue to hit householders, motorists and consumers hard.

¹⁰ Ernst & Young: Capitlising the Green Investment Bank (2010): <http://bit.ly/eUYJdm>

The main response to this crisis has been heavy political pressure on the Chancellor to tackle pump prices, by cutting fuel duty. But we cannot deal with this extreme economic vulnerability by fuel duty cuts. It is self-defeating. Already, just bringing pump prices down to Dec 2009 levels would cost £6 billion in the first year alone¹¹. Future global oil rises would require further fuel duty cuts, which would inevitably mean tax rises or spending cuts elsewhere. The only viable strategy is to wean the UK off its gross dependence on oil. This will have other knock-on benefits, such as reducing air pollution which is still killing tens of thousands of people prematurely each year¹². We advocate three actions at the Budget:

- Stand firm on the 1p fuel duty rise. It sends completely the wrong signal that we can get out of this annual crisis by cutting duty. This solution does not work. It's also not well-targetted –fuel duty cuts go as much to rich businessmen in gas-guzzling Mercedes in Knightsbridge as to poorer rural families.
- Announce a cutting of the expensive and ineffective and carbon intensive road building programme, and channel the £4 billion saved into public transport, walking and cycling schemes – such as increasing funding for the Local Sustainable Transport Fund, and reversing the recent swingeing cuts to the Bus Service Operators Grant. Costs to motorists get most press, but public transport - used more by poorer people – has had a much rougher deal. In the last 30 years the cost of motoring has fallen in real terms (by 10%) while travelling by bus and coach (+54%) has risen¹³.
- Introduce an immediate package of measures to help people and businesses reduce their reliance on petrol and diesel, or help the worst-hit communities:
 - Targeted council tax rebates for poorer rural communities;
 - Tax breaks for companies investing in travel plans, car sharing, teleconferencing, eco-driving courses;
 - Hauliers – increased Government help for eco-driving training, which can save up 10-20% off fleet fuel costs.

A fair UK economic recovery

The above measures on oil would cut costs for households. Action on energy efficiency would help tackle fuel poverty and everyday energy bills. Both sets of measures are strong job creators and would boost industries, such as construction, that have been worst hit by recession.

Additionally, green and progressive taxation can provide an alternative to deep public spending cuts which are hitting the most vulnerable people hardest and damaging the chances of economic recovery. The below tax measures would raise over £6 billion a year:

¹¹ <http://www.green-alliance.org.uk/uploadedFiles/fuel%20stabiliser%20brief%20-%20final.pdf>

¹² www.guardian.co.uk/environment/2010/feb/23/air-pollution-deaths-sooty-particles

¹³ <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110214/text/110214w0006.htm> .

First, aviation is heavily under-taxed. It still pays no VAT on its activities or duty on kerosene. **The Government should reform Air Passenger Duty to that it is a per plane tax, also covering freight. This progressive reform could increase Treasury revenue by £3 billion a year;** and aviation would still be paying less than its tax exemptions.

Second, taxes on speculative financial transactions – so-called Tobin or Robin Hood taxes. Internationally these could raise hundreds of billions of pounds. For maximum effectiveness they require international agreement, but in the meantime the **UK can introduce a unilateral tax on Sterling trades**, This would not harm the UK financial sector as it is a tax on the global trade of Sterling, not the trading of currencies within the UK. **This would raise at least £3 billion a year.**

Green localism

The Government's focus on decentralisation and localism could be good news for local job creation and carbon reduction. Over 80 per cent of the UK's emissions are influenced by everyday activity, and councils have a key role to play in coordinating action to cut carbon in a way that benefits local residents and local economies.

Yet the impact of the Local Government Financial Settlement is that councils across the country are facing tough choices as to which programmes they continue. Acting on climate change in their wider local areas is not a statutory requirement and every week brings news of another council ending their sustainability or climate change programmes or drastically downsizing teams. That is a problem not just for potential low-carbon local economies, but also delivery on national carbon budgets – a country-wide response is needed to put the UK on track to its legally binding emissions reductions.

The Federation of Small Businesses are supporting Friends of the Earth's call for all councils to act on climate change in line with the level of ambition called for nationally. To support and enable this ambition at this difficult time, councils need access to funding to help them staff and plan for local carbon reduction strategies – which would transform local economies and generate tens of thousands of jobs¹⁴. A dedicated support fund of approximately £15m a year would enable all councils to help and enable their local businesses and communities cut carbon and bring the benefits of a low-carbon economy to their local area.

¹⁴ http://www.foe.co.uk/resource/briefings/job_creation_carbon_descent.pdf

Summary of Recommendations

A strategy to reduce our reliance upon fossil fuels will create jobs, new businesses and industry and help our economic recovery. Key actions the Chancellor should take in this pivotal Budget are:

1	Green Investment Bank	Introduce legislation this year to establish it as an independent bank - not a fund – able to borrow and issue bonds. Capitalise it (initially) with at least £4bn
2	Decentralised Energy: Feed-in Tariffs	Lift the cap imposed at the Comprehensive Spending Review Triple the ambition of the scheme so it can deliver at least 6% of UK electricity by 2020
3	Energy efficiency	Reverse the cuts to Warm Front. Commit to sourcing new funding streams for energy efficiency commensurate with the task at hand.
4	Transport	Stand firm on the 1p duty rise. Cut road building spending and use the money saved to boost green transport Announce a package of measures to help those most affected by fuel prices.
5	Taxation	Reform APD to be a per plane tax, including freight (+£3bn) Bring in a unilateral tax on trades of Sterling.
6	Green localism	Support council action on climate change with new £15m fund.

Conclusion

An economy dependent on fossil fuels is neither secure, futureproof, or in the longer-term, competitive. Nor is it fair – soaring energy prices hit the poorest first and hardest. This Budget must tackle these problems by investing in a green economy – cutting costs for households, reducing our dependence on oil, tackling climate change and creating jobs.

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This briefing is on the web at www.foe.co.uk/resource/briefings/budget_2011.pdf