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**Friends of  
the Earth**

# Briefing

# Green dividends: why the Chancellor should invest in eco-tax reform

**Friends of the Earth's first blueprint for a  
green Budget**

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### **Introduction**

Friends of the Earth has long argued for eco-tax reform. This briefing sets out the arguments for our position and why we believe the Chancellor should invest in eco-tax reform at this budget.

- Eco-tax reform encourages the economy to develop in a way that creates jobs and reduces environmental damage.
- The economy benefits because job creation is stimulated, productivity is increased through greater resource efficiency, and the costs of pollution are paid by polluters.
- International competitiveness can be stimulated because eco-tax reform encourages innovation and the creation of new firms, and benefits current UK growth industries.
- With careful design and implementation eco-tax reform can increase equity by cutting unemployment and reducing the environmental costs borne by the poor who 'live downwind, downstream and downhill' from sources of pollution.
- There are enough fully developed proposals for green taxes to allow the Chancellor to introduce a eco-tax reform package now that would raise around £2 billion in green taxes and cut the main rate of employers' NIC by 0.8% or the lower rate by 4%.
- The Chancellor should make a commitment now to developing the next eco-tax reform package to be introduced in the 1997 budget.

### **What we all want**

Friends of the Earth, like everyone else, wants the economy to develop in a way that creates jobs and reduces environmental damage. Yet we have a tax system pulling in the opposite direction. Firms are taxed for each person they employ while polluters rarely have to pay the costs of the environmental damage they cause. Some polluting industries and activities even receive perverse tax breaks and subsidies. The result is a waste of both human and natural resources.

The problems of unemployment and environmental damage are all too clear. The historical connection between growth and employment is no longer self-evident. Structural unemployment, job-less growth and job insecurity are major concerns for the UK electorate. So too is the despoiling of our environment that is damaging human health, reducing the UK's biodiversity, creating chronic local pollution problems and threatening the global environment that we will pass onto our children.

To tackle the issues of unemployment and environmental damage efficiently the UK needs to modernise its tax system. Each tax that raises Government revenue has economic side-effects because taxing an activity discourages it by making it more expensive. At present we actually discourage employment by taxing jobs through employers' national insurance contributions (NIC). At the same time there is the potential for Government to raise an equivalent amount by taxing environmental damage, something we do wish to discourage. This ludicrous situation has to end if we are to protect our environment, increase employment and develop a sustainable economy.

### **The role of eco-tax reform**

There has to be a gradual shift in the burden of taxation away from activities we all wish to

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encourage, such as employment, onto activities we wish to discourage, such as pollution and the inefficient use of natural resources. This process of **eco-tax reform** is not about increasing the total tax burden but involves re-targeting taxation. Green taxes are introduced that raise revenue which allows for taxes on labour to be cut. Eco-tax reform brings green dividends for the environment, the economy and society as a whole. Environmental protection is promoted, inefficiency in the economy is discouraged and unemployment, the 'gangrene of society', is reduced.

Friends of the Earth has been promoting eco-tax reforms for many years. We are pleased that eco-tax reform is now being promoted not only by other pressure groups and think-tanks but also by the OECD, the European Commission and the Government's Panel on Sustainable Development. Business too is increasingly calling for eco-tax reform. The Government's own Advisory Committee on Business and the Environment joins the World Business Council on Sustainable Development, made up of the captains of global industry, in calling for a tax shift from labour to the "overuse of environmental resources"<sup>i</sup>.

The two basic parts of an eco-tax reform package are a set of green taxes that bring in revenue and a set of tax cuts of equivalent value. Germany, Italy, Denmark, the Netherlands and Sweden are amongst the countries where eco-tax reform is the subject of parliamentary debate. In the UK the last budget saw the first mini eco-tax reform with the introduction of the landfill tax and a corresponding reduction in employers' National Insurance contributions. Friends of the Earth welcomed this development as a sign that at last eco-tax reform was underway in Britain. Over the next few years the pace of reform has to increase.

Eco-tax reform will help to bring the tax system into line with peoples aspirations for the start of the next millennium. It will help to steer the economy toward success in two areas which will be critical over the next few decades. First, the efficient use of resources will become an essential way to raise productivity. Second, fully valuing, developing and utilizing human resources will be crucial not only to economic success but also to creating a sustainable society.

This briefing sets out the arguments for Friends of the Earth's position. We start by explaining why green taxes are good for the environment. We then look at how the economy will benefit from eco-tax reform and deal with the main concerns that have been raised. Finally we put spotlight on the green taxes that should be considered in developing eco-tax reform in the UK.

### **Why green taxes are needed**

The UK's existing policies for controlling pollution can no longer cope with the scale of environmental problems we now face. This is not because the environmental problems these policies were designed to tackle have expanded out of all proportion. It is because there are now additional problems, such as climate change, urban traffic pollution and excessive waste generation. These are different types of problems requiring more complex solutions. They require a new and integrated set of policies, not just command and control regulation.

Present policies have been developed to tackle problems involving a limited number of industrial polluters posing localised and acute environmental risks. These policy instruments allow detailed implementation for different processes and require a highly trained and well funded enforcement agency. This approach remains vital to the control of many industrial

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pollution problems. It does not, however, provide the sole answer to environmental problems that, for example, involve the majority of households in the UK.

The solutions to these problems do not lie in the actions of a few companies cleaning up their act. Action across the economy is required. Clearly a different sort of policy measure is required. Green taxes are one option that have a number of advantages. Green tax reforms:

### **Target the worst polluters**

They can have a general effect across all the different sectors concerned, while still targeting the worst polluters within each sector

### **Give freedom of choice in how to meet targets**

They give firms and individuals the chance to choose the most cost effective solution in their circumstances. The amount of tax paid depends upon how much pollution is emitted or resource used and not on whether a prescribed piece of technology is being used. This provides individual firms and households with the freedom to decide how they will reduce their environmental impact and tax bill at the same time.

### **Make the polluters pay**

Green taxes make environmental damage visible in economic terms. The Government and Opposition Parties now endorse the 'polluter pays' principle. Yet little has been done to put it into practice. Green taxes translate environmental impacts directly into the language of economic decisions and harness market forces.

### **Stimulate continuous improvement**

They provide a continuing incentive to improve environmental performance. Although a firm or individual will pay less of the green tax if they improve their environmental performance they will still be paying tax on the pollution they continue to emit. Unlike simple regulatory standards, green taxes encourage continuous improvement.

### **Integrate strategically with other policies**

Green taxes are well suited to being part of a package of measures to tackle these pressing issues. When dealing with issues as important and complex as climate change and urban air pollution no one policy measure will be sufficient on its own. A coordinated package of measures is needed. Green taxes are well suited to providing a driver for change. Adair Turner, Director General of the CBI has stressed this with regard to transport, arguably the sector with the fastest growing adverse environmental impact:

*"Greater investment alone is not a solution to our transport problems. ...it needs to be part of a much broader strategy, encompassing better land use, planning, the encouragement of multi-modal links and fiscal reform that sends better signals about the use of scarce resources"*<sup>ii</sup>.

These attributes make green taxes an increasingly important policy option. But their significance is greater when the accompanying economic benefits are considered. These

economic benefits increase when green taxes become part of a eco-tax reform package.

### **Why eco-tax reform is good for the economy**

Eco-tax reform brings economic benefits in three ways.

#### **The polluter pays**

First, the costs imposed upon the economy and society by environmental damage are considerable. Green taxes ensure that these costs are borne - or reduced - by the 'polluter'. Recent epidemiological studies suggest that air pollution leads to health damage in the UK costing between £1.4 - £5.3 billion. Transport imposes several environmental costs including air pollution, noise and other costs including congestion. The Royal Commission on Environmental Pollution in 1994 calculated that these costs were equivalent to 2-3% of our GNP<sup>iii</sup>. The total costs of environmental damage across the European Union was estimated in 1992 to averages 5-10% of GNP<sup>iv</sup> and all too often it is not the polluter who pays that cost. It is the people who suffer the health threatening air pollution, loss of amenity values and peace and quiet who lose out. What's more it is the poor, who live downwind, downstream and downhill, that lose out more than the rich. The OECD in 1994 concluded that pollution placed a "higher percentage burden for low income households"<sup>v</sup>.

Making polluters pay these costs makes economic and environmental sense. However, in setting tax levels it should be recognised that measuring environmental costs and benefits is a question of broad estimate rather than exact calculation. For this reason green taxes should be target led rather than valuation led. The targets set by the Inter-Governmental Panel on Climate Change, for example, provide such a target for curbing CO<sub>2</sub> emissions.

#### **Efficiency is encouraged**

Green taxes encourage resource-use efficiency. Firms are stimulated to develop and adopt more resource efficient methods of production, new products and forms of organisation. Some unprofitable operations will be discontinued, liberating resources for more profitable activities. Taxes that are introduced at a low level and then increased by a set annual amount help to ensure that firms can plan to change and are not forced to cut operations that could remain economically and environmentally viable. For many sectors this stimulus to innovate can help revitalise competition and creativity.

As part of a eco-tax reform package green taxes can bring further economic benefits.

#### **Taxes on jobs are cut**

Green taxes generate revenue for the exchequer. This provides opportunities to cut other distorting taxes. It can also be used in part to provide incentives that smooth the adaption of firms and consumers to the new market conditions. Increasing employment is a key objective for the UK and the potential for using green tax revenue to reduce taxes on labour has been highlighted by the European Commission. The two politically popular targets for tax cuts are employers' NIC and VAT. The first is a far better way of getting employment benefits as described below. Reducing VAT is often suggested because it provides a political dividend as voters see a direct benefit and it controls any inflation effect. But, this does not provide a significant employment gain and economic modelling of various eco-tax

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reform options show only a slight increase in inflation without VAT cuts.

Reducing employers' NIC reduces non-wage labour costs. This encourages employment for several reasons.

- First, there is a greater demand for labour. This is because labour becomes cheaper in comparison with raw materials, energy and capital. Firms respond to this price differential by gradually employing more people. This will continue for a considerable period as investment cycles run their course.
- Second, relative demand shifts in favour of labour-intensive services. Firms and consumers will substitute goods with services over time. For example, buying repair services will become comparatively cheaper and buying a replacement item will become more expensive.
- Third, there are re-enforcing effects in the economy. Increased employment brings an increase in real consumption that in turn creates jobs in more labour intensive and less resource intensive activities. Reduced unemployment lowers the Government's welfare bill and frees-up money for spending that can stimulate job creation.

There is concern that in the long-term these benefits can be eroded if wage rates increase in response to the cut in non-wage labour costs. This would increase inflationary pressures which in turn can impact upon competitiveness. This is a complex issue but two points should be stressed. Economic modelling at a European and national level suggest that were this to happen the effect upon on inflation would be small<sup>vi</sup>. Secondly, an increase in wages at the lower end of the income scale has a positive effect on employment by creating an extra incentive for the unemployed to work.

Several economic studies have shown that the job generating effect of cutting employers NIC can be increased if the reductions are focused on low-paid jobs. There are different ways of doing this. One method is to have a tapering off of employers' NIC relief according to wage level. In addition to targeting those in most need of employment opportunities such a system would also restore the attractiveness of a number of low-paid jobs.

Before we turn to Friends of the Earth's proposals for specific tax shifts, we must address some of the most common concerns raised by businesses and politicians when eco-tax reform is proposed: competitiveness and equity.

### **International competitiveness**

It is now generally accepted that tough environmental regulations have little effect one way or the other on international competitiveness<sup>vii</sup>. Research into the impact of eco-tax reform on competitiveness echoes this. Some research findings suggest that competitiveness would benefit from eco-tax reform. Friends of the Earth believes that a well-designed eco-tax reform could have a positive overall effect upon UK competitiveness for four main reasons.

#### **Growth industries benefit**

The current growth industries of the UK economy are ones that will benefit from eco-tax reform. Encouraging the labour intensive sectors in the economy means that eco-tax reform reinforces the wider trend in the UK economy to shift from heavy industry toward service sectors.

### **Innovation is encouraged**

All industries affected will be encouraged to innovate to improve resource efficiency. Encouraging firms to innovate is widely regarded as having a beneficial impact upon the firms and sectors involved. It stimulates new ideas beyond the initial reason to innovate that can bring new ways of gaining competitive advantage. The OECD in 1993 noted that in Japan pressure to increase energy efficiency and lower pollution had reduced energy and raw material inputs and delivered competitive cost advantages.

### **New firm creation is stimulated**

Not only existing firms and sectors will benefit. The commercial opportunities created by eco-tax reform will stimulate the creation of new firms offering new services and to a lesser extent new products. This provides a shot in the arm for the UK economy as a whole. Economic modelling of the impacts of eco-tax reform do not cover these impacts.

### **Adverse impacts are limited**

Although eco-tax reform will raise the overall costs of a few resource intensive sectors, such as fossil fuel energy supply industries, iron and steel, basic chemicals and cement, the impact of this upon UK's international competitiveness is likely to be small. This is for two main reasons. Some of the sectors are less important in terms of exports, such as cement. In the sectors which are important exporters, the growth markets are in higher value added goods where energy costs are comparatively less important. Here cost can be less important for maintaining competitiveness than, for example, product specification or quality.

Several key cross-industry business bodies support eco-tax reform. They see it as an opportunity for forward thinking, innovative and competitive firms - no matter what sector they operate in. The World Business Council for Sustainable Development, which supports eco-tax reform, is made up of the Chief Executive Officers of around fifty of the world's largest companies including those from chemical firms (such as ICI, Dow and Du Pont), oil firms (such as BP, Shell and Texaco) and mining firms (such as RTZ).

The Government's Advisory Panel on Business and the Environment has also encouraged the Government to embrace eco-tax reform. ACBE includes top management from firms in resource extraction (Redland and British Gas), power generation (National Power) and the chemical industry (BP, Norsk Hydro and Albright and Wilson).

Although the competitiveness of UK plc is likely to be slightly enhanced by eco-tax reform, the impact upon resource intensive sectors should be considered when designing the reform package. This can depend on the degree to which international trading is important to the firm, the nature of investment cycles in the industry and the extent of regional concentration. Various schemes for reducing the impact upon these sectors have been adopted by other countries which have introduced green taxes and, in particular, energy taxes. If concessions were deemed to be necessary, and there is no guarantee that they would be, the Danish system provides a good guide. Under this system, relief is given to firms from certain sectors which export a significant proportion of their output according to what energy efficiency measures they have invested in.

## **Designing out pressure on equity**

There is concern that green taxes are regressive. At time when inequality in the UK has been growing this is a very serious issue. Moreover, the tax shift from income tax to VAT over the last decade has clearly contributed to that rise in inequality. There are three points that must be made here.

### **Many green taxes will be paid by industry**

Eco-tax reform mainly replaces one type of tax paid by industry (employers' NIC) by green taxes so that the overall tax burden unaltered. The implications of these changes for equity are far less than where households pay the green tax. The only difference is how the tax is targeted. The current tax on jobs is paid by all firms but hits labour intensive firms and sectors harder. Green taxes will be targeted at those firms and sectors with a higher adverse environmental impact which should be minimised.

### **Doing nothing is inequitable**

Concern over the equity of tax shifts is important and has to be addressed. This must not be allowed to mask the inequity of the present situation. Many low-income households, particularly in urban areas, pay a substantial price both in poor health and a noisy and dirty local environment as a result of road traffic pollution. Around a third of households in the UK do not have access to a car. These households are ones that will benefit more from the reduction in urban air pollution and provision of public transport that is induced by taxing road fuel and ending company car tax relief (see below). The poor state of the UK's housing stock, which is the worst insulated in Northern Europe, has resulted in some 7 million households suffering from 'fuel poverty'. This is the combination of low incomes and poor insulation resulting in people not being able to afford to keep warm<sup>viii</sup>. The introduction of a national energy efficiency programme targeted on these households and a reduction in the rate of VAT on energy saving materials to 8% can start to tackle this existing inequity.

### **Unemployment is reduced**

The greatest cause of poverty in Britain today is unemployment. Eco-tax reform would reduce unemployment. This fact alone makes a strong case for promoting eco-tax reform as a shift toward a more progressive tax system.

But there are implications for equity associated with some green taxes that have to be addressed. The introduction of VAT on domestic fuel provides a clear example of how a badly designed and implemented tax can raise equity problems. Yet the 8% rate of VAT on domestic fuel provides a stimulus to those households which can invest in energy efficiency to cut their fuel use and fuel bills to do so. What is required is a set of policies that tackle existing fuel poverty and allows these households to increase energy efficiency and cut their fuel bills. This could be done by using a proportion of the revenue from VAT on domestic fuel to fund a programme of assistance and improved benefits for the fuel poor and a national home energy conservation scheme that also gave priority to the fuel poor. Such schemes would also create jobs and as a consequence reduce social security expenditure. Disabled people who are not in a position to benefit from better public transport and rural communities where developing adequate public transport is more difficult may also require

special consideration during the design and introduction of taxes on road traffic. These are important issues but they concern the design of the tax not its legitimacy. A well designed eco-tax package is able to bring the green dividends of greater environmental protection and job creation in an equitable way. Parliament has a key role in making that happen.

### **What are the Chancellor's options**

Eco-tax reform will be a gradual process. The landfill tax and the related cut in employers' NIC was a start but only a small one. The Chancellor has received representations from various bodies calling for green taxes that can be part of an eco-tax package. Friends of the Earth has been party to several of these. Some options for green taxation will require further debate and research in order for them to be properly implemented in one year's time. The time is right, however, for the Chancellor to present a eco-tax reform package at this budget based on the green tax proposals on the table now. Friends of the Earth urges the Chancellor to significantly crank up the pace of reform on November 26th. The core of such a package should be as follows.

#### **Taxing waste**

While Friends of the Earth has pressed for a tax on waste for several years, the Landfill Tax as it stands is inadequate for two main reasons. First, it is set at a such a low rate that it will not be a strong enough incentive for waste to be significantly reduced. Second, it focuses on just one waste disposal route leaving others, such as incineration, untaxed. The Chancellor should act now to correct these failings by making the following changes.

##### **Introduce a £2 per year escalator**

If this tax is to be effective at reducing both the pollution caused by waste disposal and the inefficient use of resources it has to be increased. In Denmark the initial rate of £4.50 a tonne in 1986 will have risen to £33 a tonne by 1997. In response business has increased its recycling rate from 26% to 61% and recycling of demolition waste has risen from 12% to 82%. Reviews of the landfill tax rate will be necessary. Friends of the Earth believes that a first review should take place by spring 1998 in order to inform the Environment Agency's development of a statutory waste strategy by the end of 1998. These reviews would lead to sudden, and potentially substantial, increases in the rate of tax. This can be smoothed out over time by introducing an escalator that raises the rate by £2 each year. This gives a clear signal to business which allows them time to make adjustments with the minimum costs. It also helps maintain the value of the tax in relation to landfill prices which are expected to rise substantially over the next few years. This would see the tax bring in £700 million in the first year rising to £2.7 billion by 2005<sup>ix</sup>.

##### **Tax incineration**

The Treasury hailed the introduction of the landfill tax and the accompanying fall in employers' NIC as "taxing waste not jobs". Yet only waste going to landfill is taxed. Waste going to incineration is exempted from the tax. This distortion is already leading to waste being diverted from one disposal route to another. Just because Treasury is responsible for an environmental policy instrument should not mean that the lessons of integrated pollution control need to be re-learned. The objective of reducing waste and inefficiency will not be solved by taxing the landfill disposal option alone. Incineration also places costs upon the

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environment and neighbouring communities that should be paid by the polluter through the tax. Where incineration is operated to optimise its potential for material and energy recovery there maybe grounds for taxing it at a lower rate than active waste going to landfill. Even so the annual escalator should apply to incineration.

Friends of the Earth believes that such a waste tax should be fully integrated into the statutory waste strategy that the Government will present in two years' time. Green taxes have to be designed and operated in coordination with other environmental policies and as part of an overall strategy. If they are not their value is diminished. There is already signs that the landfill tax is not operating in this manner. The lack of any meaningful integration with waste reduction and recycling policies is an issue of great concern. The Chancellor should make a commitment to addressing this fundamental issue as part of the waste strategy review to be presented in spring 1998.

### **Taxing pollution from transport**

The transport sector is now a major contributor to urgent local, national and global environmental problems. Urban air pollution caused by road traffic is a major public concern in the UK. Tackling the car's dominance of our countries transport system is now central to all three parties position on transport policy. Air travel too has major environmental impacts that are unchecked by present taxation. Friends of the Earth has long argued that air travel must be taxed and we welcome John Gummer's recent remarks supporting this view. The Chancellor should take three steps that address these issues and raise an additional £1.6 billion in the first year rising to around £7 billion by 2005.

#### **Raise the Road Fuel Price Escalator to 8%**

In 1994 the Royal Commission on Environmental Pollution called for a doubling of petrol prices in 10 years as part of a programme to reduce the environmental impact of transport in the UK. The current 5% escalator on road fuel duty is predicted to increase prices to only mid-1980s levels in real terms by 2005. Increasing the escalator to 8% per annum would make it more effective at cutting urban air pollution and meeting transport policy objectives. Revenue from the extra 3% duty could be used to cut employers' NIC or could be re-invested in building up a modern and efficient public transport system nationwide. This would raise an additional £450 million in the first year rising to over £6 billion by 2005.

#### **Cut company car perks**

The generous taxation treatment of company cars is a perverse subsidy that should corrected as a matter of priority. Not only do company car tax allowances cut Government revenue but they provide an incentive to drive further through mileage banding. They also limit the effectiveness of the road fuel price escalator as a way of meeting CO2 emission targets. This gross subsidy runs counter to Government strategies on transport and the environment. Many company car users receive free fuel that is undertaxed to the tune of £130 million a year. Ending mileage banding for company cars and taxing free fuel at the proper rate would raise £480 million in the first year.

#### **Increase air passenger duty**

The 1996 Transport Green Paper, 'The Way Forward', expressed the Government's

commitment to address the global impacts of air travel. Air fuel taxation penalises the longest journeys most and at shorter distances creates an incentive for high-speed rail travel. The Government must argue for an end to the tax exemption of aviation fuel at the European level. At the national level a practical mechanism to make progress would be to raise air passenger duty. If the charge for UK flights was left unaltered but the charge of flights to Europe increased by £5 and other international flights by £10 the longest and damaging journeys would be taxed more heavily. This would raise an extra £700 million per year.

### **Taxing virgin aggregates**

Quarrying for virgin aggregates such as rock, sand and gravel places a heavy cost on the environment and on neighbouring communities. Habitats, green spaces, footpaths and public access are lost. Traffic is generated in previously quiet areas. Recycling aggregates from demolition waste offers a way of reducing this damage. Yet this valuable resource is grossly under used in the UK. This is because landfilling construction waste is very cheap and because the market price for primary aggregates is so low. The landfill tax has made a small start at increasing the cost of disposal but on its own this will not be enough. The Government has received two reports in recent years that have identify a virgin aggregates tax as providing an effective boost for the use of recycled aggregates. If a tax of £1 a tonne were introduced increasing annually to £9 a tonne by 2005 revenue of £223 million would be collected in the first year rising to £2.4 billion by 2005.

### **Cut VAT on energy saving materials to 8%**

It is vital that the Chancellor acts at this budget to correct the perverse state of affairs that exists with VAT on domestic fuel. Households who wish to increase their energy efficiency in the face of the tax find themselves having to pay twice as much tax on the products that will help them do so. This is clearly ridiculous and this anomaly should be corrected at this budget by reducing VAT on energy saving materials to 8%.

The manner of the introduction of VAT on domestic fuel has been a significant setback to any sensible discussion of how an energy or carbon tax could be introduced in the UK to increase employment and reduce environmental damage in an equitable manner. The poor design and implementation of this tax has increased fears of inequity, raised little revenue and brought little environmental benefit. Meaningful debate of how a carbon tax can be introduced must occur before next year's budget.

The implications for this change for Government revenue is complex. The resulting increase energy efficiency will mean less revenue from VAT on fuel but an increase in sales of energy saving products. It will also mean a cut in the social security budget because of the employment created.

### **Future developments**

Eco-tax reform is a gradual process. The package of green taxes outlined above would allow revenue from employers' NIC contributions to be reduced by around £2 billion pounds. Further reform in the 1997 budget can significantly boost the green dividends highlighted in this briefing. Several options should be considered for the next package including the following.

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### **Carbon tax**

The need for swift action to minimise CO2 emissions in response to the threats of further climate change are clear. A Carbon Tax hits the biggest polluters hardest and encourages fuel switching toward renewable energy sources. There is no reason why meaningful debate at both the European and national level over the next year cannot produce a proposal for an effective and equitable Carbon tax.

### **Pesticides and fertiliser taxes**

Agricultural chemicals used in intensive farming pose significant environmental risks and have direct impacts upon water quality. Several European countries have introduced taxes upon the use of these chemicals. The design of such taxes would depend upon how likely they are to reduce the use of such chemicals in the face of the current distortions in favour of industrialised agriculture caused by the current pattern of subsidies under the Common Agricultural Policy.

### **Company car parking tax**

Company car parking is an untaxed perk. As the availability of car parking has a major influence on travel choice it also provides an incentive to commute by car. There are different ways taxing such benefits. Treating car parking as a taxable benefit would be one of the options. Alternatives include using business rates and the planning system is one and introducing a separate office car parking space tax is another.

### **Virgin fibre tax**

The increasing demand for wood and paper is driving destruction of the world's natural forests. The world's forests can produce wood and paper and support wildlife but only if demand for paper and wood is managed. A virgin fibre tax could be an effective tool in managing this demand. It would have implications for imported fibre and could stimulate recycling within the UK.

### **Ozone depleters' tax**

The most powerful ozone depleters have been banned. The replacement in many cases has been chemicals which although less powerful, continue to destroy the ozone layer. Placing a tax on these goods can act as an incentive to replace these chemicals with ones with zero impact on the ozone layer.

## **Conclusions**

- Green taxes are a vital way of ensuring the integration of economic and environmental objectives in Government policy.
- They are an effective and efficient way of tackling many of the major environmental problems we currently face.
- Eco-tax reform can stimulate job creation by cutting taxes on jobs
- The Chancellor is in a position at this budget to crank-up the pace of eco-tax reform by

shifting some £2 billion of the tax burden off jobs and onto pollution.

Friends of the Earth believes the Chancellor should use this budget to make a substantial investment in eco-tax reform. If he does so the UK will reap economic, environmental and social benefits.

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