

March 2007



Briefing

How green was Gordon?

The environmental record of Gordon Brown's budgets 1997-2007

Friends of the Earth inspires solutions to environmental problems, which make life better for people.

Friends of the Earth is:

- the UK's most influential national environmental campaigning organisation**
- the most extensive environmental network in the world, with almost one million supporters across five continents and over 60 national organisations worldwide**
- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland**
- dependent on individuals for over 90 per cent of its income.**

To join or make a donation call us on 0800 581 051

Friends of the Earth, 26-28 Underwood Street, London N1 7JQ

Tel: 020 7490 1555 Fax: 020 7490 0881 Email: info@foe.co.uk Website: www.foe.co.uk

Friends of the Earth Limited company number 1012357

♻️ Printed on paper made from 100 per cent post-consumer waste

Introduction

Since 1997 Gordon Brown's environmental budget performance overall has been poor. In Labour's first term, he introduced a number of good green tax measures, with a stand-out Budget in 1999. This century though his record has been disappointing – rocked by the fuel protests he has done very little, and neglected environmental tax issues. This briefing looks at Gordon Brown's environmental record at the Budget, with a focus on climate change.

Overall carbon emissions have risen since Labour came into power. The Government's progress, after some real achievement in 1997-2000, has stalled and in many areas gone into reverse.

The bottom line is that taxes and prices are a major component of a successful strategy to tackle climate change, yet the Budgets have not, taken as a whole, made it cheaper and easier for people to take the green option. For example, the most polluting modes of transport (car and plane) have got cheaper, the least polluting (bus and rail) have got more expensive.

There is a strong case for environmental tax reform which has not been made. Well designed packages of green taxes, tax breaks and spending can cut polluting activity, reward good environmental behaviour, and benefit the economy by creating demand for environmental goods and services. This can be done without disproportionately hitting the poor, while improving the quality of life for all in society.

Where the Chancellor has introduced good measures he has too often failed to back them up so they have an impact, and in general leadership has been lacking. Of course, increased taxes have the potential to be politically difficult, but they have not been sold well.

The Government as a whole continues to be extremely timid, even when – as now- there is increasing public acceptance that climate change must be tackled.

There are some recent signs of progress – Gordon Brown commissioned the Stern Review and its report of November 2006 makes a strong economic and environmental case for international action and also for action at home, to turn the UK into a low-carbon economy. We hope that the Stern Review's conclusions will give the Chancellor the confidence to implement a strong, positive strategy to cut carbon emissions – as Stern says, it is imperative that this starts now.

This coming budget is a defining one for Gordon Brown's stewardship of the environment. Will he act on Stern, and implement a Treasury strategy for climate change, setting annual carbon budgets and putting in place strong policies to meet these budgets? Or will he continue the trend of the last 7 years and try to get away with the minimum possible, leaving the field open for other political parties to come forward with better policies? Climate change is a rapidly rising political issue, as well as an issue of overwhelming urgency – this coming Budget will give a strong indication as to whether Gordon Brown is up for the challenge.

1997-2007 – the record so far

Highlights

- ★ Stern Review sets out overwhelming case for action on climate change
- ★ Successful Climate Change Levy (CCL), cutting business energy use
- ★ Introduction and increase in landfill tax escalator, introduction of aggregates levy
- ★ Reforms to company car tax system, has led to greener company car fleets

Low points

- x Carbon emissions have risen under Labour
- x Green taxes have fallen as a proportion of total taxes and GDP under Labour
- x Failure to make political and public case for environmental tax reform agenda
- x Has helped make the most polluting transport options cheaper and the least polluting more expensive
- x Dropped fuel tax escalator; gave into vocal fuel protest minority.

Milestones:

- | | | |
|-------------|-----|---|
| July 1997 | ★ | Brings out “Statement of Intent” on environmental taxation |
| March 1998 | ★ | Announces consultations on industrial energy, aggregates etc |
| March 1999 | ★★ | Greenest budget: announces future introduction of:
Climate Change Levy, Aggregates Levy
Escalator for landfill tax, Company car tax reform
Differentials for Vehicle Excise Duty
Whole raft of smaller transport measures |
| Nov 1999 | x x | Ditches road fuel duty escalator |
| March 2000 | x | Rates of majority of climate change taxes fall in real terms |
| March 2000 | ★ | Stands firm and introduces CCL |
| March 2000 | x | Introduces halving of air passenger duty for cheapest flights from 2001 |
| Summer 2000 | - | Fuel tax protests |

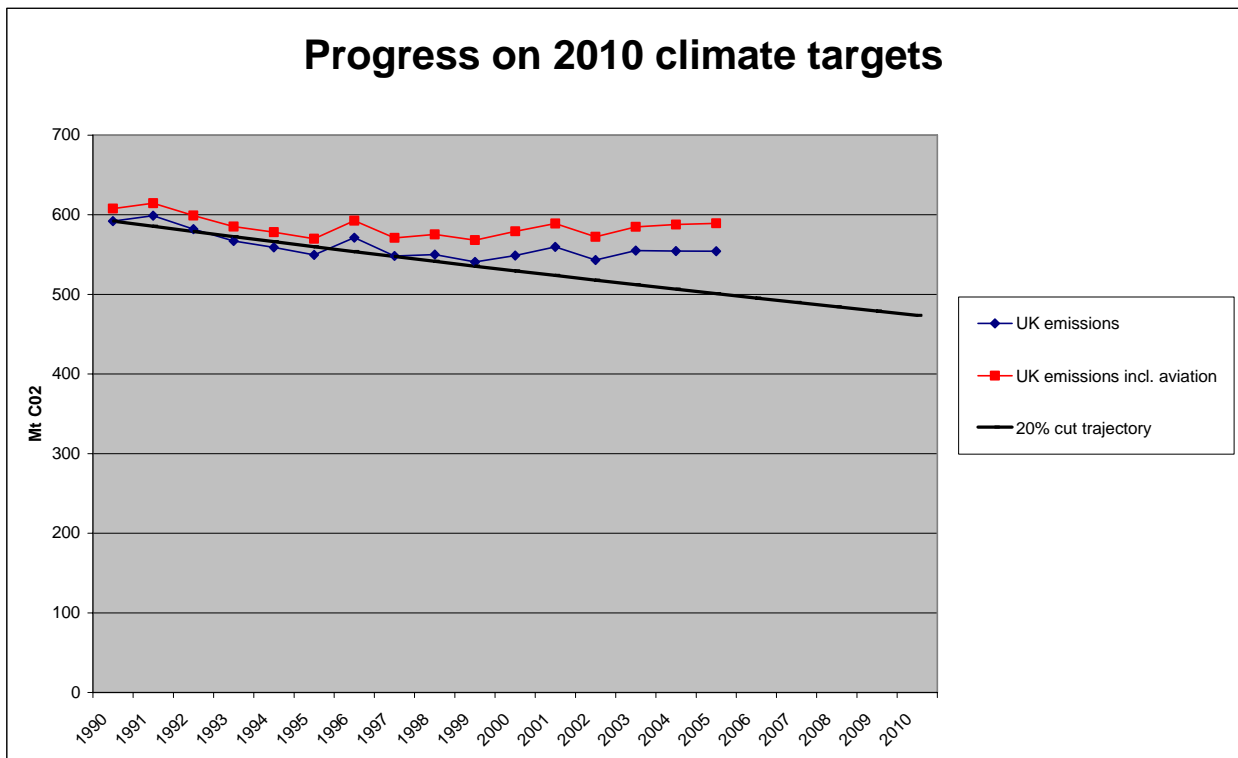
The environmental record of Gordon Brown's budgets 1997-2007

March 2001	x	Rates of majority of climate change taxes fall in real terms
April 2002	x	Rates of majority of climate change taxes fall in real terms
April 2002	★	UK emissions trading scheme starts
Nov 2002	★	Raises landfill tax escalator to £3 a tonne from 2005
March 2003	x	Rates of majority of climate change taxes fall in real terms
March 2004	x	Rates of majority of climate change taxes fall in real terms
March 2005	x	Rates of majority of climate change taxes fall in real terms
Nov 2005	★	Stern review announced
March 2006	x	Rates of majority of climate change taxes fall in real terms
Oct 2006	★	Stern review published
Dec 2006	★	First positive movement on aviation taxation in 10 years

Government progress on a carbon budget

The UK is not on course to meet its 2010 climate change targets of a 20% cut in carbon dioxide emissions (see graph below).

In 2005 the UK's carbon dioxide emissions were 53 million tonnes over budget, compared where we should be on a smooth trajectory to meeting the 2010 target¹. The UK is 75 million tonnes over budget if aviation emissions are included in the calculations. Emissions were only 0.7 million tonnes over budget in 1997 (9 million if aviation included).



The UK was on track until 1999, since then carbon dioxide emissions have risen. Including aviation emissions makes the gap even worse. The main areas where emissions have risen have been aviation, the domestic sector, and surface transport.

¹ Data from <http://www.defra.gov.uk/environment/statistics/globalatmos/gagccukem.htm>

Budget measures on the environment

The Budget is clearly just one way the Government influences environmental performance. However, it is a major one. There is also a clear correlation between UK emissions starting to rise, and the Government cutting green taxes after good initial progress. Both started after 1999.

This paper examines the Chancellor's Budget record in taking action on eight areas and scores the Government's performance at 30 out of 100.

1. The ecological tax reform agenda

Has Gordon Brown shifted the tax burden off activities that need to be encouraged, like employing people, and onto activities that need to be discouraged, like emitting CO₂ – as he promised to do in 1997?

All the main political parties aim to shift the burden off 'good' things in the economy such as employing people onto 'bad' things such as pollution. It makes economic sense to do so – the less waste and pollution the more efficient the economy.

The last Conservative Chancellor, Kenneth Clarke, installed the Landfill Tax in 1996 along with an accompanying cut in employers' National Insurance Contributions (NIC) claiming it to be good for jobs and the environment.

Gordon Brown continued this approach to achieving a green tax shift by announcing cuts in employers' NIC to accompany the two new green taxes he has introduced – the Climate Change Levy and the Aggregates Levy – both announced in Budget 1999. In both cases, as with the Landfill Tax, the cut is not meant to be exactly the same amount as that raised by the new tax – for a start in all three cases some of the money raised has been spent in ways that help achieve the environment goals of the new tax. For example, revenue from the Climate Change Levy has been spent on establishing the Carbon Trust to help businesses adapt and a tax break for firms investing in energy efficiency and renewable energy.

For these new green taxes Gordon Brown has made efforts to shift the burden of tax. But they are small taxes – small in comparison with other mainstream taxes including employers' NIC and small in comparison with some other green taxes most notably fuel duty which accounts for the lion's share of green tax revenue. It is therefore, important to look at the tax system overall to gauge progress on tax shifting over Gordon Brown's tenure.

Between 1997 and 2005 the proportion of the Government's total tax take that comes from green taxes has fallen from 9.4% to 7.7%. Over the same period amount employers' NIC has overall increased as a proportion of the total tax take. In other words, despite small initiatives to shift the burden of tax off goods and onto bads the Chancellor has in fact presided over a shift in the opposite direction.

The main reasons for this are the Chancellor's decision to abandon planned increases in fuel duty and then to freeze them, and his decision to increase employers' NIC to raise revenue.

To provide some context for this trend during Gordon Brown's time as Chancellor it worth noting that the proportion of total tax take from green taxes in the eight years before he took office had risen from 7.8% to 9.4%. In his first 8 years as Chancellor it had fallen from 9.4% to 7.7%.

Summary of Brown's impact on the ecological tax reform agenda:

- Good statement of intent in 1997, but agenda dormant since 2000.
- Landfill tax and CCL had links to tax cuts elsewhere.

Score: 2/10

2. Aviation

Aviation emissions have risen heavily in recent decades, continue to rise, and are predicted to rise way into the future. Total emissions doubled from 1990 to 2004, and without action are predicted to more than double again by 2030. This is because demand growth for flights heavily outstrips past and likely potential technological improvements to plane efficiency. Demand growth is in turn heavily influenced by flying falling in price (see graph on page 5). These low and falling prices are in large part due to aviation's continuing exemption from many taxes – notably the zero tax on aviation fuel and exemptions from VAT. Both are anachronisms, but remain.

Air Passenger Duty (APD)

APD can be used as an environmental tax – as a proxy for VAT and fuel taxes. It affects the cost of flying to the consumer and as such affects marginal flights. However APD rates have been low. On EU flights APD was introduced at £5 for economy flights in 1994, raised to £10 in 1997, dropped to £5 in 2001, and raised to £10 again as from Feb 2007. The DfT's December 2006 Progress Report on its Aviation White Paper notes that current rates of progress on taxation will not stop the massive predicted growth in flights. Oxford University's Environmental Change Unit states that an annual APD escalator will be needed to stem this growth in flights.

The Government has also not acted on any other aspect of aviation taxation – for example removing the VAT exemption on domestic flights. Including aviation in the EU emissions trading scheme may help, depending on the detail of the policy, however this will not happen for a number of years – interim measures are urgently needed.

Summary of Brown's impact on aviation:

- Very little progress – air passenger duty on cheapest flight still at 1997 levels.
- All major tax exemptions on aviation still remain.

Score: 2/10

3. Green cars

The Chancellor's 1999 (introduced in 2001) decision to differentiate Vehicle Excise Duty (VED) levels by carbon emissions should in theory give an incentive for people to buy less-polluting vehicles. However, in practice the difference between these levels is far too low to make any practical difference to people's purchasing patterns - the difference between Band F and Band G is just £20. The decision to make the least-polluting Band A pay zero VED is welcome, but the differentials, particularly between the higher bands, need to be made far wider for the policy to be effective.

Friends of the Earth is calling on the Chancellor to cut VED on Band B cars to zero and raise the rate of the top Band G vehicles to £2000 for new cars.

A recent OECD report notes that "reform of vehicle taxation (purchase, registration and annual circulation taxes), so that it is based on a vehicle's specific CO2 emissions *and strongly differentiated*, should be a top priority in Europe"² [emphasis added]

The Chancellor has implemented a number of strong reforms to Company Car Taxation, with the result that quicker progress has been made greening the Company Car fleet.

Summary of Brown's impact on greener cars:

- VED higher for more polluting cars, but differentials too small to make a difference.
- Company Car Reforms have had a positive effect. There has been a positive use of tax to shift people to less polluting fuel types.

Score: 5/10

4. Fuel duty

Fuel duty is the largest and most controversial green tax. The Fuel Duty Escalator was brought in by the Tories.

History of the Escalator:

- Escalator introduced by Norman Lamont in 1993 at 3%
- Increased by Kenneth Clarke in 1995 to 5%
- Increased by Gordon Brown in 1997 to 6%
- The Treasury reported in 1999 that it "...has given a clear signal to motorists and manufacturers to design more fuel efficient vehicles, avoid unnecessary journeys and consider alternatives to the car".
- Gordon Brown scraps the escalator in November 1999

² 'Cutting transport CO2 emissions: what progress?' European Conference of Ministers of Transport (OECD 2007)

- Fuel tax protests in summer 2000
- Fuel duty cut in 2001
- Fuel duty falls in real terms at almost every budget since (inflation-rises in 2003 and 2006).

These falls have been a major contributory factor to the cost of motoring falling in recent years, and to the increase in road transport emissions. Motor mileage has increased by 7% since 2000³.

Fuel duty increases would be far more politically palatable, and environmentally effective, if they were linked to increases in spending on providing decent and cheaper alternatives to motoring. But bus and rail prices have increased year-on-year – it is no surprise that emissions of transport rise when the Government's use of its economic instruments mean that the two more polluting modes (air and cars) get cheaper, while the two less polluting modes (bus and rail) get more expensive. Even just keeping fuel duty at 1999 levels (ie constant in real terms) the revenues from fuel duty would be £4.2 billion a year higher now⁴ – allowing cuts in taxes elsewhere, such as in employment, or investment in public transport.

A recent OECD report stated: "fuel tax increases and specific fuel carbon taxes ... have the highest impact of any of the reported CO2 abatement measures".⁵

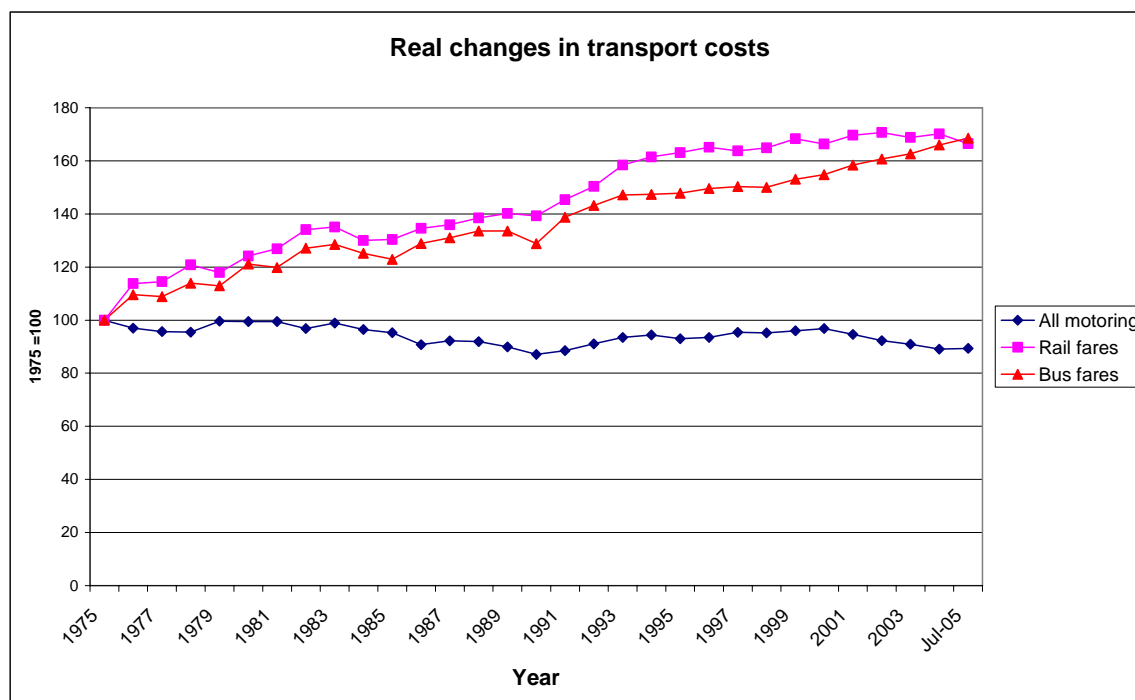
Friends of the Earth estimates that had the fuel duty been **maintained at 6% annually** the policy would be **saving 14mtc by 2005** (even if fuel duty had only risen by inflation the saving would have been 5.4 mtc).⁶

³ Transport Statistics Great Britain 2006.

⁴ IFS, 2006. The UK Tax System and the Environment. page 35.

⁵ 'Cutting transport CO2 emissions: what progress?' European Conference of Ministers of Transport (OECD 2007)

⁶ Data calculated from IFS, 2006. UK Tax System and the Environment p39 and <http://www.defra.gov.uk/environment/statistics/globalatmos/download/xls/gatb05.xls>



Summary of Brown's impact on fuel tax:

- Road fuel duty escalator scrapped, cost of motoring has fallen, cost of alternatives has risen.

Score: 0/10

5. The Climate Change Levy (CCL)

The CCL is the Chancellor's environmental tax success story. Introduced in 2001 it is a tax on the supply of various forms of energy (electricity, gas, oil and LPG) to business. Rates were frozen until 2006 when they increased by inflation. Overall the CCL is 13 per cent lower in real terms than when it was introduced⁷. It now raises £700m. The Treasury estimates that the CCL will deliver carbon savings of over 3.5 million tons of carbon annually by 2010. Some industries have negotiated an 80 per cent reduction in the CCL by signing Climate Change Agreements with the Government to meet energy efficiency targets. These have been less successful - there is evidence that the targets agreed were too lenient⁸ - but they will still save 2.8 MtC annually by 2010.

A survey of businesses completed 18 months after the introduction of the Levy found that it had helped increase the use of renewable energy by businesses, and helped increase energy efficiency. Many senior managers had considered taking action before the Levy, but

⁷ IFS, 2006. Op cit. p65.

⁸ IFS, 2006. Op cit. p68.

it was the financial incentive that provided the immediate stimulus to take action.

In addition to saving millions of tons of carbon the CCL was used to fund a cut in National Insurance contributions, increase funding of the Carbon Trust and introduce Enhanced Capital Allowances for businesses investing in energy saving technologies.

This use of a package of measures – taxes, revenue recycling, rebates and information provision – is one that Friends of the Earth believes should be replicated across other sectors.

Summary of Brown's impact on business:

- Excellent Climate Change Levy introduced in 2000.
- But rate has fallen in real terms, with just one in-line with inflation rise, in 2006.

Score: 6/10

6. Domestic energy: tax breaks for greener homes

The domestic sector contributes over a quarter of the UK's carbon dioxide emissions. Seventy per cent of this is from space and water heating.

Government programmes such as Warm Front and the Energy Efficiency Commitment are forecast by the Treasury to deliver cuts on projected emissions of approximately 1 MtC annually by 2010. However savings of over 24 MtC are required in the domestic sector for the Government to meet its target of cutting emissions by 60 per cent by 2050 (if the domestic sector were to reduce its emissions in line with overall carbon emissions)⁹.

While the Chancellor has introduced a small number of micro-measures (the Landlords Energy Saving Allowance, reduced VAT on installed energy saving materials and micro-generation, and most recently the announcements of stamp duty exemption for zero carbon homes and that individuals who generate enough renewable electricity to export it back to the grid will not have to pay income tax on the payments), the Treasury admits these will have a small impact on carbon emissions¹⁰. Additionally the tiny funding available for grants for micro-generation technologies through the Low Carbon Buildings Programme has been widely condemned.

Increases to taxes on domestic energy to cut carbon emissions are not possible because it would have a regressive social impact and harm efforts to tackle fuel poverty, in large part due to the very low quality of the housing stock in the UK.

The Chancellor has not taken up widespread demands for much more substantial tax breaks and rebates to help make it cheaper and easier for homeowners to cut their carbon

⁹ Review of the Sustainability of Existing Buildings, The energy efficiency of dwellings – initial analysis, DCLG, Nov 2006.

¹⁰ http://www.hm-treasury.gov.uk/media/571/CF/pbr06_chapter7.pdf

emissions and save money. These include funding Council Tax rebates on cavity wall and loft insulation, a reduction of the rate of VAT on high environmental quality refurbishments and to bring in a Stamp Duty rebate for home buyers making substantial energy efficiency improvements to a building within a fixed period of purchase. These measures have been advocated by a wide range of organisations including the Government's own Energy Saving Trust and the Sustainable Development Commission.

Summary of Brown's impact on domestic energy:

- Gradual scrapping of higher VAT rates on installed energy saving materials and green technologies.
- Grants have increased for renewable technologies, but way short of what is needed.
- Some good but unambitious programmes.

Score: 3/10

7. Waste

The Landfill Tax was implemented by the Conservatives in 1996. The Chancellor has increased its effectiveness twice – by introducing an annual £1 escalator in 1999, and increasing this escalator to £3 a year from 2005. The escalator is starting to have an effect on reducing the proportion of waste going to landfill. However, landfill still remains the cheapest waste management option in the UK. We note the Environment Secretary's letter to the Chancellor from October 2006 stating that "*our analysis suggests a rate of £75 per tonne by 2013 makes alternatives to landfill sufficiently financially attractive to tip behaviour significantly*". To get to this rate from the current £21 per tonne needs a higher escalator than £3 per year.

The Chancellor has also not acted to create the right incentives for other waste options. For example, a HM Customs and Excise report of 2004 shows that the environmental damage from incineration is higher than for landfill. Yet there is no incineration tax. Lack of such a tax is a large contributory factor to the increasing rash of incinerator applications across the country, at odds with the Government's climate change ambitions and its commitment to implementing the waste hierarchy.

Summary of Brown's impact on aggregates, landfill and incineration:

- Introduced levy, but has frozen its rate since its introduction. The levy has reduced the amount of virgin aggregate extracted. **6/10**
- Introduced a £1 a year escalator to the landfill tax in 1999, and increased it to £3 a year from 2005. The tax has helped reduce the amount of waste going to landfill. **5/10**

- Has not introduced an incineration tax, and has done nothing to remove tax incentives in favour of incineration, despite incineration having larger pollution problems than landfill according to 2004 HM Customs and Excise report. **0/10**

Score: 11/30

8. Other measures

The Government has consulted on using tax instruments to reduce agricultural pollution. It could have implemented a pesticides tax, recycling the revenue back to farmers for agri-environment measures, but instead chose a voluntary approach. This has had limited success.

The Government has also chosen not to implement a fertiliser tax, or reform water abstraction charges. The low charges to water companies help make it more likely that companies over-abtract, damaging the environment, and less likely to prioritise fixing leaks.

There has also been little progress to provide a financial incentive for brownfield development.

Score: 1/10

Brown's last chance: Budget 2007

At the Budget the Chancellor has the opportunity to leave an environmental legacy that is not (with the exception of 1999) one overwhelmingly of inaction and missed opportunities. He can start to move the UK towards a low carbon economy by putting in place a socially progressive package of tax rises on polluting activities to fund tax breaks and spending on environmentally beneficial activities. This will benefit the climate, meet social objectives, save businesses money and create jobs.

Friends of the Earth proposes that the Chancellor raise taxation on the most polluting cars and aviation in order to invest in public transport, and help fund grants and tax breaks to make our homes energy-efficient and cheap to heat.

The specific measures we are calling for in Budget 07 are far from a comprehensive list of all the possible green measures the Chancellor could take and even if enacted in full they would not create a low carbon economy. They do however represent two areas where the Chancellor has fallen particularly short in the past and where action is expected.

We also call on the Chancellor to announce that **within a year he will produce a strategy to deliver a low carbon UK economy**, with annual carbon budgets, covering all sectors of the economy.

- Increase Vehicle Excise Duty to provide a real incentive to buy less polluting cars - £2000 for new gas guzzlers (Band G) with a zero rate for the least polluting cars (Bands A and B).
- Reintroduce the road fuel tax escalator, spend the revenue on providing decent transport alternatives to motoring.
- Introducing an Air Passenger Duty Escalator of £10 to £25 annually.
- £1.4bn for Council Tax rebates for those making their homes more energy efficient. Stamp Duty rebates for those making their homes energy efficient immediately after purchase.
- £1bn annually for grants and tax breaks to help roll out microgeneration technologies, and a fair payment for the electricity they generate.
- Cutting the VAT for refurbishing homes to high standards of environmental sustainability.

A briefing setting out Friends of the Earth's demands for the budget in more detail is available at: www.foe.co.uk/resource/briefings/cleaner_cars_greener_homes.pdf