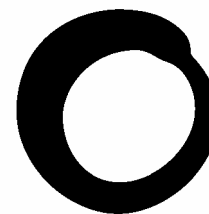


# Media Briefing

December 2003



**Friends of  
the Earth**

## PRE-BUDGET 2003

### Time for a sustainable economy?

The Chancellor has accepted the concept of sustainability as a basis for the UK's future economy. But the steps being taken by the Treasury are increasingly cautious. The clearest indicator of this 'softly, softly' approach is the considerable fall in environmental taxation, from 9.7% of overall taxation in 1999 to 8.8% in 2002. Equally the Government's pledge to reduce greenhouse gas emissions by 20% by 2010 is faltering. This change in environmental taxation has contributed to the current spending shortfall.

It is high time to accelerate the development of a healthy economy and environment through a combination of tax and incentive measures.

Friends of the Earth is calling for a balanced package of economic measures which:

- promote environmentally friendly activities.
- raise funds by correctly pricing environmentally harmful activities.

These and other measures (see below) could raise up to £12 billion/year whilst protecting the environment. For example:

1. Reintroducing the fuel tax escalator would generate up to £30.2 billion over 10 years;
2. Emissions based Vehicle Excise Duty (VED) would raise an additional £1.13 billion a year;
3. Applying VAT to aviation would raise £4 billion/year and adding an extra £5 on flight tickets would generate £0.5 billion/year;
4. £130 million from pesticide tax,
5. £1.8 billion from VAT on new-build housing.

The negative arguments that government action to protect the environment threatens jobs and competitiveness must be rejected. The Chancellor needs to see the massive opportunities for job and wealth creation that a more intelligent management of our environment would stimulate.

It is time for the UK to profit from the \$300 billion global market for environmental goods and services. In this briefing Friends of the Earth sets out measures that should be announced in the 2003 pre-Budget to start the "green industrial revolution" and bring the UK closer to a sustainable, healthy future.

Measures proposed are:

**Transport:** Increase road fuel duty; VED duty to reflect environmental damage; Support for bus and rail; employer transport schemes, public transport and season tickets.

**Aviation:** Raise Air Passenger Duty; Fuel duty on domestic flights; VAT applied; End Duty Free  
**Energy:** extend CCL; including to nuclear power; incentives for renewables and energy saving materials/ appliances; apply fair taxation to all North Sea production.

**Waste/ recycling:** increase Landfill Tax; Reinvest Landfill Tax; end CCL tax break for incinerators; taxes on toxic materials and persistent and bio-accumulative chemicals.

**Farming:** Pesticide tax; incentives to cut nutrient pollution.

**Housing and property:** VAT incentives and Stamp duty to promote sustainable efficient housing.

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## Transport

Transport causes major social and environmental costs, estimated to be between £44-51 billion/year due to congestion (costing business alone £19 billion a year), poor air quality, injuries, accidents and climate change.

Since the fuel duty escalator was removed in 1999, the costs of motoring have fallen by three per cent a year; traffic growth has increased by an extra seven per cent, CO<sub>2</sub> emissions have increased this decade by 4.0 million tonnes, and the prior reduction in greenhouse emissions has reversed since 1999. This year demand for 4x4s has grown by 18 per cent, while sales of small cars has fallen by 10 per cent.

**Increased road fuel duty** would keep the price of motoring constant over the next 10 years, slowing the rise in CO<sub>2</sub> emissions and tackling air pollution and congestion. An increase of three to five pence per litre a year is needed to keep motoring costs constant. This would raise £30.2 billion over 10 years, funding public transport, safe routes to schools, home zones, cycling and walking.

**Vehicle Excise Duty to reflect environmental damage.** The UK remains behind many EU countries in its vehicle excise duty for the most damaging cars. The car with the highest emissions, the Ferrari A456M GTA 2+2 emits 570g CO<sub>2</sub>/km, three times that of a Ford Focus 1.8i 16V Estate (16 inch tyre), yet it is taxed at the same rate. The Ferrari emits seven times the CO<sub>2</sub> of the most efficient car, the Honda Insight, but is taxed just over twice as much. Older cars only have two bands, £165 for vehicles above 1549cc and £110 for smaller engines. A maximum rate of £500 would discourage the purchase of the most polluting vehicles eg. 4X4s. The same 'polluter pays' principle should apply to all road vehicles with higher VED rates for the most polluting vans, motorbikes etc. Vehicles used for work, eg. by farmers, should remain in a lower tax band.

The table below shows how a system for older cars might look and the money it could raise. The same bands would also apply to newer cars, but based on their CO<sub>2</sub> emissions.

Tax band	Approx capacity (cc)	Car numbers (thousands)	New VED	Change over present VED	Extra income/ annum (millions)
AAA to C	Up to 1500	9454	Unchanged	NIL	NIL
D	1500-1800	7,124	£200	+£35	£249
E	1800-2000	4,869	£250	+£85	£414
F	2000-2500	1,275	£300	+£135	£172
G	2500-3000	666	£350	+£185	£123
H	3000+	510	£500	+£335	£171
TOTAL					£1,129

*The bands used for this table are merely indicative of the numbers of various sized vehicle engines. Extrapolated from Department for Transport road vehicle statistics, 2001.*

**Tax support for bus growth, rail improvements and to tackle social exclusion.** The Commission for Integrated Transport has recommended bus subsidy reforms from tax breaks on fuel to incentive payments for increasing passenger numbers and concessions to socially disadvantaged groups, and support for rural areas. This would cost £265m - £292m/ year, requiring an extra £267m over 10 years from the 10 Year Transport Plan fund. It is estimated to delivery growth in passenger numbers of 8.1% -18.7%.

**School buses.** The Government needs to promote school buses as one alternative to the school run. In the United States 54% of under 12s go to school by bus. In Britain, just 7% of 5-10 year-olds travel by bus, adding to congestion.

**Tax relief for employer transport schemes, public transport and season tickets.**

- Tax relief is only available for private buses paid for by the company. Extending this incentive

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to employer-subsidised schemes which use local public bus services would benefit commuters and the general public.

- Extending the enhanced capital allowances for low-carbon vehicles to cover company travel plan capital expenditure would encourage more cycle facilities, car sharing, equipment for tele-working, and capital works for bus operations.
- Commuting by public transport relieves congestion, but only accounts for 14% of journeys to work. Tax relief for season tickets would cut car commuting by five per cent per annum and help less-advantaged people get to work. If capped at £500 this would cost £200 million per year.

## Aviation

Since 1998 government policy has been for aviation to meet its external costs. But the industry is still exempt from paying fuel tax or VAT and does not in reality pay external costs such as air and noise pollution, climate change or for the infrastructure required for access to airports.

- Air tickets are 42% cheaper than 10 years ago, as a result of these effective subsidies.
- Aviation contributes only 0.9 % of GDP, but is the UK's fastest growing source of CO<sub>2</sub> emissions.
- IPPR concluded that the proposed growth in aviation emissions could destroy the Government's commitment to a 60% cut in CO<sub>2</sub> emissions by 2050.
- Aviation's favoured tax status results in the Treasury missing out on £9.2 billion a year in tax and VAT.

Important decisions will be announced in the Government's White Paper, due by the end of 2003, covering aviation for the next 30 years. Fair taxation would help curb unsustainable growth and promote more rational usage of flights, so avoiding unmanageable expansion. Without these measures the Government faces growing opposition from those who do not want to live under the shadow of massive airports. This taxation should be invested in sustainable transport such as high-speed rail links both within the UK and to the continent as an alternative to short-haul flights.

**Raise Air Passenger Duty.** Air Passenger Duty (APD) raises less than £1 billion/ year. By increasing APD by £5 per passenger in the interim, prior to the introduction of fuel/emission taxes, the Chancellor could raise an extra £0.5 billion/ year.

**Introducing fuel duty on domestic flights, VAT on EU flights and end duty free.** Barriers to taxing international flights (eg. Chicago Convention) do not apply to domestic flights so it is possible to impose fuel duty and VAT on domestic and EU flights.

- Air travel accounted for five per cent of UK CO<sub>2</sub> emissions and, according to the Treasury, this is forecast to rise to 10-12% by 2020
- The lack of VAT applied to the aviation industry was estimated to have cost the public purse £4 billion/ year in 1999/2000, as part of a £9.2 billion effective subsidy. This £4 billion includes VAT on plane tickets, the purchase and servicing of planes etc

Duty free goods are still available on flights to destinations outside EU. There are no valid economic reasons for continuing duty free, it is clearly incompatible with policies to discourage smoking and costs the public purse £400 million per year.

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## Energy

The Government states its commitment "to controlling and reducing emissions of the gases responsible for global warming". But the Government grants a number of exemptions to industry, which undermine the overall effectiveness of its policies. To reduce concerns about competitiveness the Government should push for better policy coordination amongst countries within the EU and OECD.

**The Climate Change Levy and Emissions Trading Scheme need to run side-by-side to promote energy efficiency for business.**

The EU Emissions Trading Scheme (ETS) is due to start in 2005 for UK electricity producers and oil refineries. There are already calls for the Climate Change Levy (CCL) to be phased out as emissions trading begins. In fact CCL and ETS complement one another. The ETS provides a cap on total emissions while the levy is an incentive to further increase efficiency.

**Reject calls to exempt nuclear power from the climate change levy.** Nuclear power is not needed to combat climate change. It is uneconomical, unsafe, unpopular and produces highly radioactive waste.

**Develop new tax incentives to encourage investment in renewable energy.** Britain has the best potential for wind and wave power in Europe. Renewable energy sources are essential to reduce UK climate emissions.

**VAT reduction on energy saving materials and appliances.** Households are still taxed more for buying energy saving materials and energy efficient appliances than they are for buying energy.

**Apply consistent taxation to North Sea production.** It is illogical that national energy resources worth £108.8 billion (end of 2002) are being given away so cheaply.

- Only fields approved before 1982 pay royalties, petroleum revenue and corporation tax. Fields approved since 1982 don't pay royalties and fields approved since 1993 only pay corporation tax.
- The decision to abolish North Sea royalties in 1999 reduced tax receipts by £260 million a year.

## Waste and recycling

As a nation, we are failing to re-use valuable resources, creating a growing environmental problem. In 2001 we landfilled 6.5 million tonnes. Yet in Austria two thirds of waste is recycled; in Sweden 100% of bottles and 90% of aluminium cans are recycled. A waste management and recycling industry would create 200,000 new jobs.

**Increase the annual Landfill Tax escalator to £5+/year from 2004.**

- A higher landfill tax will divert more of our valued 'rubbish' towards re-use and recycling.
- The Household Waste Recycling Act, originally drafted by Friends of the Earth, requires local authorities to introduce doorstep recycling to every household by 2010. Providing a top quality doorstep recycling collection of household waste across England and Wales will cost £375 million. Landfill tax revenues of £75million in 2005-06, rising to £220 million in 2007-08 should fund this infrastructure.
- Landfill tax only starts to influence behaviour at £35 a tonne. This level will not be reached until 2011 with the current £3 a year rise, but with a £5+ a year escalator, it could be reached by 2008.

**End perverse climate change levy tax break for incinerators** as it contradicts waste & energy policy.

- Incineration is the second largest recipient of the CCL renewable energy tax break, worth £5 million year.
- The tax break gets bigger the more biodegradable waste, such as paper and garden waste, that incinerators burn. It therefore discourages composting and paper.
- More energy savings can be made through recycling than energy produced by burning the waste.
- An incineration tax should be introduced to prevent the burning of waste instead of recycling.

**Taxes on products or materials, including persistent and bio-accumulative chemicals.** In some countries products or materials have been specifically taxed. Economic measures could include a plastic bag tax or a deposit refund scheme for bottles and metals, combined with legal obligations to recycle batteries, tyres and other hazardous waste. The environment should not be contaminated by man-made substances that threaten health or biological diversity - the most harmful should be taxed to reduce their prevalence in the environment.

## Farming

Economic instruments would discourage the use of inputs that are damaging to the environment and human health and raise money for more sustainable farming methods. Maximum use of subsidy reform under the Common Agricultural Policy is needed to help rebuild local food economies.

**Pesticide tax, and economic instrument to cut nutrient pollution from farming.** Pesticide residues are found in around a quarter of food of UK origin. Removing pesticide residues from drinking water costs more than £100 million a year. Pesticides also damage agricultural biodiversity. Government policy is to reduce the use and impacts of pesticides, but the pesticide industry's voluntary initiative (VI) put forward in 2000, has failed to deliver on these objectives.

Last year the Environmental Audit Committee was heavily critical of the VI but its concerns have not been addressed. Taxation as a tool within a pesticide reduction strategy has been successful in other EU countries. In Sweden pesticide use has been cut by 65% and in Denmark the frequency of pesticide use has been successfully reduced without economic costs to farmers. But to be effective a tax must be designed to tackle the most risky pesticides and the money must go back into farming.

- A banded tax, with the highest rate on the most risky active ingredients could raise approximately £130 million a year and reduce use by 20%, resulting in a greater reduction of the most harmful pesticides.
- Money raised should be used to fund research and development of non-chemical alternatives to pesticides and an independent advisory service to help farmers convert to more sustainable farming systems.
- Nutrient pollution from farming is a major source of water pollution, a significant source of greenhouse gas emissions, and a threat to biodiversity in the UK. Using an economic instrument in combination with the introduction of 'Nitrate Vulnerable Zones' (where farmers must follow certain practices in the use and storage of fertiliser and manure to reduce pollution) will ensure a responsible and efficient use of fertilisers.

### **Commit to using maximum modulation option for rural development**

Modulation should be used at the full five per cent allowed to shift Common Agricultural Policy (CAP) subsidies into sustainable schemes. The money should be used for rural development, such as local food initiatives, which will boost the local economy and help to reconnect farmers with the market.

## Housing and property

Reducing the environmental impact of housing and ensuring it is built in the correct location are both central to sustainable development.

**The Government should end VAT incentives for new-build greenfield houses and introduce VAT relief for those built on brownfield sites, for social housing schemes or for properties meeting high eco-homes standards.**

New build housing developments continue to put intense pressure on the countryside and greenbelts.

- VAT incentives encourage new-build over renovation and encourages greenfield building.
- Full VAT on new-build would generate £1.8 billion, covering the cost of applying lower brownfield & eco-homes rates.
- Uptake of environmental housing is low, but a differential rate of VAT would stimulate a shift and bring down the premium currently paid on such houses.
- Member States can vary VAT to zero for social objectives. Social housing, whether in new buildings or existing ones, is the primary source of good quality, affordable housing in the UK.

**Review shifting local tax base from business rates to land value taxation (LVT).** Urban regeneration is hindered by rates on property rather than land. Taxing land value in proportion to the value of the property or businesses on the land would encourage the development of unused brownfield/abandoned land.

**Stamp duty based on house efficiency.** House movers with properties worth more than £60,000 pay stamp duty. This should include a duty rebate for house purchasers who make energy efficiency improvements to their home within a year of purchase, as people are more likely to make improvements at this time.