

November 2004



**Friends of  
the Earth**

# Briefing

# Climate Change and the Budget

***“There is no doubt that the time to act is now”***

**- Tony Blair on Climate Change, 14th September 2004**

**It's Gordon Brown who can make the difference...**

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## **Introduction**

Urgent action is needed now to combat climate change. The Government's Chief Scientific Officer says climate change is a greater threat than international terrorism. Targets for significantly reducing carbon emissions in the next 10 to 20 years are crucial, but the scientific evidence is clear that we don't have the luxury of being able to put off taking action. What is needed is year on year reductions in greenhouse gas emissions, starting now.

*"It is now that timely action can avert disaster. It is now that with foresight and will such action can be taken without disturbing the essence of our way of life, by adjusting behaviour, not altering it entirely."* Tony Blair, 14<sup>th</sup> September 2004.

The Chancellor is in the driving seat to take decisive action on climate change.

Action is needed in the Budget because it remains too cheap and easy to burn fossil fuels and often is too expensive and difficult for households and businesses to reduce climate change emissions. Despite the recent rise in oil prices, petrol is in real terms still over 10% cheaper than in 2000. The urgent task for the Chancellor at this Budget is not only to commit to reversing this perverse situation but to take action now to start to make a difference. The Chancellor can have a major effect in three ways. His fiscal policies can make the price of burning fuels more expensive. He can make energy efficiency easier and cheaper for businesses and households. And he can give financial incentives for new renewable technologies which will spur innovation, bringing their costs down and expanding the ways in which they are used.

The actions of the Government in recent years make the need for action now even more urgent. The Transport White Paper is planning to allow traffic levels to grow for the next ten years. The Aviation White Paper will see massive rises in the number of passenger and freight flights. Both of these will increase carbon emissions. The Government's national allocation plan to reduce carbon emissions from industry through trading is currently weak and may even allow greater emissions in some sectors. And its ambitions for savings through household energy efficiency have been cut and there is a high risk that these will be cancelled out by the rising use of energy-consuming products. Overall, carbon emissions are on the rise again, and have even increased since Labour came into power in 1997, despite the strong rhetoric.

Friends of the Earth is not alone in this analysis. The Sustainable Development Commission urges that "action is needed on many fronts". The Environmental Audit Committee argues that the Government's Climate Change Strategy is "seriously off course" and calls on the Treasury to take more action.

As he prepares for a pre-election Budget, the good news for the Chancellor is that taking clear, decisive action now makes both economic and environmental sense. Reforming the UK economy so that it delivers on climate change will reduce the UK's vulnerability to the global volatility of oil markets and supplies. A coherent programme to deliver a low carbon economy will boost innovation and investment in efficiency and renewable forms of energy. Reducing energy costs will also boost resource productivity. In contrast, being boxed in by a fear of the public backlash from a handful of industries and motorists is simply building up the economic impact of climate change as well as environmental and social impacts. For

example, in the last 5 years, the damage from storm and floods cost over £6 billion, double the previous period. The risk rate for weather catastrophes is rising at a rate of 2 - 4 per cent per year<sup>1</sup>. Climate change will also exacerbate global poverty and undermine the Millennium development goals that the Chancellor is keen to see met.

The Chancellor is the person who can deliver the “foresight and will”. By making clear his commitment to tackling climate change in a controlled but certain manner, he can position the UK to take full advantage of the low carbon economy that needs to develop over the next ten years. Doing so will allow adaptation and innovation and does not damage competitiveness.

This Budget is a vital test of whether the Chancellor recognises the urgency for tackling climate change and is prepared to take action now. But commitments to policy changes that will only start to deliver in four or five years time are not enough, and represent a missed economic opportunity.

In this briefing we argue that the Chancellor’s action can match the Prime Minister’s rhetoric. He can make Climate Change a central element of this and future budgets, presenting a coherent package of policies to bring carbon emissions down. Climate change is such a critical issue that in this coming pre-election budget the Chancellor should:

- **Set out explicitly the overall aggregate effect on climate change of all his budget policies, and commit to doing so in each future budget.**

In addition he should take four immediate actions which would symbolise his commitment to tackling climate change and start to turn the current situation around. The priority areas are transport, aviation and the domestic sector.

These four actions are:

- **Stand firm on road fuel duty**, bringing in the increase he proposed at the last budget, with revenue raised going to provide real transport alternatives;
- **Give incentives for buying greener cars** by decreasing Vehicle Excise Duty (the Tax Disc) on green cars, with higher bands for gas-guzzling cars like 4x4s;
- **Increase Air Passenger Duty**, bring in an extra environmental charge to reflect the massive environmental damage caused by air travel;
- **Announce a review of tax incentives to help people to install renewable energy in their homes.**

These four measures would be a strong starting point, showing the Chancellor’s intent to deliver a more comprehensive package of fiscal measures to tackle climate change.

The next section gives the details of the need for and effects of these policies.

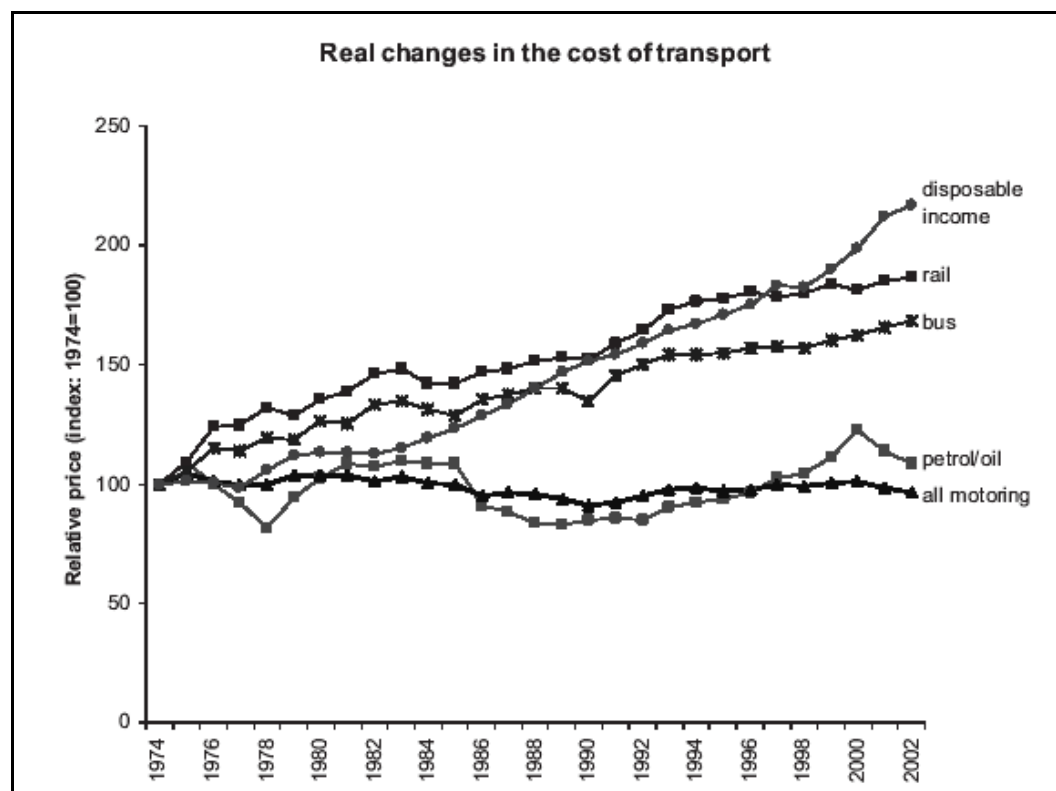
# 1 Road Fuel Duty

## Why the chancellor should take action

Transport is responsible for around a quarter of the UK's carbon dioxide emissions. This percentage is increasing. The Future of Transport White Paper forecasts road transport's carbon emissions rising by 10% from 2000 levels by 2010, yet the UK has a target to cut overall carbon dioxide emissions by 20% by 2010, and 60% by 2050. Meeting these targets will be practically impossible unless the Government takes decisive action on emissions from transport.

The price of fuel has a major effect on transport's carbon emissions. The Government's Commission for Integrated Transport said in 2000 that the fuel protestors demand for a 26p a litre cut in fuel duty would lead to an 8% growth in UK car mileage. In contrast, the Government's analysis of the fuel duty increases between 1996 and 1999 is that they produced annual carbon savings of between 1 and 2.5 MtC by 2010.

Price is therefore deeply linked with emissions, yet despite the claims of motoring groups, the cost of motoring is falling. The Government's figures show that in real terms, motoring is cheaper than 30 years ago (see table below). Since 1997, motoring costs have fallen by 4.8%. The latest data, for the first quarter of 2004, shows that despite the recent rise in oil prices, in real terms petrol is still over 10% cheaper than in 2000. Traffic growth continues at between 1 and 2% a year.



Source: DEFRA, Sustainable Development Indicator T4, 2004.

Increasing fuel duty is the main tool the Chancellor has to reduce the growth in transport emissions. Moreover, it would raise revenue which is urgently needed to invest in decent alternatives – to provide affordable safe clean public transport, and to improve walking and cycling conditions, to make them an attractive alternative for short journeys, for example by providing Safe Routes to all schools.

### What could the Chancellor do?

The Chancellor should announce that the last Budget's small rise in road fuel duty, deferred in July, will go ahead, and pledge that future budgets will use road fuel duty increases to at the very least keep the costs of motoring constant, with revenue used to improve the alternatives to motoring.

### Effects

The main reason for this measure is the urgent necessity for cutting carbon emissions. The Government's analysis in its Transport 10 year plan shows that stopping motoring costs falling, and keeping them constant, would see 3% cuts in emissions. There would be other benefits for the environment, such as improved air quality, and less pressure on the countryside.

It would also have broad benefits on the economy. There would be less congestion, and it would reduce the UK's dependence on imported oil, reducing the deleterious effect on the UK economy of unstable and volatile global oil prices.

And it would have social benefits. Broadly, increasing fuel duty is progressive taxation, because poorer people are less likely to have a car. 41% of the poorest fifth of households have a car, compared with 92% of the richest<sup>2</sup>. We propose that increased fuel duty should be used to pay for improved public transport and better walking and cycling conditions. This too is progressive, as these modes are used more by poorer people. This is an urgent issue - millions of people do not have decent transport choices because of regressive transport prices and spending:

- **Current prices are regressive** – the Government states that “*Public transport fares rose by about 75 per cent in real terms between 1974 and 2002*”. This hits the poorest hardest: the poorest fifth of people make four times more bus journeys a year than the richest fifth. Over the same time, overall motoring costs have fallen: and the richest fifth of people make on average 500 more car journeys a year than the poorest fifth.
- **Current transport spending is also regressive** – the Government's figures show that 38% of transport spending benefits the richest fifth of people, while only 12% benefits the poorest fifth<sup>3</sup>.

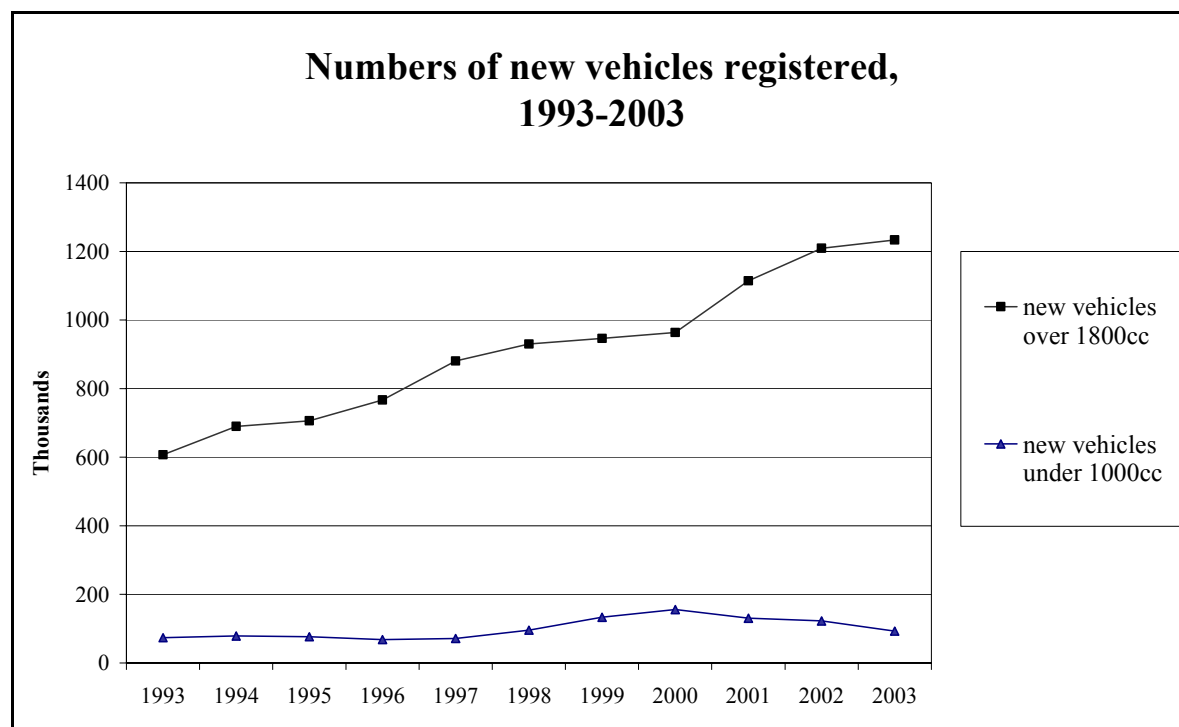
Other measures, which give incentives for greener behaviour, are set out in the next section, and on page 18.

## 2 Reform of Vehicle Excise Duty (VED)

### Why the Chancellor should take action

One of the biggest effects individuals have over their carbon emissions is what sort of car they buy. Over 5 years, a Vauxhall Frontera 5 door estate will emit seven and a half tonnes more carbon dioxide than a Vauxhall Astra 5 door estate<sup>4</sup>.

Yet although engine efficiency has been improving over the years, the average size of cars bought has increased. As a result, the average fuel efficiency of the car fleet is largely unchanged. There is currently little incentive for people to buy a more fuel efficient car, yet the point of purchase has a major effect on future emissions. Current trends are for people to buying bigger, less efficient vehicles.



The Government has made some progress here by giving a small incentive to people who buy more efficient vehicles, by introducing a lower rate of Vehicle Excise Duty (VED) on such cars. However, this differential is small, and there is also no difference between VED levels for the majority of cars - average cars and gas guzzlers. The Department for Transport has published research showing that wider VED differentials would persuade people to buy a greener car. They say that: *“the current graduated scheme does not offer a large enough incentive to encourage behavioural change”*, and state that wider bands would have an effect: *“A differential between bands of £50, would be enough for 33% [of people about to buy a car] to choose a different car”*. At a differential of £150, 55% of people would choose a greener car.

**What the Chancellor could do**

The Chancellor should introduce higher tax bands for gas guzzling cars like 4x4s and SUVs, reflecting their inefficient use of fuel, and give an incentive for purchasers to buy greener cars.

To provide better incentives for motorists to purchase greener cars, we advocate that the Government introduces more bands for the least efficient vehicles, and widens the difference between bands to introduce a top rate of £500, and a bottom rate of £0. The Chancellor could signal that this top rate would be put in place gradually over 5 years, with proportionate increases in the intervening years. To provide an incentive for greener cars, these raised could be introduced in parallel with reductions in VED for greener cars. The Government could bring in the increases over 5 years, but introduce the reductions immediately.

**Effects**

Such changes would mean in year one, the reform could be revenue neutral, with over 9 million motorists getting lower VED. It would give a strong statement of intent that the Government is committed to ensuring the UK has a fuel-efficient car fleet – driving change among both manufacturers and the public.

This gradual VED change would result in carbon dioxide savings of around 4 million tonnes by 2010.

Overall, this VED reform would create a much stronger incentive for people to buy greener cars. The reform can be designed to be revenue neutral – so that increases on dirty, inefficient vehicles pay for incentives for greener cars.

As an example, for cars registered after March 2001 this could look like:

<b>Bands</b>	<b>CO<sub>2</sub> Emission Figure (g/km)</b>	<b>Current rate (diesel car) £</b>	<b>New rate (year one)</b>	<b>Rate by year 5</b>
AAA	Up to 100	75	0	0
AA	101 to 120	85	0	0
A	121 - 150	115	50	50
B	151 - 165	135	100	100
C	166 - 185	155	150	150
D	186 – 205	165	170	200
E	206 – 225	165	180	250
F	226 – 245	165	190	300
G	246-265	165	200	350
H	265 +	165	230	500

Similar bands could be devised for cars registered before March 2001, based on engine size (there are currently two different systems for VED – see overleaf).

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Current system: Cars registered after 1<sup>st</sup> March 2001

Bands	CO <sub>2</sub> Emission Figure (g/km)	Annual rate (diesel car) £
AAA	Up to 100	75
AA	101 to 120	85
A	121 - 150	115
B	151 - 165	135
C	166 - 185	155
D	Over 185	165

Current system: Cars registered before 1<sup>st</sup> March 2001

Engine size	Annual rate £
Up to 1549 cc	110
Over 1549 cc	165

### **3 Increase Air Passenger Duty**

#### **Why the Chancellor should take action**

Aviation is the fastest growing source of carbon emissions. Moreover, aviation emissions are more problematic as they are emitted at altitude, where they have a greater greenhouse effect – so-called “radiative forcing”. The Government’s predictions in their 2003 Aviation White Paper are that aviation emissions will double by 2030, a level incompatible with its climate change targets.

Flying is cheap because the aviation industry has been subsidised by various forms of tax exemption – like tax-free fuel – for the last 60 years. Compared with motoring taxes, aviation is getting an effective subsidy of around £9 billion pounds a year. It is these cheap prices which have fuelled aviation’s growth. Continuing low prices will cause further growth. The Aviation White Paper predicts that the price of flying is going to continue to fall – this assumption is at the heart of its predictions of rapid growth for the aviation sector up to 476 million passenger journeys by 2030. By contrast, if the price of flying merely stays constant, then the Department for Transport’s own modelling shows that aviation growth would grow to only 315 million journeys – which could be accommodated without building any new runway capacity in the UK.

Aviation’s growing contribution to climate change cannot continue to be ignored. Increasing the price of flying, to reflect the environmental damage it causes, is the surest method of tackling aviation’s emissions. However, there are considerable barriers, namely international conventions making it difficult to tax aviation kerosene. The UK Government is currently pinning its hopes on bringing aviation into the EU emissions trading scheme (EU ETS). However, this will be politically extremely difficult, given that the majority of EU states have yet to offer their official support for this idea, and even if it did occur, aviation would only be brought in at the earliest by 2008, and the scheme would not cover non-EU emissions. Other mechanisms will be needed earlier than this to address aviation’s growing climate impact.

#### **What the Chancellor could do**

We advocate that the Chancellor should increase Air Passenger Duty (APD) by £10, an additional environmental element onto the existing duty. APD is the simplest method available to tackle the effective subsidy aviation receives from its tax exemption. It is already in place, so would be administratively simple to do, and it would signal the Government’s commitment to bringing aviation emissions under control, as it does for other sectors of the economy. It would start to meet the Government’s commitment in the Aviation White Paper to internalise aviation’s external costs.

A further advantage of doing this is that the Chancellor could link these increases to the EU ETS, arguing that the APD increases are an interim measure, and when aviation is included in an environmentally effective trading scheme, the extra charges could be removed. This would give an incentive for the aviation industry to act more constructively in the EU ETS negotiations.

As well as increasing the tax by £10, we recommend two reforms to APD, to better reflect

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environmental damage:

- **extend it to include transfer passengers.** Transfer passengers (around 10% of all passengers) are currently exempt from APD.

- **extend it to include freight.** Freight transport is currently exempt also. Freight planes could be charged a flat rate, equivalent to that paid by a plane carrying 100 passengers, or a more complex system could be introduced, for example charging by weight.

These reforms would make APD more effective in reflecting relative levels of environmental damage. APD is sometimes caricatured as a “blunt” measure. However, it starts to internalise the large external costs of aviation, in accordance with the polluter pays principle. Some measure is needed to do this, and the APD is the most economically efficient tool available now, and far more efficient than doing nothing. Also, APD does have different rates in place, which do reflect the differing levels of environmental damage: first class passengers pay more (and take up more space), and longer flights cost more (reflecting their greater environmental damage).

Current APD rate in £	EU	Non-EU
Reduced rate	£5	£20
Standard rate	£10	£40

### Effects

Increasing APD by £10 would raise an additional £900 million – a solid start in addressing the large tax break the aviation industry has received every year since 1945. It is some way short of the subsidy the industry receives, but a strong signal that the Government has commitment to tackling aviation’s emissions.

The aviation industry may squeal that it will break their industry – however this is not the case, it will instead slow the industry’s growth. It may be argued that it would make the UK industry uncompetitive compared with other EU countries. However, other countries have measures that address aviation’s almost tax-free status. For example, 12 EU states charge VAT on domestic flights (the UK doesn’t), and Switzerland, Sweden and the USA all have various forms of aviation charges<sup>5</sup>. APD increases can be an interim measure until an international solution can be found.

APD increases would also be progressive taxation. The average household income of people who fly on holiday is £47,000, compared with UK average of £27,000. It is overwhelmingly richer people who fly.

## 4 Review incentive for households on renewables.

### Why the Chancellor should take action

The domestic sector is responsible for around a quarter of all carbon emissions, largely from heating homes and electricity for appliances. A major part of the solution would be for households – and also small businesses, public buildings and communities – to generate their own low-carbon or renewable heat and power. There are an exciting array of up-and-coming technologies to do this:

- Solar photovoltaics: converting solar energy into electricity
- Solar thermal collectors: using solar energy to heat water
- Micro-wind turbines
- Micro-hydropower turbines
- Wood-fuel boilers
- Micro combined heat and power units
- Fuel cells
- Heat pumps

Widespread adoption of these technologies would be a quintuple win for the Government. The independent charity Green Alliance argues that it would<sup>6</sup>:

- **Cut greenhouse gas emissions**
- **Generate major economic value.** There are strong opportunities for UK industry exporting these micro-generation technologies. These technologies also reduce the need for two major types of risky, large, long-term investments – in large new power stations, and in strengthening transmission and distribution networks to carry larger power loads.
- **Increase security of supply.** The UK is becoming a net importer of gas and oil. These technologies offer four advantages – greater diversity of supply, reduced likelihood of disruption of supply, reduction in the reliance on imported fuels at a time of increased volatility and prices, and the increased availability of power to meet peak demand.
- **Drive behavioural change.** Uptake of these technologies will give people a clearer understanding of the links between energy use and climate change, and provide visible solutions.
- **Help meet fuel poverty goals.** These micro-generation solutions are ideally suited to retrofitting to homes, and could be particularly useful for homes where some energy efficiency solutions are not possible (for example cavity wall insulation).

However, despite the massive potential and major benefits from these technologies, the regulatory and financial framework is currently stacked against them. The Government has committed to develop a strategy for developing these technologies by December 2005. A core element of this strategy needs to be to change the financial incentives to allow these technologies to flourish. This is in the hands of the Treasury.

### **What the Chancellor could do**

The Chancellor should announce in this pre-budget that by Autumn 2005 he will review and reform the fiscal framework for these technologies. Such a review would include looking at measures such as:

- Packages allowing upfront cost of technology and installation to be paid back through bills over a longer period
- Tariffs for exporting electricity
- Stamp duty rebates for low-carbon homes
- Extension of schemes such as the Major Photovoltaic Demonstration Programme
- VAT reduction applied consistently across all micro-generation (so that demand reduction is charged the same VAT as energy use)
- Enhanced Capital Allowances applied consistently to all micro-generation
- Exemption from distribution charges
- Threshold size for micro-generation for the expensive half-hourly metering requirement should be raised to over 50 kW (from 15kW now)

A series of further recommendations for incentives for consumers, energy suppliers and developers is set out in the Green Alliance's September 2004 Micro-Generation report.

### **Effects**

Government action in this area would give one of the strongest visible signals that the UK government is committed to tackling climate change. For example, flourishing micro-generation technologies are a more visible statement of progressive change than equally important energy efficiency measures.

The opportunities for households are huge, but for other sectors also. The Department for Education and Skills has a programme to refurbish every secondary school in the next 15 years. Ninety-six new acute hospitals are also planned – micro-generation can either become the norm, or stay in the margins. The framework must be put in place now.

With the right framework, the UK could have:

- Millions of PV cells on roofs. The UK's total installed PV capacity is 5.9 MWp: Germany installed 150 MWp in 2003 alone.
- Millions of homes with solar thermal heating systems. There are currently 50,000 homes doing so.
- Millions of rural homes fitted with ground source heat pumps. These are common in the USA, and would be ideal for homes off the gas network, as they can be cheaper than storage heaters.
- Micro CHP plants and fuel cells powering hospitals, schools, business parks, tower blocks, and in all new housing
- Tens of thousands of former mill sites powered by micro-hydropower turbines.

## **Section 2**

Although the priority action for Government is climate change, there are other areas of environmental policy which urgently need reform. In this section we set out measures for three main areas:

- Farming
- Waste and resource use
- Housing

There are also a number of other measures not highlighted in section one, which will be needed to form a more comprehensive package of measures to tackle climate change, in the following areas:

- Transport
- Energy
- Aviation

### **2.1 Farming**

#### **2.1.1 Pesticides**

The Government's forthcoming National Pesticides Strategy should reduce the harm and costs from pesticide use. The current approach – the Voluntary Initiative – is failing to do this, and needs to be replaced by a package of measures, including:

- **Targets for reduction in the use of pesticides**
- **The phasing out/ banning of the worst pesticides** including those which are known to pose a risk to human health, those which cause the most frequent pollution incidents and which are most damaging to biodiversity.
- **A banded tax scheme** for remaining pesticides where the banding would take into account a range of hazard triggers including toxicity, persistence, endocrine disrupting effects, and indirect effects on wildlife. The revenue should be used to help farmers.
- **A government advisory body** - use the income from the tax to encourage sustainable farming practices and promote viable alternatives to nutrient/ pesticide intensive farming

At the pre-budget, the Chancellor should commit to introducing a pesticides tax, so that it can be included in the National Pesticides Strategy, and announce a consultation period on the most appropriate design of this tax.

A pesticides tax, with revenue funding an advisory service, would be more effective at meeting the Government's goals of minimising the impacts of pesticides on the environment, and minimising pesticide residues in food.

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Evidence from Europe shows that countries which have pesticides taxes as part of their pesticides strategy have successfully brought pesticide impacts down. For example Sweden estimates risk to human health was reduced 77% between 1997 and 2001 and environmental risk by 63% over the same period. Norwegian risk indicators show a reduction of 33% and 37% for health and environment respectively, during 1998-2002. In Denmark the frequency of pesticide use has been successfully reduced by 21% from 2001-2003 and the tax has been estimated to have cut pesticides use by 5%<sup>7</sup>.

A banded tax, with the highest rate on the most harmful active ingredients could raise approximately £85-130 million a year and reduce overall use by 20%<sup>8</sup>. We advocate that a large part of this revenue should be used to fund an advisory body for farmers – which would cost around £80 million<sup>9</sup>. Other revenue would be needed to fund more research into the development of non-chemical alternatives to pesticides. Capital grants could be given to farmers for equipment to help reduce pesticide use, such as mechanical weeders and physical crop protection. Implementation of a pesticides tax would have other economic benefits – the £100 million the water companies currently spend annually removing pesticides from water would be reduced, and this benefit passed onto consumers. Dropping the Voluntary Initiative would also save millions – the costs of the scheme have not been quantified.

### **Tax design**

The tax needs to be well designed as part of a package of measures, to realise the full economic, social and environmental benefits. We advocate the principles set out by PAN-Europe:

- Clear and direct reimbursement of substantial tax revenue to farmers and/or advisory services
- Importance of independent advice on means to reduce use and alternative strategies for managing pests, weeds and disease
- Clear demonstration of economic benefits at farm level of reducing use
- Taxation complements a wide range of pesticide reduction measures, mandatory and voluntary, at farm and national levels
- Farmers need to be involved, with other stakeholders, in the planning stages of the tax system

### **Failure of the Voluntary Approach**

The Government has said that it will implement a pesticides tax or other economic instrument if the Voluntary Initiative (VI) does not deliver environmental benefits. The VI has now been in place for over three years, has failed and needs to be replaced. It has failed because<sup>10</sup>:

- **There has been no attempt to reduce overall pesticide use**
- **There has been no attempt to prioritise reduction of impacts of the most risky pesticides**
- **There has been no attempt to replace the most risky pesticides with safer**

**alternatives**

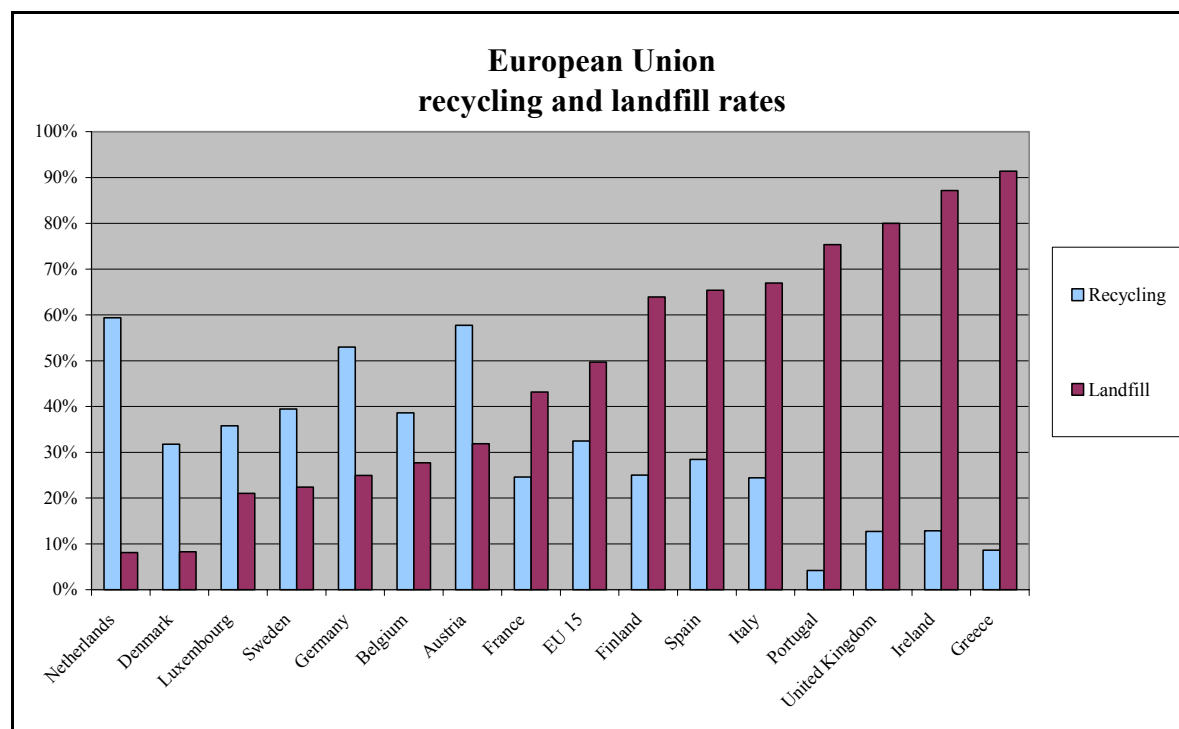
- **The initial targets were weak**, and some have even been watered down
- **Goals which have been met or surpassed have been met because there was compulsion** – suggesting that to deliver improvements, more than a voluntary approach is needed.
- **Targets trumpeted as successes do not measure environmental progress.** For example, the targets for area of land under Crop Protection Management Plans only records the area being covered by a plan: it makes no distinction between farmers scoring a 'poor' rating and those achieving 'good practice'. In fact a farmer ticking all the 'poor' boxes would count towards the target. So it is not possible to evaluate the effect of this measure on reducing the environmental impacts of pesticides.
- **There has been little progress in delivering real environmental outcomes.** The VI has set a national target of reducing the frequency of detection of individual and total pesticides above EU drinking water maximum concentrations by 30 per cent by 2006, with interim targets for 2003, 2004 and 2005. Analysis by the Environment Agency has shown that revocations of particular pesticides and changes in pesticide formulations which will happen over the time of the VI target will result in a significant move towards the target without any action from the VI. A more meaningful target would be for pesticide contamination of all surface waters to be below 0.1µg/l, which would allow water companies to reduce or abandon treatment of raw water. The ecological impacts of herbicide pollution are not addressed by the VI.

## **2.1.2 Nutrient pollution**

Nutrient pollution<sup>11</sup> from farming is a major source of water pollution, and a threat to biodiversity – measures are needed to ensure a responsible and efficient use of fertilisers. Nitrous oxide pollution from nitrate-based fertiliser is also a powerful climate change gas. The Chancellor should announce a commitment to developing economic instruments i.e. a nutrient levy, as part of a package of measures to help meet the EU Water Framework Directive.

## 2.2 Waste and resource use

The UK has one of the worst records on recycling and landfill in Europe, creating a growing environmental problem and wasting valuable resources.



The Government has European obligations to dramatically reduce the amount of material going to landfill. It also has a repeatedly stated commitment to implementing the waste hierarchy. To help meet these goals, the Chancellor can:

- Increase the landfill escalator to £5+ a year
- Remove the perverse incentives currently in place in favour of incineration; and
- Commit to including incineration in a broader tax covering all disposal, reflecting the position of incineration below recycling, reduction and reuse in the waste hierarchy.

Such measures would also help the Government's resource productivity agenda, and its aim for the more "prudent use of natural resources".

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

- A higher landfill tax will divert more resources towards re-use and recycling.
- The Household Waste Recycling Act 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 could fund this infrastructure.
- The Government states that £35 a tonne is its target level of landfill tax. This level will not

be reached until 2011 with the current £3 a year rise, but with a £5+ a year escalator, it would be reached by 2008.

## **Remove the incentives for incineration**

Ahead of the review of the Renewables Obligation in 2005, the Government should assess the existing tax breaks and support measures on waste management options, remove the existing perverse subsidies received by thermal technologies and increase the subsidies received by recycling. This would be more effective at meeting climate change goals, and implementing the waste hierarchy. Existing subsidies contradict waste and energy policy.

Current subsidies for thermal waste technologies such as incineration, gasification and pyrolysis are holding up the development of a more sustainable waste system. These subsidies pull in the opposite direction to waste policy because recycling is higher up the waste hierarchy than burning waste. It also make little sense in terms of averting climate change. Recycling saves more energy and creates fewer greenhouse gas emissions than thermal treatment of waste. For example, recycling a tonne of aluminium saves 53,000 kWh and recycling textiles saves 4,700 kWh per tonne.

1. Gasification and pyrolysis (types of thermal treatment for waste) currently receive £8.40 a tonne and £4.80 a tonne respectively from the Renewables Obligation. Although these technologies create some energy, it is nowhere near the amount of energy that is saved when materials are recycled.
2. Incineration is eligible for relief from the Climate Change Levy at £1 a tonne on the fraction of biodegradable waste burned. The tax break gets bigger the more biodegradable waste, such as paper and garden waste, that incinerators burn. It therefore discourages composting and recycling of paper. This adds up to £4.9 million a year.
3. Incinerator operators also receive £4.35 per tonne of packaging burned, even though some of this packaging is fossil-fuel based plastics.

Finally, the chancellor should announce a commitment to an incineration tax to reflect incineration's position in the waste hierarchy.

## **2.3 Housing**

Reducing the environmental impact of housing and ensuring it is built in the correct location are both central to sustainable development. New-build housing could make a major contribution to reducing carbon emissions, but if it is built to low environmental standards, and in locations demanding large amounts of travel then it will lock us into more decades of carbon-intensive lifestyles.

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

## **Friends of the Earth's 10th blueprint for a green budget**

We strongly support Treasury initiatives to consider differentiated and improved ways of recouping the betterment that arises from the grant of planning permission. We are concerned that the current localised and ad hoc collection of betterment through planning obligations is a regressive measure yielding most in areas of high demand and land values.

The Chancellor should consult publicly on options including a land value tax and a graduated betterment tax with higher rates for green-field sites and lower rates on brown-field sites. The revenue should be at least partially centrally distributed to ensure the chosen measures are progressive, for example by contributing to sustainable development in regeneration areas.

## **OTHER CLIMATE CHANGE MEASURES**

### **2.4 Other transport measures**

The measures to stop the cost of motoring falling further, outlined in section 1, need to be brought in alongside measures to promote greener alternatives. These include:

#### **Tax relief for public transport season tickets**

Commuting by public transport relieves congestion, reduces air pollution and cuts greenhouse gas emissions, but only accounts for 14% of journeys to work. Granting tax relief would cut car commuting by 5% per annum. If capped at £500 this would cost £200 million per year.

#### **Tax relief for employer transport schemes**

The 2002 Budget brought in Enhanced Capital Allowances for companies purchasing low carbon cars for their business or employees. This good scheme should be extended to cover other green travel options, including purchase of bicycles and works buses.

Also Travel Plan infrastructure could be granted greater allowances. For example an enhancement to the Industrial Building Allowance for infrastructure such as on site bus shelters and cycle ways, and bicycle parking facilities. This could be paid for from reductions in the Industrial Building Allowance for non-green travel infrastructure, such as free car parking.

#### **Tax Credits for Travel Plans**

To stimulate the uptake of Travel Plans by corporations, the Government could introduce tax credits for non-capital expenditure in Travel Plans - such as employment of staff to develop a Travel Plan, spending on contracts to provide works buses, the costs of travel surveys, etc. This expenditure could qualify for a 125% deduction when the company calculates its taxable profits.

## **Fund for Safe Routes to Schools**

The Government could announce that increased revenue from road fuel duty is being used to improve transport conditions. A priority, reflected in the Government's PSA targets, is to reduce death and danger to children from road crashes. The Chancellor could announce funding to provide every school child in the country with a Safe Route to School, through investment in measures to slow traffic near schools, provide safe cycling and walking routes, provide cycle sheds and lockers in schools, and to help local authorities promote school travel plans. This would cost around £175 million a year for 6 years.

This would have multiple benefits:

- Children get healthy exercise (if they walk or cycle to school), reducing obesity and encouraging active travel habits.
- Traffic emissions and congestion are reduced in the morning peak.
- Accident levels will fall.
- Some teachers report that children who walk or cycle to school are better able to settle down to work once they arrive, concentrate better, and have greater road-safety awareness. At schools where truancy or lateness is a problem, walking bus schemes can improve attendance and punctuality.
- Where school travel work involves a whole community it can increase social capital. Some school travel co-ordinators report that walking buses in areas of high unemployment are getting parents more involved in their local community and building skills and confidence.

**The Government should introduce a Biofuels Obligation**, to stimulate a UK biofuels industry – as a lower carbon alternative to conventional transport fuels. The obligation would require that a proportion of all road transport fuels in the UK should be sourced from accredited renewable sources. Fuel suppliers would either supply the target percentage of biofuel, or choose to pay a penalty. The revenues raised would be proportionately distributed to those who supplied complying fuels, encouraging growth in supply up to the Obligation target. The cost to the consumer is negligible, and it would benefit the economy and environment.

## **2.5 Other energy measures**

### **2.5.1 Power generation**

**Develop new tax incentives to encourage investment in the next generation of renewables – tidal, wave and off-shore wind energy.**

Britain has the best marine potential in Europe. Tax credits for developing and installing these renewable sources will reduce their cost and investment risk. New tax incentives will create major opportunities for UK businesses, which will help UK remain competitive with other nations (e.g. USA, Germany, Spain, Denmark and Japan) who are quickly building up expertise, patent holdings, manufacturing capacity and market share in this rapid growth

sector.

### **Bring in a tax break for farmers who install renewable energy equipment**

Farmers and renewable energy are typically good partners. Farmers in Denmark, often working cooperatively, have been central to the wind-power revolution and supply diversity. As well as receiving subsidies for capital investment by private cooperatives, farmers have enjoyed a tax exemption on 40% of the income from electricity sold. The Home and Farm Wind Energy Systems Act in the United States proposes a 30% investment tax credit for investments in wind power.

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

**Run the Climate Change Levy and Emissions Trading Scheme side-by-side** – both are needed to promote energy efficiency for business. The Levy could be made more environmentally effective by weighting it according to carbon intensity – for example, burning coal produces more carbon dioxide than burning gas.

## **2.5.2 Energy efficiency**

Domestic energy efficiency is a crucial area for reducing carbon emissions, as well as delivering on the Government's social objectives and legal requirements on fuel poverty. We support the 12 measures in the "Clean Dozen" Report - written by the Association for the Conservation of Energy (ACE) and supported by, among others, over 100 local authorities. In particular we advocate:

**A stamp duty rebate on house purchase if energy efficiency improvements are made in the first 6 months.** There are currently many barriers to uptake of energy efficiency measures. Many are psychological – people don't like to invest money in things they can't see (like lagging); people don't like spending to save. Research by Sheffield University has shown that the time of purchase is the most likely time for people to make improvements to their home. The expected introduction of home information packs in 2007, required through the Housing Bill, which will have to include an energy efficiency rating, makes now the ideal opportunity for the Government to give people a fiscal incentive to take action on this energy efficiency information.

**Extend the tax allowance for landlords to cover energy saving materials.** It is particularly difficult to improve energy efficiency in the rental sector, as there is little incentive for either occupant or landlord to do so. ACE state: "*Landlords can already claim a tax allowance when replacing household materials (not just energy-saving materials). On the other hand, the installation of materials that improve the property is not tax allowable – as it is defined as "betterment". However, the definition of "replacement" has recently been revised, so that double glazing can now be classed as "replacement" and is therefore tax allowable. This means that the precedent now exists for extending the definition of "replacement" to include the installation of all energy-saving materials. ...this would give landlords a big incentive to improve the energy efficiency of their housing stock.*"

## 2.6 Other aviation measures

Aviation's numerous tax breaks include no payment of VAT. There are legal barriers to tackling international flights, but these do not apply to domestic flights.

**VAT could be charged on domestic flights**, as happens in the USA and in virtually all EU countries. Figures for the amount this would raise are difficult to obtain, but the current zero rate of VAT for all UK aviation has been estimated to cost the public purse £1.8 billion in 1999/2000.

**A further tax break for aviation is Duty Free** - still available on flights to destinations outside Europe. This is a continuing subsidy of £400m a year to aviation, which takes business away from high street shops and reduces revenue available for public services<sup>12</sup>

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<sup>1</sup> Association of British Insurers, 2004. [www.abi.org.uk/Display/File/Child/239/climatechange2004.pdf](http://www.abi.org.uk/Display/File/Child/239/climatechange2004.pdf)

<sup>2</sup> National Travel Survey 2002

<sup>3</sup> Social Exclusion Unit, 2003. Making the Connections.

<sup>4</sup> Both driven the UK average distance of 15,800 km a year. Vauxhall Astra 1.7i CDTi diesel 5 door estate, CO2 emissions = 129 g/km; Vauxhall Frontera Olympus 2.2DTI 16v diesel 5 door estate CO2 emissions = 224 g/km. CO2 figures from [www.vccarfueldata.org.uk](http://www.vccarfueldata.org.uk). There are also wide CO2 differences between cars in the same VED band – the Astra Club 1.6l petrol 5 door Estate emits 191 g/km, the 2.2l petrol Frontera Estate 273 g/km – both in band D.

<sup>5</sup> Aviation Environment Federation, 2003. Taking account of the environmental costs of aviation. Supplementary evidence of the AEF to the parliamentary Environmental Audit Committee.

<sup>6</sup> Green Alliance, 2004. A Micro-generation manifesto. [www.green-alliance.org.uk](http://www.green-alliance.org.uk)

<sup>7</sup> PAN-Europe, 2004. Success of pesticides taxes in other European countries.

<sup>8</sup> <http://www.publications.parliament.uk/pa/cm199900/cmselect/cmenvaud/76/9113003.htm>

<sup>9</sup> When ADAS was in operation in 1983/4, its net costs were £123 million. £37m of these costs can be attributed to Advice and Promotion, including the Agricultural Services Scheme. £37m then is equivalent to around £79 million now.

<sup>10</sup> More detail in FOE's evidence to the EFRA Select Committee, October 2004.

<sup>11</sup> More detail in FOE's evidence to the DEFRA-HM Treasury consultation on developing measures to promote catchment sensitive farming, September 2004.

<sup>12</sup> Sewill, B. The Hidden Cost of Flying. Aviation Environment Federation, 2003