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Friends of the Earth

Briefing

Time for a sustainable economy?

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Introduction

The Chancellor has accepted the concept of sustainability as a basis for the UK's future economy. However recently steps taken have been increasingly cautious. The clearest indicator is the considerable fall in environmental taxation in recent years, from 9.7% of total taxes in 1999 to 8.8% in 2002[i].

The results of this softening in policy are serious. The Government's pledge to reduce Greenhouse emissions by 20% below 1990 levels by 2010 is faltering[ii]. This change in environmental taxation has also contributed to the current spending shortfall.

This briefing suggests a balanced package of measures with combined benefits:

- promoting a sustainable economy by incentivising activities which further sustainability
- raise funds for progressive policies through taxation of environmentally-damaging activities.

Reintroducing the fuel tax escalator would generate up to £30.2 billion over 10 years; emissions based Vehicle Excise Duty would raise an additional £1.13 billion a year; reforming duty on polluting red diesel would start to recoup some of the £3 billion a year lost through subsiding this fuel; an additional £5 on overly cheap flight tickets would generate £0.5 billion a year; another £1.8 billion generated from VAT on aviation and £1.8 billion from VAT on new-build housing. These and other measures detailed below could raise over £12 billion per year to fund progressive policies, whilst protecting the environment.

These funds should be hypothecated. The Treasury Budget 2003 report stated "economic, social and environmental progress must go hand-in-hand, and policy should take into account the inter-relationship between different objectives". It is time to accelerate the development of a healthy economy and environment for the future, through a combination of tax and incentive measures. The negative arguments - that Government action on environmental grounds threatens jobs and competitiveness - must be rejected. The Chancellor can promote massive opportunities for job and wealth creation through a more intelligent management of our environment[iii]. It is time for the UK to become a world-leader, inspired by a proactive government, and profit from the $300 billion global market for environmental goods and services.

In this briefing Friends of the Earth sets out measures the Chancellor should include in the 2003 pre-Budget to bring the UK closer to a sustainable, healthy economy, the "green industrial revolution".

Summary table of environmental taxation measures for transport, energy, waste and recycling, farming & housing

Public and private transport

Measure	Justification	Revenue or cost
Increase road fuel duty (+5pence) to counter the fall in the cost of motoring	Reduce growth car mileage and congestion Alleviate climate change and local air pollution Encourage alternative/efficient transport technologies Internalise health costs of motoring Favour affordable public transport	Bring in up to £30.2 billion extra over 10 yrs to contribute to transport spending review budget Lower indirect public costs/ Hidden externalities
Biofuels duty 30pence/ litre below petrol/diesel	Preferable to CO2 released by fossil fuel combustion Improve fossil fuels balance of payments New opportunity for UK farming and biofuel industry: 20-30,000 jobs	Neutral: costs of this measure off-set by increased road fuel and red diesel duty
Reform red diesel duty and tighten pollution standards	Reduce local air pollution through use of less polluting fuels Encourage more efficient technologies Raise emissions of red diesel to ULSD standards	Potential increase in revenue of up to £3 billion if ULSD rates were applied
Lorry road-user mileage charge	Internalise the high wear, environmental and social costs of HGVs Promote effective rail haulage system	Revenue increase depending on rate
Increase vehicle excise duty for high emitting cars	Polluter pays principle Road tax reflecting maintenance, environmental and social costs of different vehicles Encourage new generation of super-efficient cars	Increase revenue by at least £1.13bn
Close company vehicle and fuel tax loopholes	Encourage more efficient vehicles/ use Reduce business spend on private vehicles Favour affordable public transport and company travel schemes	Revenue increase Would depend on new taxation regime
Taxation measures to support public transport	Lower emissions per passenger than car equivalent Reduce congestion and external costs of cars Increase mobility for those who cannot afford private transport with Safe Routes to School, Traffic Calming, Home Zones, Improved Buses etc.	Reduction in public spend on externalities of pollution/ accidents and costs of social exclusion Funded by rise in road taxes
Tax relief for season tickets	Lower externalities than car commuting, reduce congestion Increase mobility for those who cannot afford private transport	Lower indirect public costs/ hidden externalities Funded by increase in road vehicle taxes
Tax relief for	Lower emissions due to less car commuting	Reduction in costs of social

employer travel schemes	Reduce congestion and spend on company cars Help lowest paid and least well off to get to work	exclusion and hidden externalities Funded by increase in road vehicle taxes
Promote rail haulage	Lower emissions than HGV equivalent Reduce congestion Increase rail growth. Reduce social impacts of HGVs	Increase revenue contribution as business benefits from improved freight distribution

Aviation

Measure	**Justification**	**Revenue or cost**
Raise Air Passenger Duty	Airlines start to pay for some of the externalities due to their activities Readdress market distortion due to current tax subsidy	Up to £0.5 billion additional revenue from an increase of £5 per ticket
Fuel duty on UK flights, VAT on EU flights and end Duty-Free	As above Starts to encourage more efficient airplane usage and technologies	Depends on rate of fuel duty Ending duty free increase by £400 million. VAT income of £1.8 billion
EU aviation fuel tax by UK Presidency in 2005	As above	Depends on rate of fuel duty
Consider Emissions Trading Scheme for aviation	As above	Depends on rate applied to trading scheme

Energy

Measure	**Justification**	**Revenue or cost**
CCL for business energy alongside EU ETS	The Emissions Trading Scheme and Climate Change Levy work together, the former as a cap on overall emissions and the later as an incentive for efficiency gains beyond the cap	Currently CCL is too weak, raising only £837 million equivalent to 0.08% of GDP Should raise far more
No exemption from the CCL for nuclear	Nuclear power is not a solution to climate change as its effects are environmental harmful in itself	Increase revenue through contribution to CCL
New tax incentives for renewables	UK has massive renewables potential, but needs government lead to kick start this sector Excellent employment and export opportunities	Initial costs offset by economic benefits and reduced climate change damage
Tax break for renewable energy equipment	As above	As above Additionally UK can profit from Emissions Trading Scheme

Renewable energy technologies in Green Technology Challenge	Make the UK a renewable energy technologies world leader UK R&D spending is dwarfed by EU countries and by the £230 million p.a. spent in UK on nuclear R&D over the past 25 years	Income from competitiveness in Emissions Trading Scheme Reduced climate change damage Jobs and export opportunities
Carbon Tax package	Reduce Greenhouse gas emissions, encourage efficient homes	Increase revenue, amount depending on Carbon Tax rate
VAT reduction on energy saving products	Reduce Greenhouse gas emissions, encourage efficient homes	As above, develop energy efficiency sector/ employment
Apply a rational tax regime for North Sea production	Allow the British public to benefit from the £108.8 billion of resources in the North Sea currently being given away to a group of fossil fuel energy companies	Potentially massive revenue increase North Sea production is seriously under taxed by any standards

Waste and recycling

Measure	**Justification**	**Revenue or cost**
Increase Landfill Tax escalator to £5+/year	Landfill has external costs- pollution, noise, smell, greenhouse emissions Reflecting these costs will promote waste reduction	Revenue neutral Increase in taxation should fund initiatives to recycle/ minimise waste
Landfill Tax revenue to pay for nation-wide doorstep recycling	Doorstep recycling will soon be a legal requirement It is logical that an increase in landfill charges should finance measures to reduce landfill volumes	Revenue neutral This can contribute to funding the waste reduction and recycling required
Landfill Tax revenue to business waste schemes	Businesses need incentives and guidance to reduce their waste Putting a cost to their waste to fund increased business waste efficiency is a virtuous loop	Revenue neutral, again can fund the waste reduction and recycling required for business
Tax incentives for recycling activities/ resale of recycled raw materials	Recycling materials requires far less energy and produces far less greenhouse emissions than producing virgin materials, so recycling should be rewarded for this benefit This will also reduce our expensive reliance on expensive raw material imports	Initial costs are offset by the reduction in the external costs of current poor waste disposal methods Excellent job creation opportunities
Remove incinerator CCL tax break	Burning waste for energy is not an intelligent use of valuable recyclable raw materials Replacing these destroyed materials from scratch is illogical and consumes far more energy than when burnt	Increase revenue by approx. £5 million

Taxes on harmful products/ materials	The external costs of certain nuisance materials such as plastics and metals should be reflected in their cost	Increase revenue according to rates
Tax persistent and bio-accumulative chemicals	Certain products and materials have adverse impacts on living creatures including humans and so their usage should be discouraged through taxation	Increase revenue according to rates

Farming

Measure	Justification	Revenue or cost
Pesticide tax reinvested to reduce pesticide use	Pesticide use has been falling rapidly in some EU countries, with funding to develop viable alternatives The UK needs a similar system	Estimated £130 million increase in revenue, to promote sustainable farming
Tax to cut farming pollution	Farms are a major source of pollution and greenhouse gas emissions These externalities can be addressed	Revenue neutral, with incentives for farmers to reduce pollution
Use full 20% Modulation for CAP	20% of farmers get 80% of production subsidies Need for a more equitable farming system	Revenue neutral
Use modulation money for green farming	Promote a sustainable farming system, move on from quantity to quality farming	Revenue neutral
Remove capital gains tax-roll over on unearned income from land sale	Large landowners receive an illogical tax break for selling land, often for greenfield development, further eroding the countryside	Increase revenue by over £1 billion

Housing and property

Measure	Justification	Revenue or cost
VAT incentives for brownfield sites and eco-homes	Encourage regeneration and discourage greenfield building Eco-homes can significantly contribute to greehouse emissions reductions and reduced fuel poverty	Increase revenue by up to £1.8 billion
Zero VAT for social housing schemes	Help meet the need for good quality affordable housing	Revenue neutral
Shift tax from business rates to land value taxation	Remove incentive to leave land derelict, encourage inner city development, reduce out of town/ greenfield housing pressures	Increase revenue by increasing tax on unused land
Stamp duty based on house	Stamp duty rebate for energy efficiency spending would be effective immediately after purchase	Increase/ decrease revenue according to rate

efficiency		applied

Transport

By maintaining costs of motoring constant (with a 5 pence fuel duty increase) and addressing the externalities of the most harmful vehicles (with higher VED bands) the government can both promote more sensible private vehicle use and raise funds to improve public and non car based transport. These two measures alone would generate at least an additional £2.5 billion next year above current revenue predictions.

As public transport improves the need to use cars will be reduced and the government will finally have helped the UK break free from the cycles of unsustainable car grow and public transport decline. However in order to turn around the decline in public transport the government needs to hypothecate this additional income to be spent on public transport improvements.

Private transport

Efficient transport is central to our well-being and quality of life. However the transport model that has prevailed during to date, dependent on fossil fuels and private transport has reached crisis point. This crisis is increasingly responsible for massive social and environmental costs, estimated to be £44-51 billion a year due to billions of hours lost through congestion (costing business alone £19 billion a year[iv]), poor air quality, injuries and accidents.

A worrying trend has emerged under this Government. Since the end of the fuel duty escalator in 1999, the real costs of motoring have fallen by 3% per annum in real terms. As a direct result, CO_2 emissions are increasing this decade by up to 4.0 million tonnes and traffic growth is at an extra 7% over previous trends. Demand for four-wheel-drive vehicles has grown by 18% this year whilst sales of the most efficient cars has fallen by 10%[v]. Equally there has been a failure to provide safe, reliable and affordable alternatives to the car[vi], exacerbating the social exclusion that the government is committed to tackle. Also, rail fares have risen at RPI+1%[vii]. All this is accelerating climate change: the trend in reductions of greenhouse emissions has been reversed since 1999[viii].

Also as a result of abolishing the fuel duty escalator, the public purse will miss out on up to £30.2 billion over the next decade[ix].

The Government needs to promote changes in the way we travel, encouraging less car use and expanding the use of less environmentally damaging forms of transport.

Increase road fuel duty to keep the price of motoring constant over the next decade

As a direct result of ending the fuel duty escalator, the real costs of motoring have fallen by 3% per annum in real terms, CO_2 emissions have increased this decade by up to 4.0 million tonnes and traffic growth by an extra 7% over previous trends. At the same time rail fares have risen at RPI+1%[x].

A commitment to increase road fuel duty by 3-5 pence per annum, thereby maintaining the real price of motoring constant over the next 10 years, would reduce congestion and air

pollution and slow the current rise in CO_2 emissions. It would raise up to £30.2 billion over 10 years – money which should be reinvested in sustainable transport: rail and buses, safe rotes to schools, home zones, cycling and walking[xi].

Vary road tax (Vehicle Excise Duty) to reflect environmental damage

The UK remains far behind many EU countries in the extent to which vehicle excise duty rises for larger, less energy-efficient cars[xii].

The UK was the first EU country to vary VED, for cars registered since March 2001, according to their carbon dioxide emissions. But the variations introduced have been highly asymmetrical. Charges for cars which emit less carbon dioxide have been reduced, but charges for those that emit more have not been increased.

The highest tax band (Band D) is for cars which emit more than 185 gCO_2/km. Our analysis of the Vehicle Certification Agency's database on the performance of new cars shows that 2531 of the 3372 models on sale in the UK fell into this category. The model with the highest emissions, the Ferrari A456M GTA 2+2 emits 570 gCO_2/km, three times the level of, for example, the Ford Focus 1.8i 16V Estate (16 inch tyre), yet it is taxed the same amount. The Ferrari A456M GTA 2+2 emits seven times as much carbon dioxide as Britain's most efficient car, the Honda Insight, but is taxed only 2.2 times as much. Duty on older cars scarcely varies. There are only two bands. Cars with engines larger than 1549cc pay a rate of £165 while cars with smaller engines pay £110. Unfortunately the VCA web site does not display engine size, so we cannot say how many models fall in each category.

New bands are required, based on engine size for older cars and emissions for those registered since March 2001. A maximum rate of £500 pounds would give drivers a clear signal to discourage the purchase of larger models. This would also enable the charges for cars registered since March 2001 to roughly reflect their carbon dioxide emissions. The table below gives an example of how a system for older cars might look and shows how much money it could raise. The same bands would also apply to newer cars, but based on their CO_2 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 by the author from Department for Transport road vehicle statistics, 2001.

The government also needs to apply the same 'polluter pays' principle to all road vehicles i.e. higher VED rates for the most polluting vans, motorbikes etc. Vehicles used for work,

e.g. by farmers, should remain in a lower tax band.

Review red diesel and fuel oil duties. Require tighter sulphur standards for red diesel

Although the treasury acknowledges that red diesel 'contributes to problems with local air quality', having up to 40 times higher sulphur content than ULSD, it is still taxed at 40 pence per litre less than ULSD[xiii] and 22.88 pence a litre less than alternative biofuels. This excessively low duty discourages increasing fuel efficiency and reducing CO2 emissions, and discourages the uptake of cleaner low-carbon or non-carbon fuels. The government should also insist that red diesel contains the same low sulphur levels as ULSD.

Reduce fuel duty for bioethanol to 30p/litre below sulphur free petrol

This would immediately contribute to lower CO2 emissions from the transport sector as bioethanol can be used in low volume blends (5%) in existing cars. However bioethanol, to become widely used, needs a tax break to compete with the sunk costs and accumulated subsidies enjoyed by the oil industry. The European Commission's Communication "Alternative Fuels for Road Transportation" (November 2001) applied to the UK, predicts that some 20-30,000 jobs could be created throughout the economy from a 1.2 million tonne UK bioethanol industry. Many of these would be in rural areas.

In Budget 2003 the Chancellor announced a duty differential of 20p/litre but this has failed to stimulate UK production and demand is met by imports. A duty differential of 30p/litre would help make a UK based industry more feasible[xiv].

Close tax loopholes on 4x4s/vans, free fuel and congestion charges

The Government needs to close various tax loopholes that encourage companies to behave in ways that increase emissions. These include the classification of four-door pick-ups as commercial vehicles; the tax-breaks giving to companies who pay congestion charges for their employees, and benefits given to companies who provide free fuel for their employees' private car use[xv].

Firstly, light goods vehicles, registered since March 2001, are not subject to the variations in VED that apply to private cars. Instead, two rates apply depending on whether the model meets the Euro 4 emission standard for regulated pollutants. There is therefore no incentive for owners to purchase models that emit less carbon dioxide. Furthermore, there is a danger that, should the Government introduce higher charges for cars that emit more carbon dioxide, as we suggest above, motorists may be tempted to purchase light goods vehicles to use as private cars. It is therefore appropriate that the Government introduces a VED system for new light goods vehicles that mirrors that for new cars. The system applied to older vehicles is already the same for cars and light goods vehicles.

Secondly, under current arrangements, employees provided with cars for private use face no tax charge if their employers pay a congestion charge incurred on a private journey such as to and from work. This reduces the effectiveness of congestion charges and increases emissions.

Thirdly about half (800,000) of cars provided as an employee benefit are also still provided with free fuel by employers. This encourages excessive use, adding to congestion and pollution, as the marginal cost of motoring is zero. The fixed sum (at present £14,400), on which charges are based, should be index linked at a rate of RPI +5%[xvi].

Lorry road-user charge

The Government is committed to introducing a distance-based lorry road-user charge that applies to all lorry operators, offset by other tax cuts for haulage firms. Research shows that with the current system heavy goods vehicles only pay for 59-69 % of the costs they impose on society[xvii]. On current trends lorry traffic will grow by 16 percent by 2006[xviii]. Therefore the Chancellor should make the tax on haulage firms reflect the true environmental and social costs of haulage even if that means an overall increase in haulage costs. This extra revenue should go to improving rail freight.

Public and shared transport

An efficient public transport system is central to the economic, social and environmental viability of the UK. After decades of under investment, public infrastructure in the UK continues to lag behind our European neighbours. For example France now benefits from an impressive high speed rail system, and is exporting its technological know-how abroad.

As part of a coherent plan to reduce greenhouse emissions and social exclusion transport policy must address the current penalisation of poor and rural areas. Without an effective public service these areas remain excluded and their populations unable to thrive[xix].

Tax support for bus growth, rail improvements and to tackle social exclusion

The Commission for Integrated Transport has recommended a package of reforms to shift bus subsidy from tax breaks on fuel to incentive payments for increasing passenger numbers, wider concessions to more socially disadvantaged groups[xx], and greater support for bus services in rural areas[xxi]. The package would cost £265m - £292m per year in revenue subsidy, requiring an additional £267m over 10 years for capital spending from the 10 Year Transport Plan fund. It is estimated to delivery growth in passenger numbers of 8.1% -18.7%.

The government also needs to fund and promote the introduction of school buses as a cost effective alternative to the current school run. In the US 54% of under 12s go to school by bus. In Britain just 7% of 5-10 years old do, adding considerably to peak time congestion.

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 and help less-advantaged people get to work. If capped at £500 this would cost £200 million per year.

Tax relief for employer transport schemes and public transport tickets

At present tax relief is only available for commuting by private buses paid for by the company - an option open only to a few. Extending this incentive to employer-subsidised local public bus services will benefit more commuters, and the general public.

There also needs to be an extension to the enhanced capital allowances that are available to low-carbon vehicles to cover companies' travel plan capital expenditure. It should include for example, cycle parking, construction of on-site cycle ways, cycles, conversion of car parks to benefit car sharers, equipment for teleworking, and capital works for bus operations.

Promote rail freight

The potential for rail freight to alleviate Britain's transport problems is considerable as an average freight train can remove 50 HGVs from the road and rail freight produces a fifth of the CO2 produced by HGVs per unit/distance[xxii]. Also lorries cause thousands times more damage to the road than an average car and are therefore disproportionately responsible for the need to spend £2.1 billion on road repairs (year 1998/9). The treasury needs to announce a tax system capable of reducing the volume of HGVs on the road and making the proportion of UK freight carried by rail the highest in Europe.

Aviation

Since 1998 government policy has been that aviation should meet its external costs[xxiii]. However the industry is still exempt from paying fuel tax or VAT and therefore its external costs to society and the environment.

Aviation does not pay for local impacts (air and noise pollution) or global impacts (climate change). Current Aviation Passenger Duty (ADP) does not cover these costs nor is it suited to drive environmental improvements. Nor does aviation pay for the infrastructure required to provide increased access to airports. Aviation contributes a surprisingly small amount to the national economy. The airline sector accounts for only 0.8 per cent of Gross Domestic Product with airports contributing a mere 0.13 per cent[xxiv]. However aviation is the fastest growing source of CO_2 emissions in the UK, accelerated because air tickets are 42 per cent cheaper in real terms than they were ten years ago, as a result of these hidden subsidies.

The Energy White Paper states: "We need to reduce the emissions from aviation." The Government estimates the annual cost of global warming impacts caused by passenger aircraft from the UK to be £1.4 billion in 2000 rising to £4.8 billion by 2030[xxv]. This does not include the additional costs due to congestion, local pollution, biodiversity loss and disturbance to people and wildlife.

IPPR concluded that: "If the UK is on course for a 60% reduction in total carbon dioxide emissions by 2050 and emissions from international aviation grow unchecked, then by 2030 the climate change impact of international flights from the UK could be equivalent to about half the total. By 2050 the climate change impact of international aviation could exceed the UK's entire sustainable emissions budget"[xxvi].

Yet unlike other forms of transport, the polluter pays nothing because aviation is exempt from fuel taxes and APD provides a minimal contribution, not linked to emissions. Aviation's favoured tax status results in the treasury missing out on £9.2 billion a year in tax and VAT, compared to if road fuel duty levels and standard VAT were applied.

Friends of the Earth and others are calling for the Chancellor to bring aviation taxation in line with other transport modes. This would be part of an active demand management regime to combat the unsustainable growth in flight volumes and promote more rational usage of flights, and thereby avoid unmanaged, damaging expansion[xxvii]. Without these measures the government faces growing opposition from those who do not want to live under the shadow of massive airports. Some of this taxation should be used to develop UK high-speed rail and improve links to the continent as an alternative to short-haul flights.

Raise Air Passenger Duty

APD raises less than £1 billion a year, which does not start to address aviation's external costs. The Chancellor should raise APD in the interim, prior to the introduction of fuel and emission taxes. A tax increase, for example by £5 per passenger[xxviii], would raise over £0.5 billion more[xxix]. An initial tax should be introduced immediately, with this revenue reinvested into high speed rail as an alternative to short-haul flights.

Introducing fuel duty on domestic flights, VAT on EU flights and end Duty Free

Domestic air travel accounts for 18% of UK air passengers and over 1.25 million tonnes of CO2 emissions[xxx] and the zero rate of VAT for aviation has been estimated to cost the public purse £1.8 billion in 1999/2000.

The legal barriers to taxing international flights (e.g. Chicago Convention) do not apply to domestic flights e.g. some EU countries already impose VAT. So it is possible to impose fuel duty and VAT for National and EU flights. Tickets purchased outside the EU would be subject to VAT when used at EU airports.

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

Deliver an EU aviation fuel tax by the next UK Presidency in 2005

Action can and must be taken at a European level, by means of a tax on aviation fuel or an emissions charge that fairly reflects the costs of pollution. The Chancellor should commit to pushing for this tax reform by the next UK Presidency of the European Union in 1995.

Consider emissions trading scheme for aviation

The current debate about including the aviation industry in an emission trading scheme should be centred on reducing overall greenhouse gas emission. The Chancellor, before approving any such scheme, must carefully consider the impact of emissions trading scheme for aviation. Measures must ensure that it would provide real environmental gains and not just be an escape route for aviation. However, as the aviation industry will no doubt make the implementation of an ETS a drawn-out affair, the Chancellor needs to implement interim taxation to ensure that the environmental costs are more adequately reflected than at present.

Energy

The government states its commitment 'to controlling and reducing emissions of the gases responsible for global warming'. However to bring about useful reductions, the government needs to introduce effective taxation measures to drive changes in energy use.

The Energy White Paper set out the Government's intentions to substantially increase the rate at which the UK increases energy efficiency and moves from fossil fuels and nuclear to sustainable renewable energy sources. This will require not only increased efficiency at the point of generation, but also a reduction in demand[xxxii].

Government is granting too many exemptions, which undermine the overall effectiveness of its policies. *The Study on Environmental Taxes and Charges in the EU* states, 'exemptions

from levies are being granted too freely…too easy for industry to argue…in the absence of knowledge.' To reduce concerns about competitiveness the government needs to push for better coordination by countries within the EU and OECD[xxxiii].

Alongside this the Chancellor should steadily increase the rate of energy taxes, to make the cost of energy use reflect their complete environmental cost.

Confirm that the CCL will continue to play a vital role in increasing business energy efficiency alongside the EU Emissions Trading Scheme

The EU Emissions Trading Scheme is expected to begin in 2005 and will cover UK electricity producers and oil refineries. There are already calls for the CCL to be phased out as the trading begins. In fact, these two measures complement one another – the trading scheme providing a cap on total emissions and the Levy an incentive to business users of energy to increase efficiency.

The CCL raised £837 million in taxes in its first year, only 0.08% of GDP, so it can not yet be regarded as a strong or widespread financial incentive[xxxiv]. Clearly the Treasury has scope to raise the rate and application of the CCL (i.e. fewer discounts and exemptions).

Reject calls to exempt nuclear power from the Climate Levy

Nuclear power is not needed to combat climate change. It is uneconomic, unsafe, unpopular and produces highly radioactive waste, which no-one yet knows how to store safely. The Chancellor should rule out special treatment under the Climate Change Levy.

Develop new tax incentives to encourage investment in off-shore wind energy, wave, biomass and tidal power

Britain has the best wind and wave potential in Europe. Harnessing these and other renewable energy sources are essential to reduce UK climate emissions over the medium-term and developing renewable supply base-load capacity. Tax credits for developing and installing these four renewable sources will reduce their cost and investment risk. Increasing domestic demand will create major opportunities for UK businesses; which in turn will help UK plc 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 and households which 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[xxxv]. The Home and Farm Wind Energy Systems Act in the United States proposes a 30% investment tax credit for investments in wind power.

Add renewable energy technologies to the Green Technology Challenge tax break scheme

Renewable energy technologies should be eligible for the enhanced capital allowance scheme under the Green Technology Challenge (GTC), which aims to encourage innovation

and increased investment. Firms are only just realising the opportunities of investing in efficient small-scale renewable energy plant, given the climate levy exemption. Reducing cost and investment risk through an enhanced capital allowance will accelerate market expansion.

Review the potential for a Carbon Tax package to rationalise energy taxation and reduce CO_2 emissions from all sectors, including households

Friends of the Earth has campaigned vigorously for policies aimed at eliminating fuel poverty - as everyone should be able to keep their houses warm - by means of energy efficiency measures. Progress is now being made in eliminating the scandal of fuel poverty[xxxvi] - mostly as a result of the Friends of the Earth/ACE drafted Warm Homes and Energy Conservation Act 2001. But, at the same time, falling domestic energy prices have discouraged energy efficiency measures, such as insulation and the use of energy efficient appliances. Another mechanism is needed to encourage better-off households to take action, while protecting those on low incomes. Any Carbon Tax should operate alongside the EU Emissions Trading scheme.

VAT reduction on energy saving materials and appliances

The poor quality of the UK housing stock means many houses are difficult to heat, demonstrated by the £1.85 billion spent every year on winter fuel payments. A step to addressing this problem would be lowering VAT on a range of insulation materials and products on key energy-efficient appliances such as condensing boilers and A-rated household appliances. Households are still taxed more for buying energy saving materials and energy efficient appliances than they are for energy. A lower VAT rate of 5% should be installed for insulation materials rather just on purchases for Government funded programmes as at present. Energy-saving appliances, such as condensing boilers and Class A cold appliances, should also benefit from the 5% VAT rate in order to increase the market for them. Extending the lower rate to these appliances would help cut CO2 emissions from the domestic sector and costs £23.4 million[xxxvii]. Regulation must ensure that any reduction in tax is reflected in the shop price of the appliance.

Apply a rational tax regime for North Sea production

Licence Revenues, Petroleum revenue tax and Corporation tax need to be applied to all North Sea production. Only fields approved before 1982 pay all three taxes; fields approved since then don't pay royalties and fields approved since 1993 only pay corporation tax, although their profit is based upon the exploitation of a finite national resource[xxxviii]. The decision to abolish North Sea royalties in 1999 for extracting and selling our national resources further reduced tax receipts by another £260 million during the next two years. The Government needs to apply these taxes to all fields, irrespective of their age. It is illogical that national energy resources worth £108.8 billion (end of 2002[xxxix]) are being given away for free, at the tax-payer's expense, to some of the world's most successful companies, that do not require this tax break.

Waste and recycling

The 2003 Budget showed that the Government is merely 'treading water' regarding the waste crisis. DEFRA's PSA target of 25% recycling and composting of household waste by 2005-6, is unlikely to be met according to several commentators, including the Environmental Audit Committee[xl]. As a nation we are failing to reuse valuable resources and

in doing so we are creating a growing environmental problem. Yet other countries are showing the way. Austria already recycles two thirds of domestic waste and in Sweden the collection rate for bottles approaches 100% and more than 90% of aluminium cans are returned and recycled[xli].

In light of recent legislation that will oblige local authorities to provide door-step recycling by 2010, the Chancellor has the opportunity to put in place measures that will give a boost to this initiative and encourage the early set-up of the required infrastructure.

The creation and running of a fully functional waste management and recycling industry would create 200,000 new jobs and boost the economy. Therefore we advocate the following measures:

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

We landfill more and more waste each year - 6.5 million tonnes in 2001-2 compared with 5.9 million tonnes in 2000-1. High landfill tax is the critical economic signal which will divert more of our valued 'rubbish' towards re-use and recycling. The Chancellor announced an increase for the Landfill Tax escalator to £3 per year from 2004. The benchmark rate of £35 per tonne (the threshold where recycling is cheaper than landfill) will therefore not be reached until 2011. A £5+ per year escalator will send a stronger signal to waste producers and the recycling industry and pass the threshold rate by 2008.

There is also a need for higher rates of landfill tax for hazardous waste, to avoid the health risks posed by toxic waste dumps. From August 2004, the Environment Agency predicts there will be a shortfall in treatment capacity for hazardous waste, mainly from the construction, chemicals, electronics and lubricant oil industries.

Reinvest Landfill Tax revenue from the domestic sector into recycling to pay for nation-wide doorstep recycling

Funding the door-step recycling of household waste throughout England and Wales needs some £375 million[xlii]. This requires an extra £200 million per year on top of current Government support for recycling. The proposed reforms of the landfill credit scheme can provide up to £100 million per annum and the remaining amount can be paid for out of the extra revenue from the Landfill Tax increases. That revenue from local authorities will be £75m in 2005-06 rising to £220m in 2007-08[xliii]. Reinvesting this revenue in this way would significantly increase the effectiveness of the Landfill tax.

Reinvest the extra Landfill Tax revenue from business back to business

Waste minimisation and resource-saving schemes aimed at business are fragmented, low profile and under-funded. The extra Landfill Tax revenue from business, £65m in 2005-06 rising to £190 in 2007-08[xliv], should be used to enhance schemes, such as Envirowise and WRAP, and fund tax breaks for investments in technologies that increase resource productivity.

The Chancellor should put forward proposals to provide tax incentives for recycling activities and the resale of recycled raw materials

Although incinerators receive tax incentives for reducing fossil fuel emissions, recycling does not receive similar incentives despite the fact that recycling prevents enormous amounts of emissions due to the lower energy requirements and pollution from recycling compared to

producing virgin materials. The Chancellor should provide incentives for recycling, equivalent to the energy saved. The value of emissions avoided equals £622 a tonne for aluminium; £121 a tonne of PET plastic and £41 a tonne of paper.

In addition, tax incentives such as a VAT exemption on recycled raw materials would encourage large scale investment in a recycling economy and promote, for example, the reuse of billions of aluminium cans discarded every year to make efficient lightweight cars.

There also needs to be balanced tax incentives for the reuse of organic materials ('green waste') for agricultural fertilizers and gardening compost and increased taxes on chemical fertilizers and peat, whether imported or taken from UK uplands.

Remove the perverse CCL tax break for incinerators

Incineration is the second largest recipient of the CCL renewable energy tax break after landfill gas. Electricity from waste incinerators receives a tax break as a “renewable” energy worth £5 million per year[xlv]. The tax break gets bigger the more biodegradable waste, such as paper and garden waste, the incinerators burn so incineration discourages composting and paper recycling which Government policy aims to increase. Since more energy savings can be made through recycling than energy produced by burning the waste, this policy also makes little sense in terms of averting climate change. This subsidy should be removed as it contradicts both waste and energy policies.

The Chancellor should subsequently introduce an incineration tax, at rates similar to Landfill charges, to prevent local authorities resorting to burning waste instead of recycling.

Review the potential for taxes on products or materials to complement waste taxes

In some countries products or materials which create specific environmental problems have been tackled by targeted taxes. The Chancellor should propose similar measures. Economic measures could include a plastic bag tax or a deposit refund scheme for bottles and metals. This should be combined with legal obligations to recycle batteries, tires and other hazardous waste, as voluntary agreements have failed[xlvi].

Also the Aggregates Levy should be steadily increased, above inflation, to promote reuse of inert materials and thereby decrease the quarrying of new materials. Having raised £211 million in its first year[xlvii], this tax should finance the positive use of aggregates waste and development of further materials initiatives.

Commit to taxing persistent and bio-accumulative chemicals at Budget 2004

The environment must be free from man-made substances and metals that represent a threat to health or biological diversity. Treasury needs to make a commitment to tax the most harmful of these chemicals, at the point of production, to reduce and even eliminate those products that pose the greatest risk to humans and wildlife.

Farming

The Chancellor needs to show ambition, long-term commitment and joined-up thinking to make chemical-intensive farming pay its pollution costs. Tax revenues should be reinvested to help farmers set up green farm systems. A reform of UK farm subsidies is needed to protect the environment and rebuild local food economies. A sustainable rural economy with farming at its core is long overdue.

Commit to implement a pesticide tax, with its revenues invested to reduce pesticide use

In Budget 2003 the Treasury stated that 'the government is also pursuing work on options for a tax or other economic instruments, should the voluntary initiative fail to deliver.' The pesticide industry's voluntary initiative has failed, not having addressed the shortcomings highlighted by the Environmental Audit Committee last year[xlviii]. The EAC recommended that a thorough review of the VI be carried out by the end of 2003. It is even clearer now that the VI will not meet its objectives. It has ignored key methods for avoiding the risks of pesticide use, including a targeted reduction in pesticides use. It still has no adequate incentives for farmers to comply and in fact compulsion is now being used for some aspects of the VI, contradicting its voluntary nature. The VI relies on subsidies and other schemes such as Farm Assurance. The original targets set by the VI signatories have been weakened but the initiative is still set to fail to meet the new targets[xlix].

According to the Environmental Audit Committee, "a pesticide tax (is) expected to raise some £130 million a year, …to finance a substantial programme of research and development of best practice". A 30% tax on product price, by weight of the active toxic content, is predicted to reduce pesticide use by up to 20%, but with a far larger reduction in usage of the most harmful pesticides.

A poorly designed tax, without its revenues reinvested in vital measures to support farmers in making the necessary changes, could be counter productive, so the Chancellor should consult now on the design of a pesticide tax and reinvestment package that can be introduced at Budget 2004.

Money raised by the tax should be used to fund much needed research and development into non-chemical alternatives to pesticides and an independent advisory service to ensure that this knowledge is passed on to farmers in a practical way and the conversion from chemical intensive systems to organic and other sustainable farming systems. The tax revenues can also be used to finance education and stewardship programmes and targeted research. Experience from successes in countries such as Sweden (pesticide use cut by 65%), Austria and Denmark can inform the details of the package[l].

Implement economic instrument to cut nutrient pollution from farming

Nutrient pollution from farming, such as from chemical fertilizers, is a major source of water pollution, a significant source of greenhouse gas emissions and a threat to biodiversity in the UK. At Budget 2002 the Chancellor committed to reviewing the role that economic instruments, such as taxes, could play in tackling this pressing environmental issue. The Chancellor should implement a package of taxation at Budget 2004.

Commit to using maximum modulation option to help green farming systems, and rebuild a more localised food economy with a shorter and more profitable food chain for farmers

Modulation should be used at the full 5% allowed to shift Common Agricultural Policy subsidies into sustainable schemes. It is vital that the Chancellor signals that improved modulation is as much about how the money is spent, as how much is spent. 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. This would prove a more equitable

scheme with smaller farmers receiving a fairer share of subsidy.

Remove capital gains tax roll-over relief on unearned income from the sale of farmland for greenfield development

When farming land is allocated for development under Local Structure Plans, landowners benefit from uplifted values with rises from £2,000-£3,000 per acre. They can also claim 100% roll over relief on this unearned capital gain. This un-justified tax break for landowners is estimated to cost more than £1 billion in lost public revenue.

Housing and property

Providing affordable housing is central to sustainable development. So too is the location of housing developments and the environmental impact of housing stock. Removing the VAT exemption for new-build housing would provide the opportunity to install incentives both for locating on brownfield sites and meeting high environmental standards with so called Eco Homes.

End VAT incentives for new-build greenfield houses combined with VAT relief for those built on brownfield sites or meeting high eco-homes standards

New build housing developments continue to put intense pressure on the countryside and greenbelts. The VAT incentive for new-build housing exacerbates the problem by providing an incentive for new-build over renovation, and does not discriminate between greenfield and brownfield sites. Uptake of high environmental standards for new housing is slow but the incentive provided by a differential rate of VAT would stimulate a shift in attitudes and bring down the premium currently paid on such houses. Full VAT on new-build would generate £1.8 billion which can off-set reduced brownfield and eco-homes rates.

Seek a zero VAT ruling from the EU for social housing schemes

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. This measure would help meet low income families' housing needs.

Review shifting local tax base from business rates to land value taxation

Urban regeneration is hindered by business rates that hit small businesses hardest whilst exempting landowners who leave land derelict. Taxing land value rather than merely the value of the property or businesses sitting on the land would discourage property speculation, which can leave land idle for long periods of time. Instead it would encourage the development of unused land by penalising landowners who leave land idle as well as being a fairer system. Land Value Taxation (LVT) would be a powerful incentive to sustainable reuse, redevelop and refurbish land and buildings.

Stamp duty based on house efficiency

The current process of modernising stamp duty should include stamp duty rebate for house purchasers who make considerable energy efficiency improvements to their home within a year of purchase. Research shows that people are more interested in the state of the fabric of their property and are more likely to improve it at the time of purchasing a house[li]. This is therefore a critical time for encouraging them to install insulation, improve the heating system and buy energy efficient appliances. House movers with properties worth over

£60,000 pay stamp duty and a rebate for carrying out energy efficiency measures could be a significant incentive.

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