

Environmental Audit Committee Inquiry into Vehicle Excise Duty (VED) June 2008.

Response from Friends of the Earth

Terms of inquiry:

“Concentrating on the changes made in the Budget in 2008, the Committee is launching a brief inquiry into the role that VED can play in reducing carbon emissions from road transport, and the popular acceptability of using VED in this way in the wider context of public attitudes towards green taxes.”

Introduction

We welcome the opportunity to respond to this consultation.

VED differentials, if wide enough, are a useful policy to encourage the purchase of greener new and second hand cars, helping to reduce carbon emissionsⁱ, which is now extremely urgent to prevent catastrophic climate change. Research for the Government shows that low carbon cars could make the single biggest contribution to cutting carbon emissions from transportⁱⁱ.

We support the Government’s current policy on differentiated VED. The Government has gradually widened VED differentials over the last eight years, however if they had increased the differentials sooner, this would have had a faster impact on greener car purchasing, and the financial impact of today’s higher oil prices would have been lower.

We support further increases in the differentials for new cars in the first year, to act as a stronger incentive for purchasing a greener new carⁱⁱⁱ. These differentials for new cars in the first year can be wider because this is a completely avoidable tax (choose to buy a greener new car, and you pay a lower rate) – there are greener models in lower bands for every class of car.

Differentials between bands for existing cars should not be as wide as they are for new cars in the first year, as this element is less avoidable (people do not change their car every year). However 7.5 million second hand cars are bought each year (compared with 2.4 million new cars) so the decision over what type of second hand car to buy has a major impact on carbon emissions, and so some differential is needed to create an incentive for people to choose a greener second hand car.

Although there is already a financial incentive for people to choose a greener second-hand car (they cost less to run), this has not been a top-of-mind concern for people when they purchase a car. The use of VED differentials, alongside clear labeling of cars, will hopefully increase the purchase of greener second hand cars. **We support the Government policy on existing car VED.**

The VED changes in the recent Budget are in two broad areas – a new rate for new cars in their first year, and changes to VED for existing cars. These changes have received major criticism. Although differentials for existing cars have been increasing for a number of years, this Budget has seen the greatest increases. This, allied to the increase in the price of petrol and diesel, has made these financial incentives stronger than in previous years.

In general, across all Government policy, we strongly believe that the correct response to the high oil prices is not to go back on policy to cut carbon emissions (for example by cutting back on green taxes), but instead by making it cheaper and easier for people to take the greener option, to buy a greener product, to use less energy.

For transport, people's actions to reduce their use of petrol and diesel both save money and protect the environment. There is recent evidence from the RAC that in response to high oil prices people are starting to make shorter journeys, use alternatives to driving such as walking, and drive at lower speeds. The Government should help make it easier for people to use less energy by the use of stronger policies on greener cars, on reducing the need to travel, and on improving alternatives to motoring, and combine this with a major communications effort to sell the benefits of stronger environmental policy for both the climate and for people's pockets. Friends of the Earth's views on the changes in policies and powers needed to change travel behaviour are summarised in the submission to last year's Comprehensive Spending Review made by the National Transport Roundtable^{iv}.

In general, measures to improve alternatives to motoring and reduce the need to travel are progressive (poorer people are more likely to use public transport, walk and cycle), and measures such as VED are also progressive (richer people are more likely to drive more polluting vehicles which face higher taxes), however there are variations within this broad picture and it is imperative that the Government implements in tandem policies to help protect vulnerable people (see section 1e below) and to ensure all people have genuine alternatives.

The first section of our response focuses on addressing some of the main criticisms which have been leveled at this year's VED changes. Section 2 briefly looks at the other element of the Committee's inquiry, the wider use of environmental taxation.

Section 1 Response to main criticisms of the Government's proposals

The Government's proposals have received a great deal of criticism. We believe much of this is not justified.

a) The proposed rises are to be applied retrospectively

There has been much criticism of the retrospective nature of the proposed changes to VED. For example, House of Commons Early Day Motion 1464 reads "*That this House is concerned at the retrospective effect of the vehicle excise duty changes announced in Budget 2008 to take effect from 2009; and asks the Government to reconsider*". The implication is that this is the first time changes to VED have been retrospective, however the Budget reports for 2002, 2003, 2005, 2006 and 2007 all refer to rates applying to cars first registered since 1st March 2001. Budget 2004 also changed VED rates, but the changes made applied to all cars first registered since 1st March 2002.

b) The retrospective nature of the proposed rises was hidden at the Budget

The Opposition has accused the Government of 'hiding' the backdating of VED rises in the Budget. For example, Shadow Treasury minister Justine Greening is quoted as saying the Treasury "*deliberately failed to make any mention of this tax grab at the time of the Budget*". However the Budget report states "*With effect from 1 April 2009, and as set out in Table 8a, VED for cars, registered on or after 1 March 2001, will be reformed to include six new bands*"^{vi}

c) It is wrong to apply the proposed rises to cars already on the road

Clearly, applying the increases to cars first registered since March 2001 rather than just to new cars cannot change car buying decisions made a few years ago. But it can affect the choice of secondhand cars. These account for around 75% of all cars sold in a year (roughly 7.5 million out of 9.9 million). Only applying the changes to cars first registered after the increases take effect would therefore not affect three-quarters of car sales. If motorists buying a secondhand car choose a greener model, then that cuts emissions and also saves them money, so the price signal is important.

d) All motorists will be hard hit

There are several points in response to this.

- **Not everyone will have a big rise**

Based on Treasury figures, in 2009-10 around 9.73 million of the 17.67 million post-2001 cars on the road will pay the same, less, or just £5 more in car tax than this year^{vii}.

- **There are choices: when choosing a new car, drivers can buy a greener car with lower VED**

For drivers buying new cars, if the driver chooses the most fuel-efficient car in each market segment rather than the average car in that segment, then VED falls in every case. For example:

- In the supermini segment, moving from the average in 2008/09 to the most fuel-efficient choice (VW Polo^{viii}) in 2010/11 cuts VED paid from £120 to zero
- In the lower medium segment, moving from the average in 2008/09 to a more fuel-efficient choice (Ford Focus 1.6^{ix}) in 2010/11 cuts VED paid from £145 to £35, a fall of 75%
- In the dual-purpose 4x4 segment, moving from the average in 2008/09 to a more fuel-efficient car (Hyundai Santa Fe^x) in 2010/11 cuts VED paid from £400 to £270, a fall of 32.5%
- In the MPV segment, moving from the average in 2008/09 to the most fuel efficient choice (Ford C-Max^{xi}) in 2010/11 cuts VED paid from £170 to £95, a fall of 44%

- **Choosing a more fuel-efficient car cuts fuel bills too**

Choosing a more fuel-efficient car in the same market segment rather than the average in that segment will also result in big annual savings in fuel bills. These savings are even more substantial at times of high oil prices.

- In the supermini segment, moving from the average for the segment to the most fuel-efficient car (VW Polo) would cut annual fuel costs^{xii} from approximately £1136 to approximately £795, a saving of £341 (30%)
- In the lower medium segment, moving from the average for the segment to a more fuel-efficient car (Ford Focus 1.6) would cut annual fuel costs from approximately £1257 to approximately £899, a saving of £358 (28%)

- In the dual purpose 4x4 segment, moving from the average for the segment to a more fuel-efficient car (Hyundai Santa Fe) would cut annual fuel costs from approximately £1802 to approximately £1508, a saving of £294 (16%)
- In the MPV segment, moving from the average for the segment to the most fuel-efficient car (Ford C-Max) would cut annual fuel costs from approximately £1407 to approximately £1003, a saving of £404 (29%)

- **'Smarter' driving can save money, whatever sort of car you drive**

There are many ways to drive more 'smartly' to save money - for example making sure your tyres are properly inflated, making sure there is no unnecessary clutter and weight in your boot, driving at an appropriate speed, accelerating and decelerating slowly. According to the Government's Act on CO2 website, smarter driving can cut fuel use by 8%. For the categories above, the annual savings from smarter driving would be:

- supermini average for segment £91
 most fuel-efficient £64
- lower medium average for segment £101
 more fuel-efficient £72
- dual purpose 4x4 average for segment £144
 more fuel-efficient £121
- MPV average for segment £113
 most fuel-efficient £80

These savings are roughly equivalent to or greater than the VED rises for almost all situations (the exception being people who bought a F band car emitting over 226g/km between 2001 and Feb 2005 – it is unlikely that such cars will be driven by poorer families – these vehicles are in the main very large 4x4s or sports cars.

- **In total, very large savings are possible**

The total annual savings (from lower VED, lower fuel use and smarter driving) from choosing a more fuel-efficient car in a segment rather than the average car in that segment come to:

- supermini £525
- lower medium £540
- dual purpose 4x4 £545
- MPV £559

e) There are high impacts on families

We believe this criticism of the policy does apply for some people, though not to the degree suggested in some of the recent media coverage, and needs to be addressed. There is an issue that some poorer families currently using a polluting car would not be able to afford a less polluting car. Even though a less polluting car would save many hundreds of pounds every year in lower fuel bills, the issue is having the financial capital to buy a different second-hand car, or access to easy credit terms to spread out payments cheaply. This issue might be compounded by higher VED charges and higher oil prices reducing the value of their existing more polluting car. In these circumstances, these people would be stuck with their existing car, and also with the higher VED.

Although in general the figures do strongly suggest that over a couple of years switching to green cars saves families very large sums, this issue of some people being unable to switch because of lack of financial capital, which has been exacerbated by the very recent global oil price rises, needs to be addressed.

In this context we advocate that the Government act quickly to investigate the detail behind implementing a car scrappage payment scheme, a system which has been introduced in other countries^{xiii}, whereby people with old gas guzzlers would be paid by the Government for scrapping their vehicle. This could ensure that people are able to switch to a greener second hand vehicle. On possible detail of the scheme - payment could be conditional upon proof of purchase of a greener second hand vehicle. The scheme for example could be made available to anyone whose car is registered between 2001 and March 2006 (the period for which the larger recent increases in VED apply), and for cars which were in Band F but are now in Band L or M (it is these cars in the top end of old Band F whose VED has gone up most). These payments could easily be covered from the increases HM Treasury are predicting from the revised VED system.

Section 2 Wider acceptability of green taxes

We note that the Treasury's figures suggest that the VED changes will bring in an extra £2 billion a year. Friends of the Earth has long advocated that green taxes rises be implemented as part of a green tax shift, whereby green taxes are explicitly linked to cuts in taxes on people and jobs. Indeed, this is Treasury policy – to “shift the burden of taxation from ‘goods’ to ‘bads’” – since 1997. The Government has not however

implemented this policy – the proportion of total tax from pollution has fallen since 1997 and now stands at around 8% of total tax. Where green taxes have risen, with very few exceptions (such as the Climate Change Levy) these have not been announced alongside accompanying tax cuts elsewhere. We believe this has enabled opponents of green taxes to stigmatise such measures as “stealth taxes”. Green taxation is an absolutely essential part of the policy mix to tackle desperately urgent problems like climate change, and implementing them as part of a clearly communicated tax shift agenda, rather than just as tax rises, is essential for their political success. According to opinion polling, green tax shifts would be popular. One recent poll found 77% in support, with 9% opposition^{xiv}, another 62% in favour, with 10% against^{xv}. These are consistent with numerous other polls in the last two years.

Conclusion

No-one foresaw the last year’s major rises in world oil prices. This is undoubtedly increasing the costs motorists face. The Government’s response should be to help reduce people’s dependence on oil, not increase it. The policy and communications focus must be to help people switch to greener vehicles, improve the quality, price, safety and convenience of alternatives (such as buses, trams, trains, walking, cycling), and reduce the need to travel (with its policies on planning, post offices, schools, hospitals etc). The Government should also use policies to help particularly badly affected groups – such as poorer people in rural areas, for example through council tax rebates, or through the car scrappage proposal outlined above.

The alternative, of weakening climate policies such as VED differentials or fuel duty, will be an ineffective short-term political palliative, which will help deepen the impact of climate change, at everyone’s great expense, particularly the poorest in society.

ⁱ For estimates of the impact of VED, see DfT research at:
<http://www.dft.gov.uk/pgt/roads/environment/research/consumerbehaviour/assessingtheimpactofgraduate3817?page=3>

ⁱⁱ Bartlett School of Planning (University College London) and Halcrow Group for the Department for Transport (2006) “Looking over the horizon”
http://www.ucl.ac.uk/~ucft696/documents/Executive_summary_Jan_2006_HR.pdf

ⁱⁱⁱ One proposal for linking new car VED rates into the EU new car standards is set out at
http://www.transportclimate.org/documents/mtrulocarb_carduty2.pdf

^{iv} See http://www.foe.co.uk/resource/submissions/csr_submission.pdf

^v See http://news.bbc.co.uk/1/hi/uk_politics/7375638.stm

^{vi} HM Treasury ‘Financial Statement and Budget Report’ paragraph A.87 http://www.hm-treasury.gov.uk/media/2/5/bud08_chaptera.pdf

^{vii} From PQ 22/04/08 ,

<http://www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080422/text/80422w0014.htm#08042382000014>

^{viii} This is the most fuel-efficient car in this market segment. Information from SMMT 2008 New Car CO2 report table 11

<http://smmtlib.findlay.co.uk/articles/sharedfolder/Publications/SMMT%20Annual%20CO2%20report%202008%20revised3.pdf>

^{ix} This is one of the most fuel-efficient cars in this market segment. The most fuel-efficient cars in the segment according to the SMMT – the Toyota Prius and Honda Civic – have not been used for this calculation as they are both hybrids and so cost more than other similar cars. Information from DfT's Act on CO2 website category 'Small Family'.

http://www.dft.gov.uk/actonco2/index.php?q=best_on_co2_rankings

^x This is one of the most fuel-efficient cars in this market segment. The most fuel-efficient car in the segment – the Suzuki Jimny – has not been used as it is a relatively small 4x4 and so may not offer a realistic comparison. Information from DfT's Act on CO2 website as above category Large 4x4

^{xi} This is the most fuel-efficient car in this market segment. Information from SMMT as above

^{xii} Assuming the car is a diesel and is driven 10,000 miles a year with fuel costing 130p per litre

^{xiii} Such payment schemes have run in various guises in other countries, for example see <http://www.internationaltransportforum.org/europe/ecmt/environment/pdf/CM199926Fe.pdf>

^{xiv} greenfiscal.pmhclients.com/images/uploads/GFCPressReleaseWEB12Nov2007.pdf

^{xv} http://www.ipsos_mori.com/polls/2007/greenagenda.shtml