

# The Political Feasibility of Environmental Tax Reform

Presentation to Anglo-German Foundation petrE project / Green Fiscal Commission conference 'Environmental Tax Reform (ETR) in Europe'

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## Aim of presentation

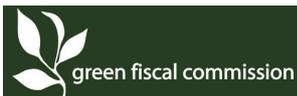
- To highlight work and aims of Green Fiscal Commission
- To discuss political feasibility of taking ETR forward (in UK context)
- Will present line of argument - or 'narrative' capturing status of debate on ETR
- Builds on (summarises) evidence presented in previous presentations (and elsewhere) but focus on political feasibility

### Questions to bear in mind

- Does evidence support narrative?
- How do we improve the political feasibility of ETR?
- Comparisons with rest of Europe

## Green Fiscal Commission

- Formed May 2007
- Running to October 2009
- Independent of government (funded by Esmée Fairbairn Foundation and Ashden Trust)
- 22 Commissioners – to review and advise on work
  - 4 MPs, 3 Lords – politically balanced, senior political representation, shadow ministers
  - business, academic, NGOs (social and environmental)
  - FSA, MPC members
  - government observers – Defra and Treasury
- Paul Ekins, Director and Secretariat provided by PSI



## Green Fiscal Commission - objectives

- To break the political logjam on environmental tax reform
- To prepare the ground for a significant programme of green fiscal reform in the UK
  - Creation of evidence
  - Raising awareness of evidence – communications and engagement
- To understand the social, environmental and economic implications of a major programme of environmental tax reform



## Green Fiscal Commission – starting point

- Working assumption – environmental tax reform is a good idea in principle
- Considering:
  - a substantial tax shift – approx 20 per cent of tax revenues from green taxes by 2020 – quite a challenge
  - Use of proportion of tax revenues to amplify environmental benefits – technology and behaviour – revenue neutrality?
  - Should not have a disproportionate impact on already disadvantaged groups
  - Will take account of and seek to mitigate negative effects on business, and foster new sources of comparative advantage as the basis for new businesses
  - No view on appropriate level of overall taxation – a shift in the basis of taxation, not an increase.

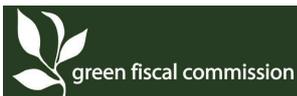
## Context

- Has been a challenging communications environment!
- External context has not been conducive to debate
  - Oil price volatility – but symptom of current economic structures
  - Credit crunch – can't easily talk about tax increases – but they will need to come and ETR less distortionary
  - Media not sympathetic to agenda or critical of competing messages, e.g. TaxPayer's Alliance

# Green Fiscal Commission - research

New research and review/collation of existing work on:

- Public opinion (including deliberative days)
- Modelling of economic, environmental and social implications of a major tax shift – CE
- Distributional issues
- Experience of UK fuel duty escalator/income tax reduction
- International comparisons on the effectiveness of economic instruments
- ETR and innovation
- ETR and competitiveness
- Border tax adjustments
- ETR and transport
- Revenue stability



# Engagement and communications

## Engagement

- Meetings with, and presentations, to target audiences
- Stakeholder engagement meetings – business, groups with distributional concerns
- Meetings of Commission

## Communications

- Parliamentary Launch
- Blog – ETR news and commentary
- Website
- Summary briefings/supporting papers/book
- Press work
- Events at political party conferences



## The politics of ETR

Line of argument for green fiscal reform is clear

- Challenging carbon targets that need action now
- Price is a key driver of energy demand – so need green taxes to if going to meet targets
- But green taxes unpopular with public

But in spite of clear need and evidence of environmental, economic and welfare benefits of ETR...

- *The evidence isn't enough – the challenge is political*
- Politicians across parties accept intellectual case for ETR, but political case not yet strong enough for action
- Leads to Green Fiscal Commission narrative...



## Narrative 1 - Targets and the role of price

The imperative of reducing GHG emissions:

- Legally binding targets to reduce GHG emissions (aside from other motivations for action)
- 2020 targets will have to be met through renewables, energy efficiency and demand reduction – not CCS and nuclear – can't contribute in time
- Current rate of emissions reduction is too slow – so need new policies.

Inconvenient facts about energy use:

- Energy use increases with income
- So energy efficiency alone unlikely to deliver targets, i.e. absolute reductions.
- Increasing energy price reduces demand
- Increasing price also promotes renewables, efficiency and demand reduction



## Narrative 2 - How to increase prices?

By government intervention (e.g. taxes) or leave to the market (price set by supply/demand)

- Both approaches reduce demand for energy
- But green taxes keep revenues in country and generate tax receipts that allow other taxes to be reduced
- Market increase in oil price incentivises development of high carbon substitutes
- Tax can target carbon



## Narrative 3 - Green taxes are necessary but problematic...

- People dislike green taxes more than other taxes. Why?
  - Impact on highly valued forms of consumption
  - Not related to ability to pay
  - Green taxes should change behaviour not raise revenue
- Think they are extra rather than replacement taxes
- Think they affect business competitiveness negatively
- Are seen as unfair
  
- But in spite of these perceptions, evidence suggests green fiscal reform should lead to widespread aggregate economic, environmental and welfare benefits
  
- So how to move forward? Need to address above points



## Research on Public Opinion - 1

Public opinion – at end of 2007

- **Net support** in principle for green taxes – 51% support vs. 32% oppose.
- There is a significant **increase in support if revenue is hypothecated**. Support rises to 73% and opposition falls to 17%.
- Support for green taxes is slightly **higher if other taxes are reduced** at the same time. Support is 77% vs. 9% opposition.

Deliberative days – end of 2008

- 2 whole days with 50 people each
- Norwich and Birmingham – representative nationally rural and urban
- Explored views on
  - climate change
  - polluter pays principle
  - ETR in principle
  - Specific tax cuts – income tax, VAT, Council tax etc
  - Environmental tax increases on transport and household energy



## Research on Public Opinion - 2

- Deliberative days – findings
- Almost all participants (90%) stated they were concerned about climate change, but only 57% believed it would make an impact on them personally – it's distant in time and space to people
- Fuel price increases in 2008 were having an impact on car use – so price is important – but tax level at maximum acceptable limit?
- Conditional support for green fiscal reform. Principle supported and seen as effective but concerns about specifics, e.g. fairness, personal impact (mostly negative) of any changes and ability to respond
- But all the proposed tax interventions were supported by significantly more participants than those opposed to them.
- If there is a need for radical action to address climate change – then strong leadership from government and business will be required to implement it
- Need measures to protect the poor and vulnerable groups
- Trust in government and revenue neutrality is low. Fairness and openness should be key principles underpinning green fiscal reform.



## Narrative 4 - Implementing Green Fiscal Reform

- Need to increase support for reform in two areas:
  1. The need for emissions reduction
  2. That a large price increase is necessary to achieve emissions reductions
- Political consensus is required on green fiscal reform
  - Carbon targets *must* be met
  - Will require *strong* measures

When/if agree this consensus implementation likely to require

1. Fiscal neutrality to be monitored by an independent body
2. Needs of vulnerable economic sectors and households must be addressed
3. Some revenues to be spent on improved environmental measures



## Narrative 5 - Accompanying measures and clear messages

- Reward perceived good behaviour – council tax cuts for energy efficiency
- Raise awareness of people's energy use and its impacts – meter, labels, etc
- Address infrastructural barriers to behaviour change
- Use regulatory policies to reduce energy use
  
- Need strong consistent message that energy prices will increase over time to meet carbon targets and drive low carbon investment
- When taxes go up – as they must – increase green taxes
- Will stabilise energy markets – security and stability
- Agenda is about change – doing nothing is not without costs



## Conclusion

- Climate change imperative
- Changing price vital
- Tax captures revenues which can be put to public good
- Need clarity on long term signal on carbon price
- Need to do more to build public case
- Business response less of a problem?



## Media response to Low Carbon Strategy

Daily Mail online 16 July 2009:

'The £92 green stealth tax: Family fuel bills will soar to fund the fight against climate change'

'Millions of families will be hit with an extra £92 on their annual fuel bills to pay for a 'green energy revolution', ministers admitted yesterday.'

Daily Telegraph online:

'Britain 'must accept' invasion of wind farms'

'Country residents have been told that they must accept the building of "many thousands" of wind turbines as part of a new green energy strategy.'



## Media response to Low Carbon Strategy

BBC News Online 15 July 2009

'Low carbon way 'to reshape lives'

'Ambitious plans to generate one third of UK electricity from renewables by 2020 form the centrepiece of government plans for a low carbon future.'

The Guardian 15 July 2009

'Labour orders green energy revolution'

'The government seized control of key levers in the energy sector today in an attempt to kickstart a stalling "green energy" revolution and head off the threats of global warming and a rundown in North Sea oil.'



## Further information

- Briefings in pack – more to come – modelling, distributional, competitiveness.
- Launch of final report in October
- Book in 2010 
- Website: [www.greenfiscalcommission.org.uk](http://www.greenfiscalcommission.org.uk)
- Blog: <http://gfcblog.wordpress.com/>
- Email [b.shaw@psi.org.uk](mailto:b.shaw@psi.org.uk)

