Green taxes

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This note looks at the role that taxes and other economic instruments may play in achieving sustainable development, and in particular, the development over the last few years of a number of environmental – or 'green' – taxes, following the Labour Government's announcement in its first Budget in July 1997 of a 'statement of environmental principles'. As such it complements a Library paper on this issue published prior to the General Election that year.[1] In November 2002 the Government published a report on how its approach to environmental taxation had worked in practice and "how it should continue to be applied."[2] The report summarised the benefits of this type of market intervention as follows:

> Taxes and other economic instruments … can provide incentives for behaviour that protects or improves the environment, and deter actions that are damaging to the environment. For both consumers and business alike, economic instruments such as tax can enable environmental goals to be achieved at the lowest cost and in the most efficient way. By internalising environmental costs into prices, they help to signal the structural economic changes needed to move to a more sustainable economy. They can encourage innovation and the development of new technology. The revenue raised by environmental taxes can also be used to reduce the level of other taxes, which can help to reduce distortions in the economy, while raising the efficiency with which resources are used. Where there is a strong case, some or all of the revenue may also be used to reinforce the effectiveness of a tax measure by strengthening incentives for positive action, or mitigating adverse impacts.[3]

It is worth noting that there is no hard and fast definition as to what a green tax is. This point was touched on in a written answer from which the following text is taken:

> The Chancellor considers a range of relevant economic, social and environmental factors when deciding all taxation policy. Determining a definition of what is an environment tax is therefore difficult as: some taxes have been specifically designed to help achieve environmental goals, such as the aggregates levy, landfill tax and the climate change levy; some have been restructured to reflect environmental impacts, such as fuel duty differentials, company car tax and reforms to capital allowances to provide tax incentives for environmentally-friendly technologies; and some taxes

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1 *Green taxes*, Library Research paper 97/46, 7 April 1997

2 HM Treasury, *Tax and the environment: using economic instruments*, November 2002 para 2.2. This report provides a good summary of the Government's past record and current plans, and is recommended. At present it is available at: http://www.hm-treasury.gov.uk/mediastore/otherfiles/adtaxenviron02-332kb.pdf.

3 *op.cit.* para 1.3

were introduced for non-environmental reasons, but can have some environmental impact--for example, air passenger duty.[4]

The following discussion focuses on the first category of green taxes mentioned here: taxes that have been specifically designed to help achieve environmental goals. A number of recommendations for further reading are made at the end of this note.

Contents

A. The Government's approach to green taxes

The Government's policy on the use of environmental taxes was set out by the Chancellor Gordon Brown in his first Budget following the Labour party's General Election victory in July 1997:

> A country equipped for the future should also have a modern tax system based on principle. The tax system sends critical signals about the economic activities that a society wishes to promote and deter. Today I shall start to put those principles into practice by demonstrating our commitment to the environment. As the statement of environmental principles set out by the Financial Secretary to the Treasury, my hon. Friend the Member for Bristol, South (Dawn Primarolo) -published today - shows, we are determined that our tax system and economic policies as a whole encourage the good and discourage the harmful.[5]

The Government's statement of intent, mentioned by the Chancellor, is reproduced below:

> The Government's central economic objectives are the promotion of high and sustainable levels of growth and high levels of employment. By that we mean that growth must be both stable and environmentally sustainable. Quality of growth matters; not just quantity. Delivering sustainable growth is a task that falls across

4 HC Deb 16 July 2003 cc 301-2W

5 HC Deb 2 July 1997 c 311

> government. It will be a core feature of economic policy under this administration. The Treasury is committed to that goal.
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> How and what governments tax sends clear signals about the economic activities they believe should be encouraged or discouraged, and the values they wish to entrench in society. Just as work should be encouraged through the tax system, environmental pollution should be discouraged.
>
> To that end, the Government will explore the scope for using the tax system to deliver environmental objectives - as one instrument, in combination with others like regulation and voluntary action. Over time, the Government will aim to reform the tax system to increase incentives to reduce environmental damage. That will shift the burden of tax from "goods" to "bads"; encourage innovation in meeting higher environmental standards; and deliver a more dynamic economy and a cleaner environment, to the benefit of everyone. But environmental taxation must meet the general tests of good taxation. It must be well designed, to meet objectives without undesirable side-effects; it must keep deadweight compliance costs to a minimum; distributional impact must be acceptable; and care must be had to implications for international competitiveness. Where environmental taxes meet these tests, the Government will use them.[6]

One practitioner writing on the issue of green taxes commented on this statement as follows:

> Say green taxes and most people think of fuel duties, but they are not truly green taxes. They were introduced to raise revenue, which they do very well. Despite duties increasing faster than inflation for years, demand has not dropped. The reason is inelasticity. People don't drive their children to school because petrol is cheap, so they don't stop when the price goes through the roof. One important factor differentiates true green taxes – they are designed not to raise revenue but to change behaviours to benefit the environment. The key to a green tax is the intended behavioural change. While revenue may be raised until behaviour changes, if the tax is successful, revenue falls away. The UK Government has gone further, introducing the idea that revenues raised by green taxes (that is taxing something to be discouraged) will be used to reduce tax on something to be encouraged (for example work). Thus the new UK green taxes are intended to be revenue-neutral through matching cuts in employer's national insurance contributions.[7]

The Environment Audit Committee has been critical of the Government's approach in this respect; in a report in January 2002 it argued that the Government had 'diluted' this strategy:

> The Statement of Intent was originally issued in May 1997. However, in the Pre-Budget Report 1999, the Government restated it but in a slightly revised form which weakened its strategic flavour. The 1997 version states that "over time, the Government will aim to reform the tax system", whereas the 1999 version states that

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[6] HM Treasury press notice, *Tax measures to help the environment*, 2 July 1997

[7] "Green taxes – why, what, when, where?", *Tax Journal*, 23 October 2000

"the Government will consider using the tax system...on a case by case basis". In our view, this represents a significant change in emphasis … We regret the fact that the Treasury has retreated from a strategic commitment to environmental tax reform, by diluting the language used in the original Statement of Intent … it suggests that the Treasury's approach is indeed ad hoc.[8]

In its response to the Committee's views the Government simply stated: "The Government has not 'retreated' from its commitment to using environmental tax, as set out in the Statement of Intent. There has been no change in emphasis."[9] The Committee returned to this issue following the Treasury's publication of *Tax and the environment: using economic instruments* at the time of the November 2002 Pre-Budget Report.

This document, for all its elegance as an economic and policy development treatise, certainly does not amount to an environmental tax and fiscal strategy: it is unclear to us in what way either the review or this document will help the Treasury develop its approach and implement its strategic objective of shifting the burden of taxation from 'goods' to 'bads'. The review therefore does nothing to address our critical comments and recommendations in our previous report on PBR 2001.[10]

The Committee went on to argue that the criteria set for the introduction of any green tax represented "a more stringent regime than exists in any other area of taxation."[11] In this context the summary given in *Tax and the environment* of "the process which the Government takes in determining whether and how to intervene to improve the environment" is reproduced below:

First, the Government will identify the environmental policy objective. The Government has strategies for each of the key environmental issues, such as tackling climate change, improving air quality, regenerating towns and cities, protecting the countryside and tackling the problems of waste. Each of these strategies sets out the issues involved and the objectives which need to be met. The Government's sustainable development indicators, set out in Chapter 3, show progress on some of the most important environmental issues.

Second, the Government will assess the rationale for becoming involved in helping to achieve the objectives. The relevant market failures need to be identified in order to determine whether there is a case for government intervention to tackle them, and so improve market efficiency and increase resource productivity. On occasions the Government may decide it needs to intervene to change behaviour in order to achieve specific targets or commitments.

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8 *Second report: Pre-Budget Report 2001: A New Agenda?*, 12 February 2002 HC 363 2001-02 para 35
9 *Second special report*, 3 July 2002 Report HC 1000 2001-02 p 7
10 Environmental Audit Committee, *Fourth report: Pre-Budget Report 2002*, 1 April 2003 HC 167 2002-03 para 49
11 *op.cit.* para 55

Third, the Government will evaluate the benefits and costs of intervention. The potential environmental benefits need to considered in relation to the costs of achieving them. In addition, the Government will consider other impacts of possible measures, including the potential distributional effects and impacts on the competitiveness of sectors exposed to international competition. The potential administrative compliance costs also need to be considered, along with the risk that intervention will be unsuccessful or may deliver unintended consequences.

Fourth, the Government will determine the most efficient instruments for achieving the objectives. The most efficient approach will be the one that provides the greatest overall economic benefits. The instruments might include taxes or other economic instruments, regulation, the provision of information, or voluntary agreements. Taxes may be used as part of a package with other measures such as tradable permit schemes, spending programmes, tax incentives, or voluntary agreements. Other measures may also be used in place of a tax if they can achieve the same objective at lower economic cost. The Government has not taken a single approach to all environmental problems, but has adapted its approach depending on the circumstances. It will consider alternatives to environmental taxes, as it has done for pesticides, where agreement was reached on a voluntary package of measures in place of a tax. Tradable permit schemes, such as for greenhouse gas emissions and for waste, will also have a role to play.

The Government will also consider the extent to which the potential instruments have synergies or trade-offs with other economic and social objectives and the extent to which these are acceptable.

Finally, the Government will take forward the process of policy development and implementation. Given the long-term nature of many environmental problems and the significant impacts which some policy measures can have, the Government believes that policies to tackle the environment should be developed over a period of time in consultation with stakeholders. Having identified an environmental problem, the Government engages in a lengthy process of evidence-gathering, consultation and analysis before deciding on the most effective policy response. Once decisions have been made on the type of policy mechanism to use, there is further consultation on the design of measures and the shape of the overall package, including recycling of revenue from environmental taxes. Measures are kept under review once they have been implemented and further changes will be made where they are justified. Changes may be required as a result of a range of factors, including market developments, introduction of new technologies, or the availability of new information on environmental impacts. The environmental effectiveness of measures will be assessed over time and the Government will report on progress in Budgets and Pre-Budget Reports.[12]

In its response to the Committee's second report, the Government disagreed with the Committee's conclusion, arguing that, "these criteria are not intended to be barriers to new

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[12] *Tax and the environment: using economic instruments,* November 2002 paras 2.3-2.10

taxes; instead, they demonstrate how taxes need to be designed in order to achieve their objectives efficiently while avoiding adverse side-effects. Many similar criteria apply to other taxes." It also noted that the report "has been welcomed by environmental groups."[13] At the time the Green Alliance, an environmental think-tank, commented on the report as follows:

> At nearly 60 pages of densely-packed economic reasoning, the report is not an immediate draw, and was largely missed in press coverage of the Pre-Budget Report. But it could be a significant driver of policy over the years to come. In particular, it provides more explanation of how taxes can work alongside other voluntary or regulatory instruments to provide a package of measures to address an environmental issue. It also acknowledges the key role of price signals in driving environmental innovation and bringing about structural change in the economy. Importantly, it also restates the argument that environmental taxes can be offset against other taxes, on employment, for example, so the overall burden of taxation is not increased. This paves the way for significant steps forward in the use of economic instruments – if the Treasury is brave enough.[14]

B. New green taxes since 1997

1. The Climate Change Levy

In his March 1999 Budget the Chancellor Gordon Brown announced that a levy on the business use of energy, with offsetting cuts in employers' National Insurance contributions (NICs) and additional support for energy efficiency schemes and renewable sources of energy, would be introduced from April 2001.[15] His proposal followed the recommendations made in Lord Marshall's report on the role of economic instruments commissioned in March 1998.[16] Prior to its introduction the Government made a number of refinements to the levy's design, following concerns about its environmental effectiveness and its impact on business competitiveness.[17] The levy is charged on electricity, gas, liquefied petroleum gas and solid fuels.[18] Certain sectors are exempt from paying this charge: principally, the domestic sector and public transport. In addition energy-intensive industries may enjoy an 80 per cent discount if they enter special negotiated sectoral agreements on energy efficiency.[19] The cost of the levy to business was set out in a written answer in February 2003:

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13 *Third special report: Government response to the Committee's fourth report*, 20 May 2003 HC 688 2002-03 p 11, 10

14 Green Alliance, *Parliamentary newsletter*, 18 – 29 November 2002 see: http://www.green-alliance.org.uk Notably the environmental group Friends of the Earth does not appear to have commented in detail on the report: http://www.foe.co.uk/campaigns/sustainable_development/publications/ecotax_reform/

15 HC Deb 9 March 1999 c 181

16 HM Treasury, *Economic instruments and the business use of energy : a report by Lord Marshall*, November 1998; available at: http://archive.treasury.gov.uk/pub/html/prebudgetNov98/marshall.pdf

17 *Budget 2000* HC 346 March 2000 paras 6.15-6.40

18 Most forms of renewable energy and fuel used by good quality combined heat and power systems are exempt from the levy.

19 There are 44 sectoral agreements covering 'around 13,000 individual facilities' (*Tax and the environment: using economic instruments*, November 2002 para 7.28).

> **Mr. Prisk:** To ask the Chancellor of the Exchequer what estimates his Department has made of the annual cost to British industry of the climate change levy (a) overall and (b) per sector.
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> **John Healey:** The climate change levy is expected to raise about £0.9 billion from business and the public sector in 2002-03. This has been recycled back to these sectors through a 0.3 percentage point cut in employers' national insurance contributions, support for enhanced capital allowances for investments in energy efficiency measures, and spending on renewable energy and energy, principally through the Carbon Trust.
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> The levy package is expected to be broadly revenue neutral between industry and the service sector. It is not possible to determine the impact on individual sectors as this depends on the extent to which they are eligible for discounts for energy-intensive users, their use of levy- exempt renewable energy and combined heat and power, and their take-up of the enhanced capital allowances and support from the Carbon Trust.[20]

Legislation to introduce the levy is set out in section 30 & Schedule 6 of the *Finance Act* 2000. The first of these provisions was selected for debate by the Committee of the Whole House on 2 May;[21] the remaining provisions in the Finance Bill dealing with the levy were debated in Standing Committee over four sittings of 16-18 May 2000.[22]

Following the first year of the levy's implementation, a number of further changes were introduced in the April 2002 Budget.[23] These included an exemption for all electricity produced by good quality combined heat and power systems or from coal mine methane, subject to EU state aid approval,[24] and an exemption for certain secondary recycling processes. The Treasury's paper *Tax and the environment* noted that a number of reviews had been completed on the levy's introduction:

> Surveys published by the Federation of Small Businesses (FSB)[25] and by the Confederation of British Industry (CBI) and Engineering Employers Federation (EEF)[26] have tended to focus on the change in the level of tax paid by businesses as a result of the introduction of the levy. These have reported that for the industrial sector as a whole the levy paid is greater than the reduction in employers' NICs, although these figures do not take account of the revenue which is recycled to provide support for energy efficiency. The CBI and EEF survey shows that 87 per cent of energyintensive firms which have entered into agreements to improve energy

20 HC Deb 25 February 2003 c 384W. The Trust's site gives more details of its work at: http://www.thecarbontrust.co.uk
21 HC Deb 2 May 2000 cc 86-119
22 SC Deb (H) 16-18 May 2000 cc 184-304
23 *Budget 2002* HC 592 April 2002 paras 7.10-7.13
24 Following EU approval this was introduced on 1 April 2003 (*Budget 2003* HC 500 April 2003 para 7.13)
25 Federation of Small Businesses, *The climate change levy: another cost for small businesses - research paper No. 2*, July 2002
26 Confederation of British Industry and Engineering Employers Federation, *The climate change levy: first year assessment*, October 2002

> efficiency had taken action or were planning to do so, along with 42 per cent of other firms. 74 per cent of firms with over 250 employees had improved energy efficiency or planned to do so, compared with 43 per cent of firms with less than 250 employees.
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> The CBI and EEF review recommends that the Government should allow more sectors to be able to enter into energy efficiency agreements in return for an 80 per cent discount from the levy. However, a review published by the Green Alliance[27] recommends that exemptions from the levy should be gradually phased out. These two reviews both recommend that there should be a simpler and improved package of support measures to aid businesses to improve their energy efficiency and thereby reduce the amount of levy which they pay. This will be a key role for the Carbon Trust. The Government will continue to keep the levy package under review.[28]

No major changes have been made to the levy since then.

2. The Aggregates Levy

The introduction of a levy on the extraction of aggregates from April 2002 was announced in the March 2000 Budget.[29] Draft legislation was published in June 2000. Details on the structure of the levy were published in the March 2001 Budget:

> As announced in Budget 2000, **the aggregates levy will be introduced in April 2002 at £1.60 per tonne.** The revenues raised from the levy will be returned to business and the local communities affected by quarrying through a 0.1 percentage point cut in employers' NICs and a new Sustainability Fund. The levy will ensure that the environmental impact of aggregates extraction are more fully reflected in prices and encourage a shift in demand away from primary aggregate towards alternatives such as recycled construction and demolition waste and china clay waste. It will also encourage the more efficient use of all aggregates, greater resource efficiency in the construction industry, and the development of a range of other alternatives including the use of waste glass and tyres in aggregate mixes.[30]

It is estimated that the levy will raise approximately £200 million in first year[31] – with all its receipts being recycled through the cut in employers' NICs and the new Sustainability Fund. Exports of aggregate are relieved from the levy and imports taxed on the first sale or use in the UK, to protect international competitiveness. In Northern Ireland the levy is to be phased

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27 Green Alliance, *Next steps for energy taxation: a survey of business views*, November 2002
28 *Tax and the environment: using economic instruments*, November 2002 paras 7.31-2
29 HC Deb 21 March 2000 c 869; HM Customs & Excise Budget press notice C&E5, 21 March 2000
30 *Budget 2001* HC 279 March 2001 pp 118-119. Legislation to introduce the levy was included in the *Finance Bill 2001*; these provisions were taken on the first day of the Finance Bill's Committee stage on the floor of the House on 23 April 2001 (cc 41-139), and agreed to unamended. These provisions now form ss 16-49 and schedules 4-10 of the *Finance Act 2001*.
31 HC Deb 29 October 2002 c 685

in over five year period for aggregates used to make processed products.[32] A number of changes to the scope of the levy were announced at the time of the 2002 Budget,[33] though no major changes have been made since then.[34]

In December 2002 Customs published a consultation paper on ways to encourage the positive use of aggregates waste. Responses were invited by 10 March 2003. Further details were given in a press notice at the time:

> The purpose of the consultation is to request information from, and seek the views of, UK quarry operators about the extent and nature of the problem of waste material arising from the extraction of aggregates. Responses will enable the Government to assess whether there is a clear case for relief from the levy for waste materials, the degree to which this would be of value to industry, and the extent to which it could be operated without undue burdens on business and risk of abuse.[35]

The Government has yet to announce any further decisions on the issue.

C. Other reforms in green taxes

Landfill tax was introduced on 1 October 1996, levied per tonne of waste at two rates: £2 per tonne for inactive waste (such as builder's rubble); and £7 per tonne for active waste (such as plastic packaging). The tax raised £420 million in its first year of operation. It is estimated it will raise £500 million in 2002-03, forecast to rise to £700 million in 2003-04.[36]

In his March 1999 Budget the Chancellor Gordon Brown announced that "to reduce the amount of waste going to landfill, the landfill tax, £10 per tonne in 1999, will in future rise by £1 per tonne per year."[37] The standard rate was increased by £3 to £10 per tonne from 1 April 1999, and by £1 per tonne each year over the next four years – to £14 per tonne from 1 April 2003. It had been the Government's intention that this duty rate escalator should apply at least until 2004, when the rate would be £15 per tonne. The Government now intends that the standard rate will rise by £3 from 1 April 2005 to £18 per tonne, and by at least £3 per tonne in the years thereafter, on the way to a medium- to long-term rate of £35 per tonne.[38]

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32 No levy is payable on these uses of aggregate in 2002/03. The level of relief will decline 20 percentage points each year until the full rate of tax is due in 2007/08. (HM Customs & Excise press notice PR29/02, 24 April 2002).

33 for details see HM Customs & Excise Budget Notes CE22-CE27, 17 April 2002

34 Further background is given in "Aggregates levy", Library standard note SN/BT/1196, 9 January 2003.

35 HM Customs & Excise Business Brief 32/2002, 9 December 2002.

36 HC Deb 31 July 1998 c 667W; HC Deb 7 May 2003 c 687W

37 HC Deb 9 March 1999 c 182

38 *Budget 2003* HC 500 April 2003 p 164. Further details are given in "Landfill tax: recent developments", Library standard note SN/BT/1963, 6 May 2003.

The landfill tax represented the first 'green tax' introduced in this country. As the Treasury's paper *Tax and the environment* noted, some existing taxes have been amended over the last five years to improve environmental incentives: principally, substantial real-terms increases in fuel duty, and major changes to both Vehicle Excise Duty and the rules for taxing company cars. In addition the Government has consulted on introducing a distance-based lorry road-user charge:

> [In addition to the landfill tax, the climate change levy, and the aggregates levy] introduced to address specific environmental problems, the Government has also reformed or changed a number of other taxes so that they give greater environmental incentives.
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> **Fuel duty:** Tax on transport fuels creates incentives for more fuel-efficient vehicles and driving, and creates incentives to reduce unnecessary mileage. This leads to reductions in the externalities imposed by road transport, including congestion, pollution, noise, accidents and damage to the road infrastructure. For example, it is estimated that the real increases in fuel duty between 1996 and 1999 will produce carbon savings of between 1 and 2.5 million tonnes per year by 2010. In the 1999 Pre-Budget Report, the Government announced that the revenues from any real terms increases in fuel duty will in future go to a ring-fenced fund for improving public transport and modernising the road network.[39]
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> **Lorry road user charging:** The Government is committed to modernising the taxation of the haulage industry and ensuring that lorry operators from overseas pay their fair share towards the cost of using UK roads. It has consulted on options for introducing a road-user charge that would apply to lorry operators regardless of their nationality.[40] The consultation revealed a strong preference for a distance-based lorry road-user charge from a range of organisations, including haulage associations, environmental groups and other business organisations. The Government has therefore decided to introduce a distance-based lorry road-user charge that will also be able to take account of other costs such as road track costs and environmental costs of lorries. The Government remains committed to ensuring that the UK haulage industry does not pay any more as a result of the introduction of a new charge and will at the same time introduce offsetting tax reductions for the industry. It aims to introduce the scheme in 2005 or 2006. It published a first progress report in April 2002[41] and will be publishing a further progress report around the turn of the year.[42]
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> **Vehicle excise duty:** Vehicle excise duty (VED) was originally created to finance the cost of road developments in the 1920s. Over time it became a general revenue-raiser for government spending. Since 1997 the Government has sought to use VED to send

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39 (Further to this, lower rates of excise duty have been introduced on a number of more environmentally friendly fuels, while the main road fuel duties were increased in line with inflation from 1 October 2003: *Budget 2003* HC 500 April 2003 7.24-31; HM Treasury press notice 106/03, 25 September 2003.)

40 *Modernising the Taxation of the Haulage Industry - a consultation document*, November 2001

41 *Modernising the Taxation of the Haulage Industry - Progress Report One*, April 2002

42 (The second progress report was published in May 2003. Work continues on refining the requirements of the charge. The Government plans to introduce the charge in 2006: HC Deb 6 October 2003 c 1101W.)

signals to consumers about more environmentally-friendly vehicles. For example, Budget 2000 reformed car VED to relate it to carbon dioxide emissions and provide incentives for more efficient cars. Budget 2001 reformed lorry VED to provide incentives to use cleaner and less damaging lorries, based on an independent environmental evaluation of the impact of different lorries. Budget 2002 has reformed van and motorcycle VED along the same lines.

Company car tax: The Government has also reformed company car tax in 2002 to remove the distortionary tax incentive for company car drivers to undertake additional business miles. Instead, the tax is based upon the carbon dioxide emissions of cars.[43] This has provided a further incentive to choose more efficient cars, which is important as company cars account for around a half of all new cars.[44]

D. Further proposals for reform

In the November 2002 PBR the Government noted that it was looking at the potential use of economic instruments in a number of areas – aviation, waste incineration, and pesticides. Relevant extracts from the report are given below:

Aviation : The Government recognises both the important economic benefits that aviation offers and the need to ensure that the industry faces an appropriate set of economic incentives to deliver an efficient environmental outcome … The Government will discuss with stakeholders the most effective economic instruments for ensuring that the industry is encouraged to take account of, and where appropriate reduce, its contribution to global warming, local air and noise pollution. The Government will set out its plans in its Air Transport White Paper next year …

Waste incineration tax : There are a range of issues associated with developing an effective waste management and disposal mix. The Government will therefore commission a review of the environmental and health effects of all waste management and disposal options. The case for using economic instruments for incineration will be considered in light of this work, and in consultation with other stakeholders …

Pesticides : A voluntary agreement on measures to reduce the environmental damage caused by pesticides was entered into by the industry and other stakeholders in April 2001 … Implementation of the voluntary initiative has been generally satisfactory … However, more progress is required in certain areas … the Government is carrying out further work and analysis on a possible tax or other economic instrument, should the voluntary initiative fail to deliver its objectives within a reasonable timescale.[45]

As yet no firm proposals have been made in these areas, though in March 2003 the Government launched a consultation process on the use of economic instruments in the

[43] (For more details see, “Taxing company cars”, Library standard note SN/BT/606, 23 October 2002).
[44] *Tax and the environment: using economic instruments*, November 2002 paras 6.18-6.23
[45] *Pre-Budget Report* Cm 5664 November 2002 paras 7.47, 7.57, 7.78-79

aviation sector which included examining incentives to encourage better environmental performance, [46] and has confirmed that it will set out its views in an air transport white paper to be published by the end of this year.[47]

Finally, although the Government has ruled *out* the introduction of a national tax on household waste,[48] in August 2003 it published a consultation document on the use of economic instruments to promote household energy efficiency.[49] Again, the results of this consultation are yet to be announced.

E. Opposition parties policy

Opposition parties have said relatively little on the introduction of new green taxes. In the case of the **Conservatives**, the Party's General Election Manifesto stated:

> "We will abolish Labour's Climate Change levy package. The necessary carbon dioxide reduction can be achieved far more efficiently by other means … we will meet the commitments made by successive British governments [on climate change] by a comprehensive package of emission permit trading, energy conservation measures, tax incentives, greater encouragement of renewable energy and cleaner energy generation."[50]

Details of the party's current policies are given on its internet site, but the issue of green taxes is not discussed there.[51] That said, in a speech given in March 2002, Peter Ainsworth MP, then Shadow Secretary of State for Environment, Food & Rural Affairs, said the following:

> As you may know, the Conservatives are presently engaged in a fundamental review of policy. The development of detailed policy will come later, but this does not prevent us from articulating some basic principles from which specific ideas will evolve … We believe that there is a role for fiscal intervention in the interests of a better environment. But we must ensure that environmental taxes actually deal with environmental problems. A Climate Change Levy which does virtually nothing to prevent climate change but which costs manufacturing industry [millions] and exports jobs to countries with lower environmental standards is obviously counter-productive. An Aggregates Tax which nobody, including the Treasury, understands and which simply increases imports of products made from aggregates is plainly likely to fail. If we are to have taxes which discourage environmentally damaging activities let's be straight forward. For example, if we are concerned about the impact of carbon emissions on the future viability of the planet (and we should be) shouldn't we be

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46 HM Treasury press notice 39/03, 14 March 2003
47 HC Deb 30 October 2003 c 328W
48 Cm 5664 November 2002 paras 7.54
49 HM Treasury press notice 96/03, 1 August 2003
50 Conservative Party, *Time for common sense*, May 2001 p 16, p 39
51 http://www.conservatives.com/policies/

> thinking about taxing carbon emissions and seek to persuade other countries to do the same?[52]

In the case of **Plaid Cymru**, the party's 2001 General Election Manifesto – available on its internet site – suggests that green taxes might be used, provided their use "avoids unfairness":

> We shall call for a Commission on Taxes to redesign the system so as to create a fairer society. We recommend a more progressive tax system with a greater number of income tax bands and raising the higher rate to 50% for earnings over £50,000. The commission should also investigate the role of indirect, particularly 'green' taxes. The Party of Wales favours moving towards such taxes, as long as they are designed in a way that avoids unfairness. We emphasise the need to use revenue from such taxes to maximise their effect and to protect sectors hit by them. Tax on road fuel is one example where measures are needed to reduce its effects in particular circumstances such as the crisis in the countryside. At the same time, we oppose the use of green or any other indirect taxes in order to raise revenue by stealth for the Treasury.[53]

More recently the party noted the potential for using economic instruments to deal with the problems of waste, in a policy paper on the environment:

> Of all the possible growth sectors, waste provides the greatest opportunity for creative and imaginative action to make Wales a market leader in a hitherto neglected field …
>
> - With suitable powers, the National Assembly could vary the tax regime to penalise unsustainable methods of waste management while freeing-up start up capital for new technologies and recovery and recycling ventures.
> - Landfill tax credits should be used specifically for supporting recycling activities, with a system of taxes and rebates for packaging materials like bottles, cans and plastic bags.[54]

In the case of the **Scottish National Party**, the party's 2001 General Election Manifesto noted that the SNP was opposed to the climate change levy, and that it was "committed to the Precautionary and Polluter Pays Principles."[55] The party's internet site has a series of briefing papers on policy issues, one of which touches on the issue of green taxes (*emphasis added*):

> Waste: Scotland is currently the dirty man of Europe. Radical action is required to bring waste management in Scotland up to acceptable levels. Instead the Executive

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52 The speech is reproduced on the party's internet site at: http://www.conservatives.com/news/article.cfm?obj_id=27362&SPEECHES=1

53 "Part 11: Making Wales Work", Plaid Cymru, *The Party of Wales Manifesto*, 2001 at: http://www.plaidcymru.org/manifesto.html

54 Plaid Cymru, *Policy for Wales 2003 – 2007: Target the economy*, 2003 pp 49-50 at: http://www.plaidcymru.org/targettheeconomy.pdf

55 SNP, *We stand for Scotland: heart of the Manifesto*, 2001 p 5. The manifesto also states that the party plans to undertake a "Comprehensive Review of Taxation" to examine the fairness of the tax system, as well as cut he rate of excise duty on fuel by 10p a gallon (including VAT)" (p 11).

has relied on rhetoric. Scotland should be moving towards sustainability but this will only be achieved with real leadership. Only the SNP has the vision required to deliver a clean, green independent future for Scotland. Our recycling record is an embarrassment – less than 5% of household waste is recycled when the European target is 50-65%. *Scotland sends £50m a year in Landfill tax revenue to the UK Treasury – this money should stay in Scotland for investment in waste management and the SNP will make sure it does.* The SNP are committed to the development of a resource efficient culture in Scotland. We want Scotland to become a world leader in securing a sustainable environment. We can only do that with Independence.[56]

F. Selected further reading

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http://www.cbi.org.uk/ndbs/PositionDoc.nsf/81e68789766d775d8025672a005601aa/1345a683fe0a107d80256b9900333f4b/$FILE/Environment_tax_brief_7_120402.pdf

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Stephen Smith/OECD, *Environmental taxes and competitiveness: an overview of issues, policy options and research needs*, June 2003
http://www.olis.oecd.org/olis/2001doc.nsf/43bb6130e5e86e5fc12569fa005d004c/ab6efbb14d2bc421c1256d4200498849/$FILE/JT00145868.PDF

European Commission/EuroStat, *Statistics in Focus: Environmental Taxes in the European Union 1980-2001*, 2003
http://europa.eu.int/comm/taxation_customs/publications/other/ksnq03009_en.pdf

56 http://www.snp.org.uk/html/vision/policy/policies-by-area.php?areaID=8