

We face two crises – Tuesday’s Budget must address both

Summary: Four key questions for Minister Lenihan

1. In the “Carbon Report” part of his speech will Minister Lenihan acknowledge the recent warning from the EPA that, with current policies, Ireland will miss our Kyoto target by 5 million tonnes of CO₂ a year?
2. Will Minister Lenihan spend even more taxpayers’ money buying pollution permits overseas through the Carbon Fund to cover that overshoot?
 - ⇒ Will he acknowledge that our Kyoto overshoot is likely to cost the taxpayer in the region of €700 million between now and 2012, more than twice what the government has so far allocated to the Carbon Fund for buying pollution permits overseas, unless we take decisive action.
3. Will Minister Lenihan introduce the Carbon Levy promised in the Programme for Government?
 - ⇒ A price on carbon would reward those who reduce their carbon footprint, incentivize everyone to be more energy efficient and make the polluter pay for our remaining Kyoto overshoot rather than the taxpayer.
4. In prioritising and postponing investment decisions will Minister Lenihan demonstrate that, as promised, the carbon footprint of each project has been taken into account?
 - ⇒ All major investment projects are being re-examined on the basis of affordability and value for money. It is essential that the carbon impact of each project is factored in to the cost-benefit analysis as every tonne of CO₂ that an investment produces will cost the taxpayer at least €25 a year.

The Context

We face two crises not one. All the headlines currently focus on the crash that sees the financial system “on the brink of systemic meltdown” as the head of IMF put it. But the climate crisis hasn’t gone away. We still have time to avoid a climate crash and its “systemic meltdown” but only just.

It would be fatally short-sighted if the immediate economic emergency consumed policy makers to the extent that they postponed action on a threat that poses an even greater threat to 21st century lifestyles, livelihoods and lives. It would be like a ship’s captain sending all the crew to put out a sudden fire on deck knowing that the ship is also holed below the water line.

Both the financial crisis and the climate crisis share similar causes: Poorly understood and badly managed risk on the one hand and weak regulation on the other. Arguably they are both fuelled by the same flawed philosophy – the delusion of a world without limits.

And if we wait for the climate equivalent of the fall of Lehman Brothers then no amount of all-night sessions and Government bailouts will bring us back from the brink – “this sucker will go down” as George Bush puts it.

Governments need to tackle the climate crisis with the same urgency as the financial crisis. And with the same willingness to put aside long-standing assumptions and embrace fundamental policy shifts. Change is coming. Our choice is whether we manage it or whether it spirals out of control.

Tuesday’s Budget will tell us if our Government is up for the challenge.

The Analysis

What to watch for and why. What's behind the four key questions.

1. The Carbon Report

The Programme for Government states “The Government will mandate the Minister for Finance to present an outline carbon report (“carbon budget”) in conjunction with the annual financial Budget.”

Last year Brian Cowen devoted about 500 words of his speech to the Carbon Report. He outlined the level and sectoral distribution of our current greenhouse gas emissions, summarized the scale of our Kyoto commitment and re-iterated the Government's pledge to reduce Ireland's emissions by an average of 3% a year.

In this year's Carbon Report the key question is will Minister Lenihan accept the findings of the [EPA report](#) published on 25th September, namely:

- Our emissions have risen from the 70 million tonnes (Mtonnes) reported in last year's Budget to around 71 Mtonnes now.
- Even if all the measures the Government has adopted are implemented in a timely and effective manner we will miss our Kyoto target by 7 Mtonnes a year between now and 2012. 2 Mtonnes of this will be taken care of by Irish companies in the EU's ETS but the Government has the responsibility for the other 5 Mtonnes a year.
- By 2020 all these existing measures would only manage to contain Irish emissions at 2005 levels while the EU target is to reduce emissions to 20% below that, or 30% if a new global deal is struck next year in Copenhagen.
- The best case scenario with all existing measures is that Ireland would miss a 20% reduction target for 2020 by 7 Mtonnes a year according to the EPA.

All of these outcomes would have disastrous consequences for taxpayer, detailed in the next section on the Carbon Fund.

2. The Carbon Fund

- The Government has so far allocated €290 million to a statutory Carbon Fund to buy pollution permits overseas. This was done in Budget 06 and Budget 07 to cover our projected Kyoto overshoot between now and 2012
- That €290m figure was based on Ireland missing its Kyoto target by 3.6 million tonnes a year and a pollution permit for each tonne costing €15.
- Latest estimates suggest, however, that at best we'll miss the target by 5 Mtonnes a year and that the price of each permit will be between €25 and €40 a tonne.
- Between now and 2012 taxpayers will face a bill of €700 million for pollution permits unless the Government acts decisively to reduce emissions.
- By 2020, when the EPA estimates we will be 7 Mtonnes over an EU target to reduce emissions by 20% (or 12 tonnes over the more likely 30% target) and

Point Carbon estimates pollution permits will [cost about €80 a tonne](#) the taxpayer could be facing an annual bill of almost €1 billion, if we fail to act.

- In Budget 09 will Minister Lenihan
 - a) allocate more taxpayers money to Carbon Fund to be spent overseas, at a time when essential services at home are facing severe cuts or
 - b) will he ignore the issue for fear of annoying hard-pressed taxpayers or
 - c) will he take action to make the polluter pay instead?

C. The Carbon Levy

The Programme for Government commits the coalition to the introduction of a carbon levy during the lifetime of this government. Tuesday's Budget is the time to do it.

On its own it won't be enough to ensure Ireland meets its Kyoto target or the Government delivers on its commitment to reduce emissions by 3% a year. But it has the following advantages:

- It rewards those who reduce their carbon footprint, thereby encouraging a reduction in emissions.
- It's fairer on the taxpayer. Right now, no matter how much you reduce your own footprint, the Government still uses your tax-money to buy pollution permits to cover the pollution of those who continue to pollute profligately. With a carbon levy the polluter pays.
- It creates a level-playing field for business. Right now the businesses who are participating in the EU Emissions Trading Scheme are facing a price for carbon of about €25 a tonne, while other businesses, in what is called the non-traded sector, don't face any price for polluting.
- With fuel prices falling again it won't penalize consumers unduly but it shifts pricing so that things that pollute more cost more and things that pollute less cost less.

The Government has been considering a carbon levy since 1998 when a report on how to meet our Kyoto target recommended it as one useful policy measure. Since then it has featured in one National Climate Change Strategy, two Programmes for Government and about three Budget speeches. It will make a modest contribution to reducing our emissions. Tuesday is the time to get it done and move the debate on to the much more fundamental changes we will need if Ireland is to do its fair share to reduce emissions by 2020 and 2050.

The ESRI recommends that a carbon levy should be introduced at the level of the likely price of ETS permits for the year ahead, that is about €25 a tonne.

So the question is, is the Government going to ignore our spiralling emissions and our overheating planet in the way they ignored our spiralling house prices and our overheating economy or will they take action on Tuesday?

The introduction of a carbon levy at €25 tonne on Tuesday would be a step in the right direction.

D. Investment decisions

The Programme for Government promises “a multi-criteria analysis of all transport projects to take into account environmental factors on a whole project basis”.

All major investment projects are now being re-examined on the basis of affordability and value for money. It is essential that the carbon impact of each project is factored in to the cost-benefit analysis, as every tonne of CO₂ that an investment produces will cost the taxpayer at least €25 a year.

The [UK Government](#) has proposed incorporating a “shadow price” for carbon into all policy and investment decisions, starting at £25 now and rising to £60 for 2050.

In prioritising and postponing investment decisions will Minister Lenihan demonstrate the that, as promised, the carbon footprint of each project has been taken into account?

A fundamental re-evaluation of investment priorities on this basis would demonstrate that the Government is serious about meeting its commitments on climate change and playing its part in preventing the climate crisis becoming a climate crash.