Friends of the Earth Pre-Budget Briefing

3 December 2007

Areas to watch out for

1. VRT and Motor Tax
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1. VRT and Motor Tax

EXPECT an announcement that VRT and Motor Tax will no longer be based on engine size but on the amount of carbon dioxide emitted by vehicle. It is surely one of the most trailed budget measures ever. To be credible, effective and acceptable the new system **must be based purely on CO2 emissions** and not engine size as well and it should **be revenue neutral**. The latter means that VRT on cars with low emissions should come down in 2008.

WELCOME PROGRESS. This is a step in the right direction. It makes sense that the more polluting your car the more you pay and the less polluting your car the less you pay. It's a simple use of carrots and sticks to encourage motorists to make more climate-friendly choices.

NOT A GREEN BUDGET. This step on its own will not make this a green Budget. This reform was first announced in the National Climate Change Strategy in November 2000. It was in the 2002 FF/PD Programme for Government. In his Budget speech last December Minister Cowen announced the changes would come in from 1 January 2008. As a result there was a spike in SUV sales last January. Now the signs are the changes won't come in until 1 July 2008, so expect another spike in SUV sales this coming January.

WE NEED TO SEE much more if we are to contain (nevermind reduce) transport emissions: A reversal of investment priorities, from two-thirds roads and one-third public transport in the last 10 years to two-thirds public transport and one-third roads in the next 10. Right now the NDP and Transport 21 tend towards 50/50. We need to see colour-coded labels on all new cars, like the ones on fridges, grading their emission levels from A to F. In fact the grade should be on the number plate for all to see. We need a congestion charge in Dublin like the one in London. In London, from next year, low-pollution cars will be free, regular cars £8 a day, and high-pollution cars £25 a day. And we need per-km tolling on the M50 as the upgrade is completed. Otherwise more cars will fill the new road space as happens everywhere, congestion will be as bad as ever, the taxpayers' money will have been wasted and emissions will continue to rise.

DON'T FORGET there has been a 160% rise in carbon emissions from transport since 1990 (to 2005, the latest figures we have). By contrast under the Kyoto Protocol Ireland is supposed to limit the rise of our overall emissions to just 13%.

NOTE: The changes to Motor Tax are likely to be announced by John Gormley in his Carbon Budget speech on Thursday, rather than in Cowen's speech on Wednesday.

2. Stamp Duty

Parts of the media and some analysts are calling for further reform of stamp duty to revitalize the property market. And the Green Party manifesto called for changes to encourage empty-nesters to trade down. All his public utterances on the matter suggest Brian Cowen will not make any changes. If the Minister does reform stamp duty, however, he should link the rate you pay to the energy efficiency rating of the house. All houses, new and second-hand, will soon have energy efficiency labels (like the ones on fridges). It would encourage builders and home owners to invest in energy-saving features if it meant the house attracted a lower rate of stamp duty. Prospective buyers would have more money to pay the seller of energy efficient houses knowing that the stamp duty would be lower. And buyers would know that their heating bills would be lower in years to come.

3. The Carbon Fund

In the last two budgets Brian Cowen has allocated a total of €290 million (€20m in 2005 and €270m last year) to a Carbon Fund to buy pollution permits overseas. This is because Ireland has been on course to overshoot our Kyoto target for greenhouse gas emissions by 7 million tonnes a year (from 2008 – 2012) and the last Government intended to buy its way into compliance. Friends of the Earth regards the Carbon Fund as a stealth tax. It's funded by PAYE taxpayers no matter whether you are the most polluting or least polluting person in the country. There's no incentive to reduce your pollution. The Carbon Fund is unfair, untransparent and unsustainable.
The FF/Green Party Programme for Government commits to reducing our greenhouse gas emissions by 3% a year. If that happens then little or nothing of the Carbon Fund will have to be spent overseas.

If Brian Cowen:

- ***says nothing*** **about the Carbon Fund** on Wednesday it means we don't really know yet if he's serious about cutting Irish greenhouse gas emissions.
- ***allocates more money*** **to the Carbon Fund** you can take it that all the talk of a green budget and concern for the climate is just hot air and the Government has no plans to reign in pollution.
- ***reduces the allocation*** **to the Carbon Fund** we may have turned the corner on climate protection policy. At least it would be a sign the Government realises what the 3% a year reduction means.

4. A Price for Carbon

The 2002 FF/PD Programme for Government promised a carbon tax. Charlie McCreevy ditched the plans in 2004. The 2007 FF/Green Party Programme for Government promises a carbon levy. It could and should be introduced in this budget.

- ***It could be introduced now*** because the Department of Finance did all the preparatory work for it three years ago and it's a relatively simple tax to implement (like Excise it would mostly be applied at the point of import of fossils fuels).
- ***It should be introduced now*** because the Kyoto clock starts ticking on 1st January 2008. Every tonne of carbon we emit in Ireland over and above our Kyoto target during the next five years we'll have to pay for by buying carbon credits overseas. Big companies will do it themselves through the EU emissions

trading scheme (ETS). The Government will do it for the rest of us. A carbon tax would be a fair application of the polluter pays principle. It would reduce our Kyoto overshoot and mean that whatever we do have to pay would be raised directly from the polluter rather than stealthily from the general taxpayer.

- ***It won't be introduced now*** because Irish climate change policy is Kyoto for slow learners. Six of the current cabinet were cabinet ministers when Noel Dempsey signed the Kyoto Protocol for Ireland 10 years ago this month, another four were Ministers of State. All but one were TDs. Less than six months later consultants hired by the Government said the most effective and efficient way to implement Kyoto was to put a price on carbon. The advice from the likes of the ESRI has never wavered from that line before or since. But in the face of vested interests clinging to 20th century economic models the last Government the dropped the polluter pays principle and passed the on the Kyoto costs to the taxpayer. A year ago the Stern Review of the economics of climate change re-iterated the need to put a price on carbon. When Al Gore spoke in Dublin on Saturday said he favoured carbon taxation. But does the Government get it yet?

THE ONE GOOD THING about all this foot-dragging is that Ireland now has the chance to leapfrog to the latest ideas about how best to put a price on carbon pollution. A carbon tax is one way to do it but there are more elegant, effective and equitable solutions out there such as Cap and Share, which is now the subject of a study commissioned by the National Sustainable Development Council (Comhar) due to be published early in 2008.

LOOK OUT FOR indications of how and when the Government intends to implement the Programme for Government commitment in this area. Will Brian Cowen give a date? Will he merely reference the yet to be established Commission on Taxation? Has he read the Stern report, will he mention it? Will he use the words "carbon levy", as the Programme for Government does, which means Government thinking is focusing on carbon taxation or will he use the more general "carbon pricing" which means Government may be open to innovative solutions such as Cap and Share.

> *If the Government is to have any chance of fulfilling its commitment to reduce climate-changing pollution by 3% a year then the Budget in a year's time will have to see measures to put a price on carbon across the whole economy. The debate on whether we price carbon pollution is over. The debate on how best to do it starts on Wednesday and will dominate much economic discussion in 2008.*

5. Lightbulbs

With the VRT changes all but officially announced already and the carbon levy extremely unlikely to be brought in this year the Government may still be looking for an eye-catching initiative to bolster their green credentials. One possibility would be the recently-pressed proposals from Greenpeace International for a "Lightbulb Law" to steadily increase the energy efficiency standards for all lightbulbs, thus slowing but surely squeezing the light out of old-fashioned incandescent lightbulbs. A useful step, but not to be confused with the Stop Climate Chaos call for a law to underpin climate change targets and policies. Senator Ivana Bacik's Climate Protection Bill, drafted to do just that, is due back in the Seanad, on Government time, before Christmas.

6. The Carbon Budget

The Programme for Government says on climate change:

"In particular, we will:

- Agree an all-party approach on climate change targets.
- In advance of agreeing such targets, the Government will set a target for this administration of a reduction of 3% per year on average in our greenhouse gas emissions.
- Mandate the Department of Environment, Heritage and Local Government to publish an Annual Report setting out progress on meeting climate change targets.

…

Carbon Report

The Government will mandate the Minister for Finance to present an outline carbon report ("carbon budget") in conjunction with the annual financial Budget. This will be followed immediately by a report from the Minister for Environment, Heritage and Local Government outlining our use of energy in the preceding year, the progress made in meeting the reduction targets, and government plans to meet the target in the following year."

Ireland's first Carbon Budget, and one of the first in the world, will be announced on Wednesday and Thursday.

To be meaningful it should contain:

- Estimates of Ireland's greenhouse gas emissions for 2006 (the final figures for 2006 are not due from the EPA until February) and 2007.
- The proposed limit on Ireland's greenhouse gas emissions for 2008. This is the planned pollution for 2008 in the same way the fiscal budget is the planned spending for 2008.
- The allocation of that overall Carbon Budget figure between the different activities that cause climate pollution and the Government Departments responsible for those areas (Industry, Agriculture, Transport etc).
- The measures planned to lower climate pollution to the levels budgeted for (just like the fiscal budget has tax measures to raise revenue to the levels budget for).
- Projections for years beyond 2008, all the way to 2012 when both Kyoto Protocol and this administration are due to come to and end.

We already know that official estimates for Ireland's greenhouse gas emissions in 2007 are around 70 million tonnes of carbon dioxide equivalent. And we know that the Government is committed to reducing that figure by about 3% a year on average over the next five years.

So the overall Carbon Budget for 2008 should be around 68 millions tonnes of carbon dioxide equivalent (68 Mt CO2e).

On the next page the two tables illustrate how this differs from the outgoing FF/PD Government plans, announced in the National Climate Change Strategy (NCCS) in April. The NCCS based figures have been checked by the EPA.

First, what the commitment to reduce greenhouse-gas emissions by 3% a year on average for the next five years means for the annual carbon budgets, the overall emissions figure for the five year period, which is the Kyoto commitment period, the resulting need for carbon credits to be purchased overseas and therefore for the Carbon Fund.

3% a year reduction	**Mt CO2e**
2007 (NAP projection gross emissions)	70.07
2008	*67.97*
2009	*65.93*
2010	*63.95*
2011	*62.03*
2012 (PfG commitment)	**60.17**
Total (2008-2012)	320.05
Kyoto target 2008-12	315.16
distance to target	4.89
annual distance to target (gross emissions)	0.98
annual carbon sink capacity	2.07
annual net distance to target	0.00
carbon credits required	0.00
carbon fund required	0.00

Second, how that compares with the National Climate Change Strategy (NCCS) published in April and the actual emissions reported until now.

	Mt CO2e	**% of baseline**	**2008-12 Total**
Kyoto baseline	55.78	100.00	278.90
Kyoto target	63.03	113.00	315.16
2005 reported gross EPA	69.95	125.40	
NCCS			
2010 Gross	70.33	126.08	351.65
Distance to target	7.30		
To be covered by:			
carbon sinks	2.07		**€**
ETS purchases	2.04	@€20x5yrs=	204.00
State purchases	3.61	@€20x5yrs=	360.70
	7.72		564.70