

Budget 2007 – ‘Towards Sustainability’

Comhar the Sustainable Development Council (SDC) has made proposals in regard to the content and modalities of the forthcoming National Development Plan 2007-13 in which we emphasised the importance of ensuring that our quality of life in general, and in regard to environmental and social domains in particular, is protected and enhanced.¹ We have done this in the knowledge that quality of life, and high quality generally, are central to our ability to compete globally. If we achieve sustained quality of life, broadly defined, we will also achieve a competitive economy. Our food and tourism industries, our ability to attract and retain highly skilled people in all sectors, depends fundamentally on the perception and the reality that Ireland is a high quality country in all respects.

Fiscal decisions are the key shapers of economic, social and environmental performance. If the signals at this level do not actively promote sustainable behaviour, no amount of rhetoric or programmes in other areas will be effective.

We hope that Budget 2007 will be an important step in advancing quality of life and in giving shape to the medium term quality of life objectives in the National Development Plan; our recommendations are framed in this context.

We support Minister Cowen’s view that enhanced support for those most vulnerable should be a particular focus of this budget.

Comhar SDC Recommendations

- A. **Carbon proof** all new fiscal measures to ensure that they do not incentivise a rise in greenhouse gas emissions and other pressures on the environment, and ideally encourage reduction.

Benefits

The idea is to simultaneously advance economic and social development, and reduce pressure on the environment. This will improve quality of life, reduce our exposure to potentially large bills for overshooting our Kyoto commitment in regard to greenhouse gasses, other emissions (we face demanding ceilings under the National Emissions Ceiling Directive) and conservation of biodiversity where compliance with the Biodiversity and Water Framework Directives pose major challenges.

The proposals that follow are in this spirit.

¹ See www.comhar-nsdp.ie

B. Change the growth trajectory of fuel use and carbon emissions in the transport sector – adjusting taxes to move towards a fuel and carbon efficient car fleet.

The Irish road transport sector is the main source of growth in greenhouse gas emissions. Unless this trajectory can be modified, it will be impossible for us to contribute usefully to the abatement of greenhouse gasses and to reduce vulnerability to imported oil. There are many facets to changing the trajectory, including congestion prices, which manage demand on roads to the point that it flows freely and busses can operate effectively, more clustering of households and jobs in the vicinity of public transport nodes so high quality cost-effective and frequent mobility services can be provided. However, one key to moving quickly to make our new fleet more fuel and environmentally efficient is to change the taxes we pay to buy and operate a car.

The EU Commission has proposed that vehicle taxes in the European Union be restructured on the basis of CO₂ emissions as soon as possible². While holding revenue from vehicle taxes constant and therefore not affecting public revenues, this can provide an incentive to consumers to shift their purchase preferences to low-carbon emitting vehicles. Rather than the current system of assigning vehicle tax rates by engine size, tax rates should be determined by the CO₂ emissions produced by the vehicle. CO₂ emissions bands with associated vehicle tax rates should be established, which in turn should be aligned with car labelling to improve consumer information and lead to further CO₂ emissions reductions. It is important that vehicles be taxed by CO₂ emissions performance rather than any particular technology, which is currently the case with the VRT reduction for hybrid and flexi-fuel vehicles, so that the best vehicle performance is incentivised and there is no market distortion. We have estimated the CO₂-differentiated VRT and motor tax rates that could provide CO₂ emissions reductions with the current (2005) vehicle stock in Ireland yet remain revenue neutral³.

² It is also proposed that vehicle registration taxes be abolished by 2016 (Proposal for a Council Directive on passenger car related taxes Commission of the European Communities, COM261 final, 2005/0130 (CNS), Brussels, 5.7.2005).

³ Comhar SDC will publish a discussion note on vehicle taxes shortly, which will include more details on this and other scenarios, including the abolishment of VRT. Please contact Lisa Ryan for more information (lisa.ryan@environ.ie).

The Comhar SDC Proposal

Table 1: Proposed revised vehicle tax rates by CO₂ emissions bands and resulting CO₂ emissions reductions.

CO ₂ emissions band (gms CO ₂ per km)	VRT rate (%)	Motor tax (€/annum)	Vehicle stock (2005)	New vehicles (2005)	CO ₂ change (Mt/yr)
0-100	0	0	0	0	0
101-120	10	50	0	0	0
121-135	18	80	196273	13021	2.72
136-150	20	200	296677	22615	0.82
151-165	25	300	595096	58956	0.72
166-185	30	500	319296	54254	-1.79
186-225	40	800	219310	11569	-3.83
226-above	45	1100	34830	2407	-0.14
Total			1661482	162822	-1.53

Notes:

1. Estimated vehicle tax revenue (VRT + motor tax) from passenger cars in 2005 = €1.73 billion
2. Estimated revenue from new CO₂ –differentiated vehicle taxes = €1.77 billion.
3. Assumed elasticity of CO₂ emissions intensity of the fleet with respect to vehicle taxes -0.11⁴.
4. Vehicle emissions and number data from Fergal O’Leary (EPSSU, Sustainable Energy Ireland) are gratefully acknowledged.

The results presented in Table 1 show the reduction of CO₂ emissions achieved, based on the current vehicle fleet in Ireland. It is clear that there are significant gains that can be made by restructuring the vehicle tax system to a CO₂ emissions basis. This measure is designed to be revenue neutral – i.e. the revenue to the Exchequer remains the same as before.

Benefits

We will reduce annual greenhouse gas emissions by in the order of 1.5 million tonnes of CO₂. The costs of buying commitments in the CDM market to make up our Greenhouse Gas overshoot are in the order of €15-19 per tonne CO₂.⁵ Applying an average cost per tonne of €17 to 1 million tonnes savings (conservative estimate) achieved by this measure over the five Kyoto period years yields a saving to the Exchequer of €85 million. This policy is consistent with the polluter pays principle; if we do not do it, because the general tax payer will have to make up the deficit by buying credits on the international market, those who do not drive at all, or who drive carbon efficient vehicles, will end up subsidising those who drive large CO₂ emitters. There may also be collateral benefits in regard to reduction of NOx emissions, and reduced average vehicle size in the form of gains in regard to use of road and parking space, accident fatalities etc. However, we have not yet done the research to identify whether they exist, and if so, what is their magnitude.

⁴ Johansson & Schipper (1997) ‘Measuring long run fuel demand of cars’, Journal of Transport Economics and Policy, 31:277-292.

⁵ Jorund Buen (2006) estimates that the price of CERs per tonne of CO₂ when the seller is taking the risk is in the range €15-19. See: ‘Effectiveness of Existing Policies and Measures in GHG Mitigation – the Clean Development Mechanism and technology transfer’, presented at XXV MIT Global Change Forum, Vienna, 10-12 October.

- C. **If stamp duty is to be reduced, such reduction should be contingent on meeting the highest energy efficiency standard**, as validated by independently validated labelling via the implementation of the *Energy Performance in Buildings Directive (EPBD)*.

Who would benefit from stamp duty reduction depends largely on the 'tightness' of the market. In Greater Dublin, where demand pressures continue to be intense, a reduction is likely to mainly accrue to the seller – reduction in stamp duty will show up in the form of a higher price for the seller. Where there is less demand pressure relative to supply, more of the gain will be passed back to the buyer in the form of lower prices. In neither case does the wider community capture any gain. If however, the reduction is used to stimulate demand for highly energy efficient buildings – e.g. with 'A' ratings as validated via EPBD, there will also be a dividend to society.

Benefits

The purchaser wins by occupying a house with lowered operating costs and higher comfort. The wider community wins by reduced greenhouse gas and other emissions – and the associated bills - and reduced vulnerability to oil and (especially) natural gas imports.

- D. Creation of a **Sustainable Development Fund (SDF)** to finance projects and activities that advance competitiveness, reduce pressure on environment, and support social cohesion.

Examples of what we have in mind could include:

- *Towns and villages* that have been bypassed by Motorways have an opportunity to create a high quality environment and economy where walking, cycling are easy and safe, where key built and natural features are conserved, social spaces for business and social interaction can be recreated, where new businesses, child care and other socially related services can be incubated and enterprise fostered.
- *Cutaway bogs* have an opportunity to: create a combination of wetlands rich in biodiversity and wildlife that reduce flooding potential, well interpreted to highlight contribution to education and tourism; cultivated land where bio-energy and other crops are grown, linked to village and town developments that foster associated enterprise and highlight the history and future contribution of these areas.
- *Coastal communities* need to diversify their economies and their social life to be less dependent on declining marine fish stocks, find new growth areas for their enterprise, develop new marine and tourism related skills and at the same time enhance the protection of biodiversity and landscapes.

- A sustainable energy zone, where all activity is characterised by exceptional levels of renewable energy use, and energy efficiency, all provided so as to make no net contribution to global warming - i.e. carbon neutral.

The ideal projects would involve a combination of local and national government, private enterprise and local community engagement and support, all professionally and coherently managed. Projects would be selected competitively by independent assessment, based on credible estimates of the net social, economic and environmental impact, the quality of the plan and of the individuals and organisations involved, and the ability to continue indefinitely after the initial investment injection.

The SDF would be a core part of the National Development Plan; Budget 2007 would provide start up funds to support the development of high quality proposals. Those chosen would commence implementation in 2008 and thereafter.

Benefits

Most of the interesting challenges and opportunities in regard to sustainability involve integrated and joined up thinking, involving a range of institutions, stakeholders and departments. But joined up government is not one of our national strengths – interdepartmental committees are well known as graveyards of serious imagination, focus and execution. This Fund would allow us to begin to harvest these opportunities. By the end of the NDP 2007-13, Ireland would be criss-crossed by a diverse range of integrated sustainable development projects that would demonstrate how key stakeholders can come together to meet ambitious shared objectives, there would be substantial gains in enterprise creation and reduced greenhouse gas emissions, biodiversity would be enhanced, and social life would be improved. Businesses that specialise in eco-efficiency construction and services would be fostered as this market developed and matured

E. All government investments and other purchases should encourage sustainability objectives.

What we have in mind includes the following:

- a. All *publicly funded and leased buildings* – housing, education, health and office - should meet the highest standards of energy and resource efficiency and use of renewables. Sustainable Energy Ireland's demonstration programmes for housing and the public sector show that we can achieve a 20-40 per cent gain in energy efficiency with proven methods. Use of water and other resources should be metered and monitored with a view to ensuring lack of waste, and biodiversity and nature conservation should characterise all development.

- b. All *government owned vehicles* should meet a demanding standard of energy and carbon efficiency, and travel payments to public servants for official travel in their own vehicles should differentially favour fuel and carbon efficiency, and provide a premium for travel by public transport.

Benefits

Unless government leads by its own actions, it is difficult to expect others to follow. The demonstration and credibility effects will be important in transforming overall performance. The costs of operating and maintaining public buildings in the future will be reduced, and this will help maintain services and quality when budgetary pressures intensify in the future. Carbon emissions and the associated bills for 'overshooting' will be reduced, as will dependence on imported oil and gas.

F. Supporting Innovation and the Knowledge Society.

Innovation gives us choices that did not exist before. It needs to be embedded as a cultural norm if Ireland is to maintain its economic robustness and do so in fashions that reduce environmental pressure and enhances social cohesion. Every government and sectoral programme needs a fund to support the development of critical mass in delivering high quality R&D and companies need to be incentivised to sharply increase their activity. The EPA-administered R&D programme needs to be expanded to address gaps in capacity to assess sustainability performance and foster technologies and management systems that reduce pressures on environmental endowments. Specifically, R&D addressed to helping Ireland adapt to climate change, and to lead in technologies addressed to both adaptation and abatement will provide a platform for action and for new business.

Benefits

A continuing innovation dividend characterised by quality is essential if Irish entrepreneurs are to succeed in a global economy. It will not be possible to reduce pressure on environment without cost-reducing innovation, and this is also essential if climate change and other environmental and social objectives are to be met.