



Institute for
Fiscal Studies



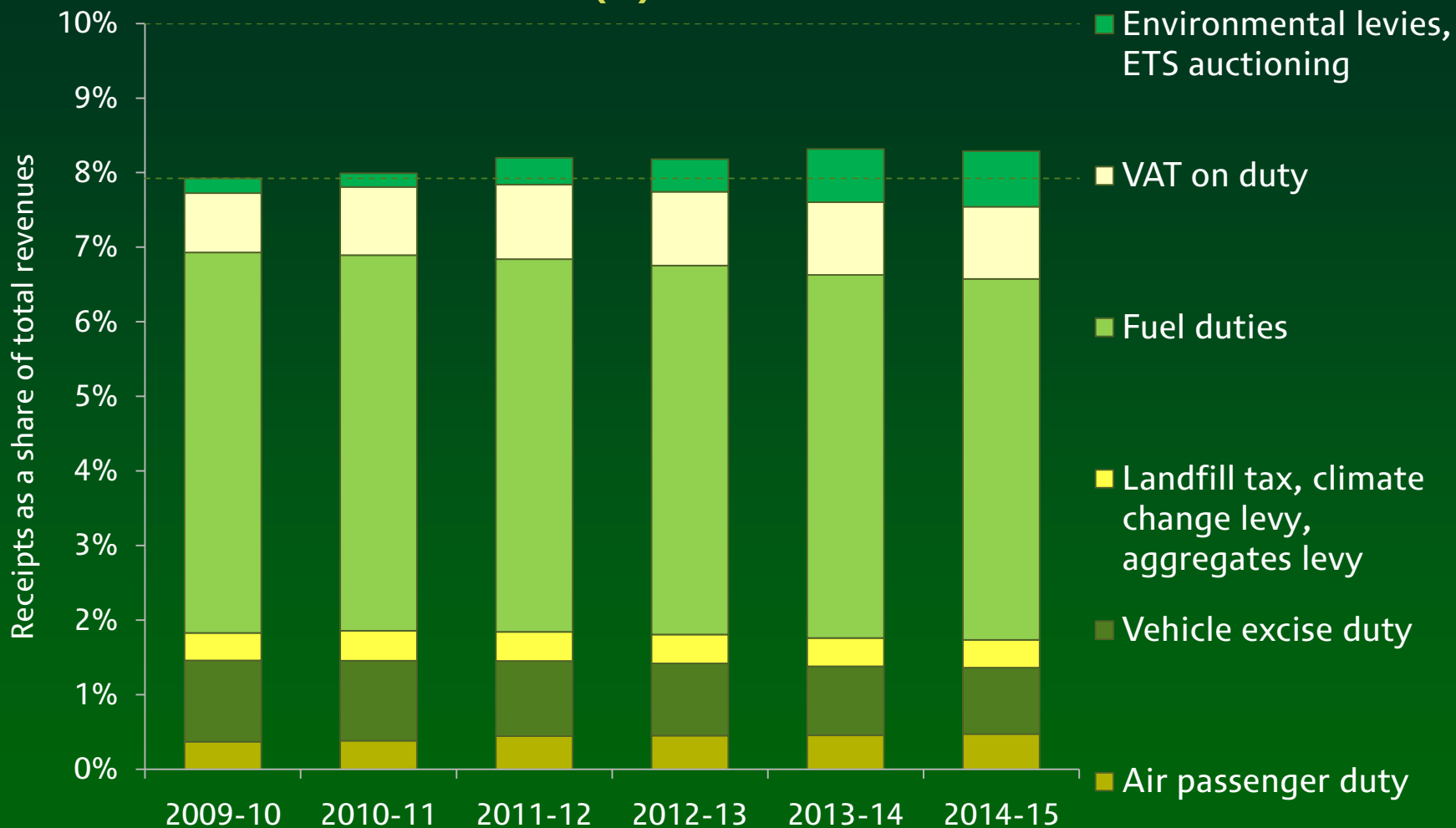
Environmental Policy

Peter Levell and Andrew Leicester

Environmental Policy

- Coalition inherited Labour targets
 - Carbon Emissions (34% reduction relative to 1990 levels by 2020)
 - Renewables (15% renewable energy by 2020)
- Set new goal
 - Increase environmental taxes relative to total receipts
- Policy changes
 - End revenue recycling in the Carbon Reduction Commitment (CRC)
 - Changes to the Climate Change Levy (CCL)
 - Fair Fuel Stabiliser (FFS)?
- Green Budget chapter 11 also covers
 - Feed-in-Tariffs
 - Green Deal
 - Per Plane Duty

Environmental Taxes (1)



Source: Office for Budget Responsibility

Environmental Taxes (2)

- Appropriate target?
- Not a good measure of a government's 'green' credentials:
 - Environmental incentives of existing taxes can be sharpened
 - Successful green taxes might not raise much revenue
 - The share of receipts will vary with non-environmental revenues
 - Governments may also make use of non-tax instruments

Fair Fuel Stabiliser

- A “Fair Fuel Stabiliser”?
 - Conservative proposal, not in the coalition agreement
 - Adjust fuel taxes to stabilise pump prices
 - Hoped will stabilise family finances and public finances
- Could stabilise household finances...
 - 5% of non-housing budget spent on fuel
- ...but not public finances
 - Temporary \$10 increase in oil prices leads to £100 million gain with £700 million loss in following year (OBR)
- Difficult to implement in practice
 - Permanent/temporary changes
 - “Ratchet effects” if greater pressure to cut duties when prices high

Change to Carbon Reduction Commitment

- Reform to the CRC
 - Trading scheme for relatively large firms/public sector bodies not covered by Emissions Trading System
 - Initial intention to recycle revenues based on league table
 - Spending Review announced revenues would be kept by Treasury
 - £1 billion by 2014-15
- Impact on incentives for energy use?
 - Probably small
- Reform doesn't change marginal costs much so probably efficient way to raise revenues

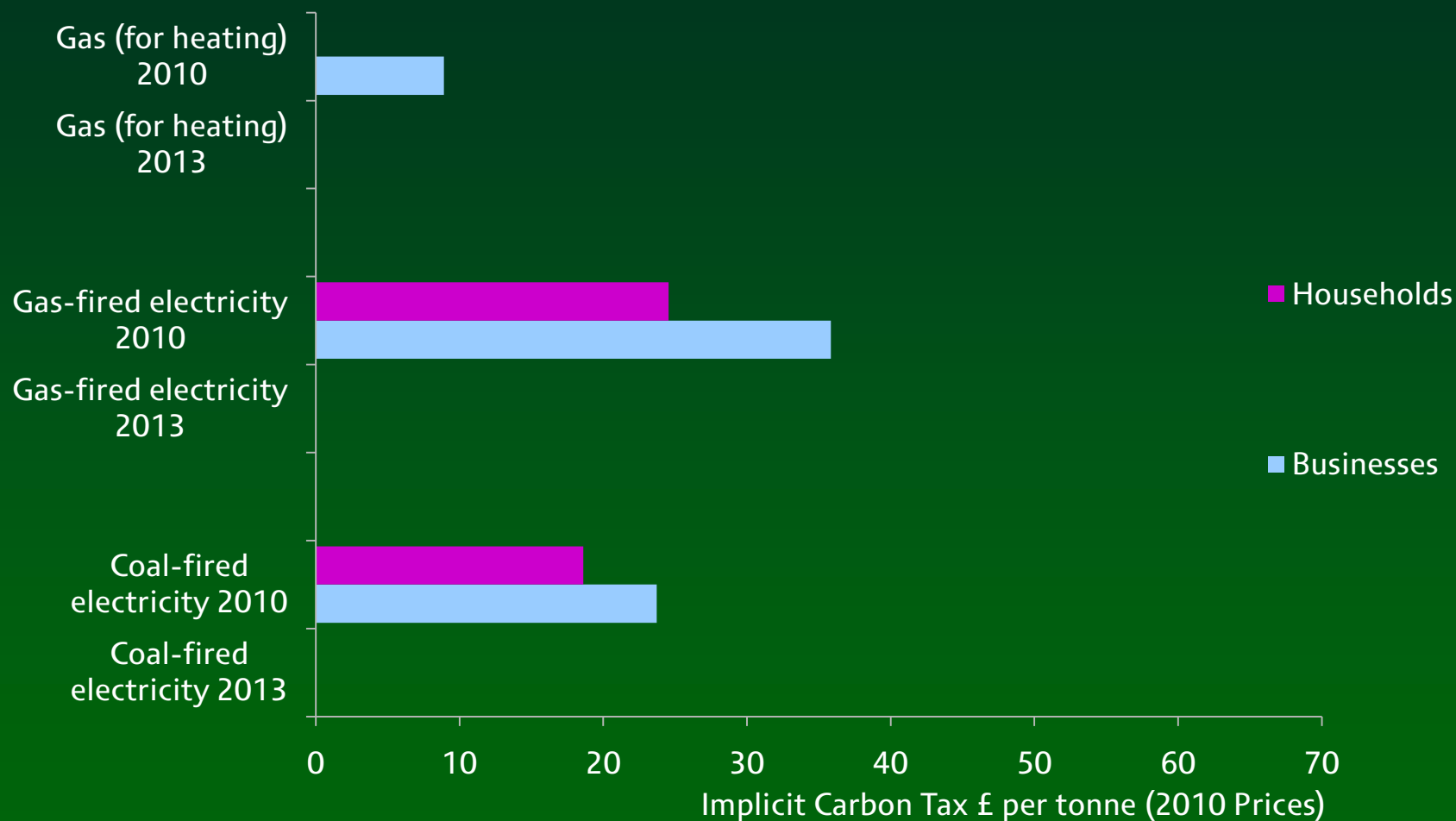
Reforms to Climate Change Levy

- CCL supplemented with “carbon price support rates” from 2013
 - Intended to provide greater certainty over carbon price for firms
 - Initial revenues likely to be small (£200-£600 million)
- Different to Conservative pre-election proposals
 - Replace CCL with tax generators’ carbon emissions
 - Would have set floor price for carbon
- New proposals could generate more certainty
 - As long as long-term plans credible
- Old proposals would lead to more consistent carbon prices

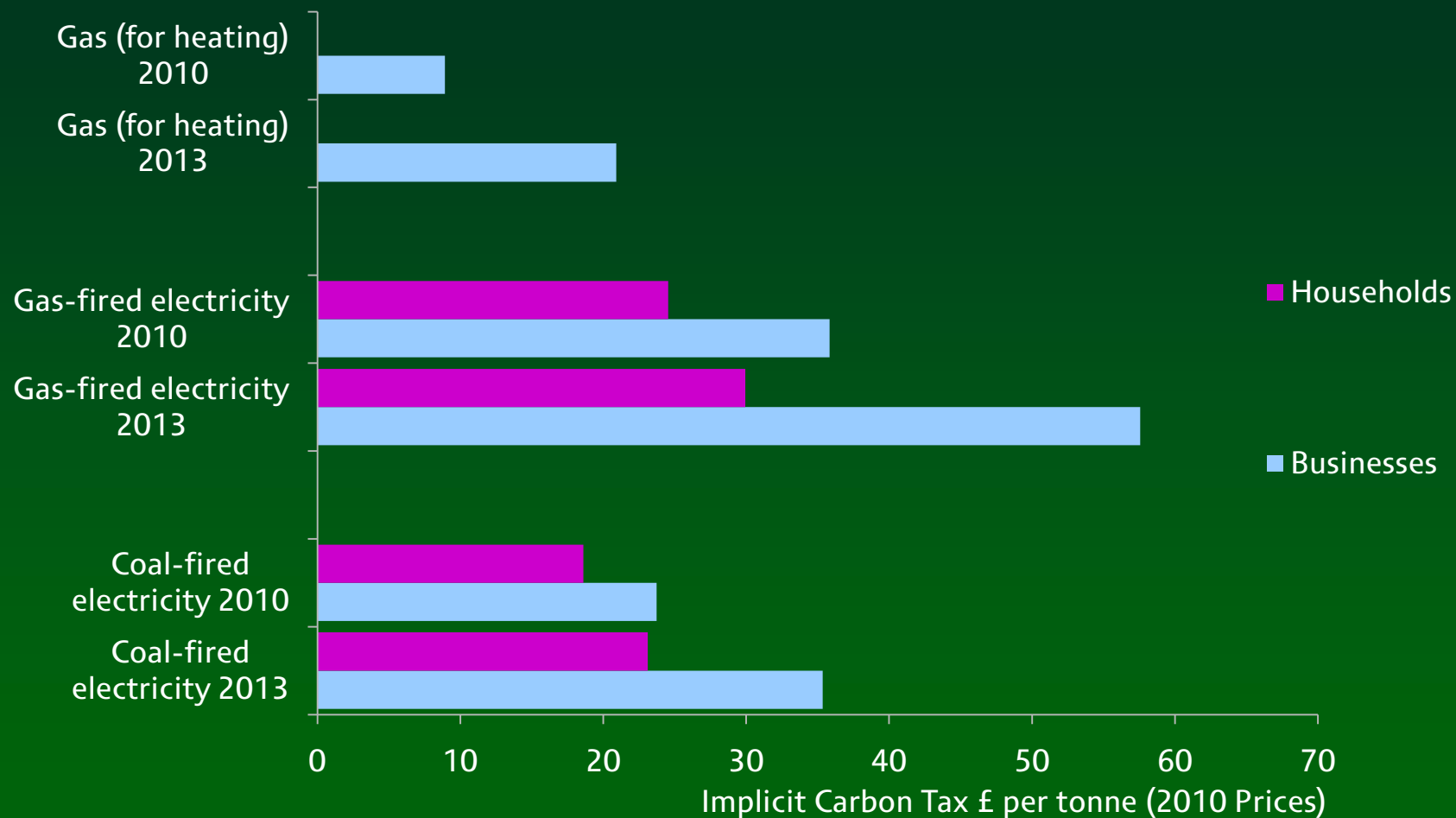
Implicit Carbon Taxes (1)

- Various policies put a tax on carbon
 - Carbon taxes both explicit and implicit
- How will changes affect carbon prices on different sources and different users of energy?
- Ideally, would like a single, consistent carbon price...

Implicit Carbon Taxes (2)



Implicit Carbon Taxes (2)



Conclusions

- Environmental tax pledge likely met on current policy
 - Not good measure of “greenness”
- Fair Fuel Stabiliser
 - Could stabilise household finances
 - Wouldn’t stabilise public finances
 - Difficult to implement
- Some changes better target carbon externalities
- Carbon prices will differ across different users and sources of energy in future