

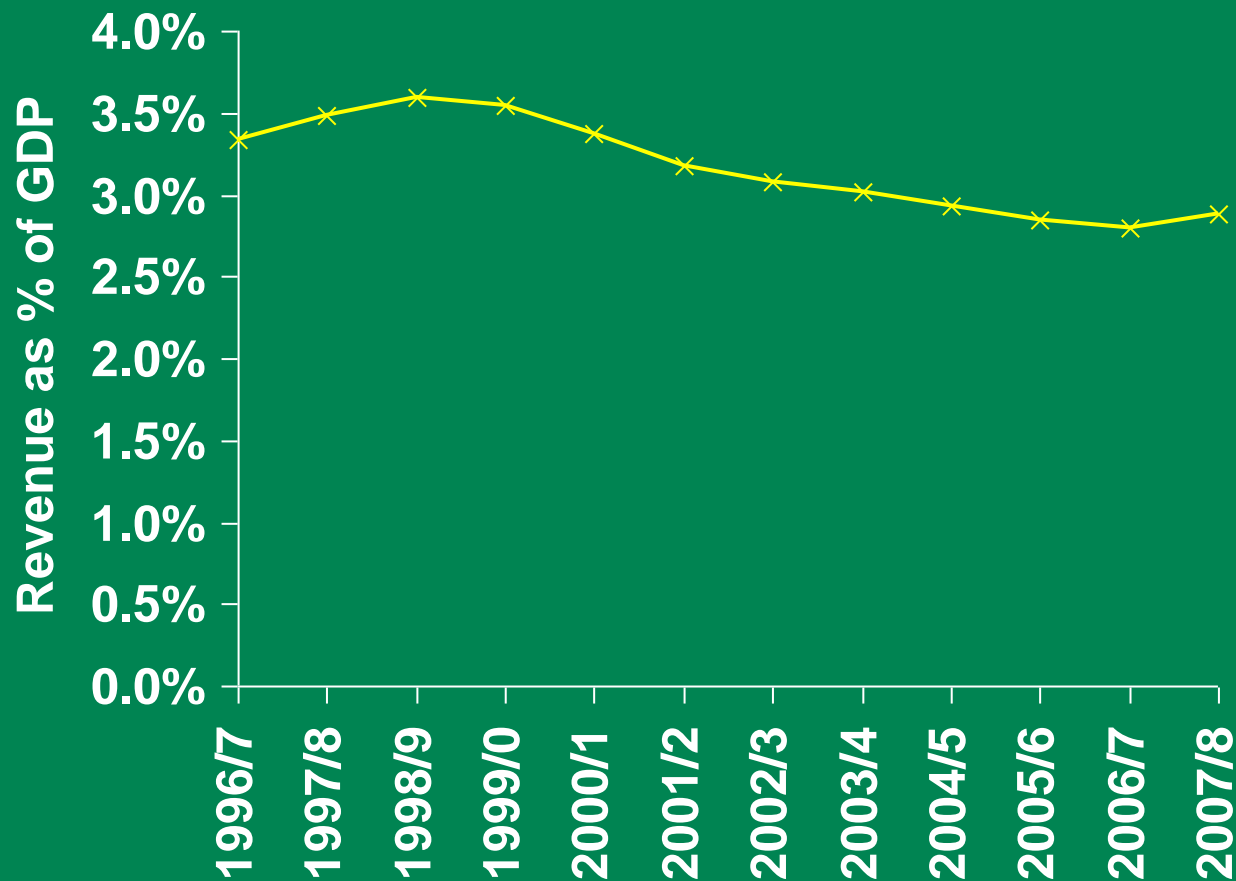
Environmental Taxes

Andrew Leicester

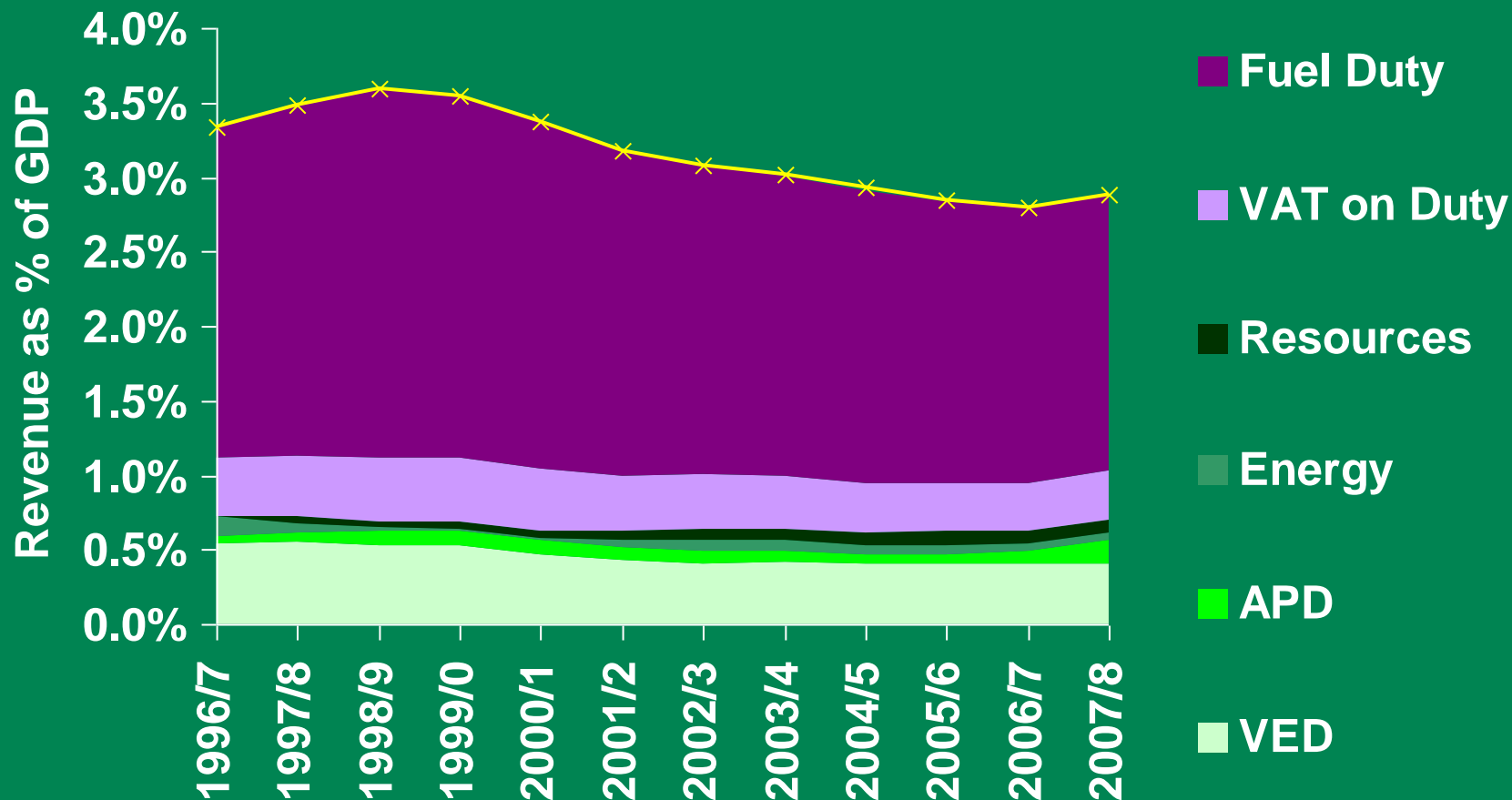
What was announced yesterday?

- Two major measures:
 - Inflation-rate rise in Fuel Duty: first nominal increase in main rates since 2003
 - Doubling of rates of Air Passenger Duty
- Some smaller ones:
 - Extension of Landlord Energy Savings Allowance
 - Stamp Duty exemption of “zero carbon” new homes from 2007
 - Extension of fuel duty discounts to new alternative fuels
- And some things to come
 - Expected increase in Landfill Tax pre-announced
 - Some movement on VED and Company Car Tax in Budget?

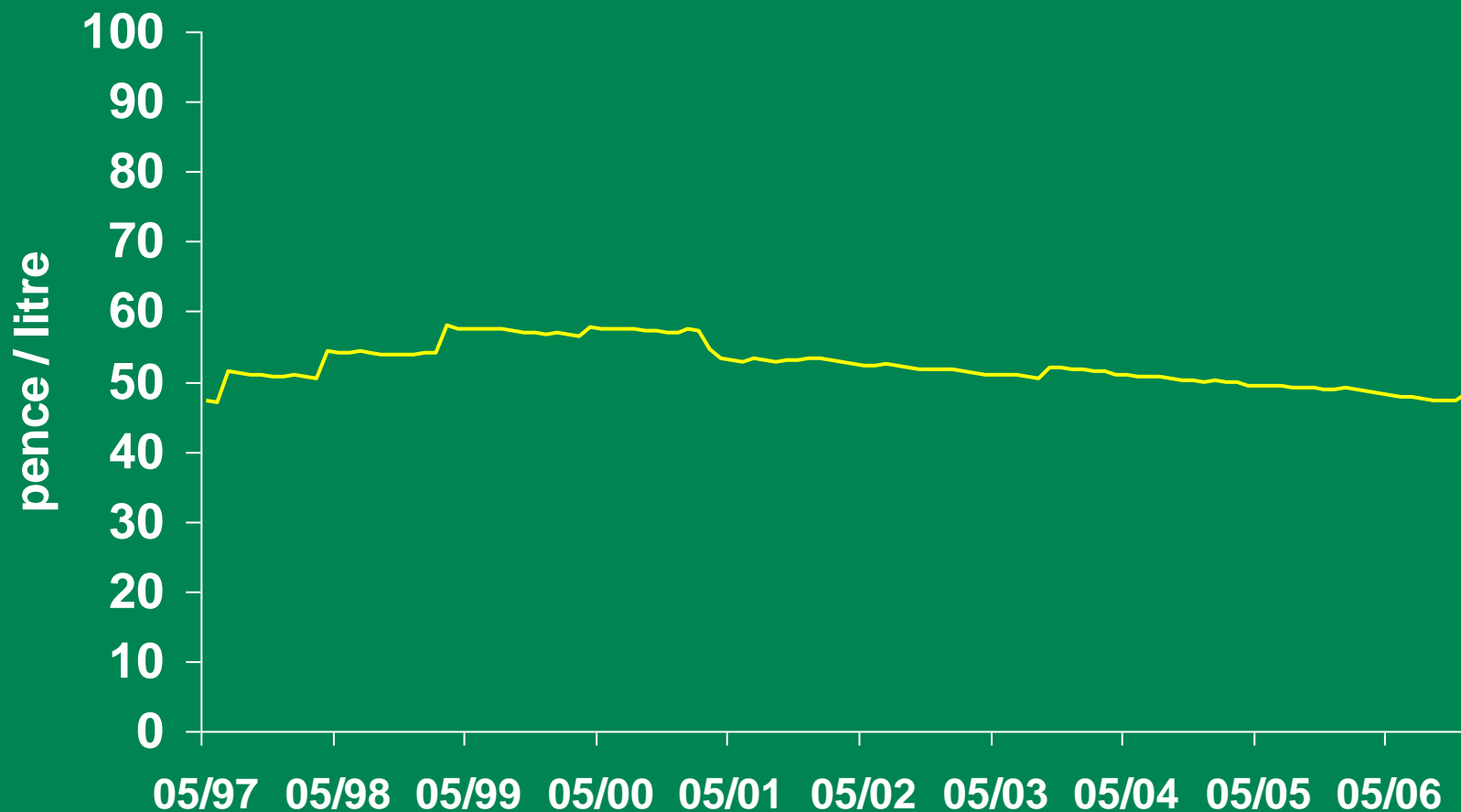
How green is Brown?



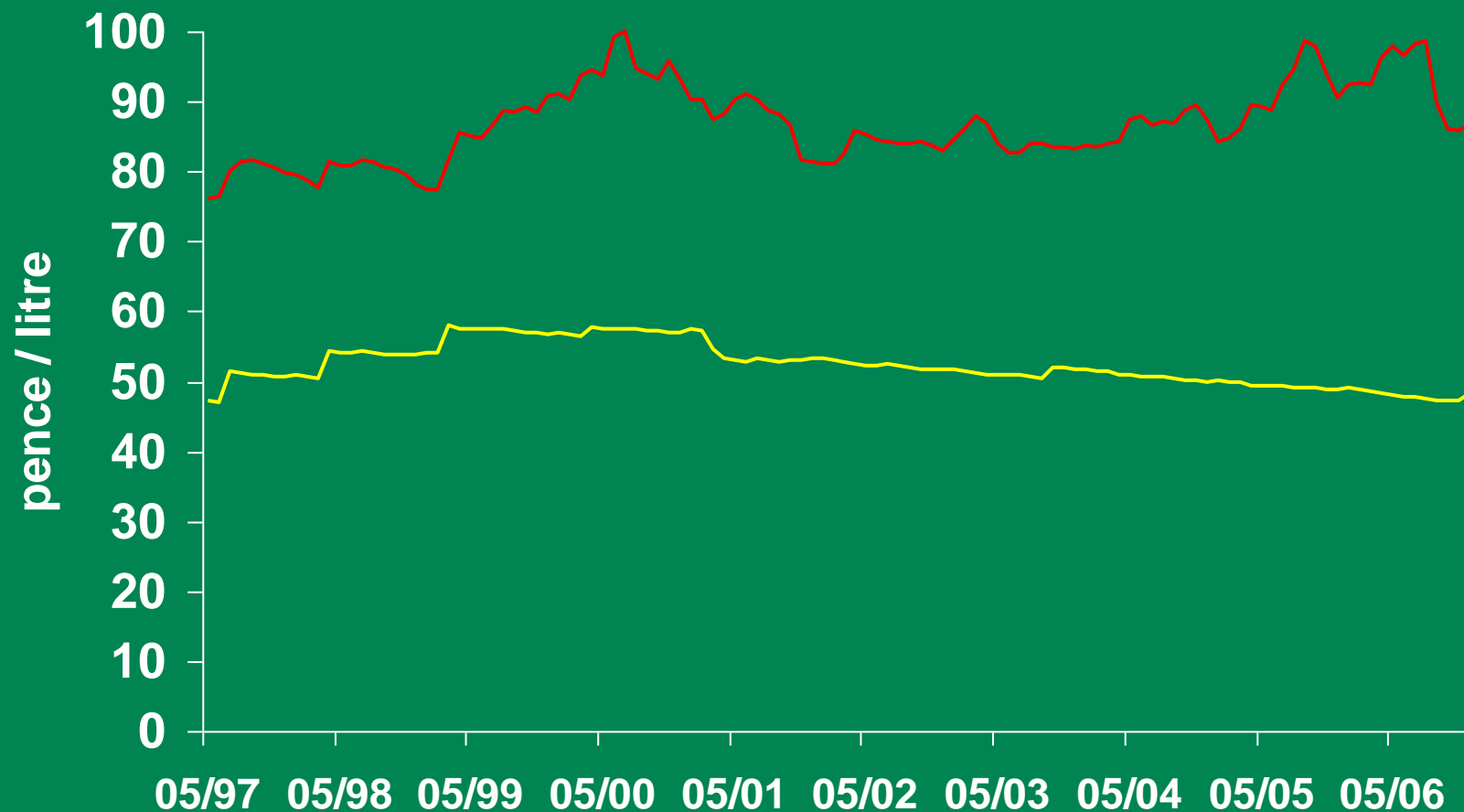
How green is Brown?



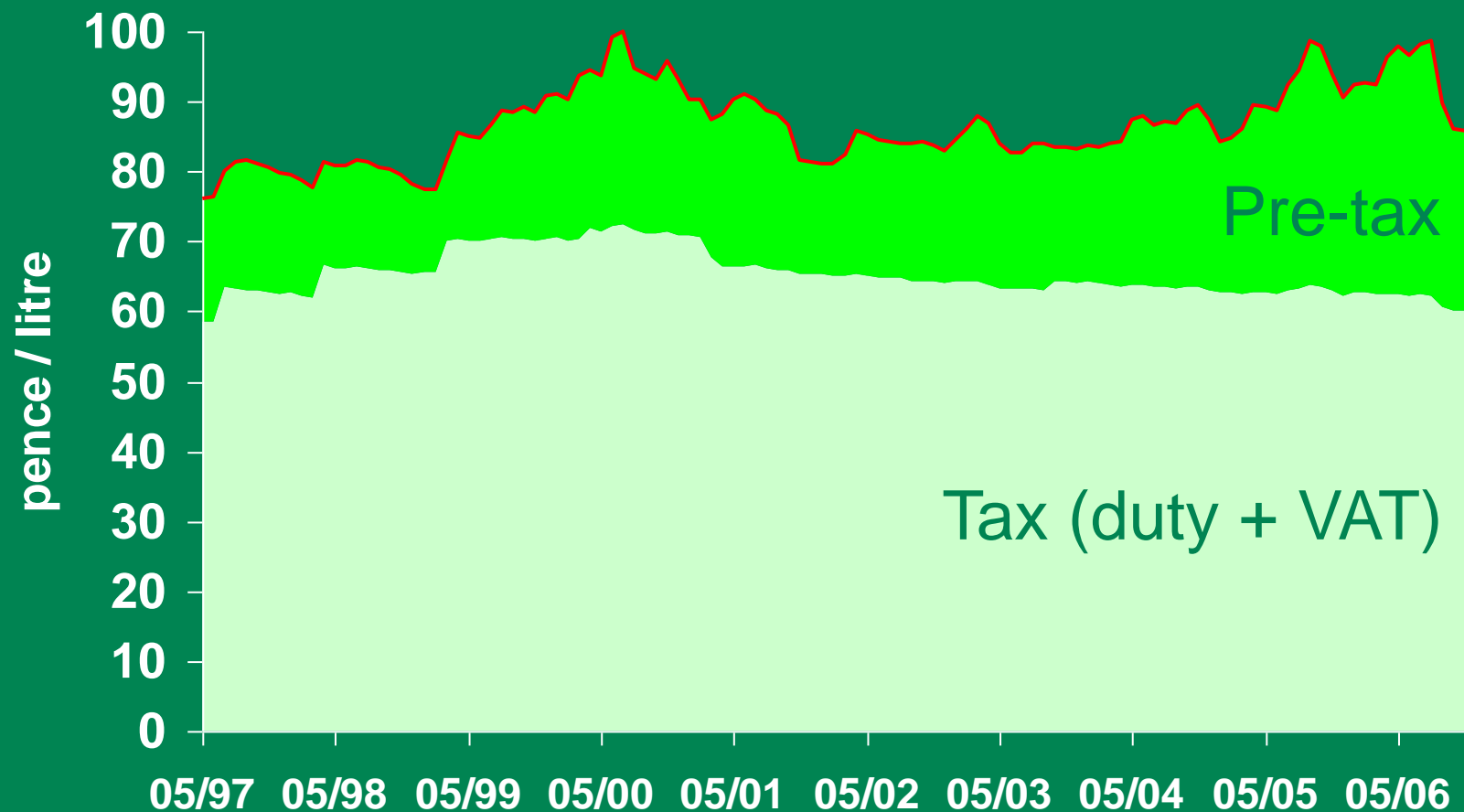
Real Fuel Duty (unleaded)



Real Pump Price (unleaded)



Importance of tax in pump price



Fuel duties since 1997

- Fuel duty vastly most important component of environmental tax revenue
 - decline in real duties mirrors decline in real total to 2006/7
- Real fuel duty for fuels most people buy peaked in mid-2000
- Before yesterday, had fallen by around 18%
- 1.25p rise means real rates still 16% below peak
- Increase in fuel duty of 16% raises around £4bn
- Real fuel duty increases unlikely going forward

Air Passenger Duty

<i>Current Rate</i>	EEA	Other
Economy Class	£5	£20
Non-Economy	£10	£40
<i>New Rate: Feb 2007</i>	EEA	Other
Economy Class	£10	£40
Non-Economy	£20	£80

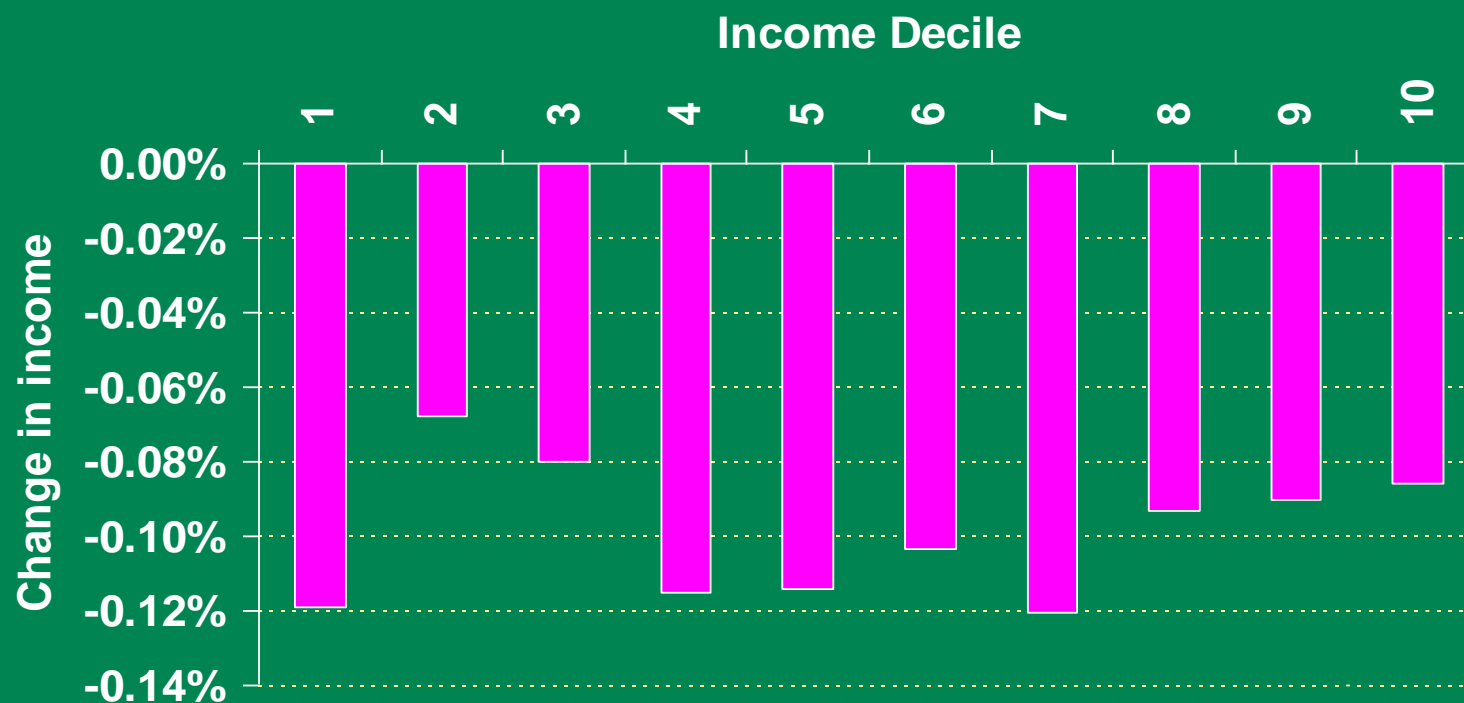
A change of heart?

- 2003 Aviation White Paper:
“.. Because of its blunt nature, APD is not the ideal measure for tackling the environmental impacts of aviation.”
- 2006 Pre-Budget Report:
“While we continue to work internationally to seek a global agreement on reducing aviation emissions, each country must take action domestically.”

A blunt instrument?

- No other real domestic policy lever
 - inclusion of aviation in EU ETS some time away
 - international agreements needed for fuel taxes
- APD varies by distance (sort of) but not emissions of aircraft, departure airport etc.
- Higher APD reduces passenger numbers – not necessarily flight numbers
- Reform tax to a tax on flights rather than passengers?

Is APD regressive?



Source: ONS

A pointer for Budget 2007

- PBR announced increase in standard Landfill Tax rate to £24/tonne in April 2007
- Considering more rapid increases from 2008, or higher “medium-term” target than £35
- Tax rate should be determined by external costs of landfill
- Initial tax rate (£7) based on estimates of externality – have they grown so much?
- Tax rates seem designed to help UK hit EU Landfill Directive
 - tax may be best way to hit target but ...
 - target ‘too severe’ relative to economic costs of landfill?

Conclusions

- Greener PBR than recently ...
- ... but not that green!
- No real pointer for policy beyond 2007/8
- Nothing to suggest green tax revenues on a steady upward trend
- More to come in Budget 2007? Consultation on new green tax measures?