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Green Policy Review

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Executive Summary:

A report titled, "Cutting back on carbon spending", by the sustainable think-tank Green Alliance (GA) has argued that the UK could slash its deficit by £12bn a year by scrapping tax breaks for specific carbon-intensive industries and halting investment in projects that will increase carbon emissions. The report, which was commissioned by Greenpeace, the Royal Society for the Protection of Birds and WWF-UK, challenges the widely held perception that low-carbon policies always equate to increased government spending, arguing instead that the Treasury could enjoy substantial savings simply by limiting support for carbon-intensive sectors. The report comes just days after the Obama administration embraced similar proposals, setting out plans in the budget for 2011 that would slash subsidies for the oil, coal and gas industries by $2.7bn (£1.7bn), primarily by removing generous tax breaks. At a time when budget deficits are soaring, both the UK and the US are making adjustments to their policies in order to increase receipts and facilitate the transition to a low carbon economy. BC is faced with similar challenges. Many of the key findings of the GA report can be transferred to areas of taxation that fall within the jurisdiction of the BC Provincial government. The Province recently released its 2010 Budget and this is a good time to draw parallels between BC policy and those best practices identified in the UK.

Context and importance of the issue:

Politicians in the UK are increasingly aware of the need to decrease the national deficit and transition to a more sustainable economy. Many people have suggested that these two objectives cannot be achieved at the same time. It was the debate surrounding this apparent conflict that was the catalyst for the GA report. The five major findings of the report are as follows:

1. A two-year moratorium on road expansion would save £2.4bn over two years.
2. The roads budget could be cut by a further £2.8bn following project appraisal reform.
3. Reducing public-sector energy and fuel consumption could save £1.5bn over four years, especially if the MoD can also cut some of the costs of the logistics of transporting and protecting its fuel supplies.
4. Closing tax loopholes for companies recognised as heavy emitters could save £2.9bn.
5. Abolishing zero-rating of VAT for aircraft and ships could save £2.2bn.

Critique of options for action:

The UK Institute for Fiscal Studies has estimated that, based on Treasury figures, the gap between proposed deficit-cutting commitments and actual reductions is around £25bn. This sum will have to be found by 2012-13[1]. BC's deficit is considerably smaller at $2.8bn (2010) with government plans to run a deficit for the next four years before returning to a surplus position in 2013[2]. The recommendations in the GA report that may be applicable to BC include capital spending and revenues.

Capital spending:

- Roads - GA and the Campaign for Better Transport have recommended changes to the government's transport appraisal system, the New Approach to Transport Appraisal (NATA). The coalition found that the appraisal system fails to account for legally binding carbon reduction targets and exaggerates the economic value of small travel-time savings associated with infrastructure improvements. Road building is a strong driver of traffic growth and carbon emissions from transport. This is the case in the UK and here in BC. Significant financial savings have been identified by the GA by singling out projects that favour road schemes over public transport, schemes that are often completed over budget.
- Airports – Despite being held entirely by the private sector, regional airports have been given a total of £80 million in grant support in the last 10 years. This is not as relevant to BC where Vancouver International Airport has received no government funding, guarantees or subsidies[3].
- Businesses – The GA report reviewed areas that have been given support in the past, or that have recently been awarded support, as part of the wider fiscal stimulus package, and argues that a number of similar projects should not be supported in the future. Even before the infamous "credit crunch", businesses were offered financial

1 Pre-Budget Report 2009. Analysis from Institute for Fiscal Studies. http://www.ifs.org.uk/projects/314

2 BC Provincial Government 2010 Budget

3 YVR Airport Authority, Building the YVR Gateway: Airport Funding

support without any requirements to promote low carbon technology. Significant support for the fossil fuel industry also exists in the form of research and development rebates.

Revenues:
Price cuts from capital expenditure result in a one-off saving, whereas revenue and cost focused initiatives will save money year on year, and so accumulate over time. The report proposed a review of the following areas:

- Reduction in energy and transport costs across the public sector: total government spending on energy is £3.2 billion and both the UK and BC governments have pledged to reduce this by 10%. The GA report proposes a reduction in the energy consumed by the Ministry of Defense and the National Health Service, and states that the next phase of targets should be more ambitious and deliver more radical savings in energy bills.
- Tax allowances for carbon economy: small changes to the oil and gas tax regime are a common feature of budget statements to encourage investment in exploration of oil and gas. At a time when the UK is trying to make a major transition to a low carbon economy, the policy goal of trying to maximise output of fossil fuels could be regarded as perverse, although natural gas can be considered a transitional fuel. This allowance was introduced explicitly to encourage more exploration in areas of the North Sea currently too expensive to drill, because of geological issues or sea depth. As this is a new measure, there is no official estimate of the cost to the taxpayer in the budget documentation, but the rationale for further taxpayer support for fossil fuel production has come under discussion. This issue is particularly relevant to BC's 2010 Budget where credits are given for oil and gas exploration.
- VAT zero rating: the GA report identified that tax exemptions for passenger transport (bus, train and aviation) and 'ships and aircrafts above a certain size' costs HM Treasury and the taxpayer £600 million in 2009/2010.
- Climate change levy reduced rates: The GA report proposes that the UK government remove the reduction in the Climate Change Levy it currently offers to companies that sign a voluntary climate change agreement. The UK government has recently reduced this exemption, but abolishing it would yield the Treasury £250 million per year. BC does not have a Climate Change Levy or policy equivalent.

Implications/recommendations:

Some parallels can be drawn between UK tax policy and BC provincial tax policy. The GA report identifies areas where savings could be made in this jurisdiction and can identify areas where BC has a more sound and robust tax policy when it comes to providing economic stimulus and appropriately incentivizing the low carbon economy. An important message from this brief relates to the oil and gas royalty credits given by the BC provincial government for exploration purposes. This issue will be considered in a later briefing.

Sources:

February 2010, “Cutting back on carbon spending: ways to cut public spending and reduce support”, A Green Alliance briefing, supported by Greenpeace, RSPB and WWF
http://www.green-alliance.org.uk/uploadedFiles/Our_Work/Cutting%20back%20on%20carbon%20spending.pdf

Further Reading:

http://www.green-alliance.org.uk/

http://www.rspb.org.uk/

http://www.businessgreen.com/business-green/news/2257266/budget-cuts-fossil-subsidies

http://www.businessgreen.com/business-green/news/2257467/green-policies-help-move-uk-red

http://www.guardian.co.uk/business/2010/feb/07/green-alliance-deficit-energy-carbon