

Budget Briefing from Greenpeace UK

“If I become Chancellor, the Treasury will become a green ally, not a foe.”

– George Osborne (1)

“We’re about actively getting behind business. What does that mean? It means being clear about which are the high-growth industries and working strategically to strengthen them.....The global green energy market – everything from wind turbines to home insulation to solar panels – is going to be worth trillions of pounds in the years to come. I’m determined that the UK should have a big piece of that pie.”

- Prime Minister David Cameron (2)

Contact: Greenpeace Press Office 020 7865 8255

Green growth

In the upcoming budget Greenpeace believes the extent of the Government’s commitment on delivering low carbon economic growth will be evident through the details of the Chancellor’s anticipated announcements on:

- The flagship coalition agreement commitment to setting up a new **Green Investment Bank** and whether or not this Bank can be set up rapidly to borrow funds and issue loans and bonds
- **Additional measures to support clean energy** industries and create new jobs
- The **carbon floor price** that guarantees a minimum price for carbon emissions incurred in electricity generation and whether or not this will provide a windfall for utilities for existing nuclear power stations
- Delivering a **low carbon transport system** that would be less susceptible to the whims of the global oil price

Green Investment Bank

According to Ernst and Young, a total investment of £450 billion is needed for low carbon investment in the UK between now and 2025. (3)

Only a fully capitalised Green Investment Bank (GIB) can facilitate this large scale investment that is needed for the UK to become a low carbon economy and create many of the 2.5m private sector jobs that must be created over the next 5 years to support the growth on which the government’s budgetary forecasts are based.

Currently the options being discussed in government for the structure of the new Green Investment Bank are:

- A state backed, independent bank that has the ability to issue bonds and recoup return on its investments.
- A state backed bank where state funding is matched by private investment, and where private shareholders decide on the investment decisions taken by the bank.
- An existing state owned bank such as RBS being empowered to fulfill some of the functions of the bank, tasked with investing in low-carbon technologies with funding provided by the Government.

Greenpeace believes that the only structure capable of leveraging the sufficient level of private sector institutional investment needed is a state backed, sufficiently capitalized independent bank that is capable of borrowing and issuing bonds and loans.

We believe that a privately controlled bank would fail to provide either the level of confidence in the chosen projects to elicit the requisite private investment, or confidence to the taxpayer that public expenditure would be fully accountable.

If reports that the new Bank will not be able to raise additional capital until 2014 or later turn out to be true, this would completely undermine the purpose of the new Bank and mean that it will be impossible to raise the necessary funds for energy investment. (4)

In Huhne's words, "Ducks quack, and banks borrow as well as lend." (5)

Additional measures to support clean energy schemes

Additional measures that should be included in this budget to incentivise green energy deployment include:

* *Wave and tidal*: £70m for the 'Marine Energy Delivery Fund, to be allocated from DECC's Low Carbon Innovation Fund A further £90m capital grants from Carbon Trust, Energy Technologies Institute and Technology Strategy Board budgets.

* *Offshore Wind*: £200m over 5 years from Regional Growth Funds for supply chain growth in offshore wind/marine technologies. £40m more from the Low Carbon Innovation Fund. Retention of two Renewable Obligation Certificates (ROCs) for offshore wind for the duration of the existing spending round.

Carbon Floor Price

It is widely expected that Osborne will announce that electricity producers will be charged a new levy based on the carbon content of the fuel they use to generate power.

Osborne is expected to announce the initial levels of the carbon price and how high it will rise by 2020 – the illustrative scenarios in the Treasury consultation were between £20 and £40 per tonne of CO₂.

The consequence of this is that, with a significant amount of carbon-based fuels (coal and gas) in the UK power mix, the electricity price will rise. Along with other policies introduced under the proposed reforms to the energy market, prices for power are expected to rise by about 0.5p per unit at its maximum towards the end of this decade.

In the form currently proposed Greenpeace is very concerned that carbon floor price would raise consumer bills without incentivising significant deployment of renewable technologies.

As consumer bills are set to rise anyway as a result of essential investment in new generation and network infrastructure, the size of energy bills could become a block to the low carbon transition.

Whilst Greenpeace supports the principle of levies on carbon, analysis by the Regulatory Assistance Project (6) suggests that:

- Osborne's proposed carbon price floor will NOT stimulate new investment in the power sector
- How the new money is spent could end up being more important than the impact of the tax. For example, properly capitalising the Green Investment Bank or putting money into energy efficiency would have a more tangible impact.

Greenpeace can only support a carbon floor price if it meets these criteria:

- The government is honest about the objectives of the tax
- The revenues are used to support energy efficiency or capitalisation of the Green Investment Bank
- There is a wider strategy by Government to ensure energy bills are kept at levels that will not derail investment in decarbonisation and green industry growth
- The carbon floor price should not deliver windfall revenues to utilities for existing nuclear power plants

Transport

Recent unrest in the Middle East and the resultant volatility in the oil prices have pushed the issue of petrol prices and the cost of motoring to the top of the political agenda once again. This is because the knee jerk response from the Government to rising oil prices is always to tinker with the domestic tax regime, rather than take any steps to address the root cause of the problem - the British transport system's over-dependence on oil. Taken together with the raised threat posed by oil shocks to our economic recovery, and its clear there is an urgent need for Government to develop a strategy for going beyond oil.

The current plan on the Chancellor's table - the fuel duty stabiliser - aims to buffer motorists against volatile oil prices. In isolation the fuel duty stabilizer will simply transfer the revenue raising burden from the consumer to taxpayer. This simply leaves less money to spend on genuine alternatives that can mitigate against the problem of rising and volatile fossil fuel prices. Greenpeace believes that a Treasury contribution to a genuinely effective low-carbon transport strategy would include:

- *Actively and vigorously championing the adoption of tough new European efficiency target* - of 80g/kilometre average emissions by 2020. This will drive cleaner technologies and help reduce the cost to the UK economy of rising oil imports.
- As an alternative to a fuel duty escalator *the Treasury could raise revenue by amending Vehicle Excise Duty (VED)* to raise money from the drivers of the most polluting vehicles to help incentivise lower carbon vehicles
- *Expand the consumer rebate scheme for electric vehicles and invest in a national electric vehicle charging infrastructure.* That way the UK can become a globally competitive environment for electric development with place like China and Israel.
- *Maintain support for the Bus Service Operator Grants* that offer fuel tax rebates to bus service operators as a means of improving the economics of marginal bus routes.

Air passenger duty

The government already shelved its flagship commitment to switch from a per passenger to a per plane tax, and now reports suggest that Osborne is shying away from even raising the existing air passenger duty. This is yet another example of airlines being given special treatment despite the fact that in the long term emissions from aviation are growing faster than any other sector of the economy.

Greenpeace believes that if the government was serious about tackling aviation emissions it would commit to raising the existing passenger duty every year at a rate well above inflation and encourage EU countries to introduce similar taxes as Germany and Austria have recently done.

Notes:

- (1) <http://www.independent.co.uk/opinion/commentators/george-osborne-the-treasury-should-lead-the-fight-against-climate-change-1826464.html>
- (2) <http://www.number10.gov.uk/news/speeches-and-transcripts/2011/01/prime-ministers-speech-on-economic-growth-58486>
- (3) <http://www.ey.com/UK/en/Newsroom/News-releases/Power---10-10-13---Green-Investment-Bank-needs-to-plug-UKs-%C2%A3370-billion-low-carbon-funding-gap>
- (4) <http://www.guardian.co.uk/politics/2011/mar/18/green-revolution-hit-curbs-bank>
- (5) <http://www.guardian.co.uk/environment/2010/dec/17/i-want-green-bank-soon>
- (6) <http://www.raponline.org/>

Greenpeace Press Office: 020 7865 8255

For other examples of Osborne's promises on the environment see:

<http://www.greenpeace.org.uk/blog/climate/georges-top-10-green-promises-20101019>

ENDS