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Chambers Ireland Submission to the Department of Finance on the options for the use of revenues raised from increases in Carbon Tax

Climate change and its associated risks have major consequences for business, government and communities. The UN's Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and Intergovernmental Panel on Climate Change (IPCC) reports both reflect how global warming and the subsequent rise in temperature will put countries at risk of drought, floods and extreme heat. Ireland is far from meeting its EU carbon emission reduction targets, with greenhouse gas (GHG) emissions nearly three million tonnes outside the 2020 targets. If Ireland is to succeed in meeting its 2030 targets, and avoid significant fines, collective action is required to drastically reduce our total GHG emissions and will require policies that decarbonise how we generate electricity, heat our homes and fuel transport. It will also require policies that target behavioural change which will be key to delivering the transition to a low carbon economy.

Expert economists have recommended carbon pricing as an essential strategy for combating climate change and reducing GHG emissions[1]. However, as with any increase in taxes, there can be political sensitivities, as was seen during the recent protests by the Gilets Jaunes in France, following a rise a rise in Carbon Tax by 2.9 cents and 6.5 cents per litre[2]. Sweden's successful Carbon Tax implementation process was mainly due to the extensive public dialogue and social deliberation that occurred[3]. We welcome the opportunity to feed into the Government's considerations in reviewing proposals in respect of Carbon Tax ahead of Budget 2020.

Carbon Tax and Reducing Emissions

In Ireland at present, Carbon Tax applies to carbon dioxide emissions from the burning of fossil fuels such as turf and coal, it is charged at €20 per tonne of CO2 and is applied at the point of sale. This tax, that was introduced in 2010 and raises around €400 million a year, goes directly into Government's Central Fund. The Oireachtas Committee on Climate Action has recommended that Carbon Tax should be increased from the €20 a tonne to €80 a tonne by 2030, to disincentivise people from using

[1] https://www.oxfordmartin.ox.ac.uk/publications/making-carbon-pricing-work-for-citizens/
[2] https://www.ft.com/content/b7ee911c-f79c-11e8-8b7c-6fa24bd5409c
[3] https://ourworldindata.org/carbon-pricing-popular

carbon fuels[4]. This recommendation was accepted and included in the recently published All of Government Climate Action Plan.

Chambers Ireland recognises the importance of supporting businesses to transition to a low carbon economy and supports policies that will enable this. Research shows that carbon tax can be an effective measure to reduce emissions through changed behaviour. As highlighted in the ESRI study "Distributional effects of revenue recycling policies", there is a high degree of responsiveness to a carbon price, where it shows that an increase in Carbon Tax to €50 per tonne and €100 respectively would reduce emissions by 3.94% and 10.24%. The research goes on to recognise that the right kind of policy design will be crucial if it is to be successful. Without real alternatives, carbon taxes can have an unjust impact on those on low incomes or on people residing in parts of the country with limited access to public transport.

Although Government has committed to increase the rate of Carbon Tax from €20 a tonne to €80 a tonne by 2030, it has not yet confirmed what the schedule of increases will look like or when they will take effect. While research may show that increasing the Carbon Tax will reduce our overall emissions, changes in behaviour will only occur if there are viable user-friendly alternatives in place.[5] The possibility of displacement is a major concern to the Chamber network when it comes to increasing the rate of tax. Without real alternatives, there is the risk of introducing an unjust tax that unfairly impacts those who have lower incomes and those residing in parts of the country that have long commutes by car and insufficient access to green transport. There are additional concerns that a tax on carbon-based fuel that is not increased on an all-Island basis, will negatively impact our border regions. A lack of cohesion in tax policy could be a major risk to local economies operating in the border regions as the change in consumer behaviour that is induced could be travelling to Northern Ireland for lower cost options. As part of our Pre-Budget Submission, we recommend that the Departments of Finance and Public Expenditure immediately ringfence existing Carbon Tax revenues, and target these funds towards green investments, particularly in infrastructure, so that alternatives to carbon-based fuels are an option.

[4] https://www.dccae.gov.ie/documents/Climate%20Action%20Plan%202019.pdf
[5] https://www.esri.ie/system/files/publications/QEC2019SUM.pdf

Further, ahead of the introduction of phased increases to Carbon Tax, we call on Government to commit to carrying out an impact assessment on the consequences of these increases for SMEs and consumers. A paper published by the ESRI in 2018 noted that a carbon tax pathway should be designed to ensure a smooth and least-cost transition to a low-carbon economy.[6] Access to additional research, through a focused impact assessment, will enhance our understanding of the direct and indirect macroeconomic implications of the tax and identify which sectors and household groups are affected[7].

We also recommend that the government appoint an oversight committee, similar to the model introduced in Norway,[8] which can monitor the progression of the Carbon Tax, its effectiveness in reducing emissions and its impact on principles of displacement. As the tax increases to €80 a tonne by 2030, we must ensure that it changes behaviour and consumption patterns rather than penalise those on low incomes, or on people residing in parts of the country with limited access to public transport.

Ring-Fence Carbon Tax to Support Green Investment

If this model is to be successful in changing behaviour, a strategy for the expansion of low carbon transport options, investment in retrofitting of buildings and supports for the business transition must be put in place immediately. The existing revenue and all additional Carbon Tax revenue should be used to:

A. *To fund sustainable transport including cycling infrastructure, Electric Vehicles and public transport;*

   - Increase the investment in public transport and the decarbonisation of public transport, particularly in cities, such as investment in bio-methane vehicles and the widespread electrification of trains and buses. As cities are particularly suited to becoming low carbon spaces, reliance on cars

[6] https://www.esri.ie/system/files?file=media/file-uploads/2018-10/RS79.pdf
[7] http://www.budget.gov.ie/Budgets/2019/Documents/Economic%20and%20Environmental%20impacts%20of%20Increasing%20Carbon%20Tax.pdf
[8] https://openknowledge.worldbank.org/bitstream/handle/10986/29687/9781464812927.pdf

within cities can be greatly reduced through plans that support density. By reducing urban sprawl, improving spatial planning and improving transport infrastructure, there is strong evidence that emissions will be reduced as a result.

- Invest in an accelerated roll-out of a national fast-charging network for EVs, particularly in rural parts of the country where there are limited options for public transport.

- Increase the grants available for electric vehicles and chargers with the revenue ring-fenced funds. As it stands there is a maximum grant of €5,000 for EVs and a grant up to €600 for chargers. This should be increased if we are to increase the EV take up.

- Ensure that our Local Area Plans include the building of the segregated cycleways that are needed to link our residential areas with our civic and economic centres

- Use the ring-fenced funds to broaden the coverage and density of shared use schemes such as City Bikes in the cities where they are available and expanding them to other towns where they are not.

- "Introduce accelerated capital allowances for the owners of commercial premises for the provision of secure facilities for storing their employees' bicycles

B. *To enhance the current grant scheme towards the cost of energy efficiency improvements in the homes of those most vulnerable to fuel poverty through the Better Energy Homes scheme or the SEAI Better Energy Warmer Homes scheme;*

- Increase the grants available to retrofit for all types of homeowners with the aim of meeting the 45,000 homes yearly target and bringing these houses to at least a BER of B2.

- Homes that use solid fuel (such as coal and peat) and homes that do not have central heating should be prioritised.

C. *To incentivise business moving away from the use of fossil fuels to more sustainable production methods;*

- The business community is a key stakeholder in transitioning to a low carbon economy. To facilitate this, supports must be introduced for the thousands of businesses, employees and sole traders with product or service offerings based on the production, installation or deployment of traditional fossil fuel focused energy systems.

- Funding must be allocated reskilling, in green energy and enterprise training for rural and regional areas to help people supplement their traditional income.

- Ring-fenced funds should be used to support innovation and pilot projects in for example production methods and packaging materials.

- Introduce circular economy supports like the recent €600,000 funding DCCAE Circular Economy Call. Rather than placing a focus on novel approaches to circularity, the emphasis should be placed on the business transition.

Finally, we note that businesses and consumers have an opportunity to make investment decisions, many of which will require borrowing, to reduce their carbon footprint. In order to assist in the decision making required, the Department of Finance should publish a clear medium-term strategy for significant tax changes such as substantial increases in carbon tax. Such a strategy must be adhered to in order to allow proper assessment of the return on investment and thereby encourage investment decisions that support decarbonisation. Piecemeal changes in Budgets on an annual basis are unhelpful to businesses