

CORI JUSTICE

Submission to

**Department of Environment, Heritage and Local
Government**

on

**Options for rebalancing of annual
motor tax charges to take account of
CO₂ emission levels**

March 2007

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Introduction

CORI Justice welcomes the decision by the Minister for Environment, Heritage and Local Government, Mr Dick Roche T.D., to undertake a review of the nature and structure of motor taxation. For some time CORI Justice has advocated the need to reform the tax system such that appropriate environmental taxes are introduced.¹ As we have detailed elsewhere, this view is grounded in our belief that all development should be socially, economically and environmentally sustainable.²

Reforming motor tax charges is also appropriate in the context of government commitments to address environmental emissions contained within *The Kyoto Protocol* to the *United Nations Framework Convention on Climate Change* (1997), the *National Climate Change Strategy* (2000), *Sustaining Progress* (2003:39, 49) and *Towards 2016* (2006: 32-33). CORI Justice also believes that these reforms are appropriate in the context of the need to develop a fairer taxation system.³

Below, we outline the background to our views on this issue before setting out a series of proposals to reform the system.

Background to our submission

CORI Justice's views on this issue are driven by the following:

The need for sustainable development

Conventional economic models of development or progress have failed to incorporate the environment into their calculations. Until recently the environment has been seen as a limitless resource that could be used at will by all people without any fear of long-term damage or cost. More recently there has been a growing, but far

¹ See CORI Justice 2004: 69-70; 2004b; 2005a: 73-76; 2006a:78-81 and 2006c.

² See CORI Justice 2005a: 159-163; 2005b: 2006: 179-183 and 2006b.

³ See CORI Justice 2005a: 78-84; 2005c; 2006: 83-91 and Healy and Reynolds 2004.

from universal, recognition that the environment is being seriously damaged and that the wellbeing of coming generations and of the planet itself is being put at risk.

Central to any model of development which has sustainability at its core must be a realisation of the need to move away from money-measured growth, as the principal economic target and measure of success, towards sustainability in terms of real-life social, environmental and economic variables. Already there has been some progress within mainstream decision-making.

In the environmental context it is crucial that dominant economic models are challenged on (among other things) their assumptions that nature's capital (clean air, water and environment) are essentially free and inexhaustible; that scarce resources can always be substituted; and that the planet can continue absorbing human and industrial wastes which most economists tend to downplay as externalities. A central initiative in this context should be the development of "satellite" or "shadow" national accounts. Our present national accounts miss fundamentals such as environmental sustainability. Their emphasis is on GNP/GDP as scorecards of wealth and progress. These measures more or less ignore the environment; only money transactions are tracked. Ironically, while environmental depletion is ignored, the environmental costs of dealing with the effects of economic growth, such as cleaning up pollution, are added to, rather than subtracted from, GNP/GDP. CORI Justice welcomes the commitment in *Towards 2016* to examine the feasibility of the application of satellite accounts in the area of environmental sustainability for Ireland. This is scheduled to occur during 2007. We look forward to this commitment being implemented.

The development of a fairer taxation system

The need for fairness in the tax system was clearly recognised in the first report of the Commission on Taxation more than twenty years ago. In that volume it stated:

“...in our recommendations the spirit of equity is the first and most important consideration. Departures from equity must be clearly justified by reference to the needs of economic development or to avoid imposing unreasonable compliance costs on individuals or high administrative costs on the Revenue Commissioners.” (1982:29)

The need for fairness is very obvious today; a point CORI Justice continues to make.⁴ Within the realm of environmental considerations the principle of “the polluter pays” must be central.

The finite nature of our environment demands that we take account of environmental costs along with other factor costs. Measures to protect the environment have necessarily involved intervention in the market, because market forces do not themselves provide for environmental protection. Up to now this “intervention” has been by legislated regulatory measures. In the long run, however, a more comprehensive approach is required. In recent years the sheer increase in the volume of economic activities has often negated regulatory gains. A key step should be to include in prices – and thereby internalise – the environmental costs occasioned by economic activity. Environmental taxes offer a key way of introducing this consideration to people’s decision making.

Current and projected environmental pollution levels

Over time, Ireland’s air has become more and more polluted. Between 1990 and 2005 the Environment Protection Agency (EPA) reported that Ireland’s greenhouse gas emissions grew by over 25 per cent (see table 1). Total combined Irish emissions of the three main greenhouse gases regarded as having global warming potential amounted to 69.95m tonnes of CO₂ equivalent in 2005, up from 68.46m in 2004 and 55.6m tonnes in 1990. Despite two successive years of reductions – 2002 and 2003 – the 2004 and 2005 figures marked a return to annual emissions increases.

A breakdown of the 2005 pollution figures shows that agriculture is the single largest contributor to the overall emissions, at 27.6 per cent of the total, followed by energy (generation and oil refining) at just over 23 per cent and transport at 19.2 per cent.

The most recent figures indicate that the current levels of emissions now exceed the limits agreed under the Kyoto protocol. The Irish government and the European

⁴ A more detailed discussion of the issues contained in this section can be found in Healy and Reynolds (2004:151-188).

Commission agreed a target of an 8 per cent reduction in European CO₂ emissions on their 1990 level by 2012. Within this agreement, Ireland agreed to limit its increase of CO₂ emissions to 13 per cent between 1990 and 2012. Table 1 reports the level of greenhouse gas emissions versus the 1990 level (set at 100 on the emissions index). CORI Justice welcomes Ireland's ongoing commitment to this protocol, despite the refusal of some countries, including the USA, to ratify its implementation. However, these emissions are a major cause of climate change, and it is in all our interests to ensure that the limits agreed in the Kyoto protocol are met.

Year	Emissions Index	+ / - Kyoto Target	% from target
1990	100.00	-13.00	-11.5
1998	117.73	+4.73	+4.2
1999	120.45	+7.45	+6.6
2000	123.34	+10.34	+9.2
2001	126.30	+13.30	+11.8
2002	123.46	+10.46	+9.3
2003	121.99	+8.99	+8.0
2004	122.73	+9.73	+8.6
2005	125.40	+12.40	+11.0

Source: EPA (2006 and 2007).

Major changes are required if we are to reduce our emissions towards this target. In particular, the transport sector has a central role to play. While launching the 2005 figures, the EPA noted that the transport sector records the greatest increase between 2004 and 2005 (of 6.9 per cent) and that that sector pollution contribution has grown by 160 per cent since 1990. If simple policy options are available to address this sustained growth in transport related emissions, they should be adopted.

A further concern relates to projections for the future growth of transport emissions. Dealing purely with passenger cars (the primary subject of this consultation) it is worthwhile comparing Irish car ownership levels with that of the other EU member states.⁵ As table 2 shows, the latest Irish data shows that there are 494.5 cars per 1,000 population over 15 years in Ireland. This remains below the EU-25 average of 555.3 cars per 1,000 population.

⁵ Comparable data only available for EU-25.

Table 2: EU-25 Car ownership per 1,000 population aged 15 years and over

Country	Cars per 1,000	Country	Cars per 1,000
Luxembourg	792.9	Finland	512.7
Italy	687.5	IRELAND	494.5
Malta	639.0	Portugal	447.0
Germany	638.3	Denmark	432.4
France	602.8	Czech Rep	424.1
Austria	591.4	Lithuania	418.0
Belgium	561.3	Greece	398.1
Sweden	553.3	Estonia	354.8
United Kingdom	546.8	Poland	352.2
Slovenia	540.3	Latvia	316.3
Spain	531.8	Slovakia	303.1
Netherlands	521.1	Hungary	297.2
Cyprus	513.7	EU-25 (average)	555.3

Sources: CSO, 2006:68.

Note: Data is the most up-to-date available for countries from Eurostat with figures corresponding to the year 2002 for all countries except Ireland. Irish data is for 2004 (CSO, 2006:68).

It would be reasonable to expect that over the next few years Irish car ownership levels will climb to at least reach, if not surpass, the EU average. This implies that car ownership will increase by approximately 55 cars per 1,000 population over 15 years of age. Using CSO population data this suggests *an increase of at least 226,000 cars over the next few years.*⁶ These increases alone are likely to add significantly to the increase in transport related emissions.

In the context of these increases, and given the proportion of existing cars being replaced each year, it is clear that some intervention is required if a sizeable increase in emission is to be limited.

The need to recognise the full costs of emissions

CORI Justice believes that policy makes should not overlook the government expenditure associated with environmental emissions, incurred through the required purchase of carbon credits and the payment of any Kyoto imposed fines. A full

⁶ In 2005 there were 4,110m people aged over 15 years in Ireland (CSO, 2006:52). An additional 55 cars per 1,000 population implies an increase in car ownership of $4110 \times 55 = 226,050$. This figures are based on the 2005 population figures and are likely to be an underestimate given the CSO projections for further population growth.

evaluation of this policy change should take into account the full fiscal implications of any change; the income effect of motor tax changes and the expenditure effects on carbon credits and Kyoto fines. Such an approach would reflect the Government's own approach to the evaluation of other policy innovations, in particular those associated with capital expenditure.⁷ Simply, reforms are not just a revenue (tax income) issue.

To make this point clearer table 3 presents a calculation of the cost of CO₂ emissions per 10,000km travelled by a car in each of the seven CO₂ emission bands that have been proposed by the Department of Environment, Heritage and Local Government.⁸ While it is individual motorists who generate the pollution it is the exchequer who either purchases the carbon credits, or will pay any Kyoto fines. The costs are thus incurred by the state.

The costs are calculated on the basis of a mid-point value of emissions for six of the seven categories; the top category is calculated at its entry point (220g). The CO₂ emissions are valued using the figures supplied by the National Treasury Management Agency (NTMA) to the Dáil Public Accounts Committee in March 2006. At that briefing the NTMA suggested that carbon credits will cost the exchequer a minimum €30 per tonne. Given that many European states will record emissions levels in excess of their Kyoto levels, it seems appropriate to anticipate that the market price of these credits will rise above €30. Therefore, figures for €40 and €50 per tonne are also presented.

As there are currently almost 1.6 million registered private cars in Ireland the total exchequer cost of their combined emissions is substantial. These costs, and the possibility of reducing them in the future, ought to be considered when decisions such as the reform of motor taxes are being made.

⁷ See Department of Finance (2005) *Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector*.

⁸ See Department of Finance consultation document on VRT rates (2006).

CO ₂ Emissions Band	gCO ₂ per km	Mid-point	gCO ₂ per 10,000 km	Cost at different prices per tonne of CO ₂ emissions		
				€30	€40	€50
A	0-125g	62.5g	625,000	€8.75	€25.00	€31.25
B	126-145g	135.5g	1,355,000	€40.65	€54.20	€67.75
C	146-155g	150.5g	1,505,000	€45.15	€60.20	€75.25
D	156-170g	163g	1,630,000	€48.90	€65.20	€81.50
E	171-190g	180.5g	1,805,000	€54.15	€72.20	€90.25
F	191-220g	205.5g	2,055,000	€61.65	€82.20	€102.75
G	over 220g	220g	2,200,000	€66.00	€88.00	€110.00

Source: Calculated using data from Department of Environment, Heritage and Local Government and NTMA.

Note: 1 tonne = 1,000,000g

Proposals for Reform

Given the above background CORI Justice believes that the following reforms should be announced by the Minister:

- The Minister should reform motor taxation rates such that they are directly related to the levels of CO₂ emissions produced by vehicles. Using the proposed set of classifications from the Department of Environment, Heritage and Local Government CO₂ Emissions Related Labelling System, motor taxes should be structured similar to what we have outlined in table 4.

Vehicles with emissions in categories (C, D and E) should be taken as the base rate with discounts applied to lower emission generating vehicles (those in categories A and B) and premiums added to high emissions vehicles (those in categories F and G).

CO ₂ Emissions Band	gCO ₂ per km	Rate Structure
A and B	0-145g	Base rate – discount
C, D and E	146-190g	Base rate
F and G	191g and over	Base rate + premium

- CORI Justice believes that these new changes should apply to all motor vehicles and should be introduced from January 1st 2008. The government is likely to face heavy lobbying from the car industry and motorist organisations to avoid making any changes. However, in the context of the data in table 3, the implications of avoiding this reform are only to generate future costs for the exchequer through greater emissions and subsequently greater purchases of carbon credits and Kyoto fines.

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