Presentation to the Joint Committee on Communications, Climate Action and Environment

May 16, 2018

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Thank you for the invitation to the Institute of International and European Affairs (IIEA) to inform this Committee's debate on implementation of the National Mitigation Plan (NMP). As you know, the IIEA is a forum for the generation of ideas, policy insights and analysis to help shape vital decisions about Ireland's strategic direction, policies and future.

One of the key areas we have focused on over the past decade is Ireland's decarbonisation challenge within the context of EU and UN climate policy. I have been leading our activities in this area and I'm here today with my colleague, Max Muenchmeyer, who is the researcher focused on energy policy.

As you know, the Government published its first statutory national mitigation plan (NMP), in July 2017. Due to time restrictions, I want to focus on two issues:

1. I want to highlight strengths and weaknesses of the NMP, and to suggest that a revised NMP is now required.
2. New strategies, however, do not reduce emissions. Given the urgency of the climate challenge, I want to propose one measure from the NMP for inclusion in Budget 2019. The good news is that it involves reducing income taxes.

First, the NMP. The IIEA published *An Assessment of Ireland's First Draft National Mitigation Plan* in June 2017 (more details can be found in the full report).

A positive aspect of the NMP is that it is realistic about its own shortcomings. This realism was evident in "carbon budget" framework, introduced in the first chapter. A carbon budget is a simple calculation: it estimates total *allowed* emissions based on 2020 and 2030 EU targets. The budget can be compared to *likely* emissions (using the EPA's projection in a business as usual scenario).

When DCCAE made this calculation, they estimated that between 2020 and 2030, Ireland would likely **exceed its carbon budget** by 89 and 113 million tonnes of CO_2 eq. It should be noted that rapid economic growth and a fast-expanding dairy sector suggest that the future gap to target might be even larger.

We noted in our analysis that:

- No attempt was made to estimate the costs of not meeting targets (possible fines, purchase of carbon credits and other flexibilities) for 2020 or 2030;
- The implication of the "carbon budged" for individual sectors, such as transport, agriculture and buildings was not considered;
- The sectoral chapters made no reference to the overall national objective, and no consideration was given to assessing compatibility of sectoral strategies like Food Wise 2025 with the carbon budget; and
- Furthermore, very few new measures were announced in the plan, and the potential impact of new measures were not considered within the context of the carbon budget.

While a carbon budget was therefore introduced, it did not provide a strategic framework within which the contribution of sectors or measures was considered. The strategy did not set out an approach to meeting Ireland's targets, so current Government policy does not envisage meeting our targets.

Furthermore, since this "living document" was published, there have been a number of developments.

1. A highly ambitious list of decarbonisation investments for the power generation, transport and buildings sectors was set out in the National Development Plan 2018-2027: this is a very promising development
2. Department of Finance estimates, presented to the Committee of Public Accounts, suggest that continued inaction on climate would mean *"…that Ireland was set to be subject to fines of €600 million annually from 2021 if targets were not met*". This suggests that Ireland could be subject to €6 billion in fines between 2021 and 2030 in a business as usual scenario (Dept. of Finance estimates are in line with IIEA calculations from 2016).
3. Ireland's 2030 target for the non-ETS (a 30% reduction on buildings, transport and agriculture emissions) was finally agreed by the EP on 17 April 2018.

On this basis, we would argue that the key question is not NMP implementation. What is required is a revised NMP in light of these developments, which makes a realistic attempt to set out how Ireland will meet 2030 commitments, and which uses the carbon budget as a framework for allocation of responsibility between key sectors. If the plan is to spend billions of taxpayer money to purchase compliance, this should be made explicit.

Second, new strategies, no matter how ambitions, do not reduce emissions: this requires policy implementation, the subject of today's hearing. I will focus on Action 3 of the NMP, which promised that in 2018 Government would provide an "Examination of impact of carbon tax and future tax rate".

There is one option to reduced emissions immediately, and the good news is that it involves cutting income taxes. Between 2008 and 2016, the share of labour taxes (income tax, USC and PRSI) in total tax revenue increased from 31 per cent to 36 per cent, reducing the reward for work, and damaging economic competitiveness and growth.

The biggest opportunity for immediate climate action is to reduce income taxes and to fill the exchequer gap though an increased carbon tax.

According to the Revenue Commissioners, for example:

- Eliminating the 0.5 per cent rate of USC and reducing the other rates by 1 per cent each would yield a total saving for taxpayers of €872 million; or
- Alternatively, reducing the 20 per cent and 40 per cent income tax rates by 1 per cent each would yield a saving of roughly €937 million; or
- Another option is to reduce the 20 per cent rate by 1.5 per cent, for a reduced deduction in the region of €925 million.

The typical hard-working taxpayer could expect a windfall in the region of €500 per year.

An increase in the carbon tax by €50 euro per tonne would raise up to €1.2 billion, more than filling the gap (assuming no change in behaviour). Taxing bad things (like environmentally destructive pollution) makes sense, especially when we can alleviate the burden on hard-working families at the same time.

Increasing the carbon tax gives households choices and encourages short- and long-run changes in behaviours. Electric vehicles and hybrids are, all of a sudden, going to become more attractive, as are highly efficient conventional vehicles, because petrol and diesel are going to be pricier by 13 cents per litre. Many commuters have options to rely more on public transport, cycling and walking. Others, it is true, are locked into car-dependent lifestyles and would have to use their tax windfall to pay for higher transport costs, at least until the time comes to purchase a new vehicle.

The other major impacted area is home heating. An electric heat pump or wood-burning stove will suddenly seem like a great deal. That deep insulation retrofit that Ms and Mr Jones have been considering is going to become a greater priority, and thriving new economic sectors will emerge. A bale of briquettes will cost an extra €1.30, and a 25kg bag of coal is going to cost an extra €3, which means that wood-based solid fuel products will take up more and more shelf space. If the tax can be accompanied with low interest loans to help householders make deep retrofit investments, all the better.

It is essential to ensure that the impacts are managed carefully for the most vulnerable in society. Increased welfare payments and fuel allowances could offset any negative impacts for the elderly, the unwell and the unemployed.

We often hear that there are no solutions to climate change. While an increased carbon tax would not solve all of our problems, it would be a good start. It makes all other climate measures cheaper for the exchequer to promote: lower subsidies would be required to promote electric vehicles and home retrofit, because higher fuel prices make these options more attractive by themselves.

The price of a barrel of oil has more than doubled in the past two years. This has given rise to much bigger increase in the price of fuel than a €50 increase in the carbon tax I’m proposing here, and the sky seems not to have fallen in. Practically every single climate expert globally will tell you a carbon tax is the way to go. We don’t need more analysis, we need leadership.