Opening Statement to the Select Committee on Budgetary Oversight
The Cost of Climate Action

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Thank you very much Chair and the Members of the Committee for the opportunity to speak about the Cost of Climate Action in Ireland. And thank you for your interest in the OECD work and particularly in the recently released Environmental Performance Review of Ireland. At times I will refer to this report as EPR, report or review.

As our report indicates, Ireland's emissions of greenhouse gases (GHGs) have broadly followed the economic cycle over the last decade. They declined during the 2007-12 recession, but rose by 3% with the fast economic growth of 2014-19, until the COVID-19 pandemic hit the world economy. Significant underinvestment in the wake of the recession affected the quality of infrastructure and slowed down environmental progress. Environmental pressures, including GHG emissions, are likely to intensify with population growth and increasing urban sprawl, road traffic and livestock. The positive environmental effects of the COVID-19 crisis are expected to be temporary.

Therefore, more determined action is needed to tackle emissions from buildings, transport and agriculture (especially from ruminant livestock). We welcome the government commitment to phase out coal and peat electricity generation in the 2020s. There has also been positive progress on the renewable energy side. The share of renewables in the energy mix – especially wind power – has more than doubled since 2010. However, fossil fuels still dominate. In particular, coal, peat and oil provide about half of home heating. Hence, our review suggests that Ireland needs to phase out residential fossil fuel boilers more rapidly, while considering fuel-poverty risks. It should focus support for energy efficiency on deep building renovations. Decarbonising transport is also crucial. Your country's dispersed settlement pattern and low population density imply that road transport is by far the dominant transport mode.

The EPR welcomes the 2019 Climate Action Plan is a major step towards bringing emissions outside the European cap-and-trade system in line with the 2030 target of -30% (compared to 2005). It would also put Ireland on the path to the net-zero emission goal by 2050. However, the report also highlights that the plan's implementation requires considerable investment and financial resources, but these have not been sufficiently assessed. Given public finance constraints, engaging the private sector and financial markets is crucial. For example, planned actions such as massive home retrofitting and expansion of the use of electric vehicles (EVs) call for households' willingness to invest.

The target of almost 1 million EVs by 2030 is the main pillar of your strategy to decarbonise transport. Generous subsidies have supported sales of EVs, but their share in the fleet remains negligible. Our report notes that these grants are a costly way to decarbonise mobility. You should consider complementing these EV subsidies with travel demand management – including road pricing – higher taxation of conventional vehicles and a more extensive charging network. The planned increase in the share of EVs will also contribute to a significant loss of public revenues from motor fuel taxes and motor vehicle purchase taxes, which are linked to the CO_2 emissions of the vehicles. Hence, there is a need to shift road transport taxation from a focus on fuel use to road use over the medium term. While also raising needed revenues, such road pricing could help better address congestion.

More generally, better incentives are needed to manage travel demand. Reducing reliance on private vehicles and providing credible alternatives remains a challenge. Congestion and its costs have grown and are expected to increase further, especially in the Greater Dublin Area. Except for the Dublin Tunnel, Ireland does not use road use charges to manage travel demand. Hidden car use subsidies, such as free parking at a workplace, provide implicit incentives to commute by car. Our report recommends to consider congestion charges alongside investment and policies to enhance travel conditions for pedestrians, cyclists and public transport users. Revenue from charges could fund such investment and provide income support to vulnerable households.

Ireland has taken other positive steps to reduce environmental damage from mobility. The government committed to higher investment in rail, public transport and active mobility and to two-to-one spending on public transport over roads, as well as to reallocate road space to more sustainable modes. Co-ordination of land-use and transport planning has improved to promote compact growth. However, Ireland should better enforce planning regulations to ensure that all developments promote settlements with easy access to transport links and include a network of safe walking and cycling routes.

A credible trajectory of carbon prices would encourage low-carbon consumption, investment and innovation. The EPR welcomes the government commitment to continue increasing the carbon tax to reach EUR 100 per tonne of carbon dioxide in 2030, from EUR 33.50 in 2021. However, it casts doubts on whether this would be sufficient to achieve the targeted 51% reduction in overall GHG emissions from 2021 to 2030.

It is welcome that he carbon tax receipts are to be used to prevent fuel poverty; ensure a just transition of displaced workers; and finance climate-related investment. The allocation of part of the carbon tax revenue to enhance some social welfare schemes in 2021 is expected to mitigate the impact on vulnerable households and even contribute to reducing poverty. Such earmarking of revenue can help create political support for the tax increases, but it may limit the flexibility of public authorities to adapt public spending to changing needs.

While the carbon tax has partially contributed to aligning the tax rate on diesel to that of petrol, motor fuel tax rates continue to give an incentive for using diesel vehicles, with potentially negative consequences for local air pollution and human health. The cap on diesel prices for road hauliers limits operators' incentives to shift to more fuel-efficient vehicles, driving habits and logistics systems. Ireland extended the carbon tax to coal and peat in 2013 and discontinued support to peat-fired electricity generation in 2019, which is positive. Vulnerable households benefit from a fuel allowance during winter to help with heating expenses. The allowance tends to support use of fossil fuels, which are the main source of residential heating. While the allowance is a means-tested lump sum that is not required to be spent on heating, its name is unfortunate and may have some undesirable behavioural effects. The report recommends to rebrands it and spread it throughout the year. More generally, to maintain a consistent price signal, Ireland should gradually remove remaining tax exemptions and rebates that encourage wasteful fuel use in agriculture, fishery, heating and transport.

Swift action is needed to steer the recovery towards the green transformation and avoid a rebound of environmental pressures. Ireland stepped up public investment but needs to further mobilise private finance. As part of its response to the crisis, the government provided sizeable funding to accelerate investment in sustainable transport, energy efficiency, water infrastructure and peatland rehabilitation in 2020-21. The EPR notes positively that, in 2020, the central government's climate-related capital and current expenditure increased by 23% from the previous year to reach 3% of total budget expenditure. The National Development Plan (NDP) 2018-27 allocates around EUR 30 billion (more than a quarter of its outlays) to the climate and energy transition. The NDP in-depth review, to be completed in 2021, provides an opportunity to further align investment priorities with the climate mitigation goals.

Higher investment is also needed to spur climate- and environment-related innovation. Despite increasing investment, both government and businesses spend relatively little on research and development (R&D). Less than 2% of government R&D outlays were directed to environmental and energy research in 2019, among the lowest shares in the OECD. R&D support be increased and better support small and medium-sized enterprises. Low environment-related R&D spending has translated into a relatively low number of patents in environment-related technologies compared to the OECD average. Nevertheless, Ireland has specialised in some green technologies such as on climate change mitigation for buildings.

In conclusion, the OECD welcomes Ireland's ambition in transitioning towards a low-carbon economy. However, our team has some concerns over your country's effective capacity to deliver. The scale of the investment needs is remarkable, while additional sizeable fiscal spending is required to support the economic recovery from the effect of the COVID-19 pandemic. There is a need to mobilise the private sector and financial markets, increase efforts on eco-innovation, provide stronger price signals and remove harmful subsidies to encourage businesses and households to take action, while taking into account affordability, employment impact and regional disparities.

Thank you for your attention. My colleague Tatiana Samsonova and I will be happy to answer your questions.