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## PARLIAMENTARY BRIEFING

# UK Budget - A Green Economy or Black Economy?

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WWF Scotland welcomes the opportunity to brief members in advance of this debate on the UK Budget. Our economic system has an important role to play in securing a future where we live within the environmental limits of our one planet. Securing a zero carbon economy requires a coherent UK approach to our taxation and subsidy regimes to ensure that they help deliver on this goal.

### Summary

- A zero carbon budget is a critical part of a green economy and should be seen as an investment in the health and wellbeing of our people and an opportunity to capitalise on the vast job opportunities of the future. Relating taxation and subsidies to the external environmental cost and benefits of particular activities can help influence behaviour change and business investment decisions.
- WWF Scotland believes the UK Budget undermines progress towards a zero carbon economy by shifting efforts away from reducing the costs of renewables, instead providing high levels of support for the oil and gas sector.
- A extra £3bn of tax breaks for the North Sea oil and gas industry to incentivise drilling in new deep water and smaller fields and providing greater tax guarantees for decommissioning is environmentally irresponsible, at odds with the polluter pays principle and risks perpetuating a high carbon economy for the UK and Scotland.
- The UK Budget commitment to proceed with the planned increase in fuel duty in August is welcome. Short-term measures to reduce temporarily the cost of fuel are not a solution to the long-term need for a strategy to make our transport system more efficient, wean the UK off oil and secure investment in a low carbon transport revolution.
- We support the UK Budget commitment to proceed with the planned increase in Air Passenger Duty (APD) on 1 April this year. Air travel is the fastest growing source of climate change emissions and has the potential to swamp all the efforts in other sectors to reduce emissions.
- The Scottish Government's ongoing support for new oil and gas development, opposition to fuel duty increases and desire to control Air Passenger Duty in order to lower it are at odds with their commitment to establish a low carbon economy for Scotland.



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## Taxation, subsidies and the environment

Taxation can be applied to incorporate the costs of environmental damage into the price of goods, services or activities and thus better reflect the environmental externalities that result from production and consumption and act as an incentive to shift away from environmentally damaging behaviour and influence business investment decisions. In 2009, the Green Fiscal Commission advocated a shift to environmental taxation— reducing taxes on the things that are valued by society (e.g. jobs) and funding the lost revenue by taxes on things that damage society. The Commission found that such an environmental tax shift could help the UK meet its 2020 climate change targets with practically no cost to the economy overall and with an increase in employment.

### Oil and gas

Tax and subsidy support in the energy sector should be targeted at helping boost the UK's clean energy sector, enabling key renewable technologies to mature and encouraging greater energy efficiency and thus helping to support a low carbon economy of the future. However rather than bolstering support for renewables and energy efficiency in the 2012 Budget the UK Government, which already provides oil and gas decommissioning tax breaks for the industry, provided further guarantees of this favourable tax regime with a £3bn tax allowance to incentivise drilling in large and deep water fields off Shetland and a new £150m allowance for smaller fields. Such subsidies are at odds with the need to end our dependence on oil and gas, the risk that deep water drilling poses to our marine environment, and the 'polluter pays' principle.

While the Scottish Government has set out a welcome commitment to establish a low carbon economy for Scotland, their support for new oil and gas in the North Sea and for the industry to benefit from favourable tax regimes is simply not compatible with this aim. The whole of Scotland's economy needs to become low carbon and a 'pick and mix' approach of supporting 'high' and 'low' carbon aspects is not compatible with this end goal.

### Fuel Duty

Road transport is the second biggest single contributor to greenhouse gas emissions, accounting for over 25% of Scotland's total emissions and the transport sector has one of the greatest abatement potentials for carbon emissions in Scotland. Rather than short-term measures to reduce temporarily the cost of fuel we need a long-term strategy to make our transport system more efficient, wean ourselves off oil and secure investment in low carbon transport.

We therefore welcome the UK Budget commitment to retain the planned fuel duty increase in August, but disappointed that last year the Chancellor not only cut fuel duty but cancelled the fuel duty escalator. Fuel duty is an important lever in helping ensure that fuel prices more adequately reflect the external environmental costs of motoring, and may be used to provide much needed investment in public transport, walking and cycling.

### Air Passenger Duty (APD)

Air travel is the fastest growing source of climate change emissions and has the potential to swamp all the efforts in other sectors to reduce emissions. Aviation is already heavily subsidised as it doesn't have to pay VAT or fuel duty. WWF Scotland therefore supports the UK Budget commitment to proceed with the planned increase in Air Passenger Duty (APD) on 1 April. In the longer term, we would like to see an extension and increase of aviation taxes, so that these better reflect their environmental costs and level the playing field in comparison to equivalent train travel within the UK, as well as making a fair contribution towards the public purse. The Scottish Government has called for the APD to be devolved in order for them to be able to lower it and thus incentivise further flying. WWF Scotland believes such a response is at odds with the need to tackle rising emissions from aviation.

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