

PUBLIC CONSULTATION DISCUSSION PAPER

Issued by Planning and Environment on 28th February 2007

PURPOSE OF CONSULTATION To seek opinion on proposed new measures for raising environmental taxes, and the schemes which could be funded through them in the areas of energy efficiency, waste recycling and transport.

DEADLINE FOR RESPONSES 4 May 2007

SUMMARY OF REPORT / QUESTIONS TO CONSIDER The report explains environmental taxation and considers how it could be applied in Jersey to achieve the States environmental objectives for energy, waste and transport. The report suggests how income from environmental taxes could be spent to support these objectives and the options which exist for raising the revenue. The report seeks the opinion of the public on the proposal that initially, environmental tax should be limited to a graduated vehicle emissions duty, and on the proposal that the revenue raised through this tax should be placed in an environmental fund, to be used to support measures designed to promote energy efficiency, waste recycling and improved transportation initiatives. The report contains 12 questions, with subsets of questions, on which the public are invited to give their views to help in the further development of this policy.

FURTHER INFORMATION AND FEEDBACK A comprehensive consultation paper containing full details of the economic analysis is available along with a shorter non technical summary, from www.gov.je, the States bookshop, the Public Library, or from the Environment Section at the address below. Comments received by 4 May will be analysed and used to help design the final proposals for the environmental tax proposals that will be brought to the States for debate later in the year.

Please send your comments to:

Environmental Taxes Consultation
Planning and Environment Department
Howard Davis Farm
La Route de la Trinite
Trinity
Jersey JE3 5JP

Tel. 01534 441600
Fax 01534 441601
Email environment@gov.je

THIS DOCUMENT HAS BEEN SENT TO THE FOLLOWING INDIVIDUALS / ORGANISATIONS

All States Members
The Public Consultation Register
Parish Halls
States Greffe bookshop
Public Library
Cyril le Marquand House Customer Services Centre

SUPPORTING DOCUMENTS

Funding Our Future – A consultation about Environmental Taxes

Funding our Future – Non-technical summary

FUNDING OUR FUTURE

Non-Technical Summary of the
consultation document about
Environmental Taxes

February 2007



Foreword

Environmental issues are rapidly rising to the top of the global political agenda with a much greater awareness of the need to respond effectively to the challenges posed by a changing climate change, diminishing resources such as oil and managing finite resources like freshwater in the face of a growing population.

Jersey is certainly not protected from these challenges and we have already recognised the need for action by setting stretching environmental objectives and targets within the States Strategic Plan 2006-2011.

We know that the public of Jersey expect the States to demonstrate progress in delivering these environmental targets and that they are willing to do their bit to contribute - for instance there has been an excellent uptake of waste recycling facilities. Our new ECO-ACTIVE programme is helping people to become more aware of the environmental challenges we all share and helping us to take simple and effective steps to become better environmental citizens.

Environmental taxes are an important set of tools that we can use to improve our environmental performance. They re-enforce the messages about better environmental behaviours and they provide a source of revenue to fund the helpful measures that will allow people to adapt the way they live.

Our initial priority has been to examine how environmental taxes could help deliver the Strategic Plan objectives for energy, waste and transport. Following an intensive period of research into the various options for taxation and related expenditure we have concluded that there is a very serious role for environmental taxes in Jersey.

This consultation paper signals our intent to press ahead with a package of environmental tax and related expenditure from 2008. The income generated will fund programmes for energy efficiency, greater waste recycling and the Integrated Travel and Transport Plan.

We would be very pleased to hear your views on the content of this consultation paper and in particular your answers to the questions we have posed which will be important for shaping our proposals.



Senator F E Cohen
Planning and Environment
Minister



Senator T Le Sueur
Treasury and Resources
Minister

Contents

FUNDING OUR FUTURE	3
WHY ARE THESE NEW TAXES BEING CONSIDERED?	6
WHAT ARE ENVIRONMENTAL TAXES?	6
WHAT ENVIRONMENTAL TAX OPTIONS HAVE BEEN CONSIDERED?	8
WHAT PROPOSALS ARE BEING MADE?	8
PROPOSALS FOR ENERGY TAXES	8
QUESTIONS	9
PROPOSALS FOR WASTE TAXES	9
QUESTIONS	10
PROPOSALS FOR TRANSPORT TAXES	10
QUESTIONS	13
WHAT IS LIKELY TO HAPPEN IN 2008?	13
HOW DO I MAKE MY VIEWS KNOWN?	14
SUMMARY OF QUESTIONS	15

Why are these new taxes being considered?

The Strategic Plan 2006-2011 has established important environmental objectives that the States are committed to deliver. In many countries environmental taxes have been used to make such environmental objectives happen.

During the debate on the Fiscal Strategy (P44/2005) a commitment was given to investigate the options for environmental taxes that would further Jersey's environmental objectives, specifically in the areas of Transport, Waste and Energy.

In addition the Minister for Treasury and Resources also made a commitment to look at alternatives to a Vehicle Registration Duty to be introduced in parallel with the introduction of GST in 2008.

Work on environmental tax options has been informed by detailed research carried out by the consultancy OXERA together with parallel work on energy and transport, which has helped to refine the objectives for these areas.

What are Environmental Taxes?

Environmental taxes are fiscal mechanisms that are applied with the intent of reducing behaviours that are damaging to the environment. They may take the form of taxes, levies or charges but the defining factor is that they are introduced with the explicit purpose of bringing about a change that will benefit the environment.

The successful use of environmental taxes can have positive benefits to individuals and to the economy. By changing behaviours the pressure for new or enhanced infrastructure can be reduced or avoided. This is especially important in an Island economy with a growing number of households. For instance a reduced demand for energy or water could reduce expenditure on new facilities (e.g. reservoir extensions, new sub-stations).

Environmental taxes can pay for mechanisms such as grants for home energy efficiency. This can have very positive paybacks, with the benefit received by adopting the efficiency measures outweighing the cost of the tax.

Environmental taxes are not always the right answer. For instance it would be cheaper to work with the three main food retailers in Jersey to introduce voluntary measures to limit the issue of disposable plastic carrier bags than it would be to introduce a new tax to achieve the same end.

Environmental taxes work in two main ways:-

Firstly they can work by increasing the cost of doing something to the point where people start to do less of that activity and so reducing demand. Such tax proposals have to be carefully examined to ensure that the effect does not fall disproportionately on low-income households.

An environmental tax can also cause a switch to another less damaging behaviour – often enhanced by setting a lower tax rate for the substitute. A good example of this is the switch that took place from leaded to unleaded fuel where leaded petrol was made progressively more expensive than unleaded leading to a major switch in what people use in their cars.

The second way that environmental taxes can work is by spending the money that is collected. In its most simple form this can be expenditure to offset the detrimental effect of the damaging behaviour. For instance in the UK a levy is placed on waste going to landfill which generates a fund which is applied to environmental improvement projects such as habitat creation and management.

A more sophisticated approach is to create a “virtuous circle” where the revenues collected are applied to projects that can directly re-enforce the desired behaviour change. For example the revenues collected from a tax on vehicles could be applied to creating better public transport systems, cycle routes and footpaths so as to give people a real alternative to using their motor cars.

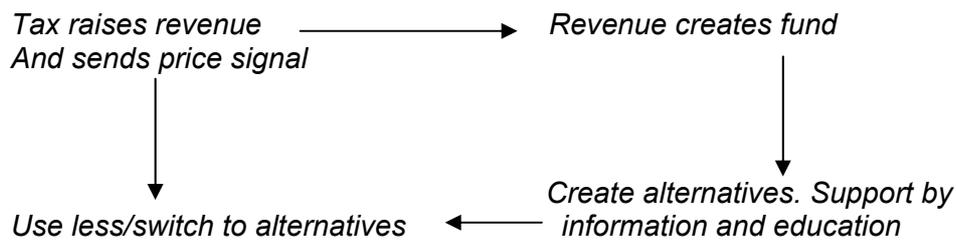


Figure 1 Virtuous circle

By using tax revenues in this way the net effect on households can be made neutral or even positive. For instance a tax on energy use can be more than offset if the money raised is used to support energy efficiency measures that reduce energy consumption i.e. although the unit of energy is more expensive your overall bill is lower because you need to use less. This is a progressive measure as low-income households will commonly be spending a greater percentage of their household income on heating and therefore gain a greater benefit.

To ensure that the money raised is available to spend any tax revenues generated must be ring-fenced and not taken into general States’ coffers. Any environmental tax that is raised must be levied directly at environmentally damaging behaviours, and there must be confidence amongst the public that the environmental tax they pay goes directly toward measures that will help them reduce their damaging behaviours and benefit the environment.

The Council of Ministers proposes to establish an environmental fund into which all environmental tax revenues are paid and out of which all related expenditure is committed.

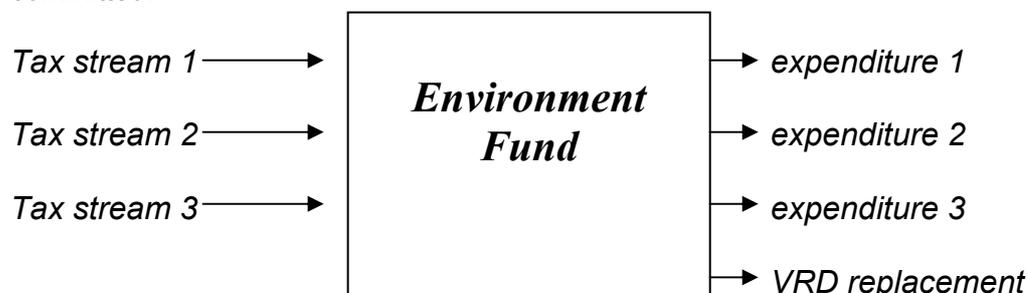


Figure 2 Income and expenditure model

What environmental tax options have been considered?

Environmental tax options have been considered for energy, waste and transport. The approach taken in each case has been to identify a set of specific environmental objectives, outline a set of spending programmes that have been put forward to achieve these objectives, and then investigate the impact of the environmental taxes that would be required to fund these spending initiatives, having regard to:-

- the achievement of the identified environmental objectives;
- other social and policy objectives;
- the distribution of costs and benefits within the economy and across the population.

The combination of environmental objectives, and the actions and funding to deliver them, is summarised in the following table

Table 1. Summary of tax and spend options to achieve objectives

Subject	Objectives	Actions	Funding	Tax options
Energy	Reduce carbon emissions. Less dependency on fossil fuels	Energy efficiency Fuel switching Carbon offsets	£1.4 M	Energy flat tax Carbon weighted energy tax
Transport	Replace Vehicle registration duty Reduce congestion Improve air quality	ITTP package, inc. Public transport	£ 5.5 M	Vehicle Emissions Duty Increase fuel duty Parking charges
Waste	Reduce volumes Increase recycling	Bring banks Kerbside collection	£ 1 M	Gate fees Bellozanne Household charge

What Proposals are being made?

Proposals for Energy taxes

There is tremendous scope in Jersey to increase energy efficiency. The achievement of greater energy efficiency will benefit the individual user directly and also the economy in general by reducing net imports of energy.

Previous surveys have shown a high degree of awareness amongst Jersey households about the need for greater energy efficiency but with levels of take-up that could easily be improved. It is likely that this finding will be repeated in the Jersey Annual Social Survey to be published shortly.

Mechanisms are needed to help people make informed choices and to give direct financial support for the uptake of measures. Information will be made available through the ECO-ACTIVE programme to assist in informed decision-making. A dedicated advisory body capable of giving hands-on advice to business and households could back this up and could administrate a grant regime for energy

efficiency and micro-generation technologies. In the first instance this programme could be organised to give the most help to low-income households.

The programme would be funded at £1.4 m per annum from the Environment Fund i.e. from the income generated by environmental taxes. Ministers would wish to see considerable progress on energy efficiency measures before bringing forward any environmental tax proposals for energy i.e. to achieve as much as possible through support mechanisms before bringing in taxes on energy. Such taxes could be brought in a later date if it was necessary to “raise the bar” for energy efficiency performance.

Questions

Q1. Do you agree that practical support from the States for energy efficiency measures covering information and grants is desirable?

- | | | | | | |
|-----|-------------|-----|--------------------------|----|--------------------------|
| 1.1 | Information | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| 1.2 | Grants | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |

Q2. Should such measures be targeted at low-income households initially?

- | | | | | |
|-----|-----|--------------------------|----|--------------------------|
| 2.1 | Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
|-----|-----|--------------------------|----|--------------------------|

Q3. What measures deserve to be supported by grants?

- | | | |
|-----|--------------------------|--------------------------|
| 3.1 | None | <input type="checkbox"/> |
| 3.2 | Home insulation | <input type="checkbox"/> |
| 3.3 | Energy efficient boilers | <input type="checkbox"/> |
| 3.4 | Photovoltaics | <input type="checkbox"/> |
| 3.5 | Solar heating | <input type="checkbox"/> |
| 3.6 | Micro wind generation | <input type="checkbox"/> |
| 3.7 | Others (please describe) | <input type="checkbox"/> |
-
-

Proposals for waste taxes

There is an increasingly high level of support in Jersey for the recycling of waste, with strong take-up of new facilities as they come on line. Ministers wish to enhance this trend by providing more and better facilities to encourage even greater levels of recycling for a greater range of materials.

Increased spending of £900,000 to £1,000,000 is required to drive progress toward the States' committed recycling target and it is proposed to fund this from the Environment Fund i.e. from the revenues generated by environmental taxes.

There are good arguments for linking a charge to the amount of waste produced as this sends a clear message and an incentive to recycle more. This could be done at parish level by charging for the weight of waste delivered to the incinerator, or at individual household level by weighing non-recycled waste that is taken away. Such environmental taxes for waste are hampered by the unresolved position on the Bellozanne covenant and therefore there is no immediate possibility of development. In the longer term the use of environmental taxes on waste production is likely to be a key feature of achieving more advanced recycling targets

Questions

Q4. Do you agree that more should be done to encourage greater levels of waste recycling?

4.1 Yes No

Q5. Were a waste charge to be introduced in the future would it be better to levy it at the Household level or at Parish level?

5.1 Parish

5.2 Household

Q6. What new facilities or services would help you to recycle more waste?

6.1 None

6.2 More Information on how to sort my waste

6.3 Being able to recycle plastics

6.4 More recycling stations

6.5 Collection of sorted waste from your house

6.6 Others (please describe) _____

Proposals for Transport taxes

The Minister for Transport and Technical Services has recently set out his objectives in the Integrated Travel and Transport Plan for Jersey (see www.gov.je). The top-level aims of this plan are to bring about reductions in congestion, pollution and road injuries primarily by encouraging a gradual reduction in the relative share of trips made by private car. The more efficient use of motor vehicle use will also contribute significantly to our greenhouse gas emission reduction targets.

A comprehensive programme of change is described in the plan with a funding requirement of £0.8 M growing to £1.2 M per annum. It is proposed that this programme is funded from the Environment Fund i.e. from environmental taxes. Funding options from environmental taxes are increased duty on fuel, an annual vehicle emissions duty and parking charges.

Parking charges have a great deal to offer as they are capable of directly affecting choices about bringing a private vehicle to town, and so tackle both congestion and poor air quality head on. However to do this without first improving public transport would be to provide no viable alternative and so this is a measure for later years.

Vehicle emissions duty, or an increase in Fuel duty?

The choice between an annual Vehicle Emissions Duty and increased duty on fuel is finely balanced. The cost of motoring in Jersey is significantly less than other countries in Europe, even with VRD included it is typically less than half the equivalent cost on either the UK or France. A VED based on UK rates would raise sufficient funds for the planned environmental measures. To raise an equivalent amount from fuel duty would require an increase of about 20 pence per litre.

The Council of Ministers' preferred option is an annual VED as this is the mechanism most likely to raise the profile of the need to reduce vehicle emissions.

VED bands would be set to reflect different levels of carbon dioxide emissions based on published performance data for each vehicle

The pros and cons for each are set out in Table 2.

Table 2 Pros and Cons of VED and Increased Fuel Duty

	Pros	Cons
Vehicle Emissions duty	<p>Clear message about vehicle choice re-enforced annually</p> <p>Bands can be set to target worst performers</p> <p>VRD to be replaced anyway</p> <p>Can give relief for "double taxation"</p>	<p>Additional cost associated with collection (but VRD collection costs are lost)</p> <p>Less directly related to the use of the vehicle</p>
Increased Fuel duty	<p>Proportional to amount of use</p> <p>Collection mechanism exists</p> <p>Encourages use of fuel efficient cars</p>	<p>No distinction between general duty and the environmental tax</p> <p>"Double taxation" can't be negated</p>

Avoiding double taxation

Table 2 raises the matter of so called "double taxation". This arises because it can be argued that those vehicle owners who have purchased a vehicle since 2003 have paid Vehicle Registration Duty and would in the future also have to pay VED on the same vehicle.

If the replacement for VRD was to be an increased duty on fuel then it would be impossible to treat vehicle owners differently, irrespective of whether they had paid VRD or not. However with a VED system it would be possible to offer tax relief to take account of the previous VRD payment.

Assuming an average ownership of 5 years, and discounting the value of having paid VRD by a fifth for each year of ownership it would be possible to consider a type of relief from VED that reduces liability by up to 80% in 2008 as demonstrated in Table 3.

Table 3 Impact of Tax relief for post 2003 registrations on total tax take

Tax year	Registered in 2007 relief	Registered in 2006 relief	Registered in 2005 relief	Registered in 2004 relief	Registered in 2003 relief	Net impact on tax take
2008	80%	60%	40%	20%	0	-24%
2009	60%	40%	20%	0	0	-14%
2010	40%	20%	0	0	0	-7%
2011	20%	0	0	0	0	-2.5%
2012	0	0	0	0	0	0

NB Assumes a total stock of 100,000 vehicles and 12,000 registrations per year with an average retention time of 5 years.

What should the bands for VED look like?

One further matter to resolve with a Jersey VED is the difference between bands in the scheme. The rates used in the UK are shown in Table 4.

Table 4 Revenue of a VED, with UK VED rates, in Jersey

Bands	UK VED rate for petrol car	% of new UK car sales	Number of vehicles In Jersey	Revenue (£/pa) for Jersey
A	0	0	0	0
B	40	3	2,514	100,567
C	100	31	23,466	2,346,567
D	125	25	18,971	2,371,328
E	150	17	13,104	1,965,631
F & G	200	24	18,133	3,626,513
Total	137	100	76,187	10,410,607

The current VRD has a ratio of approximately 8:1 (£3,125 and £375 respectively), while band F compared with band C (which is where these cars could be expected to lie) only has a ratio of 2:1 (£200 and £100). Given the States' environmental objectives there is a good case for maintaining this 8:1 ratio in the proposed VED system, adjusting rates upwards for greater emissions and downwards for lower emissions to maintain the same overall tax income.

The Council Of Ministers is minded to adopt this position over a period of years, starting out with something closer to UK rates and gradually increasing the differentials year on year until the 8:1 ration is restored.

Questions

Q9. If a VED is introduced should there be any allowance made for the previous payment of VRD on the same vehicle?

9.1 Yes No

Q10 If you answered yes to Question 9 do you agree that the rates of relief proposed in table 3 are reasonable?

10.1 Yes No

Q11. If a banded VED is introduced as a replacement for VRD what should the ratio be between the highest and lowest bands?

11.1 A ratio similar to the UK scheme of 2:1

11.2 A ration similar to Jersey VRD of 8:1

11.3 A higher ratio please specify _____

Q.12 If a banding scheme with a high differential between upper and lower bands was agreed as the best option, how quickly should it be introduced?

12.1 Immediately from 2008

12.2 Gradually over a period of 2-3 years

What is likely to happen in 2008?

The Council of Ministers intends to bring forward proposals later in 2007 for the introduction of an environmental tax and expenditure programme in 2008. The feedback received from this consultation process will be taken into account when considering the nature and extent of that programme.

There are clear arguments in support of the introduction of one or more environmental taxes to make progress on the delivery of the agreed environmental objectives within the Strategic Plan. In particular such taxes are critical to the achievement of the Transport plan, waste recycling and energy policy.

At a time when there are significant reforms happening in Jersey's tax system there is a danger of causing confusion by bringing forward a whole new suite of environmental taxes at the same time. At this stage it is important to establish the principal of environmental taxation and an Environmental Fund and to take it forward with perhaps one straightforward measure.

Proposals for energy and waste taxes would be better deferred to a future date when obstacles have been overcome and when expenditure programmes have had the opportunity to bring about real change in our behaviours with respect to energy use and waste creation.

It is the Council of Ministers' view that the best option for a single environmental tax would be an annual banded vehicle emissions duty funding a range of expenditure programmes. Priorities for environmental tax expenditure in 2008 will be,

- An energy efficiency programme
- Enhanced waste recycling
- Implementing the transport plan measures
- Replacing revenues lost by the repeal of VRD

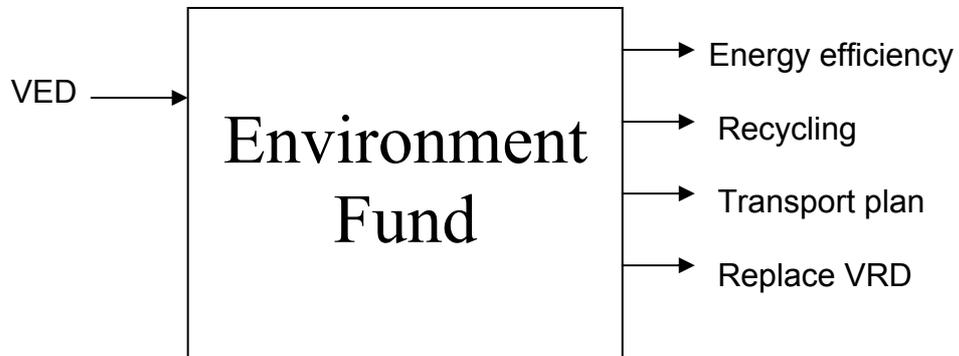


Figure 3 Environmental tax and expenditure proposals for 2008

How do I make my views known?

We would be delighted to receive your views on the questions we have posed, or indeed on any other aspect of this consultation document. The consultation period will close on 4th May 2007.

To view the full consultation document please go to www.gov.je or contact us at the address below

Please send your response to our questions, and any other comments you wish to make to the following address

**Environment Taxes Consultation
States of Jersey
Planning and Environment Department
Howard Davis Farm
La Route de la Trinite
Trinity
Jersey
JE3 5JP**

Or e-mail us at environment@gov.je

Summary of questions

Q1. Do you agree that practical support from the States for energy efficiency measures covering information and grants is desirable?

- 1.1 Information Yes No
1.2 Grants Yes No

Q2. Should such measures be targeted at low-income households initially?

- 2.1 Yes No

Q3. What measures deserve to be supported by grants?

- 3.1 None
3.2 Home insulation
3.3 Energy efficient boilers
3.4 Photovoltaics
3.5 Solar heating
3.6 Micro wind generation
3.7 Others (please describe) _____

Q4. Do you agree that more should be done to encourage greater levels of waste recycling?

- 4.1 Yes No

Q5. Were a waste charge to be introduced in the future would it be better to levy it at the Household level or at Parish level?

- 5.1 Parish
5.2 Household

Q6. What new facilities or services would help you to recycle more waste?

- 6.1 None
6.2 More Information on how to sort my waste
6.3 Being able to recycle plastics
6.4 More recycling stations
6.5 Collection of sorted waste from your house
6.6 Others (please describe) _____

Q7. The States want to tackle congestion, air pollution and road injuries, what priority order should the states adopt? Please score – low, medium or high

- | | Low | Med | High |
|-------------------|--------------------------|--------------------------|--------------------------|
| 7.1 Air Pollution | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7.2 Congestion | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7.3 Road injuries | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Q8. The Council of Ministers wishes to encourage the ownership of more fuel-efficient vehicles and intends to do this by introducing an environmental tax, the proceeds of which will go replacing income lost by scrapping VRD and supporting measures in the Transport plan. Do you think that an annual Vehicle Emissions Duty or an increase in fuel duty is the best way of achieving this?

8.1 Vehicle emissions duty

8.2 Increase in fuel duty

Q9. If a VED is introduced should there be any allowance made for the previous payment of VRD on the same vehicle?

9.1 Yes No

Q10. If you answered yes to Question 9 do you agree that the rates of relief proposed in table 3 are reasonable?

10.1 Yes No

Q11. If a banded VED is introduced as a replacement for VRD what should the ratio be between the highest and lowest bands?

11.1 A ratio similar to the UK scheme of 2:1

11.2 A ration similar to Jersey VRD of 8:1

11.3 A higher ratio please specify _____

Q.12. If a banding scheme with a high differential between upper and lower bands was agreed as the best option, how quickly should it be introduced?

12.1 Immediately from 2008

12.2 Gradually over a period of 2-3 years

Comments: I wish to make the following additional comments on this consultation. *In responding to feedback received we may wish to quote comments we receive. Please check here if you do not wish your views to be attributed to you in public*

We would be delighted to receive your views on the questions posed above or indeed on any other aspect of this consultation document. The consultation period will close on 4th May 2007.

Please send your comments together with your contact details to the following address:

**Environment taxes consultation
States of Jersey
Planning and Environment Department
Howard Davis Farm
La Route de la Trinite
Trinty
Jersey
JE3 5JP**