

ENVIRONMENTAL INDUSTRIES COMMISSION - 2018 BUDGET REPRESENTATION

Introduction and key points

The Environmental Industries Commission (EIC) is the leading trade association for the environmental services and technologies sector. We represent a broad range of companies, from technology start-ups, to multinational consultancies. Our members work in many diverse environmental fields, including air quality, waste management, water management, energy efficiency, contaminated land remediation, and environmental laboratories. Compared to other trade associations that focus on specific environmental sub-sectors, EIC can take a wider perspective on issues facing the environmental sector as a whole.

Overall points:

- Environmental taxation should form a coherent framework which encourages businesses to act in a sustainable manner.
- There are numerous examples of the current environmental tax system creating perverse environmental incentives. A review is needed to identify these collectively and assess the lessons for how environmental tax policy is designed and implemented.

Specific tax proposals:

Air Quality

- VED should be reformed to reflect local pollutants as well as CO₂.
- We support the changes to fuel duty differentials in last year's budget on LPG and LNG, and would urge the government to maintain this to support low-emission fuels.
- End the allowance of red diesel for non-agricultural uses.
- All off-grid fuels should receive equal treatment under the CCL.
- Equalise the fuel duty on secondary liquid fuels and on alternative virgin fuels.
- Introduce a 5% VAT rate for products and services that reduce indoor air pollution.
- Introduce a 5% VAT rate for air quality sensors.

Resources & waste

- Move asbestos contaminated waste into the lower landfill tax bracket



- We oppose moving organic waste into the lower tax bracket
- We oppose the imposition of an incineration tax, and would instead advocate introducing a tax on virgin plastics, or VAT reductions for products containing a high level of recycled material.
- Consider introducing VAT reductions for repair services

Land development

- Land remediation tax relief should be increased and extended

Climate & energy

- Consider raising the Carbon Price floor to support the growth of the cleantech sector.
- Apply the 5% VAT rate to energy efficiency focused refurbishments.

1. **Air quality**

1.1. **Vehicle Excise Duty (VED)**

VED is currently based on two parameters, CO₂ emissions and engine size, and uses factory data from the manufacturer in its calculations. This does not represent the reality or full scope of vehicle emissions. Therefore the duty should take into account CO₂, NO_x and PM pollution.

1.2. **Use of red diesel**

In our response to the recent call for evidence on '*Non-Road Mobile Machinery and Red Diesel*', EIC called for the removal of the red diesel tax deduction for urban (i.e. non-agricultural) use. The lower tax rate for red diesel for uses such as generators, construction equipment, and transport refrigeration units, encourages businesses to use a dirty form of fuel that causes high levels of harmful air pollution in highly populated areas, over available low-emission alternatives such as cold power, hybrid or biofuels, BioLPG or retrofit solutions. Removing this preferential tax rate would support the growth of the cleantech economy, as the government rightly vouches for in its Industrial Strategy.

1.2.1. **Transport Refrigeration Units**

The majority of TRUs are powered by a secondary diesel engine, rather than the main vehicle propulsion engine. From 2019 onwards, TRU engine emissions will be regulated for the first time in Europe – yet the standards will still allow them to emit up to six times more nitrogen oxide (NO_x) and 29 times more particulate matter (PM) than the far larger main propulsion engine.





There are over 84,000 TRUs on UK roads, 34,000 of which are refrigerated trucks and trailers while the rest are smaller refrigerated vans (mostly home delivery type vehicles). A proportion of these refrigerated vehicles are driven from the vehicle's main engine (mainly refrigerated vans) therefore they are not allowed to use red diesel. Industry figures suggest however that approximately 26,000 out of the 34,000 refrigerated trucks and trailers in use in the UK feature highly polluting secondary engines, which can use red diesel (reduced duty diesel).

Prohibiting the use of red diesel in transport refrigeration would raise an additional £126mn in revenue for HMT. As a whole, UK TRUs emit every year the equivalent of 2,800 tonnes of NO_x, 367 tonnes of PM and 1,397k tonnes of CO₂. Converting all diesel engine powered TRUs in the UK to zero emission technology would remove the same amount of particulate matter as taking 3.8m Euro 6 diesel cars off the road. Due to their disproportionately high impact, taking action on TRUs would therefore also help ease the pressure on diesel use elsewhere.

1.3. Indoor Air Quality

Policy to incentivise energy efficiency by charging 5% VAT has had the unintended consequences, in many cases, of leading directly to a rise in poor indoor air quality. To compensate for this, we propose that the Exchequer reduce to 5% the cost of products and services that address this issue and improve the health of the built environment and the public. It has been projected that the corresponding decrease in costs to the NHS and improvements to productivity in the economy will more than compensate the Government for lost revenue.

1.4. Air sensors and monitors

Engaging the public about air pollution is key to creating public support for measures to combat it, particularly if they could be seen to be an inconvenience to people's lives. An effective way of facilitating better public engagement is to better produce, register, and disseminate data. The UK has a world-leading industry producing air quality sensors and monitors. The Exchequer could support the growth of this industry by introducing a VAT reduction to 5% for air quality sensors and monitoring equipment, to encourage the public and businesses to acquire monitoring technology.

2. Circular economy/waste management

In general, tax policies to improve resource efficiency must be focused at the front end of the waste management chain through extended producer responsibility. The Treasury has a key





role to play in creating tax policies for this, which will in turn improve recycle quality, and increase the market for secondary materials.

2.1. Landfill tax

2.1.1. Contaminated waste in landfills

The Landfill Tax has been broadly successful in promoting investment in alternatives to landfill, but has also created some perverse environmental incentives. For example, imposing higher rate landfill tax on asbestos contaminated soils when containment in an engineered hazardous waste landfill cell both adds cost into the brownfield development sector and creates an incentive for environmentally questionable recovery techniques.

To avoid this potential hazard, we advocate for asbestos-contaminated soils to be charged at the lower rate of landfill tax.

The construction sector generates very large tonnages of waste and relies heavily on being able to manage these through recycling and recovery activities, rather than disposing of them which incurs high landfill tax charges. The bulk of the wastes generated are excavated materials and the sector is very good at processing these to recover secondary aggregates and higher grade uncontaminated soils for reuse.

In this regard the effect of landfill tax, both at the existing higher and lower rates, has been effective in driving behavioural change in the construction sector. However, the landfill tax regime has created some significant problems for the construction sector and environmental industries that support it.

These problems largely revolve around the management of the large tonnages of residual, lightly contaminated, weak soils, which remain after the aggregates and high quality soils are recovered from the excavated materials. These residual materials can only be used as low grade fill and it is critical to the construction sector that they can continue to manage these without incurring taxable disposal costs.

Unfortunately the regulatory regime around the issue of recovery and disposal of excavated waste is highly complex, confusing and poorly implemented. As a consequence the Environment Agency is struggling to deal with permit applications for waste recovery activities that allow re-use of these materials and the construction sector is very frustrated with the inflexible and slow regulatory process. Large, nationally important, civil engineering infrastructure projects are at risk of rising costs because of this issue. In the midst of this there





are frequent reports of organised criminals exploiting the dysfunctional regulatory system to illegally dispose of hazardous wastes and avoid paying the appropriate landfill tax.

While this problem cannot be solved by tax changes (more clarity in regulations and better enforcement is the key), it is worth mentioning as it is an unintended consequence of the landfill tax system.

2.1.2. Organic waste

This was proposed in some of the responses to the government's consultation on plastics. We oppose any reduction in landfill tax for organic waste, as the landfilling of organic waste emits high levels of methane, one of the most damaging greenhouse gases. This would also be in direct contravention to the government's aim to stop food waste going to landfill by 2030.

2.2. Incineration tax

We do not support an incineration tax as proposed by some respondents to the Call for Evidence on Single Use Plastics.

The logic behind an incineration tax is that it would provide a financial incentive for local authorities and waste management companies to divert recyclable plastics away from energy from waste to recycling. But this proposition must be tested against the evidence:

- The recycling performance of several other EU Member States shows that there is no reason in principle why high levels of EfW are incompatible with higher levels of recycling than the UK currently attains
- An incineration tax introduced in Sweden in 2006 did not lead to an increase in recycling rates.
- A financial incentive aimed at recycling already exists – WRAP's annual 2017/18 waste market analysis showed a median gate fee from dry recyclables of £22/t compared to £86/t for EfW.
- There is wide agreement that the barriers to increased plastics recycling are around lack of demand for recycled plastic, composite packaging containing different types of plastic which can make collecting and recycling such packaging either uneconomic or infeasible, and insufficient consumer sorting of plastic when they dispose of their waste little coordination by manufacturers and retailers to sure. An incineration tax would not address any of these barriers.





There is broad agreement within the resources industry that a significant increase in plastic recycling is achievable if some core measures are taken such as:

- Much simpler, clearer labelling for consumers
- Extended Producer Responsibility – which inter alia will lead to more standardised plastic packaging that can be more easily recycled.
- A requirement for minimum levels of recycled content in new plastic products/packaging or a strong incentive for this through taxation.

The Government's leadership over the last year on plastic pollution combined with much greater awareness of the issue among mainstream business, the public and the media means that a tipping point has been reached where bold policy initiatives in these three areas would now get public support. The policy focus should therefore be in these areas rather than introducing a new tax on incineration for which there is no clear evidence that it would work and which would definitely be a deadweight cost on waste producers, given that in practice it would apply to non-recyclable waste that was incinerated as well as recyclable waste. If new taxes were to be considered, it would be effective to consider the potential of taxes on virgin plastics.

2.3. Measures to reduce single-use plastic waste

As previously mentioned, EIC's position is that tax measures should be targeted on the producers, as this most effectively reduces the amount of residual waste at the disposal phase. This is backed by new research, that suggests that the public are increasingly in favour of paying tax on non-recyclable plastic, due to fears about marine plastic pollution.¹ As we detailed in our response to the 'Tackling the plastic problem' call for evidence released earlier this year, EIC supports the following measures to help reduce single-use plastic waste:

- Introduce a tax on virgin plastics to create better end markets for recycle.
- Penalise the use of black plastics through the tax system as they are harder to recycle.

¹ Viridor (2018) UK Recycling Index 2018





- Boost the secondary materials market by offering VAT reductions for products containing a high level of recycled material.
- We support the introduction of a deposit-return scheme, given its proven track record of success in other countries such as Germany.

2.4. Reuse and repair

Reuse and repair must be seen as essential to creating a more circular economy and the tax system can be used to incentivise this. A potential scheme could be to introduce a cut in VAT for repair activities, as was put forward by the Swedish government in 2016.

3. Development

Land Remediation Tax Relief

EIC has been campaigning for several years for better policy to encourage the development of brownfield land. The proportion of new homes built on brownfield land has been falling recently, and a reform of Land Remediation Relief would be a powerful way to focus attention on the support for brownfield development with little or no cost to HM Treasury ([EIC has separately submitted detailed analysis of how the reform would work](#)).

A pre-tax credit for qualifying remediation costs should operate in a similar way to the Research & Development Expenditure Credit. This should have same value as the Land Remediation Tax Relief after corporation tax is deducted. The purpose of this is that the current tax relief benefit will be shown as income and will therefore increase the likelihood of the benefit featuring in and influencing the decision to invest.

In addition the value of the Relief should be increased, and the time restrictions around the eligibility of the Relief for 'derelict land' should be revised.

4. Climate & energy

4.1. Carbon price floor

The carbon price floor has not been increased since its creation in 2013. The reasoning behind this is to limit the competitive disadvantage it would place on business and reduce energy bills. However, as the Committee on Climate Change highlighted in its latest Progress Report, the government is some way off meeting its carbon targets. Raising the carbon price floor would have the effect of both supporting the clean economy, by creating a competitive advantage for cleantech, and would help the UK lower its emissions further.

4.2. Tax irregularities on refurbishment





There is an irregularity within the tax system related to the taxation applied to refurbishments and new buildings, with relation to energy efficiency improvements. Currently there is a 5% VAT applied to energy efficient new builds, while the full 20% rate is applied to refurbishments with the aim to improve energy efficiency. After Brexit, there is the probability of EU State Aid rules no longer applying to the UK, which would allow for this irregularity to levelled – and the 5% rate be applied to refurbishments as well. This would support the energy efficiency sector and help us reach our carbon targets.

4.3 Climate Change Levy

Currently the Climate Change Levy is a tax on energy usage and is somewhat crudely linked to carbon emissions. However changes in the grid electricity mix, in favour of renewables and away from fossil fuels, means that the way that the CCL is calculated should be updated to reflect this.

