Opinion & Analysis

Time for carbon tax to move beyond rhetoric

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Behaviours need to be taxed to reflect the downstream costs inflicted on society as a whole

'BUSINESS AS usual is no longer an option for Ireland." So Noel Dempsey boldly declared as he unveiled the Government's National Climate Change Strategy. Among the key objectives of that hard-hitting document was the introduction of a carbon tax, radical improvements in energy efficiency in construction and transport and the phasing out of coal-fired electricity production at Moneypoint in Clare.

Time flies when you're deluding yourself. Almost nine years have now passed since this "strategy" was published in October 2000. Let's recap on progress. First, the intervening years have seen explosive growth in emissions from Ireland's transport and construction sectors, courtesy of developer-driven urban sprawl. Second, Moneypoint is still pushing more than 100,000 tonnes of CO_2 up its giant chimneys every week.

As for the carbon tax? It died in mysterious circumstances around 2004. There are, however, a number of suspects. Its demise "was partly due to active lobbying by business groups and the opposition from the then minister for finance, Charlie McCreevy", according to the Institute of International and European Affairs (IIEA), a policy think tank.

The Commission on Taxation report this week has put a carbon tax high up the political agenda. Support for such a levy has come from an unlikely source – the chief executive of ExxonMobil.

"As a businessman it is hard to speak favourably about any new tax, but a carbon tax strikes me as a more direct, transparent, and effective approach," said Rex Tillerson. "It avoids the costs and complexity of having to build a new market or the necessity of adding a new layer of regulators."

A carbon tax, in essence, is the most efficient means of embedding the true cost of carbon in all economic decisions, from corporate investments to the choices we as consumers make every day. Other limited forms of carbon taxation already in operation, such as cap-and-trade have proven highly volatile and as easy to fiddle as they are difficult to administer.

One thing the ExxonMobil chief has in common with commission chairman Frank Daly is that both believe a carbon tax should ideally be revenue-neutral. It's probably a vain hope to expect our cash-strapped exchequer to claw back into energy-saving incentives the €480 million a year such a tax is likely to net.

The commission proposes pitching the carbon tax at about €20 a tonne. This translates into a relatively modest 5-8 cent increases in petrol and diesel prices at the pump, or €60 on a tonne of coal.

A lone star on our otherwise heavily blotted environmental copybook was Ireland's introduction in 2002 of a 15 cent levy on plastic bags. This has proved to be one of our most successful and least unpopular taxes.

A five-cent petrol levy will hardly effect a similar transformation, at least not initially. Carbon taxes are long-term game changers. At the moment, fossil fuels are cheaper and therefore more popular than renewables. Indeed, the collapse in fuel prices as the recession bit last winter led to the shelving of a range of major renewable energy projects.

However, a commitment to ratchet up this carbon tax year on year would, over the next decade, radically alter our current perilous dependence on imported fossil fuels and simultaneously energise our indigenous renewable sector. Cushioning vulnerable citizens from the effects of higher fuel prices is best achieved via a labour-intensive national home insulation programme rather than the current highly wasteful fuel allowances.

Can carbon taxes really make a difference? Sweden's experience strongly suggests so. It introduced a carbon tax in 1991, with a hefty 20 cent a litre levy. Unlike Ireland, Sweden decoupled economic growth from emissions. Since 1990, its economy has expanded by 50 per cent yet emissions actually declined by one-tenth. Despite its high standard of living and harsh climate, the average Swede today produces seven tonnes of emissions a year, an astonishing 10 tonnes less than their Irish counterpart. With Sweden now holding the EU presidency, it is using its moral leadership in this field to push hard ahead of the December Copenhagen climate conference for an aggressive EU-wide emissions cut of 30 per cent by 2020.

In our carbon-constrained world, opting for a highly fuel-efficient vehicle, and to drive less when possible, are socially responsible choices. So too is upgrading your insulation ahead of your flat-screen television. Behaviours need to be taxed to reflect the downstream costs inflicted on society as a whole. This is hardly revolutionary; we already do this with taxes on tobacco and alcohol. New charges will soon curb our estimated 30 per cent wastage of water, another expensive yet woefully undervalued resource.

Underpinning any system of taxation has to be the principle of equity; as long as free riders are tolerated, confidence in and compliance with the system will be compromised. That's why the commission's steps to clip the wings of our so-called tax exiles deserve unequivocal public and political support. To borrow the Minister's phrase: business as usual really is no longer an option.