

Opening Statement

by Marie Donnelly, Climate Change Advisory Council Chairperson

to the

Budget Oversight Committee February 17th 2026

Opening Remarks

Thank you to the Budget Oversight Committee for the opportunity to attend today and speak on how the taxation system can help Ireland move to a low-carbon economy. My name is Marie Donnelly, chairperson of the Climate Change Advisory Council. I am joined by Edgar Morgenroth, Professor of Economics at the DCU Business School and fellow Council member, and George Hussey, Secretariat Manager. Our role as part of the Climate Change Advisory Council is to provide independent evidence-based recommendations on policy to support Ireland's climate objective.

There is no doubt that the scale of the challenge facing Irish society to address the climate crisis is enormous. Our response thus far has been disappointing. The most recent EPA Provisional Inventories for the year 2024 suggest that emissions have fallen by 12% relative to 2018. Furthermore, the EPA projects, that even in the best-case 'With Additional Measures' scenario, our emissions will be only 23% lower in 2030 than in 2018 despite a legislated national target of a 51% reduction by 2030 relative to 2018. In respect of Ireland's EU targets the most optimistic projections scenario published by the EPA suggests that Ireland would reach a reduction of 22% as against a legislated target of a 42% reduction by 2030 relative to 2005. These are ambitious targets but necessary for Ireland to meet its obligations under the Paris Agreement.

Analysis by the Council in collaboration with the Irish Fiscal Advisory Council found that the cost to Ireland of missing its EU climate and energy targets could be in the range of €3-26 billion. Even focussing on the more optimistic EPA 'With Additional Measures' emissions projections scenario only narrows that range to €3-12 billion.

It is therefore vital that we employ all the tools at our disposal to help achieve these targets. The tax system should support achievement of our climate targets and it can do this by pushing us to reduce our dependence on fossil fuels. The Council's Carbon Budget proposal highlighted that fossil fuels must be phased out as early as 2039 as an absolute imperative, with limited to no opportunity for new investments in fossil fuel systems. Unfortunately, it is still the case that the tax system supports our use of fossil fuels through environmentally harmful subsidies including exemptions from various fuel and excise taxes. This is inconsistent with Ireland's climate objectives and should not be allowed to continue.

Since its establishment, the Climate Change Advisory Council has made recommendations in respect of the tax system on a number of occasions in its Annual Reviews. In my remarks I will focus on three areas;

1. The carbon tax
2. Fossil fuel subsidies
3. Taxation and transport

The carbon tax: The Council has consistently supported this and previous Governments in their plans for the carbon tax and the gradual increase to €100 per tonne of Carbon Dioxide emitted by 2030. The Government needs to give clear signals on the direction of travel for the carbon tax and other measures post 2030 to support low carbon investments. Recent agreements in the EU regarding a new emissions trading system for the built environment and road sectors point to the importance of ensuring the visibility of a strong carbon tax in Ireland, but also the need to ensure that our planning for post 2030 is compatible with EU plans. The post 2030 EU compliance architecture will start to be laid out later this year and it will be vital that Ireland's taxation policy is aligned with this approach to the greatest possible degree. To support a just transition it is necessary that we have transparency on the use of carbon tax revenues and also that greater efforts are made to build awareness of the hypothecation. This already entails that well over half of the revenues are used to support welfare supports, environmental measures in Agriculture and retrofitting. It is vital that this feature of Ireland's carbon tax is maintained and indeed strengthened over time.

Fossil fuel subsidies: According to the CSO, the total budgetary cost of fossil fuel subsidy in Ireland in 2024 was €4.7 billion. A large proportion of these subsidies are indirect, in that they relate to differences in the rate of taxation applied to different fuels or based on the sector which is using the fuels in question. For example, there is no tax applied to aviation fuel and differentiated taxes applied to diesel as against petrol. These differences are increasingly difficult to justify on any basis and need to be removed. The Council has repeatedly called for Government to remove fossil fuel subsidies, and it is widely accepted that phasing them out will reduce emissions. In addition, to ensure a just transition, we need to make sure that the sectors and people most dependent on those subsidies must be supported in their low carbon transition. The revenues saved by Government in phasing out fossil fuel subsidies should be directed towards helping those most in need to reduce their dependence on fossil fuels and ensure that their incomes after energy costs are sustained during the transition.

Taxation and transport: The low carbon transition brings many changes, not least to the government's tax base. At present, about €5 billion in tax revenue is raised through motor tax, fuel excise duties and the carbon tax. As the economy decarbonises, this revenue base will reduce in time. Council has explicitly called for a review of taxation in the transport sector to ensure the sustainability of this revenue flow whilst ensuring that the lowest emissions vehicles are preferred, but

there is limited evidence of change being implemented. Similarly, the excise rate on petrol and diesel should be equalised. Given the impacts on both air quality and climate, there is no reason to favour diesel. Congestion charging is a measure that should be introduced in our cities as soon as real alternatives to car travel exist for those living and working in those cities. Given the growing economic, social and climate costs associated with congestion which have been evident of late, Government needs to be ever more attentive to dealing with the causes of congestion and to show much more agility and speed in implementing solutions in this area.

Closing Remarks

It is becoming clear that Ireland will struggle to meet its national and EU obligations on climate. This failure will entail a significant call on the public purse to pay other EU member states so that Ireland can demonstrate compliance. Minimising these costs does not only require enhanced investments by consumers and businesses, but it is also vital that the tax system provides the clearest possible signal. Ultimately this signal is that Ireland needs to be free of fossil fuels by the end of the next decade, thereby greatly enhancing our security and competitiveness in the face of an ever more uncertain world. The Council is happy to assist this Committee in its deliberations, and we look forward to our discussions today.