



Opening Statement to Oireachtas Committee on Budgetary Oversight

John FitzGerald, Chair of the Climate Change Advisory Council

I would like to thank the Committee for this invitation to discuss the challenge of tackling climate change and how best this can be addressed in the forthcoming Budget.

The increased frequency of extreme weather events, flooding and drought are manifestations of what will be a growing trend until the world halts the momentum of climate change. Without urgent action we are facing a global climate disaster. The costs of the world doing too little to tackle climate change are much greater than the costs of doing too much.

Ireland has set itself a binding target to decarbonise by 2050, with key milestones along the way. The All of Government Plan, announced yesterday, crystallises the sectoral challenges for 2030. Failure to reach these milestones will have multiple adverse consequences.

The task of the Climate Change Advisory Council is to provide independent advice on policy – how best we can meet our goals on climate change at least cost to society.

The Plan

The Council welcomes the Plan published yesterday as a major step forward. It includes realistic sectoral targets and appropriate governance to ensure a successful transition or else early warning if we are underperforming.

Instead of making optimistic assumptions about, for example, oil prices, which would reduce the magnitude of the challenges we face, the Plan takes a more realistic approach. This is to be welcomed.

The next task is to ensure that the detailed measures put forward in the Plan are implemented within an appropriate time scale.

Carbon Taxes

A very wide range of research in Ireland and elsewhere has shown that raising the cost of emitting greenhouse gases is essential if we are to halt global warming. One of the key messages from the Council, identified in our first Report in 2017, and repeated in subsequent reports, is that we need to reflect the potential damage done by emitting



greenhouse gases in the price of those emissions through a carbon tax. The wide range of other measures and policies that are needed to bring about decarbonisation will be significantly undermined if emitting greenhouse gases remains the cheap option.

The carbon tax in Ireland, and the carbon price in the EU Emissions Trading System, are too low and do not reflect the costs of climate change. This is a key factor in our failure to make adequate progress on tackling climate change.

There are three key reasons why pricing emissions of carbon dioxide is important:

1. It discourages use of fossil fuels and encourages us to switch to alternatives such as renewables. It makes it comparatively cheaper and more attractive to use electric cars, upgrade our homes and buy A-rated appliances. Equally, pricing emissions appropriately means that business and government will find that eliminating greenhouse gas emissions saves money. For example, purchasing and operating high emissions buses needs to be much more expensive than zero emissions buses.
2. Carbon pricing, and especially the carbon tax, provides the government with revenue which it can use to compensate or support those who are on low incomes and it can be used in the budget to reduce other taxes or increase expenditure. Research shows that shifting from taxes on labour or indirect taxes to taxes on carbon can actually increase employment, as well as playing a crucial role in reducing emissions of greenhouse gases.
3. The most important effect of appropriately pricing emissions is to incentivise business and households to invest in new technologies, which will allow us to continue to enjoy a high standard of living while eliminating emissions of greenhouse gases. The prospect of a higher price for carbon is already driving essential innovation in electrification of transport and low carbon home heating options.

The current carbon pricing levels are too low to drive real change. The carbon tax should be increased to at least €35 a tonne in the next Budget, with a commitment to raise it in subsequent Budgets to reach at least €80 by 2030. This would not only deliver immediate emissions reductions, but would also put in place the conditions for a long term low carbon transition through improved investment choices.



There is a massive body of evidence from across the world showing that carbon taxes are essential to tackling climate change. There are very few carbon tax deniers in the economics community!

A recent statement by a very large number of US economists identified carbon taxes as an essential first step to tackling climate change: These economists included 27 Nobel prize winners; 4 chairs of the Fed; 15 chairs of the US Council of Economic Advisors.

The OECD and the EU led the way in the early 1990s in recommending carbon taxes. Unfortunately, Ireland rejected the EU approach in 1992. If the EU proposal in 1992 for a carbon tax had been implemented we would be in a very different place today.

Since 1992 a very large number of papers have been published showing how carbon taxes are essential to driving the decarbonisation of the Irish economy.

The Council advocates hypothecation of the revenue from carbon taxes – using it to compensate those on low incomes who might otherwise carry a disproportionate share of the additional tax burden, promoting investment in dealing with climate change and returning residual income to households.

As long ago as 1992, an ESRI study indicated that 30% of the revenue from a carbon tax would need to be used to compensate those on low incomes. Many papers since then have considered the issue: an important paper by the ESRI, published last week, considered options on how the revenue could be used to protect those on low incomes.

While advocating a “Just Transition” approach, the Council has not favoured a particular scheme for achieving it. Detailed policies on how best to redistribute income are a matter for the Government and the Oireachtas.

[Government Investment](#)

It is important that the investment programme to be financed in Budget 2020 should be subjected to rigorous assessment using the parameters of the revised Public Spending Code. This code assumes that an appropriate price of carbon for 2050 is €260 a tonne: using the recommended discount rate in the code, this implies a price today of around €80 a tonne.



This will have significant implications for a wide range of investments such as the state's fleet of vehicles.

In planning to ramp up investment in retrofitting houses and other buildings it will be important to take account of the capacity of the building industry to deliver. The expertise and skills need to be developed to undertake this work and this may take some time.

One way of developing this expertise would be to gradually ramp up contracts to retrofit the stock of local authority dwellings owned by the state. In doing so the state would signal that investment in this sector will be a major feature of the coming decades: developing the building industry capacity and skills to deliver it will be worthwhile. This investment would also substantially reduce emissions from families in local authority dwellings, many of them on low incomes; it would substantially reduce their expenditure and, in the case of more elderly tenants, it would bring significant health benefits.

Conclusion

In conclusion, carbon pricing alone will not deliver the necessary emissions reductions, but delivering emissions reductions without a sufficient carbon price will be almost impossible, and certainly much more expensive. Increasing the cost of emitting carbon is not a once off commitment, but must be sustained over the coming decade.