

# Ignoring Rural Realities: The Implications of a Carbon Tax For Rural Ireland



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*Appropriate fiscal instruments, including a carbon levy, will be phased in on a revenue-neutral basis over the lifetime of this Government.*

-A Blueprint for Ireland's Future 2007-2012:  
An Agreed Programme for Government

## Introduction

Speculation that a carbon tax will be introduced in the emergency April budget is a matter of concern to Irish Rural Link. Relatively little has been written specifically on the potential impacts of carbon taxes on rural areas. Irish Rural Link note how discussions about carbon tax have shifted from it being a “revenue neutral” environmental measure to it being a blunt revenue raising instrument. In this rush to raise revenue the serious repercussions of a carbon tax for lower income families and rural dwellers has been ignored. It will affect some Irish households more than others and some households’ ability to make behavioural shifts (the ultimate goal of a carbon tax) will be extremely limited. The Government has claimed that a carbon tax “makes it easier to be green” and “makes it easier to do the right thing” however this is of little consolation to those it impacts disproportionately upon, including rural families.

In the countryside distances are longer and more transport is by car, rural households tend to use more energy and more (carbon-intensive) solid fuels than urban households in the same income decile. A carbon tax is a tax on energy use, that is a tax on a necessity and according to Tol *et al* (ESRI, 2008) “a carbon tax would weigh more heavily on rural households”.

Irish Rural Link strongly supports European and national efforts to reduce Ireland’s greenhouse gas emissions but urge that initiatives taken in this regard do not adversely affect the most vulnerable in Irish society. We note figures recently released by the Environmental Protection Agency which project a reduction in Ireland’s greenhouse gas emissions between 2008 and 2012 (EPA, 2009).

The ESRI have shown that if the revenue created by a carbon tax is used to reduce government debt the positive economic benefits of the tax are minimal (Tol *et al*, ESRI, 2008). Carbon taxes are regressive and have a deep rooted equity problem. Their negative impacts can only be adequately mitigated if social benefits are increased and if income taxes are decreased (Conefrey *et al*, ESRI, 2008; Callan *et al*, ESRI, 2008). Experience from other countries has shown that carbon taxation will only succeed if it is part of a comprehensive package of measures, which includes reducing some other taxes.

In their report for the Environmental Protection Agency Scott and Eakins (2004) state that to maximise the incentive to become more energy efficient low income

households must be compensated. In the rush to introduce revenue raising measures Irish Rural Link do not believe that the regressive effects of a carbon tax will be adequately offset. IRL, through its participation in Social Partnership and NESC accept the Government's analysis of the deep fiscal problems the country faces but we do not believe the blunt instrument of a carbon tax is an appropriate response as it disproportionately impacts on rural families. Its rushed introduction would be an example of taxation without thinking and dismissive of the social costs associated with it.

Suggestions that now is an ideal time to introduce a carbon tax due to falls in the cost of living are somewhat disingenuous, the CSO's consumer price index (CPI) figures for February 2009 show the cost of Energy Products actually increased. Recent decreases in the CPI recorded for in the "Housing, Water, Electricity, Gas & Other Fuels" category are not an accurate picture as the CSO has noted that the fall recorded in this category was mainly due to a decrease in average mortgage interest repayments and lower private rents, not reduced electricity, gas and solid fuels costs.

### **Carbon Tax and Ireland**

In order to be made equitable carbon taxes require measures to offset the negative impacts and a proper rural transport system must be put in place. All indications suggest that the government is not in a position to adopt this approach in its April budget. The Government should start meeting its commitment to rural proof policies and it is vital that adequate time is given to this process. The introduction of a carbon tax must be delayed while the impact of any carbon tax on rural dwellers is assessed. Irish Rural Link believe that it is important from the outset that the consequences and specifically the inequalities created by the introduction of a carbon tax be acknowledged, researched and that appropriate ameliorating measures form part of the discussion of a carbon tax.

The discussion about carbon taxes in Ireland began in a very different economic context. Humphreys (2006: 3) writes "Perhaps the strongest argument for a carbon tax over a carbon trading scheme is that the revenue raised from a carbon tax can be used to reduce or remove other taxes, and therefore to offset the economic costs of the carbon tax." IRL consider that many of the arguments in favour of carbon tax (such as its perceived ease of introduction and the ability to enhance their equity) have evaporated in recent months with the necessary mitigation measures unlikely to be introduced.

### **Carbon Tax Models**

Firm details of the Government's carbon tax are unavailable but Irish Rural Link agree with Callan *et al* (ESRI, 2008) that it seems likely that the carbon tax would be levied on carbon dioxide emissions that are not already regulated by the European Union Emissions Trading Scheme (EU ETS), and that the tax would be roughly equal to the expected permit price in the EU ETS.

In its 2003 "Proposal for a Carbon Energy Tax in Ireland – Consultation Paper" the Department of Finance presents the tax (€) (excluding VAT) per Tonne of Emissions (TOE) corresponding to various rates per tonne of CO<sub>2</sub>. These are presented below.

Rate per TOE	€7.50	€10	€15	€20	€25
Peat	€ 31.05	€ 41.40	€ 62.10	€ 82.80	€ 103.50
Coal	€ 29.70	€39.60	€ 59.40	€ 79.20	€ 99.00
Auto Fuel	€ 22.88	€ 30.50	€ 45.75	€ 61.00	€ 76.25
Oil	€ 23.85	€ 31.80	€ 47.70	€ 63.60	€ 79.50
LPG	€ 19.95	€ 26.60	€ 39.90	€ 53.20	€ 66.50
Natural Gas	€ 17.25	€ 23.00	€ 34.50	€ 46.00	€ 57.50

The Consultation Paper also shows the retail fuel price increases (including VAT) expected for different carbon tax rates (please note these figures correspond to 2003 VAT rates).

Fuel	Retail Unit	€ 7.50	€ 10	€ 15	€ 20	€ 25
Peat – Briquette	Bale €	0.195	0.260	0.390	0.520	0.651
Coal	40kg Bag €	0.897	1.196	1.793	2.391	2.989
	Tonne €	22.4	29.9	44.8	59.8	74.7
Oil – heating	Litre €	0.029	0.038	0.058	0.077	0.096
Oil – Motor	Litre €	0.028	0.037	0.056	0.074	0.093
LPG	Litre €	0.014	0.019	0.029	0.038	0.048
Natural Gas	kWh €	0.0014	0.0018	0.0027	0.0037	0.0046

### **Ignoring Rural Realities: Rural Incomes**

There is significant deprivation in rural Ireland with two thirds of the economically poor living in rural Ireland and almost a quarter of farm families living with an income of below the minimum wage (McDonagh, 2006). There is a presumption is that even low-income rural households have sufficient surplus capacity in their income to meet the additional expenditure a carbon tax entails. However, many low-income household budgets are fully committed. In the absence of fuel alternatives and adequate public transport the ability of rural households to make behavioural shifts (the ultimate goal of a carbon tax) is extremely limited.

Rural households disposable income is already below that of their urban counterparts<sup>1</sup> and recent CSO figures have shown that disposable income per person was highest in the Dublin region, where it was more than 12% above the State average. The Border region was 8% below the average and the Midland region was 9.4% below average. Only Limerick, Kildare and Meath were the other counties above the State average. Donegal had the lowest disposable income per person at more than 16.5% below the state average. These are 2006 figures and unfortunately future figures will show an even greater disparity. The deterioration in the economy will inevitably result in an even deeper gap between the incomes of rural and urban workers.

Increasing numbers of farmers relying on non-farm income and farmers tend to be employed at the lower skilled end of the employment spectrum which further exacerbates their exposure to the economic downturn (Teagasc, 2008). Data shows that farmers that work outside of the farm are typically employed in the sectors most vulnerable to the economic slowdown such as the construction and traditional manufacturing sectors. Increased transport costs associated with the tax are also likely to be passed on by suppliers and businesses, further hurting rural households.

### **Ignoring Rural Realities: Car a necessity, not a luxury**

Car ownership is universally higher in rural areas than in urban areas of Ireland (CSO 2008). Gray *et al.* (2001) in their paper examining transport in rural Scotland find that “poor rural households often make considerable financial sacrifices to own and run vehicles, and that car ownership is higher among the rural poor than the urban poor”

As stated by Gray *et al.* (2001):

Increasingly, accessibility is dependent on the mobility afforded by cars, with rural households becoming more reliant on their vehicles to access goods, services, recreation facilities, employment and further education.

According to the CSO rural based workers travelled an average of 20.9 km to work compared with 12.8 km for workers living in urban areas. CSO figures show that four out of ten households in Dublin city had no car. The 2006 Census shows that 170,000 people outside of the Dublin region travel between 25 and 49 kilometres to work with over 90,000 people outside of the Dublin region travel over 50 kilometres.

According to the National Household Budget survey rural households spend 17.6% of their weekly expenditure on transport costs. This is less than 15% in urban areas. Rural households also spend more on fuel & light than their urban counterparts.

### **Ignoring Rural Realities: Rural Households**

Scott and Eakins (EPA, 2004) derive the pattern of household consumption of CO<sub>2</sub>-related fuels and calculate the distributional impact of a €20 tax per ton of carbon. According to Scott and Eakin (EPA, 2004) whether one is a gainer or loser under the operation of a full carbon tax with compensation depends not so much on socio-

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<sup>1</sup> Urban households record the highest disposable income at €871.43, just over 9% more than the €796.77 recorded for rural households (CSO, 2007)

economic factors, but more on geography (rural versus urban) and on the type of fuel used to heat homes.

For example rural households spend 3 times as much on turf and peat and approximately 50% more on coal than their urban counterparts. Rural households spend twice as much as urban households on central heating oil. Urban households have greater access to piped gas and rely to a lesser extent on oil, coal and turf for heating (CSO, 2007: 9). Rural households do not have the option to switch to this fuel. The table above shows that the tax levied on oil would be higher than that levied on natural gas. This is deeply troubling for rural households.

Rural households spend almost 50% more per week on petrol than urban ones (€27.67 compared to €20.56) and almost four times as much on diesel. This is compounded by the higher cost a rural household faces in running and maintaining a car compared to urban ones.

Callan *et al* (2008) note that the Irish tax and benefit system does not distinguish between rural and urban households therefore rural households cannot be compensated straightforwardly. The current stance of the government suggests that they are not considering any compensation measures.

An issue affecting a small population but which is nonetheless complex is rural consumers of peat/turf, particularly in the west and midlands. Some of these people are among the poorest and most isolated households in Ireland. These consumers will pay substantially more for briquettes, and the tax will impact on peat users more than any other type of carbon consumption. This may incentivise people to extract from local protected bogs.

### **Ignoring Rural Realities: The need for policy synergies**

A 2006 report on transport carbon emissions for the Scottish Executive (Gray *et al*) identified a number of policy synergies required to enhance the likelihood of a carbon tax meeting its aims, including the encouragement of more local facilities and biofuels development. The report also recommends a number of ‘necessary synergies’ which should be put in place before a carbon tax could be introduced. These include a number of hard and soft measures, such as improved public transport. The absence of such synergies in Ireland increases the likelihood that a carbon tax is less of a serious effort to combat climate change and solely a money raising effort with little regard to rural realities. The report classifies carbon taxes as offering ‘medium’ carbon savings at best, which contrasts with measures such as a renewable fuel obligation and speed limit enforcement which, while offering high potential carbon savings, cannot be said to generate significant revenue.

### **Recognising Rural Realities: Conclusion & Recommendations**

Professor Frank Convery (2008), Chairman of Comhar the Sustainable Development Council, has acknowledged that in rural areas, there is often no other way to get about other than the car, saying “Until there are more alternatives, we may need to accept that – in the short term – car transport will continue to dominate. With this in mind, attention needs to be given to reducing the environmental impact of individual cars.”

As part of this IRL would encourage the increased promotion of ecodriving. This involves driving in a way that conserves fuel and costs nothing to the driver. It is now obligatory in many European countries to take ecodriving training as part of driver testing, something which IRL believes should also be considered in Ireland. Upon completing this training, on average, drivers tend to reduce their fuel consumption by 25 per cent, though in the longer term, this tends to drop to between five to 15 per cent (Convery, 2008). Sustained training and publicity around ecodriving may maintain this at a higher level.

The Government's small scale microgeneration and home insulation plans are only beginning to be rolled out and the introduction of a carbon tax should not be contemplated until these measures are fully implemented. Teagasc have however questioned whether the microgeneration scheme is sufficient, arguing that the prices guaranteed fall short of international standards and that it discriminates against farmers and households who receive their electricity from a source other than ESB Customer Supply (Caslin, 2009). The IFA have described it as a "missed opportunity" lacking long term political commitment (quoted in Young, 2009).

The Renewable Energy Skills Skillnet (RESS) has described the €100 million national insulation programme as "a drop in the ocean", and said €2.73 billion is required to properly insulate and heat homes.

Clearly, a tax which in effect punitively punishes those who live a distance from functioning public transport network would not be fair or acceptable without significant compensating measures. Therefore any carbon tax should be accompanied by a **National Transport Poverty Strategy**. Such a strategy could look at developing functional intra-regional transport plans. It could also look at how a rural transport programme aimed a wider target group than the current Rural Transport Programme could be developed and such other measures to ensure that a carbon tax does not contribute to transport related social exclusion.

We suggest that **National Fuel Poverty Strategy** would ensure a coherent approach to protecting low income families from both rising fuel prices and the proposed carbon tax. Such a strategy may consider options such as that announced in the UK where both the Government and energy industry introduced the Carbon Emissions Reduction Target scheme and Warm Front Scheme to ensure that the most vulnerable households in the UK be protected from rising energy costs is a good precedent. The National Fuel Poverty Strategy could also build on such schemes as SEI's Warmer Homes Scheme and Low Income Housing Programme.

Reducing or removing all fuel taxes is a possible way for the Government to be truly revenue, welfare and equity neutral when introducing a carbon tax. The removal of fuel taxes in favour of a carbon tax would be a way of encouraging a shift to more environmentally benign fuels. It would result in a reduction of petrol prices, and the saving to the household transport budget could be used to offset the higher home heating bill. The increasing of personal tax credits is another possible mitigation measure. IRL accept that these measures are unlikely in the current economic climate and for this reason alone carbon tax introduction should not be pushed through at this time.



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