Green Taxation

Background

• Green taxation aims to internalise some of the costs caused by processes or actions that damage the environment and incentivises more benign technologies and environmental behaviour through the use of economic instruments.

• Green taxation is high on the agenda at the EU and member state level. In time it is expected that a variety of instruments will be used to fully internalise environmental costs associated with different forms of energy, they will involve all stakeholders, and be fully reflected in the market.

• The climate change issue has accelerated the use of green taxation in the UK and the Treasury sees this as an important area for the future.

What is it? How does it work?

• Green taxation can, and does, take a variety of forms. Broadly speaking green 'taxation' encompasses taxes, regulation, obligations or commitments, and trading schemes.

• Some instruments, such as the EU Emissions Trading Scheme and the Large Combustion Plant Directive, have the potential to change the nature of the electricity industry. Where possible, governments favour market based instruments, such as emissions trading, since these are consistent with liberalised markets and they should meet environmental objectives at lower cost than regulation or direct taxes.

○ Economic instruments address specific issues and as such tend to impact the various generation technologies in different ways.

○ Air pollution (brought about through emissions of carbon dioxide, and sulphur and nitrogen oxides) is a prominent issue for the power sector. Green taxation that addresses the pollutants will progressively increase the cost of generation from fossil fuels.

British Energy's position

• British energy believes that overall, Green Taxation is likely to produce a more level playing field on environmental issues for all technologies. It also makes more transparent the environmental benefits and dis-benefits associated with technologies.