

Saving the planet – can tax and regulation help?

A PricewaterhouseCoopers LLP discussion paper

Saving the planet – can tax and regulation help?

Foreword

The environment and climate change has marched into the mainstream of popular, political and business thinking over the last year, both in the UK and globally. The appetite for addressing climate change has never been greater and, with the publication of the Climate Change Bill and energy white paper, the direction of current UK Government policy is now clearer.

But what are the real perceptions of the business sector on the environment and existing legislation and regulation? While views are regularly expressed by consumers and individual businesses, there is a lack of hard and fast evidence on business opinion in this arena. We therefore set out to establish a baseline of opinion on which to build for the future.

This report is based on an extensive survey of businesses across a wide spectrum of industries. Its aim is to present an understanding of businesses' views of the UK Government's use of tax and regulation to manage the environmental impact of business. It also aims to gain some insight into businesses' views on the techniques for fixing a price on carbon – taxation or emissions trading schemes – and on fiscal incentives aimed at encouraging them to change behaviour. Over 150 companies have contributed their views through our survey and a further ten in-depth interviews were conducted.

These findings are intended to stimulate an inclusive and constructive debate about what action is needed to ensure the UK tax and regulatory system is as effective and supportive as possible for companies dealing with the environmental consequences of doing business.

I hope that you find the results informative and useful and look forward to your feedback.

John Manning

Head of environmental tax and regulation
PricewaterhouseCoopers LLP

Saving the planet – can tax and regulation help?

Contents

1	Executive summary	1
2	The background to the debate	3
3	The views of UK business	5
	Climate change as a business issue	
	The impact of the debate looking forward	
	How the environment and climate change feeds into business strategy	
4	Influences on corporate environmental behaviour	9
5	Perceptions of government policy	12
6	How effective are current government environmental tools?	17
	Environmental taxes	
	Environmental tax incentives	
	Market trading schemes – current and future	
	Britain and Europe	
	Aiming for carbon neutrality	
	Road pricing	
7	Who is responsible and where does business go for help?	27
8	What happens next?	28
9	About the survey	29

July 2007

1 Executive summary

- Business is virtually unanimous in agreeing that it is important for it to take measures to tackle climate change and reduce its environmental impact.

But business wants to do so within a stable framework of government policy which establishes a level and green playing field.

- Two thirds of respondents to the survey regard the current mix of economic policy instruments as effective in providing signals to business of the need to consider their environmental impact, but only half think they actually encourage significant behavioural change.
- 97% of respondents expect to make more changes in the way they do business in the next two to three years as a result of climate change and a third of these expect to make a lot of changes.

Corporate environmental behaviour

- 71% of respondents say that climate change and environmental issues are already affecting the way they conduct business.
- 98% of respondents say it is important to take measures to reduce the environmental impact of industry.
- While legislation and regulation is the most important driver for businesses to take such measures, market pressure is a close second.
- A large majority of respondents believe that meeting customer expectations, maintaining a competitive advantage and making cost savings are influential in changing their environmental behaviour, but surprisingly the need to attract and retain staff is not.

Perceptions of government policy on environment

- Around three quarters of respondents would like to have more confidence that policy formulation is effective, particularly in the areas of communication and 'joined-up thinking' between government departments and agencies, and between central and local government.

- In the context of the current environmental tax and regulation framework, more than half of businesses surveyed are not confident about making long-term investment decisions.
- There is a real thirst for information and businesses consult many and varied information sources to help them with environmental issues generally.
- Businesses would like greater transparency around how Government uses environmental tax revenues to fund environmental initiatives.

Views of environmental tax instruments and regulation

- Almost half of respondents say that current government policy and the economic instruments used are not effective in encouraging business to significantly change its behaviour.
- Regulation is seen by respondents as being the most effective tool that Government has to change business behaviour. Environmental taxes and tax incentives are also ranked ahead of emissions trading schemes but those already involved in such schemes are all supportive of them.
- Taxes that tackle specific market failures, such as landfill tax and climate change levy, are viewed as effective in shifting corporate behaviour, while taxes that either were not originally designed to tackle environmental issues, such as fuel duty, or are less explicitly linked to polluting behaviour, such as air passenger duty, are seen as being far less effective in changing corporate behaviour.
- Businesses believe that tax incentives could be an important tool in encouraging a change in their behaviour but also consider that the current environmental incentives on offer are unclear, complex and fail to motivate behavioural change. They want to see the Government offer more and better designed incentives.

About the survey

- These messages have been derived from a detailed survey of 151 companies that is backed up by in-depth interviews with 10 UK and international companies.
- The research has been carried out to stimulate the debate about how the current system of environmental taxes, incentives and regulations can be improved to help businesses take the action needed to combat global warming.

2 The background to the debate

The majority of opinion on the environment converges on three beliefs – that the earth is warming; that this is due in significant part to mankind's emissions of greenhouse gases; and that there will be significant negative consequences for the earth's environment and its inhabitants if no action is taken.

But beyond this there is less consensus on what should be done to address the problem. Some believe that technological improvements will enable consumers and businesses to reduce their carbon activities without a major decline in economic output. Some believe that the answer is to make the hidden costs of pollution economically explicit by imposing a market 'price' on carbon. Others believe the only way to change behaviour is to impose taxes on polluting activities which will cause businesses to change their behaviour. Some would see all of these approaches (and others such as direct regulation) as having a part to play given the scale of the climate change challenge.

The economic implications of climate change have been laid out graphically in a number of well-researched reports. These include the latest report from the Intergovernmental Panel on Climate Change (IPCC), Sir Nicholas Stern's review of the economics of climate change and our own report published in 2006: *The World in 2050 – Impact of global growth on carbon emissions and climate change policy*.

The IPCC report lays out in stark terms some realities about climate change. Assuming no change in behaviour, the concentration of greenhouse gases in the atmosphere would increase dramatically over the course of this century. This would lead to a rise in average temperatures of as much as seven degrees by 2100 if no action were taken. This could in turn lead to catastrophic consequences including the melting of the ice caps, a rise in sea levels, desertification of large areas of land and more violent weather conditions. The impact would tend to be greatest in less developed parts of the world that are least able to pay for measures to mitigate climate change, but the longer term consequences could affect most global regions.

The Stern Report estimates that these kinds of climate changes could reduce global economic welfare by anything from 5% to 20% in the long run, while accepting that there are considerable uncertainties around any such estimates. The PricewaterhouseCoopers report estimated that the cost of the G7 nations cutting their carbon emissions by around 50% by 2050 – which would help to mitigate significantly the risks of severe adverse climate change as outlined above – could be as little as around 2 to 3% of world GDP in 2050, equivalent to only around one year of global trend growth.

The UK Government has accepted the findings of the Stern Report, which it commissioned, and in particular its call for the use of taxes or market trading as a way to establish the true economic cost, or price, of carbon emissions. In March 2007 the Government published a draft Climate Change Bill that will make meeting the UK's targets for a 60% reduction in CO₂ emissions by 2050, and a 26 to 32% reduction by 2020, legally binding. While governments of all political persuasions have in the past used the environment as a justification for a range of tax increases, it is quite likely that future governments will seek to raise the level of 'green' taxes going forward. If present and future governments are to continue to set a tax and regulatory framework to help meet their goals of reducing carbon emissions, there are significant considerations to be borne in mind about how those policies are designed, for example:

- Transparency and credibility in government policy formation
- Consistency and certainty in government policy, thus enabling businesses to plan effectively
- Reduced complexity to ensure that compliance costs for both business and Government are kept to a minimum and an efficient and effective system prevails
- Maintaining a competitive and attractive economy for UK and multi-national businesses

In the words of one of our survey respondents interviewed: "Government needs to find a way of getting companies to do the right thing, but in a way that doesn't penalise companies."

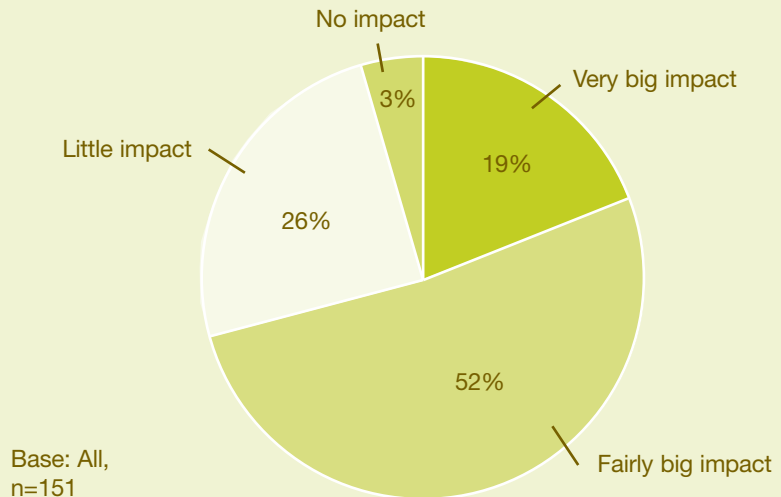
3 The views of UK business

Climate change as a business issue

The issues of climate change and environmental damage are unquestionably on the radar screens of British business. Ninety-seven percent of respondents say that the debate has had an impact on the way they have conducted their businesses to date (figure 1).

A large majority (71%) of respondents say that the debate has had a big impact on their corporate operations while just over a quarter (26%) say it has had little impact. In other words, for almost three quarters of companies, the public and political debate over climate change has had an impact. This seems to be most pronounced in the oil, gas, and utility sectors.

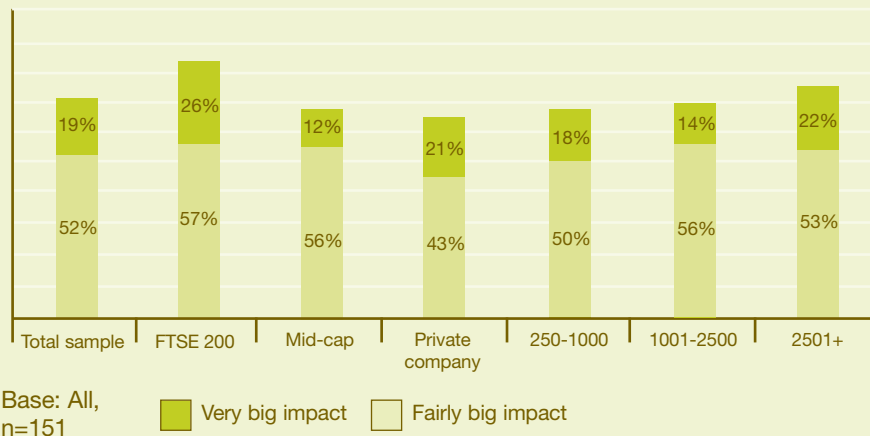
Figure 1: Influence of environmental debate



In general, the largest companies report the greatest impact (figure 2). Slightly more than a quarter of respondents (26%) that are in the UK's largest 200 companies by market value (FTSE 200) say the debate has had a very big impact. This is more than double the share of mid-cap companies (those between 201st and 700th place in terms of stock market value).

Taking together those companies that say the debate has had a very or fairly big impact on their operations, a clear pattern between the impact of the debate and the size of companies emerges. There is a lower impact among companies that do not have public shareholders. A similar pattern exists for the size of a company's workforce. Among companies with more than 2,500 employees, 75% of respondents report a very or fairly big impact compared to 68% for those with between 250 and 1,000 staff. There is a reasonably clear trend between different sectors: the greater the energy intensity of the activities, the greater the impact.

Figure 2: Influence on environmental debate by respondent



Saving the planet – can tax and regulation help?

The impact of the debate looking forward

When asked how the debate is likely to influence their behaviour over the next two to three years, respondents are almost unanimous that it will involve changes to the way they do business. Just under a third (32%) say that there will be a lot of changes, while around two thirds (65%) say there will be some changes to the way they do their business. Only 3% – or five companies out of 151 surveyed – insist there will be no impact.

There is a similar pattern according to company size; the larger the market valuation and/or size of the workforce, the greater the anticipated impact on their business. Interestingly, private companies – those whose shares are not publicly traded – predict the largest impact. More than four out of 10 (41%) say they expect to have to make a lot of changes.

The construction sector is head-and-shoulders above the rest of the sample in terms of anticipated changes. More than six out of 10 (62%) expect to make lots of changes and none anticipate making no changes. Since the built environment accounts for about 45% of the UK's carbon dioxide emissions, it is a good sign that the construction industry is taking the issues seriously. It is interesting to note that only 18% of manufacturers expect to make a lot of changes.

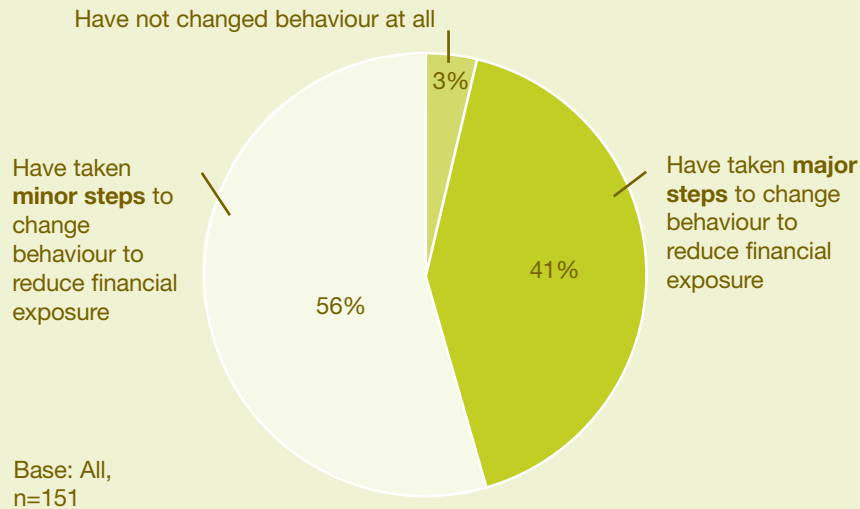
How the environment and climate change feeds into business strategy

It is perhaps not surprising that almost all companies have started to take some action to reform the way their business impacts on the environment. As figure 3 demonstrates, only 3% say they have not changed their behaviour at all.

A vast majority of companies say that they have drawn up an environmental strategy. Only 6% say that their long-term strategy does not include an environmental policy while 89% say they have one and a further 5% are in the process of creating one. A recent survey of employees undertaken by the Trade Union Congress (TUC) suggests that this is less than 50%, so perhaps there is an issue to address both in terms of what business believes such a strategy involves, and the communication by companies of the strategies they are pursuing.

Ninety-eight percent of respondents believe it is important that they take measures to reduce or minimise their environmental impact, with 79% saying it is very important. Only 2% say it is not very important. Again, the construction sector is way ahead of others with all but one surveyed saying that minimising their impact on the environment is very important. However, there is a two-thirds majority among all other sectors, indicating that UK business is signed up to the need to reduce environmental damage.

Figure 3: Behavioural change to minimise financial exposure



Thus before even looking at the impact of taxes, regulations and other pricing mechanisms, the research shows that a large majority of respondents have already started to make some changes to their behaviour to limit their impact on the environment. This may be a reflection of a growing sense of corporate responsibility together with a strategic view that such changes will benefit companies competitively.

4 Influences on corporate environmental behaviour

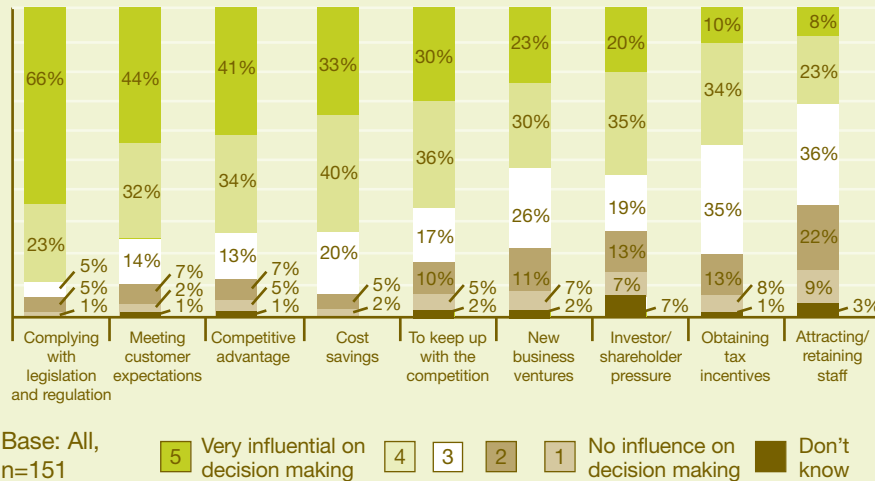
Companies take into account a range of factors when deciding if and how to change their environmental behaviour. There are minimum legislative requirements (such as regulation which sets an absolute minimum in terms of compliance) and economic instruments (such as taxation and trading schemes) which put a price on a given activity or material such as carbon dioxide emissions. Then there are the business benefits, which include competitive advantage through brand enhancement and stakeholder perception; cost reductions; new product/service development; growth in new markets; and the licence to operate through compliance with regulation.

Faced with a range of nine potential influences, complying with legislation and regulation requirements is the key driver for respondents (figure 4). Two-thirds (66%) of respondents say it is very influential while a further 23% say it is fairly influential.

However, comments from the panel of 10 companies show that the role of legislation is confined to meeting minimum requirements rather than motivating structural change. In those cases where companies are looking to move beyond the legislative requirements, they are looking at particular aspects of their business. Future investment plans, considering shutting down energy inefficient plants and assessing future energy usage and procurement are activities that companies are most likely to look at.

Of the other influences, which can be collectively described as market pressures, meeting customers' expectations is seen as the strongest motivating factor by respondents. Gaining a competitive advantage, cost savings and keeping up with competition are also ranked highly. One of the panel of 10 companies interviewed says: "Our company strategy on environmental issues is primarily influenced by potential business advantages to be gained from being environmentally responsible." As many potential employees, particularly in the service sectors, cite corporate responsibility and alignment of corporate values with their own as a key factor in their choice of employer, it is surprising that attracting and retaining staff appears as the least influential factor on corporate decision making.

Figure 4: Influences on corporate environmental behaviour

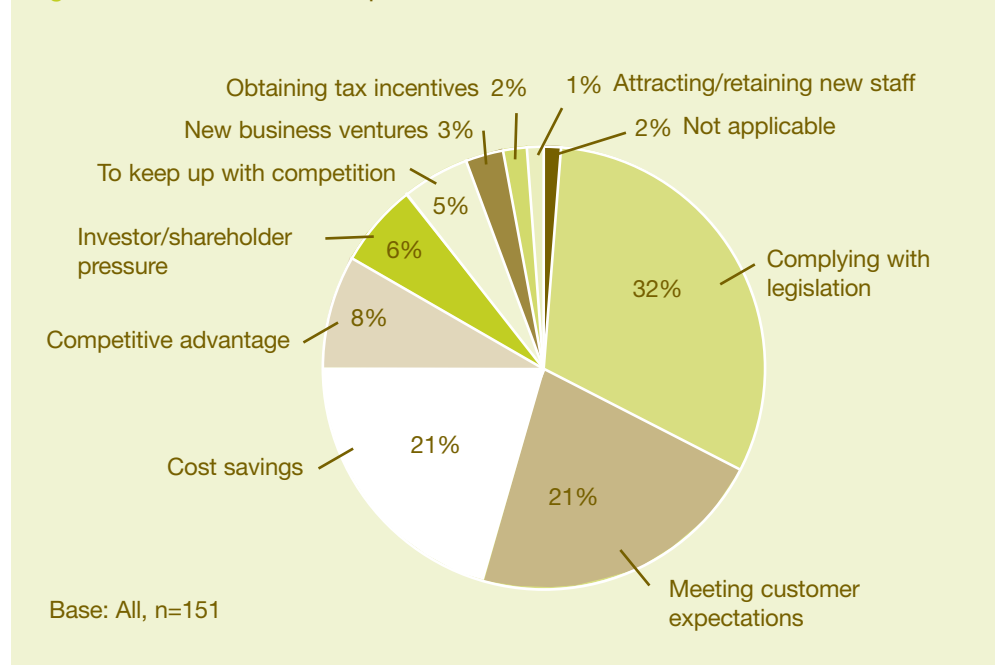


A similar pattern is found when companies are asked to name the most influential factor (figure 5). Almost a third (32%) of respondents rank complying with legislation and regulation as having the most influence on their behaviour, while 21% of companies rank it second. Meeting customers' expectations and making cost savings are both given top ranking by 21% of the companies.

It is interesting to note that more than two thirds of respondents see internal or market-based pressures as the most important driving force.

Saving the planet – can tax and regulation help?

Figure 5: Most influential corporate environmental behaviour



We now look at respondents' attitudes towards government policies that are aimed at changing their behaviour further.

5 Perceptions of government policy

Before looking at individual government policies, it is worth considering the views of respondents and their confidence in the effectiveness of Government in tackling the issue of the environment and climate change. Only one in 10 say the Government is very effective in significantly changing corporate behaviour. Although 42% say it is fairly effective, almost half (49%) say it is not effective. Respondents were slightly more positive about the role that policy plays as a signal to companies. While only 9% say it is very effective, a further 58% say it is fairly effective. One of the panel of 10 companies interviewed says: "I feel taxes have been highly effective in signalling Government's priority and attracting attention to the issue." However most commentators would agree it is important that government policy is seen as effective in itself and not just as part of a public information programme.

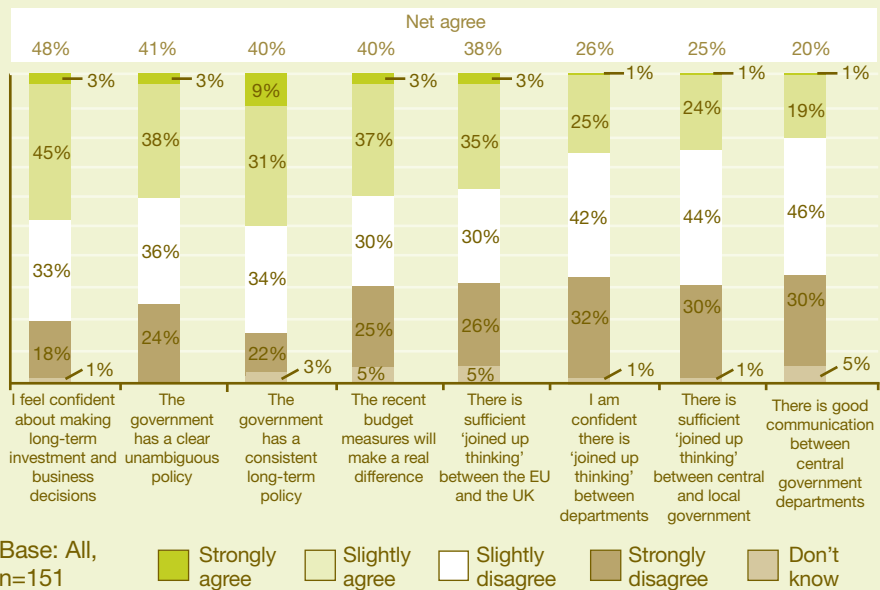
When respondents are asked about specific aspects of the Government's environmental tax and regulation framework the answers are less approving. Companies were asked to comment on seven specific attributes of government policy covering areas such as consistency, recent Budget measures and the existence of joined-up thinking. It also asked companies whether they feel confident in making long-term investment and business decisions in light of current government environmental economic instruments. Nine percent of respondents strongly agreed that the UK government has a consistent long-term policy for environmental tax and regulation. In all other cases, government policy received less strong support.

Just over half of respondents (51%) are not confident in making long-term business and investment decisions within the current environmental framework (figure 6). This lack of confidence could be an important finding as it gives some indication of whether government policy is having a positive or negative impact on businesses' long-term investment intentions as this is the area where government policy can have a direct impact on the economy.

In addition, respondents are concerned about the lack of connections being made within Government. The majority of respondents feel that there is insufficient joined-up thinking between government departments, central Government and local councils, and between London and Brussels.

Saving the planet – can tax and regulation help?

Figure 6: Effectiveness of government policy



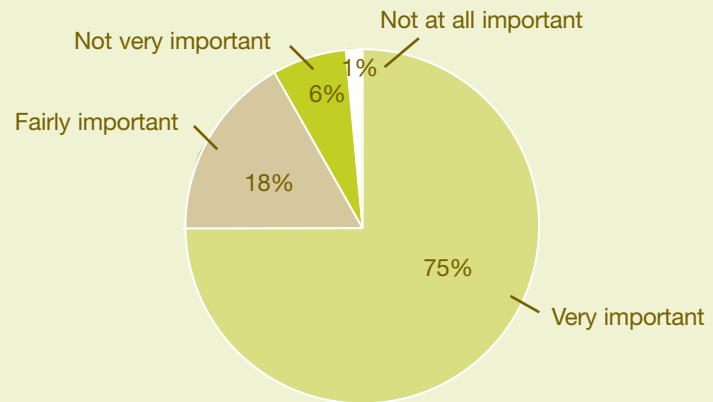
The panel of 10 companies interviewed also voiced concerns, emphasising a lack of joined-up thinking within government. One says: “The Government needs to be more joined up. Business has to talk to Treasury, Defra, DTI separately – they need to talk to each other.” This group of respondents are also concerned with what they describe as a plethora of environmental tax and regulatory initiatives and the Government’s habit of “changing the goal posts” with little warning. Examples highlighted include: changing the bandings within the renewables obligation (which incentivises renewable electricity generation); raising the levels of levy payments; and the phasing in of energy efficiency commitments for domestic energy suppliers.

The in-depth interviews and the larger survey reveal a deep level of concern over the link – or lack of it – between revenue raised from ‘green’ taxes and the promotion of environmental initiatives. Three quarters (75%) of the wider survey say it is very important that business can see that monies raised from these taxes are being directed to green initiatives (figure 7). However, the large majority (85%) say they are not confident that the money is being redirected in this way. Only 12% are confident that the link exists. The most recent official figures showed that environmental taxes, as defined by the Office for National Statistics, raised £35bn or as a percentage of total taxes and social contributions, 7.7%. This raises the issue of whether businesses feel that green tax revenues should be ring-fenced – hypothesized in technical terminology – for spending only on environmental initiatives.

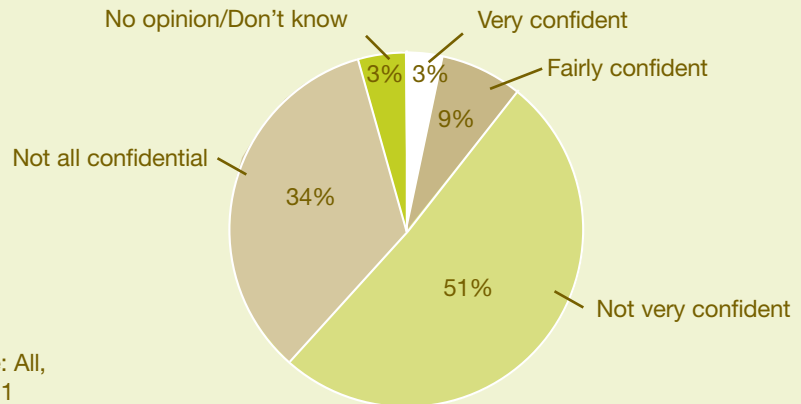
Saving the planet – can tax and regulation help?

Figure 7: Monies raised from environmental tax and regulation

How important is it for business to see these monies directed into green initiatives?



How confident is business that these monies are being directed to green initiatives?



Base: All,
n=151

The interviews also reveal that respondents question the Government's motivation in using environmental issues to raise taxes. Air passenger duty (APD) and fuel duty are perhaps not surprisingly seen as money raising exercises rather than effective measures to change behaviour. The fact that APD was applied 'retrospectively' may also influence the views of industry.

6 How effective are current government environmental tools?

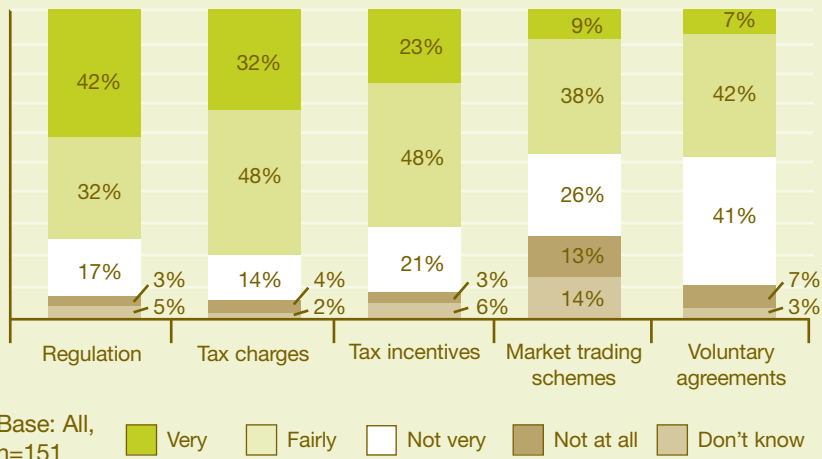
There are five main ways that government policy can impact a company's environmental behaviour: regulation, tax charges, tax incentives, market trading schemes and facilitating voluntary agreements. Taxes include specific levies such as the climate change levy (CCL) and the aggregates levy that impose a charge on certain activities. Tax incentives include tools such as enhanced capital allowances that allow companies to write off investments in energy and water saving equipment against taxable profits. Regulations include specific laws such as water quality legislation. Market trading schemes include the EU Emissions Trading Scheme (EU ETS) and the UK's proposed Carbon Reduction Commitment (CRC).

In answer to a question about how effective companies believe these tools to be in changing corporate behaviour, respondents ranked regulation, environmental taxes and tax incentives ahead of market trading schemes and voluntary schemes (figure 8).

The survey shows that a large proportion (42%) see regulation as being very effective and a further 32% as fairly effective, ranking it the most influential. This is followed by tax charges (32% very effective and 48% fairly effective) and tax incentives come a close third. Respondents seem to believe that mandatory tools are more effective than optional or market trading based tools.

Among those who do not participate in them, the findings suggest less support for market trading schemes. Only 9% say these are very effective while 38% say they are fairly effective. Of the industry sectors, those in energy appear most supportive. Interestingly, 14% of all respondents say they do not know enough about market trading schemes to answer the question. This raises a number of questions about why business perceives such schemes as less effective – is there a lack of awareness about who they apply to, is it due to the perceived complexity of the schemes or perhaps that the initial experience with phase one of the EU ETS, when the price of emissions permits collapsed, has coloured opinion?

Figure 8: Perceived effectiveness of different government tools



Environmental taxes

Of the 22 taxes borne and collected by businesses, six are environmental, as evidenced by the 2006 PricewaterhouseCoopers Total Tax Contribution survey for the Hundred Group of financial directors. Furthermore, important facets of corporation tax, income tax, business rates and stamp duty land tax are designed with the environment in mind.

According to the Organisation for Economic Cooperation and Development (OECD), the definition of an environmental tax is “any compulsory, unrequited payment to general Government levied on tax bases deemed to be of particular environmental relevance.”

In this survey, companies were asked about the taxes which the Office for National Statistics class as environmental taxes, namely fuel duty, vehicle excise duty (VED), APD, CCL, landfill tax and aggregates levy. We also asked about congestion charges.

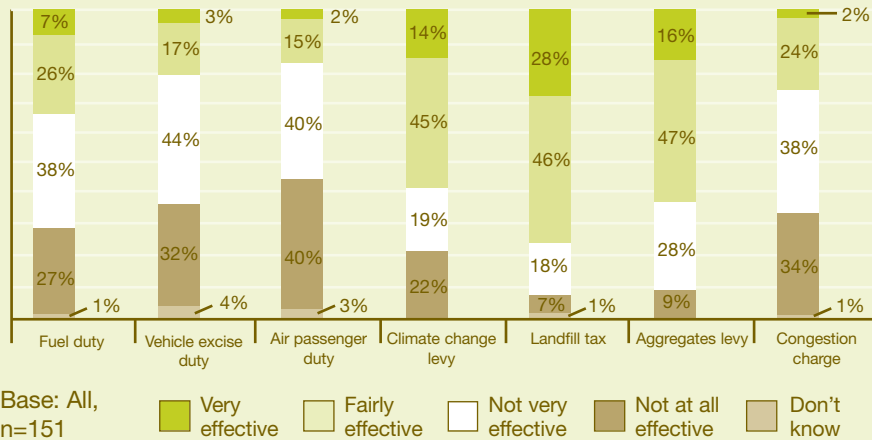
Saving the planet – can tax and regulation help?

The incidence of the different taxes is clearly affected by the nature of a company's industry sector. For example, more than 60% of construction companies but only 5% of retailers pay aggregates levy. On the other hand nine out of 10 respondents pay fuel duty and VED, reflecting the fact that most businesses use road transport to some extent. Only 64% of respondents say that they pay CCL, a tax on the use of energy by business. While there is an exemption from CCL if companies use renewable energy sources, the low number of respondents saying they are payers could reflect that the incidence of the tax on their companies is not visible.

The key issue, therefore, is which taxes positioned under the environment banner are seen as most effective in changing behaviour. A very clear pattern emerges (figure 9). Companies only see three taxes on balance as very or fairly effective. These are the landfill tax (74%), aggregates levy (63%) and the CCL (59%). None of the other taxes scores above 50% and in fact on average they gain support from just 24% of respondents, with APD seen as effective by just 17% of companies.

The findings show a clear distinction in terms of effectiveness in changing corporate behaviour between taxes that have a very clear environmental goal and were designed specifically for the task (such as the landfill tax), and other taxes that were not originally designed to tackle the environment and climate change but have environmental consequences (such as fuel duty) or taxes which are less explicitly linked to polluting behaviour, such as APD.

Figure 9: Effectiveness of of environmental taxes in changing behaviour



Even though the specific environmental taxes are seen as relatively effective, in our in-depth interviews some interesting perspectives on the issue emerge. One respondent comments that: “Most environmental taxes at present are sufficiently low to enable business to adapt to most new measures which is positive, but consequently they do not heavily influence behaviour.”

CCL was also highlighted in the interviews as a tax that is now well embedded in business process but which at its current level does not have a major effect. In addition, companies criticise it as being a tax on energy rather than carbon with the treatment of arguably carbon-free nuclear electricity being seen as potentially anomalous.

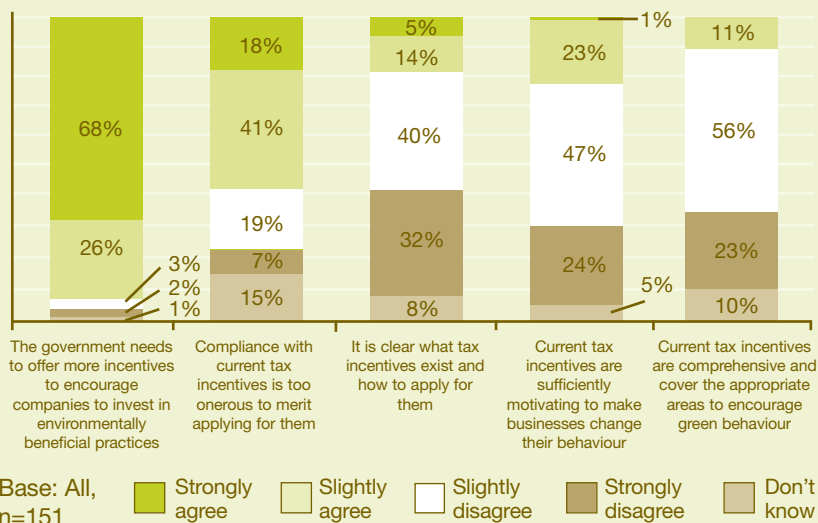
Saving the planet – can tax and regulation help?

Environmental tax incentives

As one might expect, companies prefer carrots to sticks. They favour incentives rather than penalties as the way to significantly change behaviour. However, the current structure of incentives does not meet the expectations of respondents. The survey shows that the current framework of incentives is seen as onerous, complex and that it fails to motivate changes in behaviour.

None of the 151 companies surveyed agrees strongly with the idea that the system is comprehensive and covers the areas needed to encourage green behaviour (figure 10). In fact almost 80% of companies disagree with that statement. Six out of 10 feel that the complexity of the system make it uneconomic to apply for tax incentives; 72% are unclear about what incentives exist and how they should apply for them; and seven out of 10 do not see the incentives as sufficiently motivating to make businesses change their behaviour.

Figure 10: View of current tax incentives



A closer analysis of individual incentives suggests that businesses have much less experience of these tools than they do of environmental taxes. Of the seven incentive schemes that were mentioned to companies, on average only 29% of respondents have taken advantage of them. The most popular (40%) is the enhanced capital allowance, which allows the full cost of an investment in designated energy and water saving plant and machinery to be written off against taxable profits (or, under this year's Budget proposals, to generate a payment from Government if a company incurs a loss). All other schemes – relief for remediation of contaminated land, CCL relief based on climate change agreements, CCL relief based on renewable energy, reduced income tax for low emission company cars, corporation tax relief for low emission company cars and employee related tax incentive schemes – are taken up by between a quarter and a third of companies.

As with taxes, the important issue is the extent to which companies thought that incentives are sufficiently potent to change their behaviour. The clear winner is relief from the CCL based on usage of renewable energy. Out of those claiming the incentive, more than four out of 10 respondents say this had been a very big influence on their behaviour while a further 52% say it had a slight influence. Relief from CCL for companies using climate change agreements is also seen as effective (32%). These offer an 80% discount from the levy for energy intensive sectors that agree challenging targets for improving their energy efficiency or reducing carbon emissions. More than 80% say it had a very big or a slight influence. Only a tenth of respondents see employee related schemes such as tax incentives for purchasing a bicycle as having a very big influence.

The panel of 10 interviewees was also lukewarm about the impact of incentives as they currently stand. They say they are not sufficiently motivating to inspire significant changes in behaviour. Any reform or addition to tax incentives should be carried out in a way that creates business opportunities, they say. Could it be argued that if business can see an opportunity rather than a cost, they will be more likely to pursue a certain line of behaviour?

Market trading schemes – current and future

We asked companies for their opinion on the effectiveness of market trading schemes and received paradoxical results. In this area the main scheme is the EU ETS for trading carbon dioxide emissions.

In brief, the first phase of the scheme (which runs until the end of 2007) covers about 5,000 EU companies, or 12,000 plants, representing about half of all current CO₂ emissions in Europe. When it became clear that 20 of the 25 member states had set caps for 2005 that were so generous that they were above actual emissions, the carbon price immediately collapsed from €25 a tonne to around virtually nothing. The IPCC estimates that the carbon price will have to reach \$20 to \$50 a tonne by 2030 (€15 to €37 at current exchange rates) to stabilise CO₂ concentrations at 'safe' levels.

Only 13% of the respondents to our wider survey are involved in the EU ETS but all of them are supportive of the scheme with the majority describing themselves as very supportive. However, as we have seen, from the full population of respondents there is a view that regulation and tax are more effective tools for shifting behaviour than market-based schemes. One implication from these findings, therefore, is that those looking in from the outside and wondering how trading might affect them in the future are less confident that the market-based option will work. As mentioned previously, the fact that 14% of companies say that they do not know enough about market trading schemes to say whether they are an effective tool indicates perhaps that there is a need for the Government to provide greater and better information ahead of the wider use of carbon trading schemes.

Some of the comments from the qualitative face-to-face surveys may shed some light on the reasons for respondents' lack of enthusiasm for market trading schemes. There are concerns about the way in which the first phase of the EU ETS was implemented in terms of the number of allowances available and the consistency in application of the scheme across the EU.

Some in the panel of 10 companies also show concern about what happens after the Kyoto agreement expires in 2012 and the future of the EU ETS after this date. Companies pointed to a lack of clarity and direction causing uncertainty over the long-term price of tradable emissions allowances.

Other views however were generally supportive and rate market trading schemes as a “more intelligent form” of taxation because there is a clear link between changes to behaviour and the rewards and penalties offered under the scheme.

A further question asked of those participating in the EU ETS was with regard to the UK Government’s plans to auction or sell 7% of allowances under the next phase. A tenth say they are very supportive and a further 45% are fairly supportive.

For UK business, another imminent challenge is the proposed introduction of a mandatory UK trading system to extend the reach of carbon trading beyond those currently covered by the EU ETS. The CRC will seek to cut carbon emissions from large commercial and public sector organisations (including supermarkets, hotel chains, government departments and large local authority buildings).

Slightly fewer than half of the 151 companies questioned have heard of the CRC scheme. Asked whether they back the UK scheme in principle, 70% are supportive.

Given the paradoxical results in this part of our survey, the relative merits of carbon trading and other economic instruments, such as taxation, to regulate environmental impacts warrant further research.

Britain and Europe

It is noted above that businesses perceive a lack of co-ordination between the UK Government and Brussels. Only 38% of companies say they have observed joined-up thinking between the two organisations. One specific area is a more stringent attitude taken by the UK to EU directives than other member states, known generically as ‘gold-plating’. They say they are concerned that any future initiatives and taxes must introduce a level playing field across the EU.

However, business gives a fairly strong level of support to two key EU environmental directives – the Packaging and Packaging Waste Directive (PPWD) and the Waste Electrical and Electronic Equipment (WEEE) regulations. Around 90% of respondents have heard of the two initiatives, while 83% are very or fairly supportive of their impact on behaviour. Fewer than one in 20 is not at all supportive.

Saving the planet – can tax and regulation help?

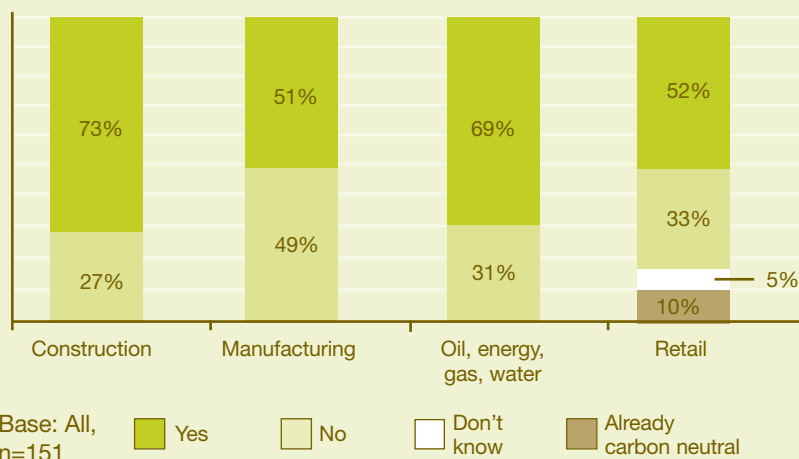
Aiming for carbon neutrality

The idea of becoming carbon neutral – mitigating the damage done by CO₂ emissions by reducing emissions, reducing energy use and/or offsetting – has become a popular concept in the business community. So far, 3% of the 151 companies surveyed say they have achieved carbon neutral status but a further 60% say they are looking into it.

Two thirds of respondents think the idea of using the tax system to incentivise them to become carbon neutral is a good idea, while one fifth say it will depend on what levels of incentives are offered to businesses. Only 12% say it is not a good idea.

The majority of companies that have gone carbon neutral are in the retail sector (figure 11) or the 'other' category which tends to include services companies. Construction companies show the greatest interest in going carbon neutral (73%) while only just over half of manufacturing companies favour the idea and are the more sceptical group about the role of incentives.

Figure 11: Going carbon neutral



Road pricing

The survey included a specific question on road pricing in view of mounting speculation that the Government may launch a nationwide scheme sometime in the next decade. A draft Local Government Bill published in May 2007 gives local authorities greater freedom to implement and experiment with local pricing schemes on roads in their control. This might be seen as a pilot for a nationwide pay-as-you-go scheme that would require separate legislation.

Against this background, companies were asked whether they see road charging as a way to help combat climate change. Four out of 10 are supportive, although only 7% give it strong support. A majority of 56% is not supportive. The lowest level of support comes from retailers (29%).

It will be interesting to get more detailed views from companies on how a road pricing scheme could be designed to gain greater support. It will be important for business groups to be actively involved during the design stage.

7 Who is responsible and where does business go for help?

The research suggests that there is no clear pattern about which executive or company department currently has responsibility for the environmental tax and regulation agenda of businesses. Given the advanced state of the debate on climate change, both inside and outside the business community, this is quite surprising. One particularly striking finding is that tax managers or directors appear to have a relatively small role.

In terms of individual company representatives who responded to the survey, 30% are the environmental director, 12% are corporate social responsibility directors/senior managers, 11% are in operations or facilities, 9% in health and safety and the remaining 15% are quality directors, environmental advisers or strategy or projects directors.

Just 6% are tax directors or managers. Given that 40% of those surveyed say they are the executives responsible for environmental tax, this implies that tax managers are not heavily involved in environmental taxes. This may help to explain why far fewer companies see HM Treasury and HM Revenue & Customs (HMRC) as the main point of contact within Whitehall, compared with the Department for Environment, Food and Rural Affairs (Defra) and the Environment Agency. An environmental officer, for example, is far more likely to contact Defra than HMRC as the two parties will tend to speak the same language and share a similar perspective.

Who do businesses ask for information?

While government agencies such as the Environment Agency and the Carbon Trust are used by around eight out of 10 respondents, government departments are seen as a point of contact by far fewer companies.

Most companies appear to liaise with a wide range of organisations in the public, private and voluntary sectors. Nine organisations ranging from the Environment Agency to management consultants are used by at least half of the sample. The Environment Agency received both the largest number of companies naming it as a source (88%) and it is the most favoured important source. One quarter (23%) of respondents rank it the most important source, followed by the Carbon Trust with 17%.

The survey also shows that businesses rely strongly on information from industry colleagues and peers. Almost as many companies identify this as a source as mention the Environment Agency, while trade associations also receive a large number of mentions.

8 What happens next?

The aim of this research project is to establish the views of business on a wide range of areas linked to environmental tax and regulation, rather than to deliver concrete answers. The findings have raised many issues and questions that merit further research.

To summarise, these findings suggest a number of broad areas for further exploration:

- Government and business need to continue to work together to understand what sort of tax and environmental policy framework will best create measurable improvements to the environment. What is the right mix of incentives and penalties? How can policy be signalled as long-term and consistent so that business has the confidence to invest?
- Government and business need to examine the role of trading schemes and taxation in tackling climate change and to understand the relative merits of each.
- Business needs to acknowledge who is taking responsibility for environmental tax and regulation policy within their companies and ensure it is strategic to the boardroom agenda.
- Recent initiatives undertaken by Government to improve consistency and clarity around policy, i.e. the publication of the Climate Change Bill and instigation of the Office of Climate Change, need to be monitored and assessed to determine if perceptions of consistency of policy change as a result.
- The results of this survey are UK centric. The issues are international and so an understanding of the international dimension is required.

9 About the survey

This report is based on answers given by 151 companies to a series of 125 questions asked during a telephone interview. The interviews took place between 19 April and 23 May 2007, the period that followed the publication of the Government's white paper on climate change and leading up to its energy white paper. The findings are supplemented by the results of detailed face-to-face interviews held between December 2006 and February 2007 with officers from 10 companies who were representative of British industry.

The companies that took part in the telephone interviews represent a mix of both commercial activities and size of companies. There are 35 companies from the FTSE 200, 10 foreign-owned subsidiary companies, 50 mid-cap companies and 56 private companies. By size of workforce, 56 have between 250 and 1,000 employees, 56 have between 1,001 and 2,500 employees, and 59 have more than 2,500. The average number of employees at companies that took part is 2,592. By sector there are 26 in construction, 39 manufacturers, 13 in oil, gas, electricity and water, 21 retailers and 52 involved in a range of other activities including real estate, finance and logistics.

For more information about this survey, please contact:

John Manning

Head of environmental tax and regulation

020 7212 8894

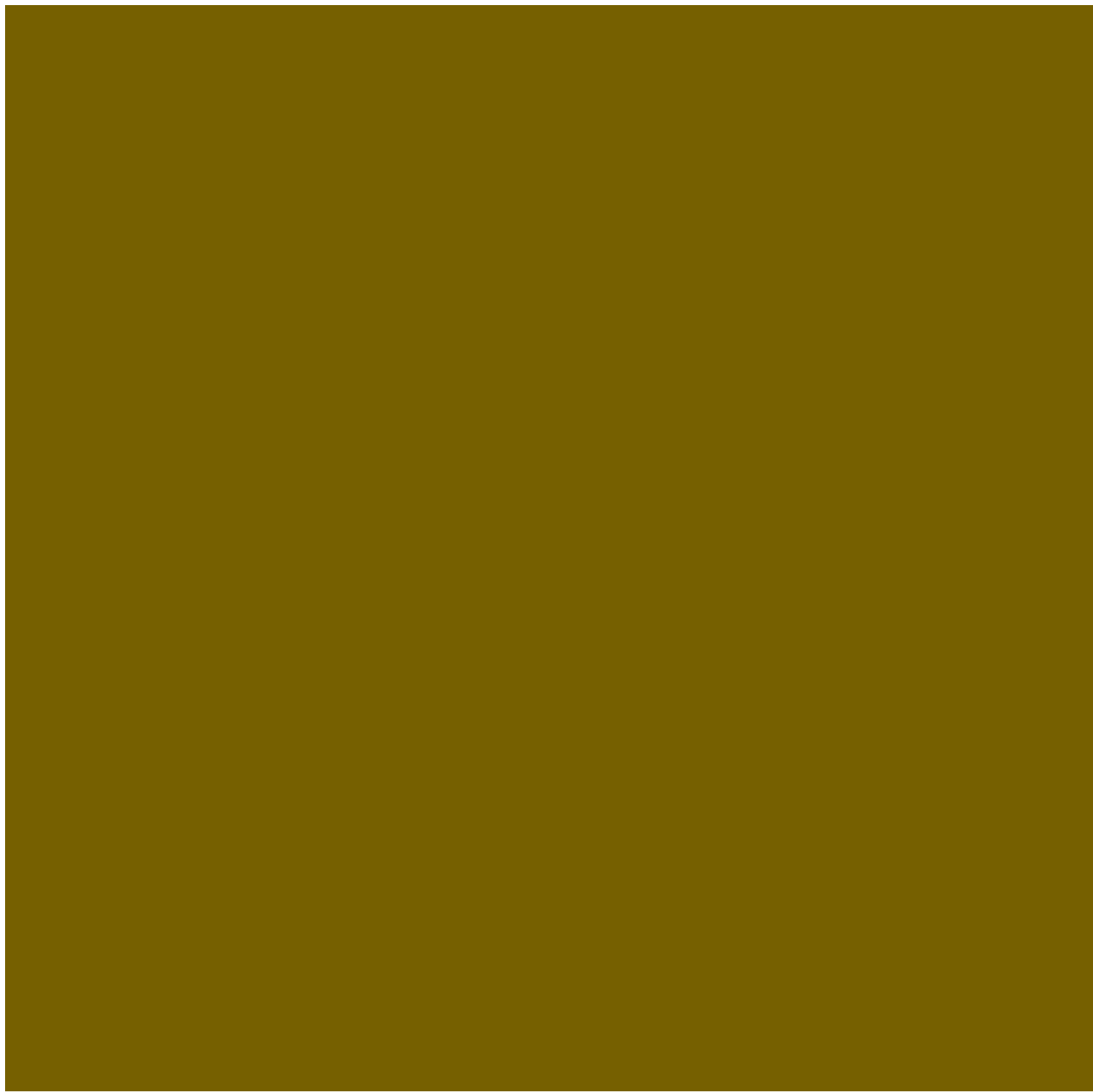
john.r.manning@uk.pwc.com

Neville Howlett

Tax external relations director

020 7212 7964

neville.p.howlett@uk.pwc.com



www.pwc.com/uk

© 2007 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.