Economic Mythbusters course

Week 5: Tuesday 11th June

Myth: '*A 'competitive' tax system is a better tax system'*
Transcript of QPSW Consolidation session

Presented by Sunniva Taylor, Sustainability & Peace programme manger

Welcome Friends. It's good to be with you again. To remind you – and for those of you who did not join us last week – my name is Sunniva Taylor, and I work for QPSW managing the Sustainability & Peace programme.

As usual I will be spending the next 10 minutes providing some reflections on what we have just heard and sharing some additional ideas for your consideration. Mostly I'll be focusing on the use - or perhaps better mis-use – of the tax system to sustain a high-carbon economy. I'll then offer some ideas for consolidation.

One comment before I continue: John Christensen highlighted how tax competition results in tax being distributed upwards. It contributes, therefore, to increasing inequality. This is a very important issue and one of great concern to Friends; however I will not be focusing on it today. We have another session on tax next week, looking at tax havens (which are at the heart of 'competitive' tax systems). We will be coming back to the issue of equality in this context.

Sustaining a high-carbon future

John looked at the general trend for countries to attract tax-shy capital with a range of incentives – with a reduction in tax rates, as well as the tax base. His objective was to highlight that this does not actually make a country more competitive; and that tax 'competition' harms everyone but a wealthy few.

I want to look at something more particular – the use of tax breaks and avoidance as a means of sustaining a particular type of economy: One that is high-carbon.

The question I have asked myself, is – what is the role of tax in the context of the Yearly Meeting commitment to 'low-carbon sustainable communities'? Related to this is a second question: does tax 'competition' favour companies that are invested in the high-carbon, rather than low-carbon economy?

And in answer, I want to look at two things:

1. Tax avoidance

2. Tax breaks

Both within the fossil fuel sector.

Firstly, *tax avoidance*:

The global profits of UK oil companies have increased greatly in the last decade. However, the amount of corporation tax they have paid in the UK seems to either only have risen marginally, or to have even fallen.

This is largely because oil companies can avoid paying tax in the UK by minimising the amount of profit that passes through the UK books, routing it through international subsidiaries instead.

Shell has managed to actually reduce its tax payments over the last 5 years (down from £958 million in 2006 to £783 mill in 2011) despite increasing its global pre-tax profit from $44.6 billion to $55.6 billion. This is partly because Shell moved the intellectual property ownership of its own brands to a subsidiary in Switzerland, so Shell UK and other British based brands now pay royalties to Shells Swiss subsidiaries for use of logos etc. Yet Shell still has headquarters here and benefits from political support.

Next *subsidies*….

Fossil fuel subsidies keep economies hooked on oil and gas (and thus increase the chance of catastrophic climate change), and make it harder for clean sources of energy to compete. The International Energy Agency and the Organisation for Economic Co-operation and Development (the OECD) have both agreed that tax breaks are type of subsidy.

The oil and gas industry in the UK claims to be highly taxed, but most new oil and gas fields in the North Sea pay as little as 30 per cent tax. This is largely because if the expansion of tax breaks called 'field allowances' – these were introduced by Alistair Darling in the 2009 Budget; and have since been expanded by George Osborne.

Unfortunately, these tax breaks do work – data published by DECC, shows that since field allowances were introduced in 2009, 80% of newly-approved oil and gas fields have benefited from one of these tax breaks.

Assuming that all the tax breaks were taken up in full, the tax breaks given out by George Osborne since the 2012 Budget are so far worth £684 million to the oil and gas industry.

And, fundamentally for me, without the tax breaks many hundreds of millions of barrels of UK oil or gas may have stayed in the ground.

I'd like to add one more point on the issue of subsidies, which is that though we know the facts I have shared above, it's actually very difficult to know how much subsidy the fossil fuel industry is getting and in what form this is – it's not just tax breaks, it's also limiting liabilities, trade measures, and historic subsidies in building infrastructure plus diplomatic support. The International Energy Agency's World Energy Outlook confirmed that global subsidies to fossil fuels were 6 times higher than renewable energy in 2010 – but even that report was not able to analyze or quantify many of the indirect and systemic subsidies which are externalised. In April the Environmental Audit Committee announced an enquiry into energy subsidies in the UK. This will investigate what should constitute 'subsidy', the extent of energy subsidies in the UK for nuclear energy, fossil fuel energy and renewables, and what the Government should be doing to identify and eliminate those subsidies which are — using the UN's terminology — "harmful".

Tax breaks for oil and gas production are wrong, because:

Firstly, the EU State Aid rules state that there should be 2 main conditions for subsidising energy industries:

Environmental protection

Helping infant technologies

and the G20, of whom the UK is a member, has said that member states should actively work to 'remove all…direct and indirect support for fossil fuels'.

And secondly - and most crucially - the UK, and the world, needs to rapidly decarbonise. Recent research suggests that we can afford to burn only 5th of the current fossil fuels reserves if we are to keep temperatures below a 2 degrees temperature rise.

At a time when we need to be doing everything we can to avert catastrophic climate change the government – who once claimed they were the greenest government ever – appear to be doing the opposite.

- Government policy is actively encouraging new production.
- And is not creating long term policy and financial infrastructure to support the development of renewable technology.

So, what's the alternative?

Taxes are, and have always been used as way not only of gaining revenue, but as a means of shaping the economy. Currently the UK tax system is being used to maintain a carbon-dependent corporate controlled energy system; and not to help bring about a low-carbon, sustainable alternative.

QPSW, and Friends, have been advocating for the government to invest in actively providing support for the renewable industry, and for 'climate jobs' - through our campaign on the Energy Bill and involvement in the Alliance for Jobs and Climate, as explored last week. Tax breaks being subsidies, are another form of government investment.

My realisation in preparing for this session is that there is a lot of power in the tax system – what more can we do to ensure that this is directed towards creating a good, rather than corporate-led, high carbon economy?

Finally, I just wanted to share with you that I have drawn heavily today on two reports, which you may want to take a look at:

'Fossil fuel tax breaks in the UK' a briefing by Friends of the Earth in February 2013

And 'Making a Killing: Oil Companies,Tax Avoidance & Subsidies' a briefing published in Feb 2013 by Platform

Consolidation

Lastly, some ideas for consolidation. We have a few options for you this week:

1. Fill in the evaluation questionnaire produced by nef [link to questionnaire in email]

2. Add a comment/provide a response letter to a newspaper article or blog containing an economic myth. Bust the myth!

   And/or…

3. Propose an article for your Local/Area Meeting newsletter (or a network or group you are involved in) on a particular aspect of the Mythbusters course that has appealed to you. Please sure you share the article with us when it's printed.

In both cases try and draw out why this concerns you as a Quaker in particular if you can.

4. Please continue to share your thoughts and comments on Quakernomics too: www.quaker.org.uk/Quakernomics

Conclusion

That's all from me for this evening. I hope you've found it a useful session. Remember; click the cross in the right-hand corner to exit.

Next week we'll be learning more about tax, with a session entitled: *There's nothing we can do about tax havens'.*

11 June 2013