The Climate Damages Tax
A guide to what it is and how it works

Executive Summary

Introduction

A day of reckoning is coming. There is a price for heating up the planet and to date the fossil fuel industry have fled the table without paying the bill. When climate change has brought devastation, poorest countries and communities have been left to pay. The Climate Damages Tax (CDT) proposal set out in this paper can help rectify this situation by making the fossil fuel industry pay for their damage.

The problem

Already, at only 1°C of global warming, climate change fuelled events include extreme heat waves, rampant forest fires, devastating droughts, catastrophic floods, increasingly destructive hurricanes, typhoons and cyclones and sea level rise stealing people's homes. All are examples of loss and damage from climate change – impacts that go beyond what people and ecosystems can adapt to. The worst often occur in the poorest countries who have done the least to contribute to emissions.

During the 2017 hurricane season, the small island of Dominica in the Caribbean was struck by Hurricane Maria. In one night, its agricultural sector was completely wiped out: 100% of banana plantations were wrecked, as well as vast amounts of livestock and farm equipment. 98% of Dominica's buildings were damaged - including every school and medical centre – and 50% of homes were destroyed. The population faced no running water, no power and limited communication services, with many roads washed away. Hurricane Maria caused loss and damage in the region of US$1.4bn – 226% of Dominica's GDP. Insurance paid out only $19 million, 1.5% of the total cost. Suffering from the worst crisis in its history, it was forced to go cap in hand to the international community.

A solution

The CDT proposal is to set up a funding facility for loss and damage so that countries and communities faced with this kind of devastation have recourse to speedy and substantial financial assistance, funded by the fossil fuel industry through a tax on the coal, oil and gas they extract.

Vulnerable countries need finance of at least US$50 billion a year by 2022 increasing to approximately US$300 billion a year by 2030 to help them cope with projected loss and damage in coming years. This is over and above the current inadequate level of funding for adaptation.

Funding for loss and damage and just transition

We propose that part of the CDT revenue is allocated to loss and damage, to pay for the devastating storms, droughts and sea level rise that vulnerable communities are facing, and a proportion is remitted back to the country where the oil, coal or gas was extracted to provide funds to support a just transition from fossil fuels to renewable energy, helping low income communities and workers shift to carbon-free jobs, energy and transport. In this way, countries where fossil fuel extraction takes place will derive revenue from the CDT.

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Phasing out fossil fuels

Fossil fuels must be phased out by the middle of the century: the IPCC 1.5°C report from October 2018 shows this is essential to avoid catastrophic climate change. The CDT will assist by putting a price on carbon and incentivising a shift to renewables. It must be embedded within an overall plan to phase out fossil fuels, which will require a host of measures. Accordingly, the CDT should complement, and not replace, other regulations and carbon prices.

The fossil fuel industry

Fossil fuels are the largest source of climate pollution in the world, responsible for 91% of global industrial greenhouse gases in 2015, and about 70% of all anthropogenic emissions. 100 fossil fuel companies and other entities are responsible for over half of all emissions since the start of the industrial revolution. A huge acceleration in the extraction of fossil fuels has doubled their contribution to climate change since 1988.

During this time, some of the largest fossil fuel companies have run campaigns to spread disinformation and misunderstanding about climate science to confuse and deceive, lobbying politicians not to take action so sustaining and boosting their profits. In 2017, just six of the biggest oil companies made combined profits of approximately $133 billion.

The proposal

The Climate Damages Tax (CDT) is a charge on the extraction of each tonne of coal, barrel of oil, or cubic litre of gas, calculated at a consistent rate globally based on how much climate pollution (CO_2e) is embedded within the fossil fuel. Working with existing systems of payment, fossil fuel companies, who already pay royalties (or similar) to the states where they operate, will pay an extra amount on the volume they extract to the solidarity facility for loss and damage – managed, we propose, by the already existing United Nations' Green Climate Fund (GCF). International law and precedents embodying the Polluter Pays principle, such as apply to oil and nuclear pollution, serve as working examples of similar facilities.

We recommend that the CDT is introduced in 2021 at a low initial rate of $5 per tonne of CO_2e, increasing by $5 per tonne each year until 2030 to $50 a tonne, with the expectation that it is increased at the rate of $10 per tonne annually after that to reach $250 a tonne by 2050. If implemented as we recommend, the CDT would raise in the region of $210 billion in its first year. Increasing the rate of the tax, as we propose, will incentivise the phasing out of fossil fuels by the middle of the century, and help keep CDT revenue for loss and damage at roughly $300 billion a year over this period.

It is extremely important to recognise fairness, or equity, in how the CDT is applied, as richer countries have the *capacity* to pay more. Their historical emissions have caused the climate change to date, so they have the *responsibility* to contribute more as well. In order to incorporate equity into the CDT we propose 50% of the revenue generated from fossil fuels extracted in high income countries is contributed to the loss and damage solidarity facility, whereas low income countries would retain all revenue generated from fossil fuels extracted in their countries, with a sliding scale between the two.

Implementation

At the UN climate talks in 2013 (COP19), the Warsaw International Mechanism for Loss and Damage (the WIM) was established with a mandate to provide loss and damage finance, which was reinforced in the Paris Agreement in 2015. To date there has been no finance provided for loss and damage (L&D) through the WIM. At the climate negotiations in 2019 (COP25), the WIM is due to be reviewed, providing an important opportunity to set up a financial arm to provide funds for L&D affected countries and communities. This is our preferred route of introduction of the Climate Damages Tax, however, a solidarity facility for loss and damage could also be initiated through intergovernmental agreement by a smaller grouping of cooperating states.

Conclusion

It is high time the fossil fuel industry paid for the climate damage its products cause. It is high time for a solidarity facility for loss and damage so vulnerable countries have recourse to substantial and speedily delivered funds when they need them most. It is high time the fossil fuel industry paid a tax to assist communities with the transition to fossil-free jobs, energy and transport. This is why the Climate Damages Tax is an idea whose time has come. We urge concerned citizens, organisations and countries to join us to make it happen.

To read the full report, go to:
www.stampoutpoverty.org/CDTreport

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