CLIMATE DAMAGES TAX

BRIEFING

The Climate Damages Tax addresses the injustice of big coal, oil and gas making trillions in profits and outsourcing the true cost of their product onto poor people facing the worst impacts of climate change. It will tax the fossil fuel industry using the revenue to pay 1) for the loss and damage faced by people on the frontline of climate change and 2) for *just transition*[1] programmes to help communities move to a fossil free economy.

Fossil fuels are responsible for 70% of greenhouse gas emissions[2] with oil, coal and gas companies reaping massive rewards from the materials they extract. In 2017, the two biggest oil companies – ExxonMobil and Shell – together made more than $35 billion in profit from $275 billion revenue. For decades these companies have run a misinformation campaign[3] calling into question the science to delay action from governments, so they can continue to make vast profits. Rather than dodging their responsibilities, it is time the industry paid for the consequences of their activities.

Climate change was in the future, it is now in the present. Loss and damage caused by climate change is accelerating, hitting communities in a number of ways: climate-charged storms, such as the 2017 hurricane season; increasingly frequent and extreme droughts, which recently devastated East Africa; killer heat waves; sea-level rises stealing land and homes; melting glaciers; land degradation; and desertification.

Loss and damage for developing countries is estimated[4] **to cost $428 billion per year by 2030** and $1.67 trillion per year by 2050 at 3°C of warming – our current trajectory of temperature rise unless we dramatically reduce our carbon footprint. Rich countries have focused on insurance as the way to finance loss and damage costs. This is unfair, as it pushes the responsibility for paying premiums onto the vulnerable, who played no role in creating the climate risk. Often these countries and communities can't afford to pay insurance premiums. Even in the best case, insurance typically pays out 1–2% of emergency costs of a big storm. In 2017, Hurricane Maria caused $1.3 billion in damage[5] to Dominica. They received just $19 million[6] from the Caribbean Catastrophe Risk Insurance Facility. Insurance is not suitable for slow onset events like sea level rise, and will become less viable as extreme events become more common. So the bottom line is where is the money going to come from? The intention of the Climate Damages Tax (CDT) is to provide an additional, substantial, new revenue stream at the scale required.

The CDT would contribute to the phasing out of fossil fuels due to the co-benefit of placing a global price on carbon. At a low level of US$6 per tonne of CO_2e[7], the CDT would raise approximately US$75 billion per year for international loss and damage finance and a similar amount for domestic *just transition*. At US$40 per tonne of CO_2e, the CDT would raise roughly US$500 billion per year for international loss and damage and a similar amount for *just transition* within countries. The CDT will impact on the industry's profitability, incentivising it to diversify its activities. The CDT should increase each year, both to contribute to the shift to renewables and to keep the income stream for loss and damage spending steady as fossil fuels are increasingly phased out.

1 *Just transition* describes the transition towards a low-carbon and climate-resilient economy that maximises the benefits of climate action while minimising hardships for workers and their communities.
2 Carbon Disclosure Project, 2017
3 Centre for International Environmental Law, 2017
4 Climate Analytics, 2015
5 Government of the Commonwealth of Dominica, 2017
6 ibid
7 CO_2e, or carbon dioxide equivalent, is a standard unit for measuring carbon emissions

THE CLIMATE DAMAGES TAX WILL:

- **Establish an international fossil fuel extraction tax paid to an international fund for loss and damage to help vulnerable communities suffering the worst impacts of climate change**
- **Generate revenue to help communities transition to a fossil free economy**
- **Contribute to phasing out fossil fuels by adding costs to the industry's bottom line**
- **Publically link the fossil fuel industry to the damage it causes – pressuring it to change its business model or risk its reputation with consumers and its influence over governments**
- **Address factors of injustice and inequality by applying the CDT with a sliding scale where countries at a low level of development keep 100% of the CDT whilst rich countries direct 50% to the international fund and spend 50% domestically on *just transition* policies.**

1. How the Climate Damages Tax works

The Climate Damages Tax (CDT) would be a charge on the extraction of each tonne of coal, barrel of oil, or cubic litre of gas. The charge would be calculated based on the CO_2e embedded within the fossil fuel. Countries at the lowest level of development would use 100% of the tax domestically on climate change programmes. Countries at the highest level of development would allocate 50% to the international fund to help vulnerable countries and communities deal with the worst impacts of climate change and use 50% for domestic 'just transition' policies. There would be a sliding scale between the two extremes of development.

In the UK, for instance, if BP extracts oil in the North Sea, 50% of the tax receipt would end up going directly to the international fund and 50% would go to the UK Treasury. When Petronas extracts oil in South Sudan, 100% of the CDT would be used domestically. When oil is extracted in 'middle income' countries like Nigeria or Indonesia, a portion of the tax would be allocated to the international fund, but most would be used domestically.

The extracting company (or entity) would transmit the CDT to the international fund. The government of the country where extraction occurs (eg the UK, Nigeria, Indonesia or South Sudan) has a legal duty to inform the international fund of how much money to expect.[8]

The international fund would be managed by an independent body. This could be the UN's Green Climate Fund (GCF) in conjunction with the UN's Warsaw International Mechanism for Loss and Damage (WIM), both of which already exist but do not currently have resources to respond to climate loss and damage. This independent body could allocate funds to, for instance, rebuild houses and community infrastructure if they are destroyed by super typhoons or cyclones, pay for insurance premiums for climate damage, provide social protection systems in case of extreme drought or train people in different livelihoods if their fish stocks disappear due to climate change.

The 50% of funds kept and used in the country of extraction should be allocated to assist the poorest people in that country shift to a low carbon future. For instance, installing solar panels, building better active transport facilities and public transit options, retraining workers from fossil fuel industries to other industries.

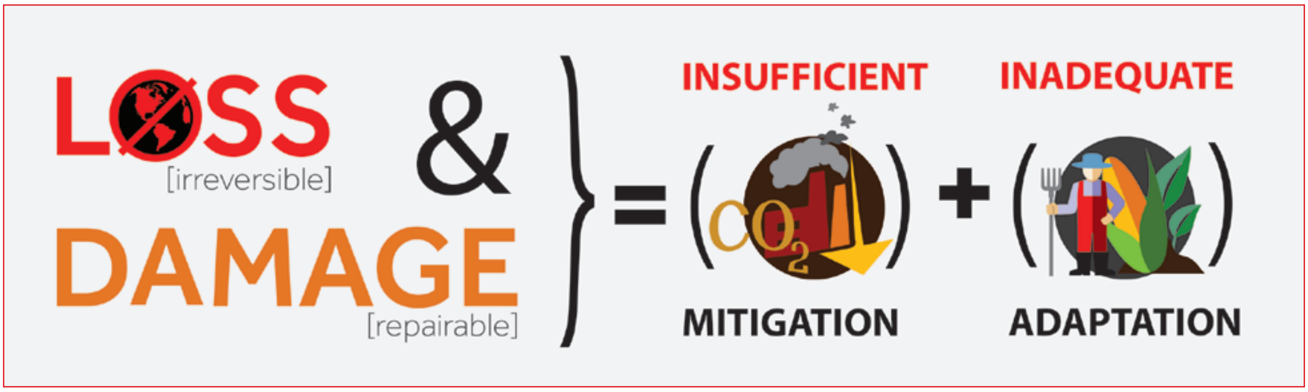
2. The Climate Damages Tax discourages fossil fuel use

Fossil fuels make up the majority of greenhouse gas emissions (roughly 70% of industrial emissions). They need to be phased out by 2050 at the latest if we are to keep global warming below 1.5°C – the temperature level that countries agreed to aim for in the Paris Climate Agreement. No amount of loss and damage finance can make up for the devastation that will occur if we allow climate change to shoot above this limit.

The Climate Damages Tax will add to global efforts to reduce fossil fuel use by reducing the profits of fossil fuel companies. This will make fossil fuels more expensive compared to renewables. The CDT should be teamed with the equally urgent work to phase out subsidies for fossil fuels and write down the financial value of fossil fuel reserves. The CDT should be in addition to existing royalties and taxes, in order to add to the market signal that fossil fuels must be phased out. Importantly, the rate of the CDT should increase over time. This will reinforce the need to diversify from fossil fuels and accelerate their replacement with renewables. It will also help maintain the income stream as fossil fuels are phased out.

8 This is modelled on the International Oil Pollution Compensation Fund (IOPC), see p33–34 of the report *Big Oil, Coal and Gas Producers Paying for Their Climate Damage* (Richards & Boom 2015).

Image from *CARE Loss and Damage: Climate Reality in the 21st Century*, 2015



3.
The emergence of loss and damage

Loss and damage – which can be described as when climate change goes beyond what it is possible to *adapt* to – has emerged within the UN climate talks in response to the growing severity of climate impacts. This led to the establishment of the Warsaw International Mechanism for Loss and Damage (WIM) late in 2013, following on from the devastation of Typhoon Haiyan – then the strongest storm to make landfall – which wiped out the Tacloban region of the Philippines. The WIM was established to improve understanding of loss and damage impacts, enhance coordination and response, and – most importantly – to help mobilise finance for loss and damage. Two years later, in the Paris Climate Agreement, loss and damage was recognised as a 'third pillar' of the accord, alongside mitigation (reducing emissions) and adaptation (adapting to the impacts of climate change).

4.
Tax rate and revenue potential

The CDT campaign aims to start a conversation about who we, as a world community, think should pay for damage from climate change. At present, vulnerable people are paying – with their lives, their homes and their crops. Yet the fossil fuel industry is making a profit by extracting and selling the coal, oil and gas that cause the majority of climate change. If the CDT were initially implemented at a low rate ($6 per tonne of CO_2e) globally this would generate approximately US$75 billion per year for international loss and damage finance and a similar amount for domestic 'just transition'. If it were increased by roughly 20% each year, so that by 2030 it reached US$40 per tonne of CO_2e, the CDT would raise in the region of US$500 billion per year for international loss and damage and a similar amount for 'just transition' within countries. If funds aren't raised from the fossil fuel industry then they need to come from elsewhere – and countries like the UK who have grown their economies by using fossil fuels have a moral responsibility to provide the finance.

The example of the International Oil Spill Pollution Compensation Fund (IOPC) is an important one, where a levy is charged to companies who ship oil around the world, providing revenue that can be used in the case of oil spills. This establishes several precedents, including that the companies pay the levy directly to the compensation fund rather than to the tax authority in which they are tax resident and that the tax rate is set by the international fund.

5.
Who should pay the CDT?

The CDT will be charged to fossil fuel producers, including ExxonMobil, Shell, BP, Chevron, Peabody, Total and BHP Billiton; state-owned entities such as Saudi Aramco, Gazprom, National Iranian Oil, Coal India, Pemex, CNPC and Chinese coal (of which Shenhua Group and China National Coal Group are key players). The CDT will impact their profitability, making them less attractive investment options unless they move away from their current destructive behaviour and plans to expand fossil fuel exploration, and shift into renewable energy.

It is important that the tax hits the industry's bottom line. Work is ongoing to look into the value chain and explore what legal provision can be brought to bear by governments, to prevent or mitigate the passing on of costs to consumers.

SUPPORT FOR THE CLIMATE DAMAGES TAX (CDT)

The CDT has received strong endorsement from civil society around the world. At the end of 2017, a declaration calling for the introduction of a Climate Damages Tax was signed by leading climate change campaigners, such as author Naomi Klein and journalist George Monbiot, alongside organisations including:

WWF International

Climate Action Network International

Practical Action (international)

Oil Change International (international)

Less Meat Less Heat (international)

Climate Justice Programme (international)

Pacific Islands Development Forum

Earthlife Africa Johannesburg (South Africa)

Arab Youth Climate Movement (Lebanon)

Young Evangelicals for Climate Action (United States)

Health Care Without Harm Europe

CAN South Asia

The Leap (Canada/United States)

Oilwatch Ghana (Ghana)

Stamp Out Poverty (UK)

Global Justice Now (UK)

War on Want (UK)

Sierra Club (United States)

EcoEquity (United States)

Care About Climate (United States)

Uganda Coalition for Sustainable Development

Unitarian Universalist Service Committee (USA)

The Lutheran World Federation (South Africa)

International Centre for Climate Change and Development (Bangladesh)

Greenpeace International

CARE International

Christian Aid (international)

350.org (international)

Heinrich Böll Foundation (international)

Global Climate Finance Campaign (international)

Change Partnership (international)

Africans Rising for Justice, Peace and Dignity (international)

Caribbean Youth Environment Network

UK Youth Climate Coalition

CAN Europe

350 Pacific

HOMEF (Nigeria)

Abibiman Foundation (Ghana)

CNCD-11.11.11 (Belgium)

RESULTS UK

The Equality Trust (UK)

Alliance Sud – Swiss Alliance of Development Organizations

Climate Accountability Institute (United States)

Center for Biological Diversity (United States)

Sociedad Amigos del Viento (Uruguay)

Citizens United for a Sustainable Planet (Canada)

West Coast Environmental Law (Canada)

Janathakshan GTE (Sri Lanka)

CLIMATE DAMAGES TAX

For the full list of organisations supporting the CDT, the online version of this briefing paper and more information on the CDT see www.stampoutpoverty.org/cdt