TAX JUSTICE FOCUS

The newsletter of the tax justice network

FUNDING A JUST TRANSITION

FINANCING CLIMATE JUSTICE

editorial by
James Henry

As the climate crisis comes into ever sharper focus the question of how we pay for a just transition takes on an ever greater urgency. Plenty of voices can be heard telling us that the costs are just too high, or, more soothingly, that the market will provide. But we cannot afford despair or complacency. It is now time to make plans, and act on them.

"We have made changes. Yes, sire, we have made changes. But we have made them at the right time. And the right time is, when there is no other choice."

Conservative advisor to King Edward VII, 1900s

This collection of essays is the first in a series of TJN initiatives that are intended to bring the global struggles for tax justice, financial transparency, and climate justice closer together, explore common problems and solutions, and help each other to succeed.

Up to now, for the most part these movements have each developed separately. In the last two decades they have all gained momentum and achieved quite a few important victories on their own. But so have our opponents – many of whom have turned out to be our common enemies.

By now, especially in the case of the global climate crisis, the stakes could not possibly be any higher. We are simply running out of time to solve it.

TIME'S UP!

This impending crisis is partly reflected in scientific metrics. It is also reflected in dire warnings from leading scientists, environmental NGOs, activists, and the world's top climate policy-making bodies. But by far the most persuasive evidence is not summit declarations or data-laden graphs. It is the outcry from nature itself. It has only recently become loud and clear. The impact of climate change is no longer elsewhere: all at once, in every corner of the world, we have recently had record forest fires, air pollution, storms, floods, melting glaciers and

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"By far the most persuasive evidence is not summit declarations or data-laden graphs. It is the outcry from nature itself."

permafrost, coral bleaching, desertification, and the accelerated loss of precious species like bees and butterflies.

As we have seen, despite some progress – especially the converging scientific and popular consensus on the existence of a global emergency, and the mobilization of activism among some NGOs and investors – it is clear that the approaches relied on up to now have run into serious limitations, relative to the task at hand.

But the kind of policy analysis and solutions that tax justice and transparency advocates have to offer is precisely what the environmental doctors should have long since ordered – had they not spent so much time under the influence of free-market ideology. With respect, there is just no substitute for the kinds of fiscal, regulatory, and transparency policies that can be only deployed by governments.

In this, the first of a two-part special edition of *Tax Justice Focus*, we have brought together some key policy proposals that are intended to make what is now urgently necessary possible. Laura Merrill, a renowned expert on fossil fuel subsidies sets out the sheer scale of the ongoing public sector support for an industry that is destroying the conditions of civilized life on earth. She describes how governments are successfully moving away from this ruinous practice and freeing up funds to combat climate change while improving the lives of people in the here and now. Rod Campbell of the Australia Institute unpicks the bankruptcy of the fossil fuel lobby's rhetoric in a country that has only recently experienced terrible bushfires.

The brilliant economist Professor James K. Boyce, argues that we ought to deploy a brand new form of the carbon tax as soon as possible. His ingenious version has a chance, not only of reducing CO_2 emissions, but of being politically popular. Money raised through the sale of carbon permits is redistributed as a kind of universal dividend. Those who use less carbon will receive a net income from the scheme. Eventually the carbon dividends will go away, as the system achieves its purpose of incentivising a conversion to green energy. But in principle this kind of 'universal property rights' might be used to reward ordinary people much more fairly for their just share of mineral rights, broadcasting rights, R&D patents, and other forms of commonwealth.

Richard Murphy's proposals that would shift the risks being created by large corporations where they belong - onto balance sheets, so investors can take a reasoned view of the long-term profitability of companies whose activities are incompatible with human life at scale. Finally, in an interview with the Tax Justice Network, Gail Bradbrook, one of the founders of the Extinction Rebellion, reflects on the efforts of campaigners to increase the pressure on policymakers to act before it is too late, and describes how activism will proceed in the months and years ahead.

Getting these solutions adopted in a timeframe equal to the urgency of the climate crisis will require us to figure out how to tackle and defeat the shared enemies of both the environmental and tax justice movements: the world's largest, most influential public and private fossil fuels producers, public utilities, oil and LNG shipping companies, pipeline companies, and agri-businesses, as well as the myriad of giant banks, pension funds, hedge funds, corporate investors, law firms, and accounting firms that stand behind them.

And of course all our efforts to achieve worthy objectives like tax justice and financial transparency and reform of the mythological 'free-market system' will be pointless unless we can count on having a habitable planet to come home to.

So, as Martin Luther King, Jr. once said, if you can't fly then run, if you can't run then walk, if you can't walk then crawl, but whatever you do you have to keep moving forward.

James S. Henry is a Senior Advisor to Tax Justice Network, Global Justice Fellow at Yale University and Senior Fellow at the Columbia University's Institute for Sustainable Investment.

FOSSIL FUEL SUBSIDIES AND TAXATION: TWO SIDES OF THE SAME CARBON COIN

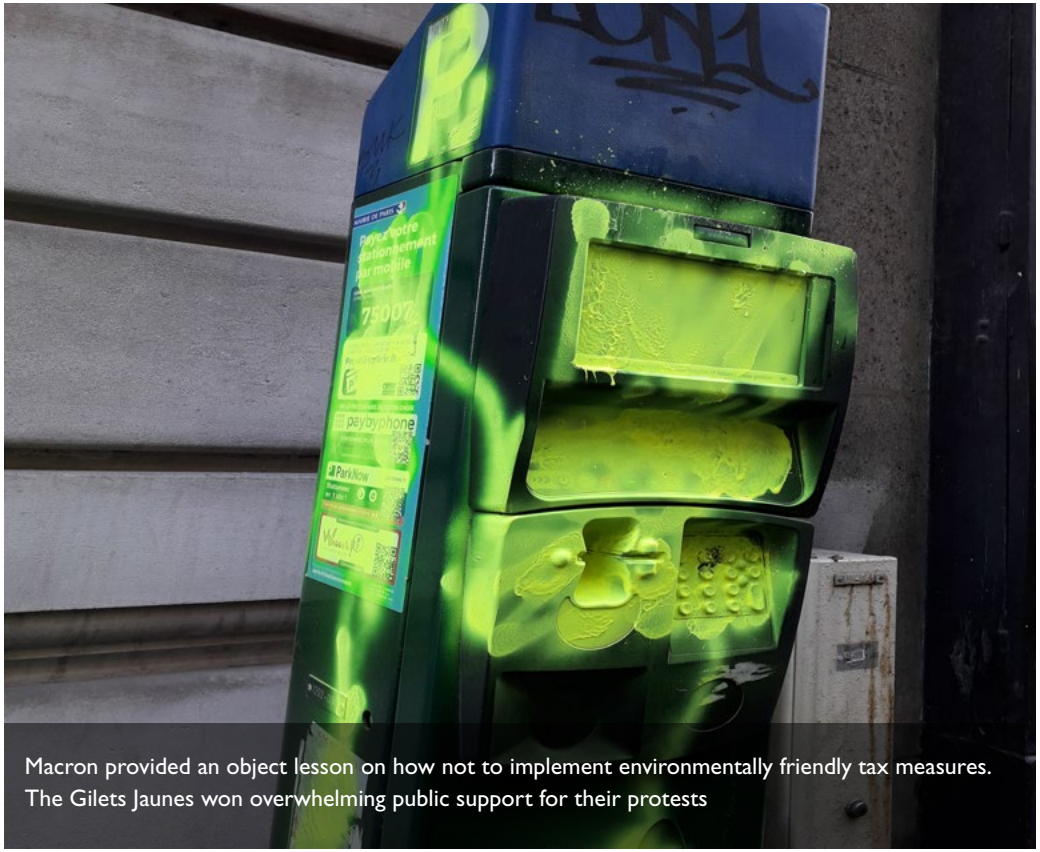
feature

Laura Merrill

Generous government subsidies around the world are, even now, enabling the extraction and burning of fossil fuels that would otherwise remain in the ground. A global technocratic elite that claims to value market forces is blithely ignoring them in a way that could hardly be more ruinous. As renewables continue to fall in price Laura Merrill calls on us to pay attention to this grotesque farce, and to stop using taxpayers' money to destroy the conditions of life.

Governments spent around US$400 billion in 2018 subsidising the price of petrol, diesel, gas, electricity and coal in order to keep consumer prices below international levels. Governments spend another US$100 billion annually on subsidies upstream to producers of oil, gas and coal. These subsidies include tax breaks, infrastructure investment (ports, pipelines and railtracks in particular), write offs and the like. For the G20 alone such exploration and producer subsidies are estimated to be around US$70 billion, yet upstream producer subsidy figures are far more opaque and difficult to quantify at the national level (sometimes for good reason). These are the producer subsidies. In the EU consumption and production subsidies combined totalled around US$125 billion between 2014 and 2016, or US$61 billion per year. This development approach, in which energy systems are built around the use of fossil fuels, has led to prosperity for some. But we are all paying a high price in terms of climate change and human health.

Fossil fuel subsidies in an age of climate change drive us in the wrong direction. With lower prices to consumers and lower costs to producers, consumers consume more, producers produce more. This increases the use of fossil fuels and the levels of pollution in our cities and of carbon in the atmosphere. One piece of research suggests that these subsidies drove 36 per cent of global carbon emissions between 1980 and



Macron provided an object lesson on how not to implement environmentally friendly tax measures. The Gilets Jaunes won overwhelming public support for their protests

"Global revenue gains from the removal of subsidies and the efficient taxation of fossil fuels could be around US$2.8 trillion to governments or equivalent to 3.8 percent of GDP."

"The Philippines managed to smooth the transition away from fossil fuel subsidies by using targeted cash transfers to help build a national safety net alongside lifeline tariffs to protect the poor in the process of reforms."

2010. An IMF working paper includes the broader costs to society of fossil fuels (such as traffic accidents and pollution, as well as the social costs of climate change) and finds the true cost of fossil fuels amounted to an eye-popping US$5.2 trillion in 2017, or US$10 million a minute. Global studies suggest that such is the scale of these subsidies that their removal could lead to a decrease in global green house gas (GHG) emissions of between 6 and 8 per cent by 2050, compared to business as usual.

Country research that modelled the removal of fossil fuel subsidies from across 26 countries, coupled with a modest investment into renewables and energy efficiency using savings from reforms and followed by 10 per cent tax on fossil fuels, found simple average national GHG emission reductions of 13 per cent, and 30 per cent in some country cases. There is no doubting that such subsidies (even using more restrictive definitions such as those of the WTO) are significant, more than double government support to renewables, and private investment in energy efficiency (IEA, 2019). In some Southeast Asian countries they have accounted for between 5 and 30 per cent of government expenditure, sometimes far more than levels spent on health or education. In general most subsidies are found in the Middle East and North Africa region (around 50% by total value) followed by Emerging and Developing Asia, and Central and Eastern Europe.

Because of the scale of the subsidies, opportunities for rent-seeking and corruption abound. Unsurprisingly, fossil fuel subsidies (particularly for oil) and countries with weak institutions tend to go hand in hand. Indeed, research finds that there is a link between the ratio of subsidies to GDP and measures of 'government effectiveness, rule of law, regulatory quality and freedom from corruption.' There are also strong links between countries that have energy resources and the presence of subsidies, and the view (sometimes enshrined within constitutions) that national fossil fuel resources should be available cheaply to the population. Such subsidies were set up for development and support to the poor but it is now argued that they are maintained in part because some governments lack the capacity to pursue policy goals by other means. Industrial interests also play a big part in retaining fossil fuel subsidies.

Fuel smuggling between countries, theft and the adulteration of fuels to exploit subsidies are huge problems in countries such as Iran, Mexico, Nigeria, Philippines and Venezuela; they cause lost revenues to governments and further entrench vested interests. Such subsidies also no longer achieve their policy objectives and are an extremely inefficient way of targeting the poor – GDP is lower and the benefits of the subsidies are captured mostly by the wealthiest sections of society with the richest fifth capturing six times more in fuel subsidies than the poorest.

Many countries have taken advantage of lower oil prices to attempt to remove consumer subsidies without high pass-through costs to consumers. Around 50 countries underwent some form of reform between 2015 and 2018. Notable efforts have included the liberalisation of transport fuels in India, Mexico, Thailand and Tunisia; introduction of automatic pricing mechanisms in China, Indonesia, Malaysia, Jordan, Cote d'Ivoire and Oman; and reforms linked to regulated prices in the Middle East and North Africa. At the same time the governments of Mexico, France and Ecuador ran into serious difficulties between 2017 and 2019.

Still, many countries have successfully implemented fossil fuel reforms successfully by employing effective compensation packages. The Philippines managed to smooth the transition away from fossil fuel subsidies by using targeted cash transfers to help build a national safety net alongside lifeline tariffs to protect the poor in the process of reforms. Indonesia's first large-scale unconditional cash transfer system was created in only six months in order to compensate for subsidy reforms. The country used a basket of social protection policies covering education, health insurance, food subsidies, cash transfers and infrastructure programmes.

Ghana's reform of subsidies to gas and diesel was accompanied by a livelihoods programme to support families. Morocco expanded a national conditional cash transfer as well as education and health insurance schemes at the same time as reforming. International organisations and initiatives such as the World Bank and Global Subsidies Initiative consistently recommend an orderly approach to governments for quitting subsidies: get the prices right, build support for reform and mitigate negative impacts, crucially ensuring improvements in social protection systems for successful reform. The bigger ask is for countries to then reinvest and redirect savings from subsidy reform into changing the energy mix towards more sustainable energy, such as renewables, energy efficiency and transport for all i.e. a fossil fuel subsidy 'swap'. With the removal of fossil fuel subsidies countries like Morocco have turned towards the sun with ambitious renewables investment and targets.

Others like Ghana and the Philippines have dismantled subsidies but are now attracted by the current low market price of coal to drive development. The world coal price is far below the true cost of power, and G20 governments alone continue to support the production and consumption of coal to the tune of almost US$64 billion annually.

"Because of the scale of the subsidies, opportunities for rent-seeking and corruption abound."

On the other hand, the recent lower oil price also leads producers and state-owned companies - often within more developed countries - to seek further public subsidies to support operations. Hidden tax breaks and other benefits from wealthy states are more alarming. Research finds that 'globally, a third of oil reserves, half of gas reserves and over 80 per cent of current coal reserves should remain unused from 2010 to 2050 in order to meet the target of 2°C.

Fossil fuel subsidies to production and exploration play a role in ensuring continued access to, and exploration of such resources. Production subsidies from the US government, push almost half of new oil investments into profitability; In Canada more than US$700 million of federal subsidies were directed mostly at the production of oil and gas between 2016–18.

In Arctic Russia, projects depend on tax breaks to generate profits. Indeed, on average in 2013-14, G20 governments sloshed out a heady annual cocktail of subsidies and support measures to ensure the continued addiction to fossil fuel production through US$70 billion of direct spending and tax breaks, US$286 billion in investments in state-owned enterprises, and US$88 billion in public backed finance.

However, the good news is that once governments remove fossil fuel consumption subsidies the potential for revenue collection via the imposition of VAT or GST (Goods and Service Tax) on transport fuels greatly increases. Global revenue gains from the removal of subsidies and the efficient taxation of fossil fuels could be around US$2.8 trillion to governments or equivalent to 3.8 percent of GDP. There is considerable scope to increase the tax take from fossil fuels in Emerging and Developing Asia, the Commonwealth of Independent States, the Middle East, North Africa, Afghanistan and Pakistan. For example, the Philippines removed subsidies and now taxes fuel at 12% VAT to pay for the national social safety net and provide incentives to renewables.

Taxation and higher prices that reflect the true cost of fossil fuels can encourage greater energy efficiency and the more careful use of fossil fuels. They can also be used to fund safety nets and accelerate anchoring renewable and sustainable sources of power at the centre of the energy sector.

This article is an updated version of Laura Merrill's chapter for The Greatest Invention: Tax and the Campaign for a Just Society (Margate, 2015). A fully referenced version can be found at https://www.taxjustice.net/category/blog/

FUNDING A JUST TRANSITION

This special **Climate Edition** of *Tax Justice Focus* is the first in a series of outputs Tax Justice Network is developing as part of a new workstream focused on the linkages between tax justice and climate crisis issues. Over the months ahead TJN, in collaboration with our allies in the tax justice, sustainable development, human rights and environmental spheres, will deliver new research and complementary audiovisual outputs bridging the divide that still exists between these two intimately enmeshed struggles.

To be kept informed about our work on climate and tax justice, please sign up for updates at

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STILL A BURNING QUESTION: FOSSIL FUEL SUBSIDIES IN AUSTRALIA

feature

Rod Campbell

After a long campaign of denial Australia's fossil fuel lobby and its allies in the state have dropped the pretence. Of course the sector benefits from multi-billion dollar subsidies and always has. Today public money still pours in, even as bushfires burn with unprecedented ferocity.

There was a time, not so very long ago, when debate on fossil fuel subsidies in Australia focused on whether such subsidies existed.

Back then, Australia's business and political class had to at least pretend to follow the central tenets of market liberalism, including the idea that subsidies are bad. These people nodded along as assistance was wound back to Australia's textile and car manufacturing industries, which subsequently went offshore.

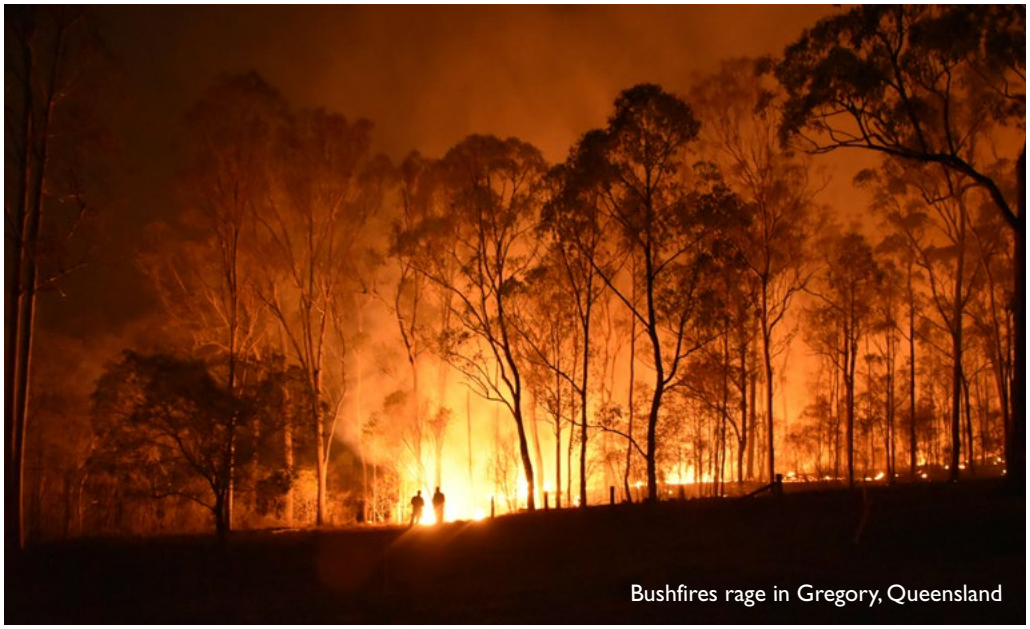
So when the Australia Institute published research on the subsidies that Australia's mining and fossil fuel industry receives, there was a lot of pushback from the industry about whether or not it was fair to call these deals 'subsidies'.

For example, the biggest part of the mining industry's $4.5 billion per year in federal tax breaks is a rebate on its use of diesel. The mining industry rejected the term 'subsidy' on the basis that much of its diesel use is not on publicly-funded roads, so they shouldn't have to pay that tax. Negating this argument is the fact that road funding has not been linked to fuel tax for decades.

Another example; between 2008 and 2013 Australian state governments spent $17.6 billion on measures to support the mining and fossil fuel sector. Almost $8 billion was spent on coal transport infrastructure.

The coal industry complained that this spending is not technically a subsidy because user charges and royalties are later paid. However, the Treasury department in the major coal state of Queensland makes it clear that 'Government spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools.'

But those were the good old days. Since then, the Australian Government has



Bushfires rage in Gregory, Queensland

dropped all pretence of not wanting to subsidise the industries it favours, particularly the coal industry.

Most famously, the Federal Government tried to funnel a $1 billion subsidised loan to Adani, the Indian energy conglomerate trying to build the largest new coal mine in the world. Far from being shy about government assistance to the coal industry in the age of climate crisis, the mining minister emphasised that 'every coal basin

"Government spending on mining related infrastructure means less infrastructure spending in other areas, including ... hospitals and schools."

"Every coal basin in Australia has been opened up through federal and state government investment."

in Australia has been opened up through federal and state government investment.'

The proposed Adani loan led to a huge public backlash that resulted in the Queensland state government vetoing it prior to an election. Post election, the Queensland government has itself tried to subsidise Adani with a deal to defer royalty payments.

Despite controversy around support for Adani, Australia's conservative government snatched a surprise victory in the 2019 federal election. Since then subsidising fossil fuel development is the openly stated policy of the government.

The federal government has just given $4 million to support a feasibility study for a new coal fired power plant. With no bank or other commercial investor interested in the project, it will be up to the government to build it, a prospect welcomed by members of the government who are sick of 'sending all our fantastic coal overseas.'

This follows various government efforts to underwrite coal power station upgrades and extensions and to subsidise new gas-fired power. A deal for federal funding of energy infrastructure in New South Wales came with the catch that new gasfields needed to be opened, or import terminals developed.

Of course, none of this touches on the huge subsidy provided to fossil fuel producers and consumers by not making them pay for climate crisis. This may be shifting. The unprecedented bushfire crisis in Australia over the summer has increased public calls for climate policy and for polluters to bear some of the costs currently borne by governments and the community. The Australia Institute has put forward a detailed proposal for a levy on fossil fuel producers, with funds directed into a National Climate Disaster Fund that would contribute to disaster recovery and climate adaptation.

Unfortunately, the Australian Government has ruled out a levy on its friends in the gas and coal industries. This is hardly a surprise given that Australia was the first, and probably only, country to have a carbon pricing system and then abolish it. We also allow many mines to be abandoned or barely rehabilitated, another multi-billion benefit to an industry that used to claim not to be subsidised.

Yes, 'used to'. The debate about whether Australia has fossil fuel subsidies is long gone. Now that these industries have it so good, they barely bother to contest the 'subsidy' tag.

Rod Campbell is the Research Director at the Australia Institute. He is an economist who has focused on the Australian coal industry for most of the last decade. He can be followed at @R_o_d_C on Twitter.

CARBON DIVIDENDS AS TAX JUSTICE

feature

James K. Boyce

The urgent need to respond to the climate emergency is forcing rapid change on many different aspects of human life, from the generation of power to the design of transport systems and the organization of the built environment. Here James K. Boyce shows that the very way we think about property will have to change, and change rapidly, if we are stave off catastrophic rises in temperature.

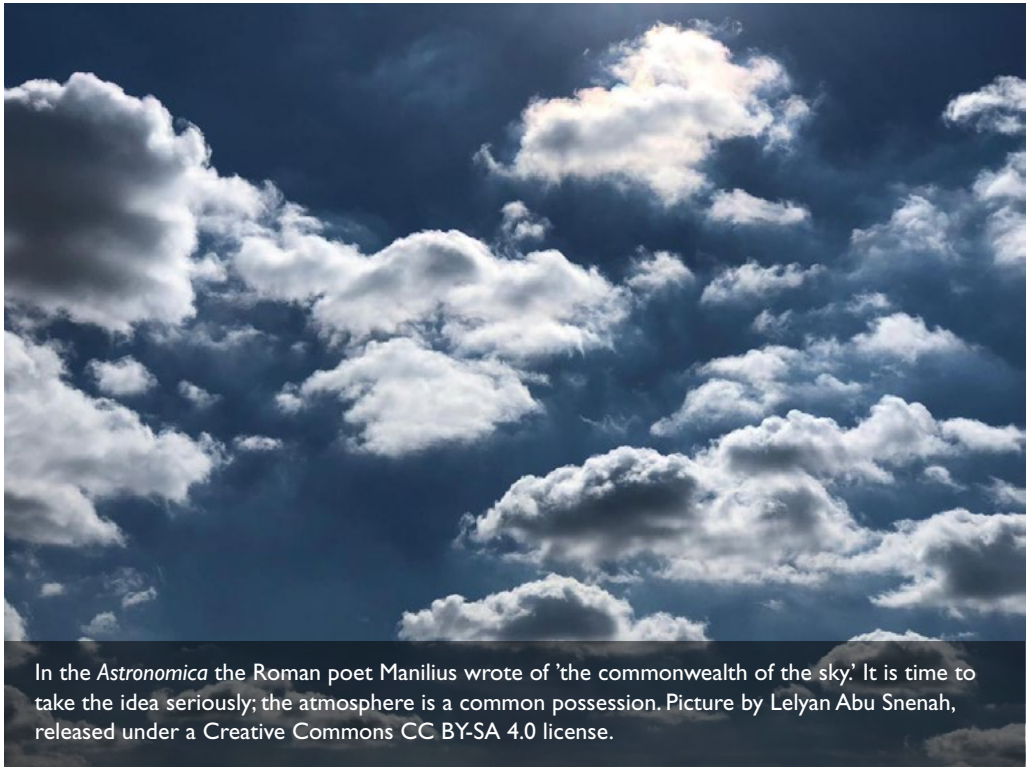
A carbon price can advance tax justice in two key ways. First, charging polluters for use of the biosphere's limited capacity to recycle carbon, rather than letting it continue to be used and abused free-of-charge, would help end the greatest environmental theft in human history. Second, returning the money to the people would give concrete expression to the ethical principle that the gifts of nature belong to all in common and equal measure.

To do this, any carbon pricing policy must meet two key tests. First, it must be effective: the price must be robust enough to ensure that we progress rapidly to the clean energy economy of the future. Second, it must be equitable: the policy must improve the lives of working families rather than adding to their burdens.

Effectiveness: The climate policy litmus test

The litmus test for effective climate policy is whether it will keep enough fossil fuel in the ground to prevent global temperatures from rising more than 1.5–2°C above pre-industrial levels. Many policies can serve this goal, but there is only one way to be certain that we achieve it: put a hard ceiling on the amount of fossil carbon we allow to enter the economy and then ratchet it down steadily over time.

"The litmus test for effective climate policy is whether it will keep enough fossil fuel in the ground to prevent global temperatures from rising more than 1.5–2°C above pre-industrial levels."



In the *Astronomica* the Roman poet Manilius wrote of 'the commonwealth of the sky.' It is time to take the idea seriously; the atmosphere is a common possession. Picture by Lelyan Abu Snenah, released under a Creative Commons CC BY-SA 4.0 license.

The most straightforward way to do so is to issue carbon permits up to the level set by the ceiling. If the target is to cut emissions by 85% in 30 years, for example, this means cutting the number of permits by 6% each year. At every tanker port, pipeline terminal, and coal mine head, fossil fuel corporations would be required to surrender one permit for each ton of carbon they bring into the economy. When these permits are auctioned, the firms will bid what they

"Just setting a carbon price and hoping it will do the job is not enough: the price must be anchored to a hard trajectory for reducing emissions."

expect to recoup from higher prices paid by consumers. The carbon price is the inexorable result of a hard limit on supply.

How high the price will go cannot be known in advance. It will depend, among other things, on how fast renewable energy costs continue to fall. Extrapolating from past experience, however, we would expect a 6% per year reduction in the supply of fossil fuels to translate into roughly a 10% per year increase in their price. If so, fossil fuel prices would double in about seven years and quadruple in fifteen.

If other policies, like smart regulations and public investment, also help to reduce demand for fossil fuels, the price increase will be smaller. Indeed, if these other policies are so successful that they achieve the targeted emissions reduction on their own, the supply limit will be redundant and the permit price will fall to zero. In this case the carbon price, like fire insurance, would turn out to be unnecessary – but optimism is not a good reason to forego insurance.

Just setting a carbon price and hoping it will do the job is not enough: the price must be anchored to a hard trajectory for reducing emissions. Likewise, just investing in mass transit or enacting fuel economy standards and hoping for the best is not enough. We know these will help, but we cannot know exactly how much.

Today the time has passed when just hoping for the best is good enough. We need to make absolutely certain that we cut emissions decisively in the coming years. And we need to face up to the reality that comes with this objective: higher prices on fossil fuels.

Equity: The carbon dividend

The carbon dividend – returning the revenue to the people as equal payments to every woman, man, and child – provides a way to mesh carbon pricing with the goal of building an economy that is more equitable as well as more sustainable.[1]

The idea can be illustrated with an analogy. Imagine that 1,000 people work in an office building whose parking lot has only 300 spaces. If everyone could park for free, the result would be chronic excess demand and congestion. To prevent this, a parking fee is charged that limits demand to fit the lot's capacity. Every month the proceeds from the fee are distributed in equal payments to everyone who works in the building. Those who take public transport or bicycle to work come out well ahead: they pay nothing and get their share of the revenue. Those who carpool to work more-or-less break even. And those who commute daily in a single-occupancy vehicle pay more into the revenue pot than they get back. Carbon dividends apply the same logic to parking fossil carbon in the atmosphere.

Everyone gets the same dividend, regardless of their own carbon footprint, so everyone has an incentive to reduce their use of fossil fuels. Those who fly often in airplanes, heat and cool bigger homes, and so on, will pay more in higher fuel prices than they receive in dividends. But the majority of households consume lower-than-average amounts of fossil fuels, because the average is pulled up by the outsized carbon footprints of the top one percent. As a result, they come out ahead in sheer pocketbook terms, without even counting the environmental benefits of reducing emissions.

A recent study that analyzed the net impact of carbon dividends in the United States with a price of $50 per ton of carbon dioxide found that average incomes in the poorest tenth of the population would go up by about 5%; in the richest tenth they would go down by about 1%.[2] Higher prices would increase these impacts. Carbon dividends alone would not be enough to reverse extreme income inequality, but they would be a step in the right direction.

Some revenue from carbon pricing could be devoted to public investment, too. Government spending accounts for a non-trivial fraction of fossil fuel use, and recycling a comparable share of carbon revenue to government would keep it whole.

By earmarking a fair share of public investment for communities that have suffered disproportionate environmental harm from the fossil-fueled economy – from polluted neighborhoods in urban areas to rural communities afflicted by the toxic legacies of fossil fuel extraction – this, too, would advance the goal of equity.[3]

Climate policy: Beyond "eat your broccoli"

Too often, climate change has been framed exclusively as a threat that requires the present generation to make sacrifices for the sake of future generations. The result is to give climate policy an 'eat your broccoli' flavour: you ought to swallow it even if you don't like it.

Instead, the clean energy transition can and should be framed as something that will benefit working people here and now, too. It will create millions of new jobs here and now.[4] It will bring about cleaner air,

1 James Boyce, *The Case for Carbon Dividends* (Cambridge, 2019).

2 Anders Fremstad and Mark Paul 'The Impact of a Carbon Tax on Inequality', *Ecological Economics,* Volume 163, pp. 88–97, 2019.

3 The Union of Concerned Scientists, *The Hidden Costs of Fossil Fuels*, 30 August, 2016.

4 Robert Pollin, *Job Opportunities for the Green Economy: A State-by-State Picture of Occupations that Gain from Green Investments*, Political Economy Research Institute, University of Massachusetts, Amherst, June 2008.

"A carbon price-and-dividend policy would transform the carbon-absorptive capacity of the atmosphere into a new kind of property that is distinct from both private property and public property as conventionally understood."

saving lives here and now.[5] And with carbon dividends in the policy mix, it will lift net incomes for the majority of households.

These benefits can change the narrative on climate policy. Instead of a tradeoff between economic prosperity and environmental protection – a false choice all too often posed by proponents of climate action as well as its opponents – the two can go hand-in-hand. And instead of awaiting an international agreement on how to curb emissions, the here-and-now benefits can be sufficiently compelling for countries to act regardless of what others do.

Dividends: Beyond carbon

The ethical underpinning of carbon dividends is the principle that the gifts of nature – in this case, the limited capacity of the atmosphere to safely absorb emissions – belong in common and equal measure to all. This implies that we share not only the duty to safeguard natural assets for future generations, but also the right to income derived from charging for use of this scarce resource (rather than, as at present, allowing it be used and abused free of charge).

A carbon price-and-dividend policy would transform the carbon-absorptive capacity of the atmosphere into a new kind of property that is distinct from both private property and public property as conventionally understood. Unlike private property, the right to receive dividends cannot be bought and sold, or owned by corporations, or concentrated in a few hands. Unlike public property, it does not belong to the government: it belongs to the people. Instead it could be termed universal property, signifying rights that are individual, perfectly egalitarian, and inalienable.

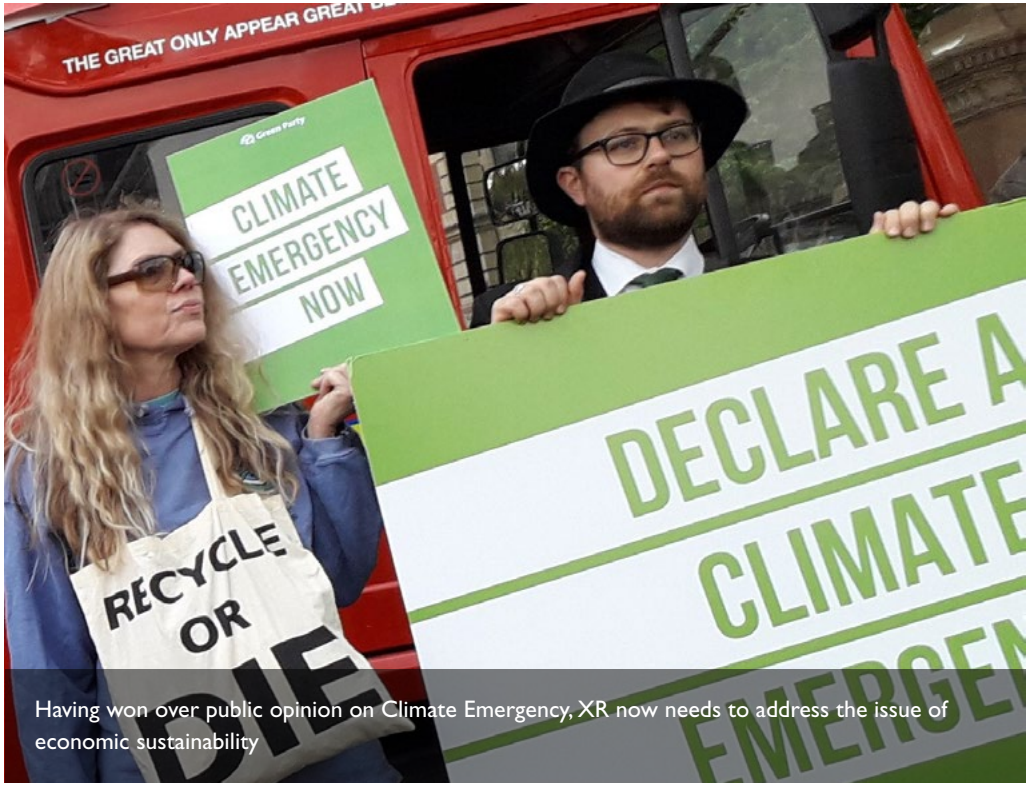
In the first decade or two, carbon dividends are likely to grow larger, even as emissions are curtailed, for the simple reason that the carbon price is likely to rise faster than the quantity declines (in the language of Econ 101, demand for fossil fuels is price inelastic). But eventually, as the clean energy transition nears completion, the revenues and dividends will dry up. An interesting question to ask is whether the public may then want to apply the universal property model to other natural assets, such as minerals or the electromagnetic spectrum, or to human-made infrastructure. Were this to occur, apart from helping to solve the climate crisis, carbon dividends could also illuminate a new way to remedy widening economic inequality, the other defining challenge of our times.

James K. Boyce is a senior fellow at the Political Economy Research Institute at the University of Massachusetts Amherst. He is author of The Case for Carbon Dividends *(Cambridge, 2019) and* Petit Manuel de Justice Climatique à l'Usage des Citoyens *(Paris, 2020).*

5 American Public Health Association, *The Public Health Impact of Energy Policy in the United States*, 13 November, 2018.

WHO ARE THE REAL EXTREMISTS HERE?

In November 2018 some six thousand people blocked the five main bridges over the Thames in London. The Extinction Rebellion had begun. Since then acts of mass civil disobedience have proliferated throughout the developed world. In January of this year the Tax Justice Network's podcast producer ***Naomi Fowler*** *spoke with* ***Dr Gail Bradbrook****, co-founder of Extinction Rebellion, about the story so far, and the movement's plans for the future.*



Having won over public opinion on Climate Emergency, XR now needs to address the issue of economic sustainability

interview

Gail Bradbrook

NF – 2019 was a pivotal year for the climate crisis movement. What worked well for XR and what didn't?

GB – So we launched in the autumn of 2018 and we've been named the number one global influencer on the climate crisis, which is incredible. We're into 72 countries, with over 700 groups across the world. Our initial interim goal was to shift the Overton Window, and I heard recently that Davos was all about climate and ecological crisis, so we've achieved that goal. What didn't go so well? Obviously we've made mistakes; we've been trying to figure out organising a social movement while it's growing under our feet at rapid scale. And there's things that we get wrong; some of the actions that happened were problematic.

NF – Which movements have most inspired XR's direct actions?

GB – We stand on the shoulders of so many other movements and a history of resistance. Extinction Rebellion came out of a network called Rising Up. Actually you can trace the origin back to a conversation – from my perspective at least – with John Christensen at the Tax Justice Network… I think it's really important that people understand the importance of civil disobedience for change; that you have to have those moments of confrontation, and confrontation doesn't mean violence. It can be done very peacefully and beautifully and respectfully, but it is a way of saying no.

"What we haven't done strongly enough yet is to hold out the vision that change is possible."

NF – Climate crisis deniers seem to have been pushed back, but do you think the greatest thing to fear now is the lack of fear among the general public?

GB – Well the majority of the public now understand that there is a climate emergency. We've been using something called emergency mode messaging, telling people there's an emergency, asking them to act according to their values. But what we haven't done strongly enough yet is to hold out the vision that change is possible.

There's a debate to be had on how much is this about renewable energy, or carbon taxation, or carbon budgeting, or you know, going vegan or telling people not to fly… there's a whole pile of things…we've opened the space for those conversations. So whenever I meet people working in this

"This system's finished, it's going to kill itself off, and it's killing us."

"We know that people are more willing and able to tackle the climate and ecological crisis when there's less inequality, there's a direct correlation."

field in some way they say, 'Goodness, it's really changed. You guys have changed the discourse.' So we don't have to be all things to all people. So one of our main demands really is to have a citizens' assembly focused on the 2025 target to decarbonise and to halt biodiversity loss and reverse it. There needs to be a deep focus on the role of the economy in this crisis and an understanding of that and a rewiring of the system and… what I'm hoping we'll bring forward this year is a focus on debt refusal… we would be taking actions to banks and to the big four accounting firms and all that type of stuff. And… some people can do debt disputing, which is not illegal, but it's a way of saying, is this debt really legitimate?

NF – In what ways do the tax justice and climate crisis agendas intersect?

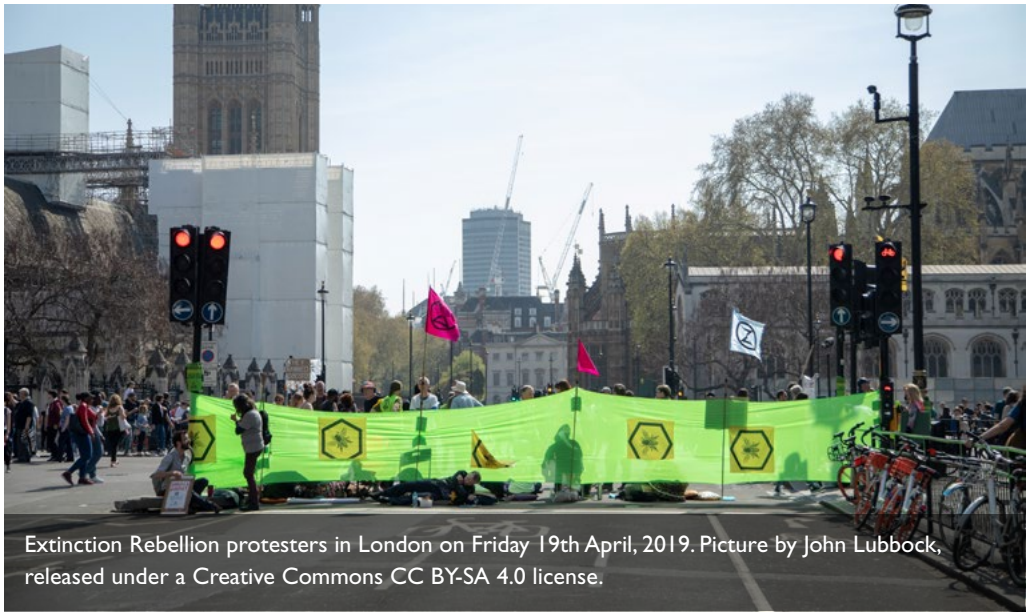
GB – Tax is a key issue. For example, fossil fuels are subsidised by a horrendous amount, I think the IMF said in 2017 it was over $5 trillion. That means fossil fuels are mispriced, which is anti-competitive, though I argue that renewables should be subsidised because we need to transition to greener energy.

Tax can also be used to redistribute wealth: we know that people are more willing and able to tackle the climate and ecological crisis when there's less inequality, there's a direct correlation. Taxation is also needed to bring in revenue for tackling the crisis, so how will we pay for free public transport, how are we going to pay farmers to transition to more agro-ecological solutions?

And then there's the whole issue of corporations holding billions of profits offshore and not investing them in renewables …

NF – For decades the debate has been falsely framed as economy versus ecology; what can be done to persuade people that economic sustainability requires environmental sustainability?

GB – That's an utterly crucial issue, and we have to get this right this year. So let's start with a discussion about what the economy is actually for. We are undoubtedly killing life on earth; we're in the sixth mass extinction event, so the debate needs to start with 'what are we doing wrong'? The UN have talked about the collapse of civilisation. The committee on climate change has said we won't be able to adapt to four degrees of warming, yet that's the pathway we're on. According to Professor Jen Bendel collapse is inevitable. So this system's finished, it's going to kill itself off, and it's killing us. So what are we going to do instead? What I thought was a really great concept… was essentially private restraint… and public luxury. So I don't need a car if we've got free public transport and, you know, obviously you have to have different transport forms depending on which communities you're in… and I think that it's moving into that space of, of public luxury, of universal basic services. So yeah, I think that's the kind of thing that we need to be aiming for. But obviously that requires governments to have money to spend and deploy. And that means we have to have a functional tax system, which we don't have at the minute.



Extinction Rebellion protesters in London on Friday 19th April, 2019. Picture by John Lubbock, released under a Creative Commons CC BY-SA 4.0 license.

NF – How did you react when you heard that the police had included XR on a list of terrorist organisations?

GB – Utterly unsurprised because that's been happening to activists for years… But who are the real extremists here? Naturalist Chris Packham made a speech recently saying that in years to come maybe we'll look at people like Bolsonaro, and Trump, and Putin, and Australian PM Morrison, as criminals who pushed genocide, because billions and billions of people are likely to die as a result of climate crisis. That's where the extremism lies.

Dr Gail Bradbrook is an evironmental activist and campaigner. In 2018 she co-founded Extinction Rebellion, a global movement to challenge the current, catastrophic trajectory of climate policy.

This is an edited version of an interview conducted by Naomi Fowler in January 2020. A longer version will feature in edition 99 of the Taxcast – https://www.taxjustice.net/taxcast. *A transcript of the full interview will also be made available online.*

WHAT'S YOUR SCORE? THE CASE FOR SUSTAINABLE COST REPORTING

feature

Richard Murphy

Accountancy was established to protect investors from fraudulent managers. As the activities of companies now exceed planetary limits, accountants must think much more carefully about their public interest responsibilities. Here one of the discipline's most original and influential thinkers sets out the role new reporting standards could play in aiding a swift and just transition away from fossil fuel dependence.

The climate crisis is real: it is settled science that we must take immediate action to address its consequences. Across the world there has been a response that few in any activist community can ignore. There have been demands for a Green New Deal. Extinction Rebellion has led protests that have revealed the power of civil disobedience. Greta Thunberg has become a global figurehead for creating school strike protests.

The demands have, however, been primarily aimed at governments, which is reasonable given their responsibility for setting environmental policy. Governments will also be responsible for delivering the new public infrastructure needed to support the different types of economic activity that we now require. But we should not ignore the fact that as few as twenty oil and coal companies may ultimately account for one third of greenhouse gas emissions,[1] and just one hundred companies may account for seventy per cent of these emissions.[2]

What does this have to do with tax justice? In practice, quite a lot, since one of the possible reactions to the climate crisis is to tax the use of carbon-based fuels and another is to provide tax incentives to business to change their behaviour. Both might have a significant impact on corporate tax bases and we need to understand what this might mean. However, we have almost no reliable data from most businesses on their carbon emissions; nor do we know enough about the economic impacts of any major policy proposals to be in a position to take decisions on such matters. As significantly, when it comes to the corporate tax base, we have almost no idea about which businesses might survive the transition to a net-zero carbon world, and which might not.

That said, moves are underway to address this issue. Former Governor of the Bank of England, Mark Carney, is promoting voluntary accounting standards created by a Bank for International Settlements initiative called the Task Force on Climate-related Financial Disclosures (TCFD).[3] Carney is to be commended for getting this ball rolling, but what he proposes is inadequate. The TCFD standards are voluntary and current rates of compliance are lamentably low.[4] Worse, TCFD standards do not require businesses to account for the carbon emissions that the products they create or sell give rise to when used by a customer, which means that the downstream environmental externalities businesses create in pursuit of their profits will go unreported. Given that the climate crisis has arisen because of businesses failing to take responsibility for the externalities of their activities, it is unacceptable for the TCFD standards to omit these downstream externalities.

For this reason the Corporate Accountability Network is developing what it calls sustainable cost reporting (SCORE), a new, mandatory accounting standard which will require businesses to disclose their greenhouse gas emissions (GHG) under four categories:

- **Scope 1:** The GHGs the reporting entity creates itself;

"We have almost no reliable data from most businesses on their carbon emissions."

1 Matthew Taylor and Jonathan Watts, 'Revealed: the 20 firms behind a third of all carbon emissions', *Guardian*, 9 October, 2019. https://www.theguardian.com/environment/2019/oct/09/revealed-20-firms-third-carbon-emissions

2 Paul Griffin, 'Carbon Majors Report', CDP, July 2017. https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/002/327/original/Carbon-Majors-Report-2017.pdf?1499691240

3 .Taskforce on Climate-related Financial Disclosures (TCFD) website – https://www.fsb-tcfd.org/

4 'TCFD: 2019 Status Report', June, 2019. https://www.fsb-tcfd.org/publications/tcfd-2019-status-report/

- **Scope 2:** The GHGs produced when generating the electricity the reporting entity consumes – the upstream externalities;
- **Scope 3:** The GHGs arising from the manufacture and use of products and services over which the reporting entity has some contractual control e.g. within outsourced manufacturing processes (incorporating both upstream and downstream externalities);
- **Scope 4:** The GHGs arising from the manufacture and use of products and services which the reporting entity buys in for resale essentially in the state in which they acquired them (also incorporating upstream and downstream externalities).

As is apparent, remoteness from control increases as the Scope number rises, but in each case the reporting entity facilitates the emission. In Scopes 3 and 4 the disclosure has to be split between upstream supply and downstream customer chains so that these can be fully understood. All disclosure will be on a country-by-country reporting basis to both reveal the geographic spread of the impact and to curtail carbon dumping.

Once this information has been disclosed, the reporting entity has to prepare a plan to become net carbon zero, as is necessary if the impact of climate change is to be managed. Crucially, SCORE requires that this plan be published and the cost to the reporting entity of its achievement must be estimated.

"Counting the right thing, in the right way, at the right time is now key to social, economic, tax and environmental justice."

The most radical requirement of SCORE is that this cost has then to be included in the accounts of the reporting entity - in full - at the time of adoption of the SCORE standard. The logic is simple: SCORE recognises that the cost to the business of tackling climate change increases if action is deferred, therefore recognition of this cost in the accounts will encourage early action to minimise the final cost to the business of eliminating carbon emissions from its production and consumption chains. That this reverses the traditional accounting approach of discounting future costs is beside the point: nothing is normal about climate change and its impact.

Some important issues should be noted. The first is that SCORE does not put a cost on carbon usage: it covers the cost of removing it, making it far more robust than any alternative approach. SCORE also enables appraisal of each reporting entity on its own terms.

Second, the cost must be based on known technology: a precautionary principle must be applied, meaning that unproven technology cannot be assumed to deliver net-zero carbon, although investment in such technology to reduce the cost provision required (and so, in effect, declare a carbon cost reduction profit) is encouraged.

Third, the provision for costs will need to be reappraised annually and reported upon as a key accounting issue, thus enabling stakeholders to appraise companies' commitment to their plans, and whether or not those commitments are being delivered on within the cost target. This will allow investors to identify companies that are best able to eliminate GHG emissions.

Crucially, SCORE will reveal that some companies might not be able to make this transition. They are carbon insolvent because they either cannot adapt their processes or will not be able to raise sufficient capital to do so. SCORE will allow for early identification of these entities, providing more time for them to be wound up in an orderly fashion.

All of this feeds into tax justice. The wise use of subsidies, tax allowances and reliefs can be appraised. Indeed, they can be designed to encourage companies with a good SCORE. And if carbon tax is to be used, then its impact – and how to manage the risks within it – will also be capable of appraisal using better data than any we have currently available.

Accounting may have the reputation of being boring. However, counting the right thing, in the right way, at the right time is now key to social, economic, tax and environmental justice. SCORE is designed to help achieve this goal.

Richard Murphy FCA is the Director of the Corporate Accountability Network and Professor of Practice in International Political Economy, City University, London. His books include The Joy of Tax and The Courageous State.

"Carney is to be commended for getting this ball rolling, but what he proposes is inadequate."

news in brief...

Always Something New (And Bad) from Britain

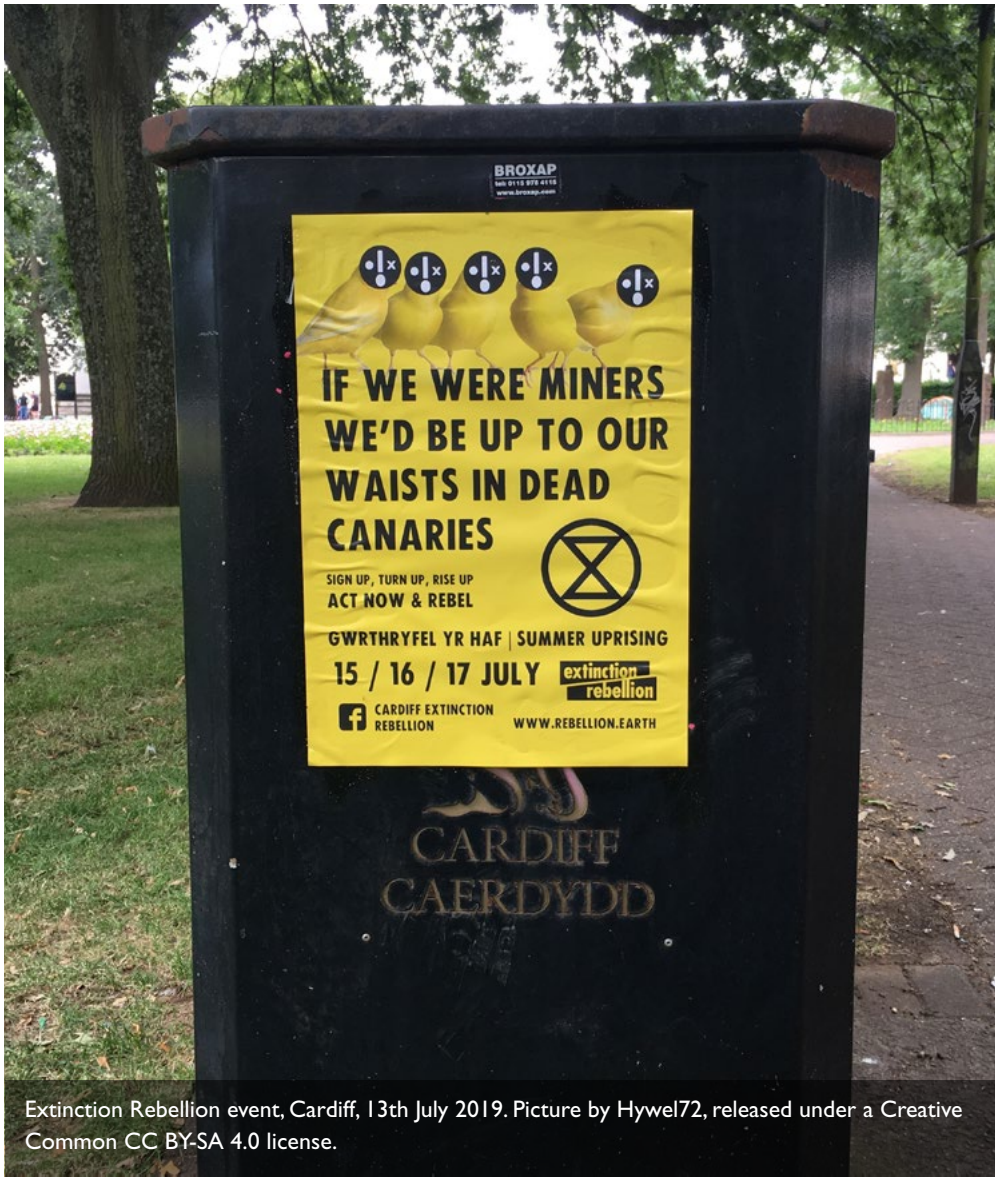
February of this year saw the publication of 'The UK North Sea as a Global Experiment in Neoliberal Resource Extraction' by Juan Carlos Boué. This exceptionally important report from Platform London and the Public and Commercial Services Union explores the UKs management of its North Sea oil reserves from the 1970s onwards.

In a story that combines elements of the Resource Curse and the Finance Curse, successive governments in Westminster acted to protect the private sector at the expense of public revenues. In an eerie echo of free trade imperialism, Boué exlains how 'the global spread of the UK governance model destabilised many key petroleum producers, whose governments found themselves starved of fiscal income. As a result ultra-liberal British-inspired policies turned out to be an authentic lose-lose proposition for all concerned. The full text is available online at https://scote3.files.wordpress.com/2020/02/northsea_neoliberal_experiment_final.pdf

A Green New Deal for Europe

In December of last year the second edition of 'The Green New Deal for Europe' was published.

Described by Ann Pettifor as 'a blueprint for bringing about an urgent, system-wide reorganisation within a short time period,' the report is one of the most comprehensive attempts yet to describe a path away from climate disaster. The full text is available online at https://report.gndforeurope.com



Extinction Rebellion event, Cardiff, 13th July 2019. Picture by Hywel72, released under a Creative Common CC BY-SA 4.0 license.