Stop Climate Chaos Scotland

Invitation to tender: Fiscal levers for climate action

Summary
Stop Climate Chaos Scotland invites tenders from suitably qualified consultants or contractors to undertake a research project with the aim of:

> *Providing a robust evidence base for the development of a new SCCS policy position on the use of Scotland's devolved fiscal levers in support of environmental action in Scotland and globally, while building the coalition's knowledge on the potential use of currently reserved fiscal levers.*

Tenders are invited for the research, preparation and drafting of a report to achieve the above objective. Further details of the issues involved, and the context for this work, are set out below and in the annex.

Please submit quotes for this contract to Stop Climate Chaos Scotland by email at info@stopclimatechaos.scot to be received no later than 12.00 (noon) on Thursday 2nd June 2022.

1. Introduction

SCCS seeks to commission this research to inform itself, and its members, of the options available to the Scottish (and/or UK) Governments to use fiscal measures to meet the challenges of climate change. In particular, Governments face two important challenges. First, there is a need to fund the societal changes to reduce emissions to the extent they meet the targets set by domestic legislation and internationally-agreed aspirations ("keeping 1.5˚C alive"). Second, Governments (of the rich polluting nations such as Scotland and the UK) are committed to funding other parts of the world to both mitigate climate change and to adapt to its effects. While there are some inadequate pledges to provide this latter funding (albeit that the $100 billion figure is yet to be reached), this still remains insufficient and, as yet, fails to reflect a fair shares analysis, nor the need for additional funding to address the losses and damage flowing from irreversible climate impacts.

For the purposes of this research, SCCS does not seek to define, and then address, a specific financial gap. We consider it is sufficient to know that further funding (probably considerable) will be needed. **The objective of this research is, however, to understand and robustly evidence the range of options that exist for Scotland to use its fiscal levers to better support the delivery of Scotland's climate targets by accelerating behaviour change and financing new investment in emissions mitigation, while also funding - and over time increasing - Scotland's support for impacted communities globally.**

As such, it is important that, for each option, the potential revenue (or savings) be identified, and subjected to an examination of their pros and cons (especially through the lenses proposed in this document). However, the report is an options appraisal – to inform SCCS' advocacy of how the financial demands of climate action are met. Where evidence is insufficient and/or the appraisal is limited for other reasons, this should be transparently explained.

This appraisal might consider the following 'dichotomies' (or, indeed tri- or multi- chotomies):

- Funding is required for the two purposes described above: domestic and international (albeit that 'domestic' will need to include consumption emissions[1]);
- The means of raising such funds should take into account the extent that fiscal levers used (a) incentivise behaviour change to reduce emissions and (b) provide funds for expenditure on these challenges.
- Some means fall within devolved powers of the Scottish Parliament; others are reserved and are a matter for the UK Government. However, SCCS (as well as the Scottish Government) might choose to lobby the UK Government – and, in the light of the political debate in Scotland, consideration of currently reserved matters might be raised in debating independence/further devolution.

[1] In particular, note that Scotland's Carbon Footprint – emissions generated via consumption – increased 2.6%, with this "mainly related to emissions associated with imported goods and services".

- The options to be considered should include new measures (to be introduced) but should also include the ending of existing measures (e.g., subsidies to fossil fuels or intensive agriculture) that would generate savings to be used elsewhere and/or the revision of existing measures (e.g., adding conditions, reliefs, higher rates/charges, etc) thus ‘greening’ the current system.
- Each option will have pros and cons, and the appraisal should present these – particularly through the lenses of our principles of polluter pays, climate justice and social justice[2]. The pros and cons of each option should also consider the likely time necessary for implementation and effectiveness, given that there is an urgency to deliver climate action, especially in the years before 2030.
- Given the ‘twin crises’ of climate change and the loss of biodiversity, some measures might support both climate action and nature recovery, while others will address one or the other; all such options should be considered and appraised.
- “Innovative new sources of funding” might be considered to that raised by existing forms of public taxation (or levies, charges, etc), but also by philanthropic giving, sponsorship, corporate schemes, etc – while this study should focus on the former, any lessons that the latter offer to improve the former might form part of the appraisal.

SCCS may or may not determine which, if any or all, of the options to promote. This caveat should be clearly stated within the final report and will form part of any publication or promotion.

1. Research Questions

In the light of the above, a draft set of research questions for potential consultants to consider might be:

Devolved Powers and International Learning

a) Is Scotland currently using devolved fiscal levers effectively to deliver climate justice at home and internationally and, if so, how and to what extent?
b) What lessons can Scotland take from international examples and learning, including from both state and sub-state actors, on the use of fiscal levers in support of environmental outcomes?

Enabling Behavioural Change

c) Which devolved fiscal levers have the *greatest* potential to influence behaviour change of the highest emitting actors in Scotland to improve environmental outcomes and what are the pros and cons associated with their use?
d) Are there any distributional effects of the measures, including across the income spectrum as well as by gender, race, age, ability and geographic location (within Scotland and internationally) relating to them?
e) How much extra money could the options identified potentially raise, and how does this compare to the overall Scottish Budget as well as the money spent on existing climate action policies in Scotland.
f) What reserved fiscal levers might provide additional levers, either deliverable via Westminster or by the Scottish Parliament in the event of Scottish independence, in support of environmental outcomes?

Revenue Raising

g) Which devolved fiscal levers have the *greatest* potential to raise new finance for climate action in a way consistent with the ‘polluter pays’ principle and what are the pros and cons associated with their use?
h) Are there any distributional effects of the measures, including across the income spectrum as well as by gender, race, age, ability and geographic location (within Scotland and internationally) relating to them?
i) How much extra money could the options identified potentially raise, and how does this compare to the overall Scottish Budget as well as the money spent on existing climate action policies in Scotland, and our climate debt to the Global South?
j) What mechanisms could be used to ensure a proportion of any extra resources raised are allocated towards supporting climate justice internationally, including via finance to address loss and damage?
k) What reserved fiscal levers might provide additional levers, either deliverable via Westminster or by the Scottish Parliament in the event of Scottish independence, in support of environmental outcomes?

Overall

l) Which fiscal levers have the greatest ***overall*** potential to support Scotland’s climate action – taking into account their ability to elicit behaviour change to improve environmental outcomes and/or generate new revenue (in a climate justice way i.e., polluter pays, protection of those in poverty) for green investment?
m) Are there measures which could be implemented in Scotland which would be a ‘world-first’?

[2] Social justice in this context means the distributional effects of the measures, including across the income spectrum as well as by gender, race, age, ability and geographic location. It should take account of evidence highlighting the positive correlation, <u>on average</u>, between an individual’s income and their emissions.

The above questions are focused on devolved matters. This reflects SCCS' initial interest in fiscal levers available to the Scottish Government under the devolved settlement. However, we are also interested in other levers, that might be employed by the UK Government or by the Government of an independent Scotland (or, one where more powers are devolved). A similar approach might be taken to reviewing options for the use of reserved fiscal measures.

In answering the questions outlined above, the above analysis should, where possible, include insights on:

- The speed with which the range of options identified could be implemented, recognising the urgency of reducing Scotland's emissions;
- Any collection issues, revenue stability concerns, and other risks linked to the measures identified;
- Considerations of options at both the national and local levels;
- Consideration of fiscally neutral measures providing financial incentives (rebates, exemptions, etc) and disincentives (penalties etc) in tandem, e.g., a levy and a rebate imposed on the same activity. This should also consider the potential redirection of existing subsidies on environmental harms (e.g., fossil fuel & nuclear subsidies, intensive agriculture, new road building, etc).
- Consideration of any political or other barriers to the measure's implementation.
- Any geographic considerations of the measures identified, including, for example, the impacts of certain taxes on particular regions due to the concentration of certain types of businesses.

Further discussion of the issues raised, and the reasons for seeking this research, is provided in the background/briefing paper attached as an annex.

2. Audience for Research Outputs

The primary audience is the Scottish Government; in particular relevant Ministers, from the First Minister down, as well as Special Advisors and officials.

A secondary audience is MSPs, especially relevant spokespeople, and policy officials, from all political parties, as well as the Net Zero, Energy and Transport Committee and Finance and Public Administration Committees.

Additional audiences include members of the revamped Just Transition Commission and the Poverty and Inequality Commission, as well as influential media outlets and political commentators.

3. Suggested Research Methods

We invite those tendering for this research to outline their methodologies, but phases may include:

- Desk-based analysis of literature on the use of fiscal levers for climate action.
- Consideration of whether the options identified are devolved or reserved.
- Desk-based analysis of which fiscal levers have the greatest potential to (a) influence behaviour change of the highest emitting actors and (b) have greatest potential to raise new finance for climate action.
- Analysis of the pros and cons associated with the use of each option.
- Modelling of the potential revenue which each measure could raise at different levels/rates.
- Development of recommendations on which fiscal levers offer *greatest* potential to support climate action in Scotland – including via behaviour change and green investment – in a climate just way.

In addition, the project could involve interviews with a small number of experts and/or key stakeholders; and/or testing the recommendations with a small number of expert stakeholders.

4. Research Outputs

The primary output for this project would be a research report (to be provided in Microsoft Word/Google document format; although would be published as a PDF). Tenders are invited to set out, in their tender, the project length of a final report and likely chapter headings.

Additional outputs, to be detailed in tenders might include:

- A summary report (say, 4-6 pages), covering key findings and recommendations; and
- An SCCS member webinar, presenting the findings and taking questions.

Additionally, it would be anticipated that the researcher will be available for a subsequent public-facing event to present and discuss the findings, perhaps timed to coincide with the release of an SCCS Advocacy Paper. Importantly, the researcher would also agree to review the advocacy and media content used to promote the research to ensure the contents reflect the findings accurately, whilst reflecting that SCCS will determine the advocacy priorities it chooses to select.

Importantly, all outputs referenced above should be written in a way that is understandable for audiences who are not necessarily familiar with technical economic language.

SCCS will be the owner of, and copyright-holder for, these outputs, but the consultant will be fully credited in any publication or promotion.

5. Timetable

An anticipated timetable for this project is set out below. However, tenderers are invited to either demonstrate how this might be adhered to, or to offer alternatives.

It should be noted, however, that SCCS is keen to ensure that some outputs from this project are available and usable during September – given the importance of that month in the run-up to COP27, especially likely national and international discussions on financing to address Loss & Damage, but also the run-up to the Scottish budget.

	Outputs	**Date due**
1	Invitation to tender finalised	Early May
2	Tender issued with deadline of 31st May	Mid-May
3	Selection	Early June
3	Initiation meeting and research phase begins	Late June
4	First Draft Submitted to SCCS Steering Group	Mid-August
5	Feedback from SCCS Steering Group	Mid-late August
6	Final Draft Submitted	Early September
7	SCCS Member Webinar	Early September
8	Public Event/Launch?	Mid-September

6. Budget

SCCS anticipate receiving tenders of c.£10,000 - £15,000.

However, tenders lower or higher than this range will also be considered and will be assessed on the basis of the value for money offered, taking into account the projected detail of the final product and resources available.

7. Key Reference Material

In addition to the background/briefing paper (annex), the following reports, most of which are also linked to in the annexed paper, will provide additional important reference material:

- Environmental Fiscal Measures for Scotland, Scottish Parliament Information Centre (28 Feb 2022)
- Framework for Tax 2021, the Scottish Government (16 Dec 2021)
- Scottish tax policy in the 2016 – 2021 session of parliament, Fraser of Allander
- Thinking bigger on tax in Scotland: Using Scotland's local tax powers to their full potential, IPPR (2019)
- Green and fair taxation in the EU, institute for European Environmental Policy (2020)
- The impact of introducing a carbon tax for Scotland, ClimateXChange (2012)
- The distributional effects of a carbon tax: LSE (2020)
- Trust calls for a natural carbon land tax, John Muir Trust (2021)
- Carbon Taxation in Sweden, Ministry of Finance (2021)
- Taxing Carbon Emissions, Malawi (2020)

8. Quotes and contract management

Quotes should include the research, preparation and drafting of the report. Please let us know if you intend to submit a quote.

Please submit quotes for this contract to Stop Climate Chaos Scotland by email at info@stopclimatechaos.scot to be received no later than 12.00 (noon) on Thursday 2nd June 2022.

If you would like to discuss this project, please contact Becky Kenton-Lake, SCCS Coalition Manager at info@stopclimatechaos.scot.

SCCS will endeavour to select the successful tender by mid-June with a view to work beginning as soon as possible, ideally with a project initiation meeting in week-beginning 27th June. Management of the contract will be undertaken by Lloyd Austin, Policy Advisor to SCCS, supported by a steering group of SCCS members.

Lloyd Austin
May 2022

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ANNEX

Using Scotland's Fiscal Powers to Deliver Climate Justice

A background/briefing paper to inform the research being commissioned by SCCS tender.

Drafted by Jamie Livingstone (Oxfam Scotland);
edited by Lloyd Austin (SCCS), based on comments received from SCCS members.

Note: This paper does not necessarily reflect the policy position of SCCS or any of the Coalition's members.

1. Introduction

We face linked climate and nature crises and tackling them requires urgent and sustained new investment, globally and in Scotland. After missing three annual emissions reduction targets in a row in Scotland, and with the UK Committee on Climate Change (UKCCC) warning that future targets will be difficult to achieve, there is a need to use all available levers to accelerate emissions reduction, while restoring nature. At the same time, the nations and people who did least to contribute to climate change face spiralling climate impacts. There is a need to substantially increase financial transfers from rich countries to support them to adapt their lives and livelihoods and to address irreversible climate-induced losses and damages. These twin investment priorities – more investment in mitigation/nature alongside enhanced international support for impacted communities – must be delivered without diverting resources from other priorities, whether domestic poverty reduction or Scotland's contribution to international development and humanitarian response.

Over many years, and today, SCCS has promoted action to help tackle the climate crisis, with wider recommendations made by those more focused on the nature crisis. SCCS now wishes to increase our knowledge of how fiscal levers[3] could be used to help accelerate, and fund, Scotland's ambitions. This research therefore seeks to explore:

- The further use of fiscal powers to embed the 'polluter pays principle' and drive behaviour change amongst high-emitters to reduce Scotland's territorial and consumption-based emissions; and
- The use of fiscal powers to raise significant new revenue to accelerate action in Scotland – to reduce emissions and advance adaptation (including linked measures that restore nature) – while funding global climate justice commitments.

Rather than seeking to address a specific finance gap, SCCS wants to understand and robustly evidence how Scotland can use its fiscal levers to better support the delivery of Scotland's climate targets by accelerating behaviour change and financing new investment in emissions mitigation. At the same time, it seeks to ensure additional sources of finance are identified in support of Scotland's Climate Justice Fund, including its commitment to Loss and Damage finance; in the first instance, this is focused on the Scottish Government's £36million commitment this Parliament, but we recognise the need for all rich nations to increase financial support in line with fair shares analysis and the growing needs evidenced by the IPCC.

SCCS recognises that some of Scotland's fiscal levers are already being used in support of environmental objectives, such as requirements within public procurement and some "environmental taxes". There is also a Scottish Government commitment to consider how tax powers could help change behaviour and a range of ideas have been discussed by a range of actors. In addition, Scottish Government expenditure from generic revenue raising is already committed to climate action, and climate change is a stated priority of the current Resource Spending Review and the Scottish National Investment Bank. However, these rely on existing revenue, and compete with other priorities.

There is a need, therefore, for SCCS to better understand the full range of fiscal levers available, to consider these, and then prioritise which offer the *greatest* potential for effective climate action by the Scottish Government.

Of course, not all fiscal levers are devolved – including levers like Corporation Tax – but the Scottish Government has control over important levers, including non-domestic rates and elements of Income Tax, plus significant spending

[3] Fiscal levers are, as later discussion makes clear, both devolved and reserved. SCCS' initial interest is in fiscal levers available to the Scottish Government under devolved powers. However, we are also interested in other levers, that might be employed by the UK Government or by the Government of an independent Scotland (or, one where more powers are devolved). In this paper, unless stated to the contrary, "fiscal levers" refers to both devolved and reserved powers – with an initial focus on devolved matters while also seeking an understanding of reserved matters.

power. SCCS want to better understand, and prioritise, the fiscal options available to the Scottish Parliament, as well local government. We understand there may be trade-offs between eliciting behaviour change and raising new revenue, and we are therefore interested in assessing both objectives.

The Scottish Government has sought to position itself as a global climate leader. However, with this position in jeopardy due to missed emissions reduction targets, to remain a credible international champion, Scotland must identify and implement new measures, including maximising the use of its devolved fiscal levers.

2. Research Purpose

The primary purpose of this research is:

> ***To provide a robust evidence base for the development of a new SCCS policy position on the use of Scotland's devolved fiscal levers in support of environmental action in Scotland and globally, while building the coalition's knowledge on the potential use of currently reserved fiscal levers.***

We envisage this paper will provide a detailed exploration of the options available, including: the pros and cons of each option; any implications for their use which should be considered; and a clear overall assessment of which of the fiscal levers - particularly taxation and spending - offer the greatest overall potential. The research output will then inform SCCS discussion, future policy positions and advocacy, seeking to:

- Influence the ambitions of the Scottish Government Climate Change Plan (CCP), which is expected to be laid before Parliament around November 2023, but will be developed in the interim period;
- Influence the Scottish Government's Programmes for Government and Budgets;
- Influence how the Scottish Government finances the Climate Justice Fund, including the Loss and Damage stream, now and in the future, including setting a robust example ahead of COP27 in November 2022 in Egypt.
- Influence all Scottish political parties' commitments to progressive environmental taxation throughout this Scottish Parliament and in the run up to, and after, the Scottish election in 2026.
- Influence the ambitions/commitments of the UK Government in relation to reserved powers and/or the ambitions of Scottish political parties' (and/or campaign groups) within any second referendum on Scottish independence.
- Shape SCCS' public and media-facing outputs in support of the above.

The findings will be used to influence the frame for environmental action in Scotland. While the focus has, rightly, been on action to reduce emissions quickly within the highest emitting sectors, there is also a focus on ensuring a 'just transition'. To date, this has largely focused on ensuring fairness for workers within impacted sectors, such as oil and gas. However, further work is needed to apply a wider climate justice lens. While there are some examples, such as action to tackle fuel poverty, this remains weak. Amid a cost of living crisis, including the risk of surging fuel poverty due to rising energy costs, this urgently needs to be addressed; after all, if climate action disproportionately impacts the poorest and those who have often done relatively least to cause emissions, progress is likely to attract less support, and be slower.

Fairness must therefore go together with climate action and, as a result, SCCS wants to understand any potential distributional effects of the measures, including across the income spectrum as well as by gender, race, age, ability and geographic location (within Scotland and internationally).

Equally, a just transition requires new fiscal measures to be applied and administered in a way that supports increased local ownership and agency within the process of decarbonisation. We are therefore interested in understanding any positive or negative impacts of new measures on local democratic structures and opportunities for local ownership and agency.

3. Existing SCCS Policy

To date, SCCS has operated without a fully developed policy position on the use of fiscal powers, including tax and spending powers; filling this gap is increasingly important. Doing so will allow SCCS to not only point to the measures needed to reduce emissions more quickly while calling for increased international finance flows to impacted communities, but also to the potential for fiscal levers that might be used to contribute towards these goals.

This importance of tax and spend was recognised in SCCS' pre-COP26 advocacy strategy:

> *"SCCS and others consider that more public expenditure on climate change mitigation and adaptation should be funded from higher taxation focused on those emitting most (either directly-related to emissions or indirectly by wealth – as a proxy for emissions). This approach would be consistent with the principles of climate justice and the 'polluter pays' principle – as well as with the more general 'greening' of taxation and public spending sought by eNGOs."*

The Coalition's recent response to the Scottish Government's consultation on the Aviation Strategy highlighted the UK CCC's advice that tax could help to manage demand. In 2021, SCCS also called for the "introduction of a Frequent Flyer Levy" in relation to the Scottish Government's Climate Change Plan Update. This interest in fiscal levers is further reinforced within SCCS' Advocacy Plan for 2022-23.

4. Insufficient Climate Action Globally… and in Scotland

Global warming of more than 1.1˚C has already taken place since the pre-industrial period. The impacts are already being felt and further emissions will make these increasingly worse. The Paris Agreement aims for countries to work to limit warming to well below 2˚C and to aim for 1.5˚C above pre-industrial levels. The UN's IPCC states that restricting global warming to the 1.5˚C level requires global greenhouse gas emissions to be reduced by 43% by 2030. With less than 8 years left, and ambition nowhere near where it needs to be, the imperative to act has never been more urgent.

The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019 amended Scotland's climate targets[4] to set some of the strongest emissions targets in the global north: net zero by 2045, with a 75% cut by 2030. There was a 51.5% cut in greenhouse gases in 2019 from the baseline, but the legal target was 55%. It is the third year in a row that Scotland has missed its legal target. Progress to date has been driven by a shift away from coal but emission cuts will become progressively harder with greater change needed in sectors like transport and agriculture. While the 2020 target may be met due to the pandemic, the UKCCC warns future annual targets may be missed and says the risks to Scotland's 2030 target are growing, even with the strongest climate policies. In addition, new data on Scotland's total Carbon Footprint, based on consumption-based emissions, also shows that, in the most recent year for which data are available, this grew by 2.6%. This rise was primarily driven by a rise in emissions generated by imported goods and services, reinforcing the need to also address consumption-based emissions.

5. Finance as a Barrier to Faster Climate Action

The speed of climate action must therefore accelerate. There are some welcome signs that the Scottish Government recognise this – in for instance, the shared policy programme agreed by the SNP and Scottish Green Party, and the most recent Programme for Government. For example, there is a promise to spend £1.6 billion on improving heat and energy efficiency in our homes and buildings over five years. There is also a pledge to "revolutionise transport", including a recent extension of free public transport to those aged under 22.

However, financing the rapid transition of Scotland's society and economy will require significant new actions that will require new finance. For example, the cost of retro-fitting buildings to de-carbonise heating is estimated at £33bn, with questions over how much will be provided by public funds versus private investment. Equally, transformative measures, such as free public transport for all, as recommended by Scotland's Climate Assembly, would require the identification of significant new resources.

As well as the need for more investment domestically, at COP26, the Scottish Government increased financial support to communities impacted by the climate crisis internationally through an enlarged Climate Justice Fund, including dedicated funding to address Loss and Damage. In doing so, it hopes to encourage other rich countries to increase their contributions and, since COP26, the Government has signalled continued commitment to leadership on Loss and Damage. However, in calling for additional funding for the Climate Justice Fund, SCCS asked for it to be raised "through innovative and additional sources of finance, such as a high-emitter tax" to ensure resources were not diverted from other important priorities. At the time, SCCS did not define what these sources should be, and the Government has not identified any, with funding instead coming from the wider Scottish budget. Given the need to identify new sources of finances globally, with these additional to Overseas Development Assistance, the identification of new sources of finance in Scotland, however small, would significantly bolster the best practice example Scotland is seeking to provide. In addition to simply increasing these funds, SCCS also argues that funds for climate justice, both globally and from Scotland, should be based on a 'fair shares analysis': this is set out in a Financing Climate Justice report and briefing, published for COP26.

It is clear, therefore, that there is a clear need to devote more finance to climate action – both within Scotland and to provide our fair share of support communities elsewhere. This paper does not, however, seek to identify a specific sum that must be raised and invested. However, at UK level the UKCCC estimates an extra £50bn needs to be invested per year after 2030 to achieve net zero by 2050 – mainly via private finance, but also public funds. They estimate this will be under 1% of GDP each year. The UKCCC says Scotland will require £5-6bn of extra investment each year after 2030 to achieve net zero. As a comparison, Scotland's on-shore GDP is circa £160bn (excluding oil). By way of further comparison, the Scottish Budget 2022-23 commits "almost £2 billion of low carbon capital investment in Scotland's public infrastructure – supporting the decarbonisation of our homes and buildings, transport

[4] Originally set by the Climate Change (Scotland) Act 2009.

and industry". It also committed: the first £20m to the 10 year, £500m Just Transition Fund; £336 million for energy efficiency, and low carbon and renewable heat; £53m across energy transition and industrial decarbonisation projects; £23.5m for the Green Jobs Fund; £150m for walking, wheeling and cycling; £53m to protect and restore nature; £69.5m in woodland creation and sustainable management. These sums can potentially serve as useful comparators for potential revenues generated by the further use of Scotland's tax powers.

This paper does not seek to directly hypothecate how any additional revenues generated using Scotland's fiscal levers should be spent, although that may be an issue for further SCCS discussion and policy development. However, The Royal Scottish Geographical Society has suggested the creation of a Sustainable Wealth Fund in Scotland, mirroring the $1trillion fund in Norway generated through oil revenues. The Society suggests revenues from renewables could flow into this Scottish Fund, and then be used to support climate action now, and for future generations. It suggests that fossil fuel heavy industries – oil, aviation, cement, etc – could be challenged to "kick-start" the fund with contributions in the short term. Should SCCS support such an approach, it will wish to consider if and how contributions might be required through fiscal measures.

6. Environmental Taxes: A Snapshot

When people consume goods and services, and emit CO_2 as a result, they reap the benefits while the cost of the resulting emissions are unequally shared by everyone via climate change impacts. To address this 'externality', there are generally two types of responses designed to increase the cost of activities that emit CO_2, the "carbon price", to make the polluter pay and encourage reduced emissions. See the background report, Carbon pricing: A primer for Oxfam (Feb 3, 2022).

The first approach is to try and correct for people's incentives by making the full cost internal to the person making the consumption decision. This is most simply achieved via a tax: a fee on consumption/production (depending on the tax) of every good/service, based on the amount of carbon embedded in the production of that good/service. In Scotland, a number of devolved "environmental taxes" currently exist at national level, including:

- the Scottish Landfill Tax (paid by operators of landfill sites in Scotland, who reflect the costs in their charges to the local authorities and businesses who dispose of waste at these landfill sites);
- the Aggregates Levy (a tax on sand, gravel and rock that's either been: dug from the ground, dredged from the sea in UK waters, or imported) – noting, however, that devolved control is still pending; and
- Since 2014, the Carrier Bag Charge has led all retailers to charge at least 10p for new single-use bags.

Equivalent taxes/levy also apply at UK level, in addition to the Climate Change Levy, a tax collected by energy suppliers and paid by businesses and the public sector to encourage reduced greenhouse emissions. We note increasing discussion around a potential 'windfall tax' on oil and gas companies, a proposal which is currently widely framed around alleviating the cost of living crisis, rather than accelerating climate action.

Other taxes, or fiscal measures, exist at local level e.g., the Workplace Parking Levy, alongside Council tax, Non-Domestic Rates, Water rates etc which could be amended to provide climate incentives and disincentives.

The second approach requires actors to have CO_2 use-rights. Permits are allocated or sold/traded with the price shaped by demand. Scotland is part of the single UK-wide UK Emissions Trading Scheme (ETS), which came into force in January 2021 to replace the EU ETS. The UK, Scottish and Welsh Governments and Northern Ireland Department of Agriculture, Environment and Rural Affairs collectively make up the UK ETS Authority. The ETS applies to energy intensive industries, the power generation sector and aviation. Participating entities must 'pay to pollute' and the revenues are under the remit of the UK ETS Authority. In the past two years, carbon prices have risen, leading to significantly increasing revenues raised using the polluter pays principle. However, to date, there has been insufficient attention on how this money is spent and - critically - whether it could better support climate action. The UK ETS Authority is currently consulting on the further development of the UK ETS, with a focus on how it operates. However, consideration could also be given to how the resources raised are allocated. In March 2022, Julie James MS, the Welsh Minister for Climate Change has noted: "The revenues raised from the Emissions Trading Scheme flow to Westminster too but we do not yet have transparency over how these revenues are used to support decarbonisation in Wales". This requires further attention, particularly given that, the Scottish Government says, together with the UK Government and the other Devolved Administrations, it is "committed to tightening the UK ETS emissions cap by January 2023, or 2024 at the latest, to reflect the path to net zero."

On a wider level, the OECD says that, despite new emissions trading systems being introduced in Canada, China and Germany, half of the G20's carbon emissions are still unpriced and that the full range of policy tools need to be used if countries are to match their climate ambitions with outcomes. While such market-based approaches are important, they are not seen to be sufficient and other approaches include regulation to prevent/control emissions, the setting of specific standards (e.g., on insulation) and/or subsidies to create new incentives.

7. Scotland's Fiscal Powers

The Scottish Budget is set by the Fiscal Framework made up of: Block Grants determined by the Barnett Formula; Devolved taxes and non-tax income; Block Grant Adjustments to account for devolved taxes and welfare; Reconciliation payments (correcting forecasting errors); and Borrowing (though limited).

Scottish public sector bodies spend c.£13.3 billion annually (2019-20); £7.4 billion is spent in Scotland. This includes money channelled via 5,042 regulated contracts. This is a significant fiscal lever. The Scottish Government says it is "committed to using procurement to underpin carbon reduction targets". It currently applies the Sustainable Procurement Duty, which requires public bodies to consider how a regulated procurement activity can "improve the economic, social and environmental wellbeing of its area". In 2019-20, 67% of public bodies provided evidence of this, up 4% year-on-year. In 2019, the Government also established the Climate and Procurement Forum, to "provide leadership and direction". The Forum says the public sector must focus "not only on how we buy, but whether we buy, what we buy and how much we buy".

However, while the Government has shown willingness to increase conditionality in other areas, including via Fair Work First in a bid to improve job quality, it is less clear what new action is being taken in relation to climate. Beyond procurement, the Scottish Government also runs voluntary accreditation schemes, such as the Scottish Business Pledge, which includes a voluntary, not mandatory, "Environmental Impact" pledge. SCCS is keen to understand whether and how Scotland's procurement, and its funding for voluntary accreditation schemes, can better support Scotland's climate ambitions, for example, through the addition of requirements to undertake mandatory climate literacy training and/or to produce emissions reduction plans in return for access to public money.

Beyond spending powers, the Scottish Government has considerable tax powers:

- **Fully devolved**: Land and Buildings Transactions Tax, Landfill Tax, council tax and Non-Domestic Rates.
- **Partially devolved**: Income tax (operational since 2017/18), with the Scottish Government setting rates and thresholds, but the UK Government determining reliefs and allowances, and collection via HMRC.
- **Assigned**: A proportion of VAT revenues raised in Scotland will be allocated to the Scottish budget. Note: this does not give the Scottish Government operational powers; the change is designed to increase fiscal responsibility by linking the Scottish budget to how VAT revenues in Scotland perform over time.
- **Pending**: Air Departure Tax and Aggregates Levy (intended to create incentives to promote recycled aggregate by increasing the cost of first used aggregate) have not yet been devolved/assigned, due to state aid issues, but the Government will have complete autonomy when this happens.

The Fraser of Allander Institute has examined tax policies in the 2016-21 Scottish Parliament, and says these are characterised by a desire for tax to be (marginally) more progressive than in the rest of the UK:

- The "boldest reforms" have been on income tax, with the move to a five-band tax system, with extra tax rates and with the higher and top rates both 1% higher than elsewhere in the UK.
- Progressive adjustments to Land and Buildings Transaction Tax compared to Stamp Duty in rUK.
- On Non-Domestic Rates (the second largest revenue source after income tax, generating circa £2.8 billion annually pre-pandemic), the government's narrative has been that Scotland has the 'most competitive' business rates policy of any part of the UK, based on the tax rate applied to a property's valuation and reliefs for lower valued properties. There were also Covid-specific reliefs.
- Landfill tax – there are no changes from the UK rates to prevent "waste tourism".
- Air Passenger Duty: devolved control not yet operational, but "a long-running aspiration to cut Air Passenger Duty [to boost economic activity], once it was devolved, was formally abandoned in 2019", as it became clear it was going to be "increasingly difficult to justify" alongside climate change aspirations.
- Local tax reform "has been slow" on Council Tax, but there are steps to "enhance the taxation autonomy" of local government, via the workplace parking levy and the consultation on the "tourism visitor levy".
- Importantly, given an objective of this research is to identify ways to generate new revenue, the Institute says Scottish tax policy can be viewed as "progressive although not necessarily revenue raising".

8. Using Scotland's Fiscal Powers to Elicit Behaviour Change: Existing Momentum

Positively, the Scottish Government's new Framework for Tax states: "we will consider how the tax powers that we have could help change behaviour, supporting the transition to a net zero economy". It adds: "Whilst the majority of green tax powers are reserved, we will pursue changes at every level to deliver on Scotland's climate and environmental ambitions." It is also important to recognise that, in some areas, the Scottish Government has already used its fiscal powers in an attempt to elicit behaviour changes:

- Since 2014, the Carrier Bag Charge has led all retailers to charge at least 10p for new single-use bags; and
- Since 2018, it has imposed a minimum unit price on alcohol, claiming "this will save lives."

There is now a need to consider how the Scottish Government can use its powers to drive faster behaviour change in support of emissions reduction. Positively, it has stated its willingness to use further pricing policies to re-shape markets, and points to the introduction of a Scottish Deposit Return Scheme, which will "go live in 2023" to encourage the recycling of "billions of bottles and cans every year". It also says it will explore, via the Circular Economy Bill, "powers to introduce charges on single use plastic items such as single-use plastic coffee cups", which it says will augment the UK Plastics Packaging Tax, which commenced in April 2022.

Through The Transport (Scotland) Act 2019, the Scottish Government introduced a discretionary workplace parking licensing (WPL) power for local authorities. The proposal came into force in March 2022, but local authorities will decide whether to use the power, which the Scottish Government sees as potentially contributing to their commitment to reduce car kilometres by 20% by 2030. Some workplaces – including all NHS properties, GP surgeries, hospices and disabled parking spaces – will be exempt. The Scottish scheme was inspired by a similar initiative that was introduced in Nottingham in 2012 to reduce traffic congestion.

Since 1999, Scotland has had full devolution of powers over local taxation (e.g., Council tax, business rates). IPPR has highlighted that, provided that funding from new local taxes goes to fund local government expenditure, "Scotland has wide legislative powers to introduce new local taxes alongside existing ones such as council tax and business rates". As an example, following calls from some local authorities and COSLA, the Scottish Government consulted on the "Transient Visitor Levy", or "Tourist Tax" in 2019. While work was delayed by the pandemic, it is thought this may resume in 2022. This would be a local tax to fund local expenditure. However, rather than targeted at environmental outcomes, the purpose of the levy is described as a "means of allowing local authorities to respond to local circumstances more effectively whilst also allowing local tourism offers to be enhanced". Could this model be more directly utilised in support of local climate action across Scotland and could other forms of local taxation, such as congestion charging, also be useful tools to drive behaviour change and raise new finance for local climate action?

9. Where next? Growing Interest in Using Fiscal Levers for Environmental Outcomes

This research proposal is informed by the Institute for European Environmental Policy's paper "Green and fair taxation in the EU". It notes that the European Commission has identified eliminating fossil fuel subsidies and greening tax systems as key to achieving the European Green Deal. While recognising the impact of other factors, it highlights a negative relationship between the extent to which the costs of climate change and air pollution are internalised with Member States' tax systems and the intensity of Greenhouse Gas Emissions. Importantly, it notes that low levels of responsiveness of demand to changes in price, suggest the most important factor in determining the environmental benefit of carbon pricing is how the funds raised are used. The Institute also argues that "green and progressive tax measures tend to go hand-in-hand". Importantly, given the existence of higher top rates of income tax in Scotland than elsewhere in the UK, it found that "higher green taxes and other polluter pays instruments tend to be introduced in countries that are more equal and that have more progressive tax systems, notably including higher top income tax rates".

SCCS is keen to explore national level learning, and how this may or may not apply to the powers of the Scottish Parliament. The Institute for European Environmental Policy paper suggests that while green tax reforms are included in the National Recovery and Resilience Plans of very few EU Member States, some are committed to this step: Austria, Cyprus, Finland, Spain and Sweden have included green tax reforms, while also giving detailed information on the measures. For example, the Institute notes Austria's plan for an "eco-socio" tax reform agenda, describing how green and fair tax reforms can complement one another to enhance inclusive, lower carbon growth. More widely, Sweden introduced a national carbon tax on heating and transport fuels in 1991 and it has been credited with contributing to a dramatic reduction in GHG emissions in the heating sector in particular with fossil heating use dropping by 85% since 1990.

This research also seeks to build upon a paper by SPICe, "Environmental Fiscal Measures for Scotland" (2022), commissioned by the Environment, Climate Change and Land Reform Committee during the previous Parliamentary term. It examines how fiscal levers – measures where there is "a flow of money", including – but not limited to taxes, levies and other charges – and how these could be used to change behaviours to improve environmental outcomes. The paper says the Scottish Government "appears to have no powers to introduce a carbon tax, without the agreement of the UK Government, and so other solutions, albeit more fragmented ones, are more likely possibilities". However, it suggests that: "In the absence of powers to vary taxation, such as VAT rates, changes to local taxation and charges could have a significant supporting role in helping the Scottish Government meet its net zero and ecological restoration targets and commitments". The paper examines case studies to identify changes which could be made to incentivise:

- Electric vehicles (through the provision of loans);
- Renewable heat (increasing installation of heat pumps via a Heat Pump Sector Deal);

- Product stewardship for textiles (via supporting a UK-wide Extended Product Responsibility scheme – such as for packaging, waste equipment – and Deposit Return Schemes);
- Waste Management (building on Scottish Landfill tax via an "Incineration Tax"/ Direct Variable Charging/ "Pay As you Throw" mechanisms to incentivise recycling and composting);
- Land Management (replacement of CAP via "Payments for Environmental Services" schemes used in Sweden and Costa Rica, taxes on land use emissions, such as local Natural Carbon Land Tax, and "new taxation options" on the demand side for meat and dairy consumption);
- Environmental Tourism Tax (building on the Transient Visitor Levy (TVL), which it suggests naturally lends itself to hypothecation and ring fencing[5].

While noting the absence of an international best practice framework, the analysis recommends principles to guide MSPs and other policy-makers in the use of fiscal levers to produce environmental outcomes - these are: proportionality; efficiency; shifting taxes and charges from employment and labour to resource use and damaging activities; fairness; a holistic package that work together towards a shared goal; appropriate hypothecation; predictability; flexibility; alignment with the National Performance Framework and the SDGs.

However, the analysis does not explore the use of "general government expenditure, capital expenditure and public procurement", despite stating that these offer "enormous opportunities" to achieve Scotland's Net Zero and Ecological Restoration aims. In addition, the paper is focused on eliciting behaviour change. While it makes clear that the Scottish Parliament has the ability to provide grants, it does not explore these in detail as it notes that it may "have a minimal behaviour change impact, as grants are limited to the grant recipients only". The paper also does not examine how Scotland's tax and charging mechanisms could be used to generate *additional* revenues which could then finance other forms of climate action. For example, revenues from a tax on emissions at source could be used to subsidise and incentivise wider desired behaviours, such as subsidised or free public transport. There therefore remains a need to adopt a wider lens when considering the use of Scotland's fiscal levers.

In 2020, Scottish Environment Link stressed "the need to build environment into fiscal decision making", adding: "A clear fiscal decision-making process, or policy, should set out the Government's objectives in relation to the environment". Alongside using tax to change behaviour and to redistribute, it pointed to the need to see the environment as a "public good to be funded by revenue raised from taxation", with taxes also playing an important role to "correct market failure, by adjusting for externalities such as pollution and helping to reinforce the polluter pays principle". It called for fiscal policy to be more fully aligned with environmental objectives, including for the Scottish Government to commit to the principle of "greening its taxation and fiscal policies" and to develop a programme to "review and amend appropriately over the coming years". While not providing firm proposals, the paper points to options - including a levy on the sale of peat and charges for harmful items, such as single use cups and takeaway food containers – as well as for the Scottish Government to lobby the UK Government to reduce VAT on building refurbishment and on repairs.

In January 2021, the RSGS hosted a Climate Emergency Summit focused on Financing the Transition: Tax and Subsidies. Their paper identified "the need to reconfigure taxes and subsidies to properly reflect the environmental and climate damage of current activities". It highlighted that a failure to invest sufficient resources now, will result in a larger bill later. The Summit generated 236 different ideas on how to finance the transition to a low carbon future. In relation to tax, ideas included: a Climate Investment Tax Relief; a Carbon Tax; a frequent flyer tax; charging households for food waste; tax relief for start-ups on the green economy; a tax on cement; forms of congestion charging; removal of VAT on electric vehicles. In relation to subsidies, ideas included: incentives for low carbon farming practices; interest free loans for home energy efficiency and ground source heat; removal of subsidies on animal farming; subsidisation of insulation. However, the event did not prioritise, nor test, the ideas identified.

The Scottish Government is currently developing an Aviation Strategy. The UKCCC has said that a "demand management framework" is needed by 2022 and in place by the mid-2020s to annually assess and, if required, control sector GHG emissions and non-CO_2 effects from the sector. It suggests that this will need to include greater support for alternative, less carbon intensive means of travel, and that the Scottish Government should: "take steps to address price imbalances between aviation and surface transport, once aviation taxation is devolved to Scotland, encouraging the low-carbon alternative (e.g., rail) for journeys where one exists". Does the devolution of Airport Departure Tax create an opportunity for Scotland to consider a frequent flyer tax, perhaps – in the absence of a UK-wide approach – on internal UK flights, whilst taking account of the needs of Scotland's island communities? Ideally, such measures

[5] Note: these case studies are those considered by the SPICe paper and should not be considered to be measures that would necessarily be supported by SCCS. For instance, SCCS members would be likely to favour further funding and incentivisation of public transport to be a higher priority than private electric cars (while recognising the benefits, in appropriate settings of the electrification of vehicles more generally).

would lead to behaviour change but, regardless, the revenues could support wider action, such as subsidies for low-carbon transport alternatives.

IPPR suggests that local tax powers could also provide much-needed additional revenue to invest in public services and help "deliver behavioural change". Their paper looks at international examples of sub-state taxes and considers which could be applicable in Scotland; though only one example is explicitly focused on environmental outcomes. It suggests a "Local Carbon Tax", modelled on Canada's province-level carbon taxes. It notes that in Canada this is levied on companies importing, distributing and delivering certain fuels for consumption and suggests "a similar carbon tax could be possible through Scotland's local tax powers, with revenue going to local government to fund carbon-reducing measures and rebates to low income households to limit regressive effects". The paper suggests this could be imposed on fuels such as coal, gas and oil. While Corporation Tax is reserved to Westminster, Scotland does control Business Rates. The IPPR paper suggests a new "Local Payroll Tax" or the introduction of a "Fair Work Supplement" on Business Rates could incentivise employers to provide good quality work and disincentivise poor quality work. This suggests a similar approach could be adopted in relation to environmental outcomes.

10. Public Support in Scotland for the Polluter Pays Principle

The research should also consider calls made by Scotland's Climate Assembly – a group of 100+ people selected to be broadly representative of the Scottish adult population – for the development and implementation of a "fair, equitable and transparent tax system that drives carbon emission reductions, while recognising different abilities to pay, and generates revenue to enable energy transition". In the Scottish Government's response, it is says that it is "supportive of using tax policy, where possible and appropriate, to drive action", but that "the vast majority of tax and fiscal powers, including many of those that relate to recommendations made by Assembly members, are reserved … The Scottish Government is therefore very limited in what it can implement itself in this area". However, the Government also says that "work to identify potential options is underway" and responded to the Assembly's specific tax recommendation as follows:

- **High Tax Carbon Resources**: a tax on producers that use high carbon resources in manufacturing.
  - The Scottish Government says it can't introduce a devolved tax on carbon resource producers and says, "carbon pricing mechanisms already exist that share similar aims", pointing to the UK ETS.
- **A Carbon Land Tax**: tax emissions through land use and penalise land emitting more than it captures.
  - The Scottish Government "recognises the ambition behind this recommendation" but says it is "unable to implement a new national devolved tax within current powers".
- **Frequent Flyer Tax or Levy**: "Discourage air travel by introducing a frequent flyer tax or levy"
  - The Scottish Government says it is supporting ways to achieve the reductions required, including "technological improvements in the aviation sector and by providing viable alternatives to flying". It says it does not have powers over Air Passenger Duty (APD) but is "committed to reviewing rates and bands ahead of the introduction of the devolved Air Departure Tax which will apply to all eligible passengers from airports in Scotland, to ensure that any policy aligns with our climate change goals".
- **Food Carbon Tax and Subsidy**: A carbon tax on food, based on the carbon intensity of food production, and use the revenue to subsidise sustainable foods.
  - The Scottish Government "recognises the principle behind this recommendation but is unable to implement a new national devolved tax within current powers". It says Scotland is bound by international trade rules that limit the ability to subsidise agriculture and food sectors.
- **Carbon Tax and Dividend**: Introduce a carbon tax and dividend scheme - based on the polluter pays principle - so that for every tonne of CO_2 emitted you pay a tax.
  - Scottish Government says it "unable to implement a new national devolved tax within current powers"
- **Tax High Carbon Aviation Fuels**: making it mandatory to pass cost on to customers in the ticket price.
  - The Scottish Government says air transport is taxed via APD not a fuel duty and that taxing international aviation fuel is blocked under the Chicago Convention. It emphasises "international collaboration" on reducing aviation emissions, and UK's membership of the International Aviation Climate Ambition Coalition. It says flights within the UK and between the UK and the EEA are covered by the UK ETS, which creates a carbon price and allowances for aircraft operators. It says the three airlines that provide almost all of Scotland's domestic connectivity offset emissions from all domestic flights.
- **Increase Road Tax to Subsidise Public Transport:** Phase in increased road taxes for private car use and use the revenue to subsidise public transport.

- Scottish Government "supports the ambition" to cut emissions from car production and use and says while technology "will be key in some areas" they will not be enough with a need to encourage more people to take active and public transport options and a "route map" being developed[6].
- The Scottish Government "will continue to engage the UK Government on the need for reform of existing taxes related to motoring – to create a tax system that better incentivises the transition to zero-emission vehicles and protects future revenues to fund policies that can support a shift to more active and public transport and that encourages all of us to be less reliant on our cars."

As with the SPICe report, quoted earlier, the passage above quotes the recommendations of the Climate Assembly and the Scottish Government's official response. The repetition of the recommendations and responses, here, should not be considered to mean that either are or would necessarily be supported by SCCS. Indeed, SCCS members would definitely disagree with some of the Scottish Government's responses – in particular, the response to the land carbon tax idea appears to neglect the opportunities to 'price carbon issues into' the upcoming reforms of land management subsidies. In addition, the comments relating to aviation and road vehicle taxation and/or subsidies neglect to consider the long-term implications for revenue if/when fossil fuel use declines. Finally, in relation to reserved matters, the Scottish Government is correct in indicating its inability to introduce such measure "within current powers"; however, that would not prevent SCCS (should it support such a measure) either pressing the UK Government to adopt such a measure or seeking for such a power to be devolved (equally, such a measure would fall within the powers of an independent Scotland, so could be within the aspirations of parties seeking that outcome).

11. Beyond Emissions at Source: A Word on Personal Taxes

In addition to targeting carbon emissions at source, this research should take account of evidence highlighting the positive correlation, on average (noting that some high income individuals will have relatively lower emissions, and some low income individuals will have relatively high emissions), between an individual's income and their emissions. It should also reflect data showing that in the most recent data year, 2018, Scotland's Carbon Footprint – emissions generated via consumption – increased 2.6%, with this "mainly related to emissions associated with imported goods and services".

Globally, Oxfam's Confronting Carbon Inequality (Sept 2020) showed that the wealthiest 1% of humanity are responsible for twice as many emissions as the poorest 50%. Similarly, from 1990 to 2015, the richest 10% (c.630 million people) were responsible for 52% of total carbon emissions while the poorest 50% (c.3.1 billion people) were responsible for just 7%. This analysis flows from The Carbon Inequality Era, by Oxfam and the Stockholm Environment Institute (SEI). Subsequent analysis using this methodology suggests that by 2030, the carbon footprints of the richest 1% will be 30 times greater than the level compatible with the 1.5°C goal of the Paris Agreement. Most recently (Feb 2022), Oxfam estimated the carbon emissions of the world's richest 1% since COP26 were circa 1.7 billion tons, more than the continent of Africa in a year.

At UK level, in December 2020, Oxfam GB estimated that, again on average, people with incomes in the top 1% in the UK each produce 11 times the carbon emissions of someone in the poorest half of the population. Someone in the top 10% of earners has an average carbon footprint four times larger than those in the bottom 50%. Compared with the population as a whole, a person in the top 1% has a footprint six times larger than the national average, while someone in the top 10% produces twice as much carbon as the average Brit. This was again based on the Oxfam/Stockholm Environment Institute methodology.

As well as building awareness of carbon inequality, such analysis supports the case for targeted policies to reduce the emissions of those on higher incomes. Arguably, it also provides a climate-just case for raising the public resources needed to finance accelerated climate action via progressive taxes on those with higher incomes. Specific analysis does not currently exist at Scotland-level but, for the purposes of this research, it can reasonably be assumed that the same functional relationship exists between individuals' income and their level of emissions in Scotland. Consideration should therefore be given to the merits of utilising income, or indeed wealth, taxation to raise additional funding.

12. International Learning and Proposals

Globally, there is a range of proposals to raise new money to support developing nations to reduce their emissions and adapt to climate impacts – so called "climate finance". While recognising the limits of devolved powers (although note previous comments about addressing both devolved and reserved powers), and the need to simultaneous raise new revenue to accelerate emissions reduction in Scotland, as well as to fund international climate justice, some of these proposals are outlined below for background:

[6] Note: this was published for consultation, on 13 January 2022; the consultation closed on 6 April 2022.

- **Subsidy reform:** the International Energy Association estimates that in 2021, fossil fuel subsides totalled $440 billion. This money could be re-directed towards climate action, including renewables, but also to support those impacted by the climate crisis now, and the transition to green future.
- **Financial transactions tax (FTT):** Due to the enormous sums traded in financial markets, levying a modest charge on transactions of not only equities but also bonds and derivatives has the potential to raise tens of billions a year in additional revenue. FTTs are progressive in nature with economic incidence falling on financial firms undertaking large quantities of transactions and on high-net-worth individuals.
- **Climate Damages Tax (CDT)** or a specific tax on polluters under the polluter pays principle, is a proposal for a charge for each tonne of coal, barrel of oil or cubic litre of gas extracted based on how much CO_2e is embedded in each fossil fuel. It's suggested that a progressively increasing CDT could begin at $5 per tonne of CO_2e and then increase by $5 per year until 2030 when it would be raised to $50 per tonne of CO_2e; it would then rise by $10 each year after that. It's estimated this would raise an estimated $210 billion in the first year, increasing thereafter and would incentivise the eventual phasing out of fossil fuels.
- **Air passenger levy:** in 2008, a group of LDCs proposed an International Air Passenger Adaptation Levy as a tax on international airfares of up to $6 for economy class and up to $62 for business or first class. At that time, it was estimated that this could raise between 8 billion and $10 billion annually which would be allocated to support climate action in LDCs and other developing countries.
- **Special Drawing Rights (SDRs):** In October 2021, G20 countries committed to allocating $100 billion in SDRs to "vulnerable countries whose economies have been hard hit by the Covid-19 crisis." An SDR allocation could also give states the fiscal space to pursue more ambitious climate action.
- **Debt swaps/ debt restructure:** By exchanging an existing debt contract for one that writes off debt or reduces the debt's original value by, for example, having repayments made in the debtor country's currency or charging lower interest rates, a developing country's overall external debt could be reduced and channelled to environmental & climate interventions. This should not be linked to carbon offsets.
- **Carbon border tax:** The EU has just agreed to introduce a carbon levy on imports of highly-polluting goods like steel, cement and fertiliser at its borders. It will be worth watching to see if the UK follows suit, and to investigate how revenues could be used for climate finance and finance for loss and damage.