The Foundation for the Economics of Sustainability

Feasta climate group submission to the Department of Finance consultation on the options for the use of revenues raised from increases in Carbon Tax

June 28 2019

For clarity's sake we have included the consultation options from the consultation call below, in green.

The Consultation options

3.1 Do you agree that additional revenue raised as a result of an increase in the rate of Carbon Tax above €20 per tonne, should be used:

a. To increase the fuel allowance to compensate those households likely to suffer from fuel poverty;

b. To enhance the current grants towards the cost of energy efficiency improvements in the homes of those most vulnerable to fuel poverty through the Better Energy Homes scheme or the SEAI Better Energy Warmer Homes scheme;

c. To fund sustainable transport including cycling infrastructure and public transport;

d. For broad climate actions (e.g. earmarked to the Climate Action Fund or similar);

e. To return the proceeds by way of a dividend to citizens or households through the social welfare and/or tax system;

f. To be set aside to meet any fines the State is liable to pay arising from failure to meet our climate targets;

g. To act as a buffer against increasing the cost of doing business for businesses with no realistic short to medium term alternative to continued fossil fuel use and for whom fossil fuels constitute a large amount of overall business expenditures (e.g. by enhancing the Diesel Rebate Scheme);

h. To incentivise business moving away from the use of fossil fuels to more sustainable production methods;

i. by the Exchequer for general government expenditure

Response:

We are glad that the Department of Finance is seeking out public opinion on this important issue (and we note that the Swedish government's collaborative approach to developing its carbon tax has probably contributed to the tax's political success in Sweden[1].)

Our preference is for **option (e)**, as we believe it would ensure, in a transparent manner, that those who use greater-than-average amounts of fossil fuels are systematically compensating everyone else and helping to relieve financial pressure on low-income households.

Several of the other listed options would also help to address this issue, but evidence from existing carbon tax programmes elsewhere and economic modelling suggests that option (e) would do so in the most rigorous and efficient way[2].

Also, it should be borne in mind that some of the options listed, such as infrastructure development, retrofitting and incentivising business to move towards sustainable production methods, fall under the rubric of general economic development in Ireland. We believe that their funding should therefore not depend on a carbon fee, which by nature has a 'sell-by date' and is variable. This is discussed further below.

Moreover, option (e) best reflects the fact that the atmosphere is a common pool resource. Distributing the revenue from a carbon fee or tax as 'carbon cheques' corresponds with the principle that a clean atmosphere is our collective responsibility and right.

Please note, however, that we believe a number of important specifications are necessary to ensure that option (e) will be effective both in achieving emissions cuts and in protecting those suffering from fuel poverty and other problems associated with limited access to fossil fuel.

These specifications are listed below[3], followed by some more general comments regarding this consultation call.

Specifications for carbon fee allocation and management

1. Per-capita allocation

We believe the dividend should be allocated to citizens and legal residents rather than households. (A smaller allocation could be made to children.) Allocating it to households could significantly pe-

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[1] "Review: Developing a just carbon tax for Ireland", ed. Dr. Cara Augustenborg , UCD, March 2019, p19

[2] ibid, p17-18

[3] These recommendations are adapted from our submission to the JOCCA on January 19 2019.

nalise larger households in favour of smaller ones, and might even encourage a further atomisation of living arrangements in Ireland, which is not optimal in terms of energy use (and probably not either in terms of social relations). It would also exclude the homeless.

2. Limiting fossil fuel supply at the point of import or production

The ultimate goal of any carbon pricing scheme is to help to reduce, and eventually eliminate, greenhouse case emissions. Yet, as a recent literature review by UCD environmental policy students puts it, "there is a lack of information on the correlation between…carbon pricing and its effect on emission reduction"[4].

Troublingly, such research as has been carried out indicates that a slump in the overall fossil fuel price can spur an increase in emissions even where there is a relatively high carbon tax; this occurred in British Columbia in recent years[5]. Moreover, in a system that is purely price-based, wealthy climate skeptics can continue to purchase and use as much fossil fuel as they wish, since they have the means to do so.

One can attempt to offset the effects of a slump in fossil fuel price by increasing the carbon fee level, but this requires a certain amount of guesswork as to what level of price increase is likely to trigger the 'correct' emissions reduction, and would necessarily be reactive. Given the degree of risk we are facing with regard to the climate and the relatively short time-frame which we have in which to act - and the noticeable failure of any country so far (even Sweden[6]) to actually achieve significant and lasting fossil-fuel-derived emissions reductions - we believe it important to introduce a more direct policy instrument, namely, imposing a firm limit on the introduction of fossil fuels to the Irish economy.

The existing Irish carbon tax framework could be modified to address this challenge by converting the existing tax system (in which the fee is based on the quantity of fossil fuel that is being introduced into Ireland) to a fee system that is based on the sale of permits to fossil fuel producers and importers. The quantity of permits available would be limited and would gradually diminish from year to year. The cost of permits could be determined by auction or by some other means if that was considered more appropriate.

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[4] "Review: Developing a just carbon tax for Ireland", ed. Dr. Cara Augustenborg , UCD, March 2019

[5] https://www.nytimes.com/2016/03/02/business/does-a-carbon-tax-work-ask-british- columbia.html Note the reference, about halfway through the article, to the effects of the oil price slump. Emissions in British Columbia have been trending upwards, albeit at a modest rate, since 2010: https://www.theglobeandmail.com/canada/british-columbia/article-bcs-emissions-rising-figures-show-as-activists-point-finger-at/

[6] While Sweden's carbon tax appears to have contributed to a reduction in emissions, this seems to derive from 'low hanging fruit' in the Swedish economy and would therefore be hard both to scale up within Sweden and to replicate elsewhere, as can be discerned from a careful reading of this paper: https://www.euki.de/wp-content/uploads/2018/09/fact-sheet-carbontax-se.pdf. Note in particular the paragraph beginning "even a high carbon tax can be ineffective at reducing emissions when abatement opportunities are very expensive," on pages 16-17. See also https://www.thelocal.se/20190227/swedens-road-traffic-emissions-increased-in-2018-after-years-of-steady-decline and an April 2019 Feasta podcast interview with Professor Clive Spash: https://soundcloud.com/user-589284216/measuring-our-measurements

This system would therefore continue to price carbon, as is currently the case, but it would also 'lock in' the gradual elimination of fossil fuel consumption over the next few decades.

It would include a limit or cap and would therefore have some similarities with the ETS, but would be far easier to administer as it would be applied 'upstream' (and it would not interfere in any direct way with the ETS).

Imposing an absolute limit on fossil fuel imports and production would help to guarantee that the vital goal of reducing and eventually eliminating emissions from fossil fuel would be met[7]. It would not be administratively daunting, as most fossil fuel originates from a handful of producers and its production and/or importation is already well-monitored; it would be a matter of making adjustments to the existing fee-based system.

Some might argue that if all goes well, fossil fuel will eventually be priced out by renewables to the extent that, after a certain point, it will simply no longer be in demand and there will be no need to 'formally' eliminate fossil fuel use. We are skeptical about this prediction because of the extremely important role that oil plays in the Irish and global economies. Transportation is still highly dependent on oil and we believe it will be impossible for renewables to fulfil the Irish economy's transport requirements without major structural changes to the economy that result in a significant decrease in overall energy use[8]. Simply raising the carbon price without taking this into account could trigger an economic collapse by choking off the transport sector.

Introducing a permit fee would ensure that price would still play an important role in the energy transition, but would not bear the bulk of responsibility for it. Such a fee could have a set or maximum price so as to prevent abrupt increases in fuel prices triggering severe economic volatility. (There may be circumstances - for example if there is high demand for fossil fuel and its market price increases abruptly - whereby the scheme would need to be extended into a rationing programme. This would be easier to introduce if fossil fuel supply was already being capped.)

3. Ireland taking the lead in protecting the vulnerable and promoting climate justice

We are glad to see that the consultation call acknowledges the importance of examining the requirements of vulnerable households and communities (section 2.5). However, we would urge the government to also look beyond Ireland when considering issues of justice in the allocation of carbon tax funds.

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[7] It would not prevent carbon leakage, but the aim would be to expand the programme to other countries so as to address this over time; scaling up would be relatively straightforward in comparison to most other carbon-reduction schemes.

[8] See section 1 of Feasta's recent submission on the 2019 draft national risk assessment: http://www.feasta.org/wp-content/uploads/2019/06/Feasta-submission-on-strategic-risk-assessment-in-Ireland-June-2019.pdf . An added layer of complexity is added by the fact that oil is becoming steadily harder to extract, but this does not detract from the argument for phasing it out gradually.

A carefully-designed carbon tax allocation programme could have international climate justice and equity built into it right from the start. One approach could be to establish a “climate justice partnership” between Ireland and a Global South country of similar population[9]. This would take into account the fact that the atmosphere is our collective responsibility and would reflect Ireland’s long-standing sense of solidarity with low-income countries (and would probably also generate some positive press for Ireland). It would mean that Ireland would effectively be subsidising the energy transition of a low-income country.

Given the urgency involved and the fact that it would take time to set up such a partnership, the Irish government could unilaterally initiate the programme but set aside a portion of the revenue generated until it finds an appropriate partner. Once a partner had been found (after consultation with development charities and other knowledgeable advisors), the partners’ share of the funding would be distributed; depending on the partner country’s economic circumstances this may be better done in smaller installments at first, with some funds held aside for later (and Irish citizens would also receive a modest top-up to their funds, deriving from their own share of the revenue from the partner country).

For such a programme to be coherent and truly just, the revenue from fees on both countries’ fossil fuel production and imports would be split between them on a per-capita basis[10]. Since the low-income country would be using less fossil fuel than Ireland, this means that the ‘carbon cheque’ that Irish people receive would be significantly lower than would be the case if the programme was applied to Ireland alone.

This may seem a challenging idea to sell to the Irish public. Were it to be implemented there would clearly be a strong need for additional measures to support low-income Irish people, particularly those suffering from fuel poverty.

One source of additional revenue could be a levy on ‘luxury’ uses of carbon (e.g. on first class flight tickets and high-emissions luxury vehicle sales and rentals). This would be introduced so as to complement the ‘core’ carbon fee, in order to help address fuel poverty within Ireland and, in more general terms, provide extra support for those who will be most adversely affected by rising fuel prices.

We urge policymakers to note that if a climate justice partnership (or similar programme) is not implemented using a portion of carbon tax revenue, the relatively high per-capita carbon tax revenue

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[9]Outline of a possible partnership between Ireland and a Global South country to eliminate fossil fuel consumption and promote climate justice: http://www.capglobalcarbon.org/2017/08/11/submission-to-the-citizens-assembly/

[10] Distributing this revenue in the low-income country would not be as daunting as one might imagine, as many Global South countries now have extensive experience with cash transfer programmes. See http://www.capglobalcarbon.org/2016/06/05/tackling-climate-poverty-and-inequality-together-managing-the-share-in-capglobalcarbon-on-a-global-level/

in Ireland would effectively be ring-fenced (or 'enclosed') for the use of Irish people alone. This could lay Ireland open to charges of economic (and atmospheric) colonialism.

Additional comments regarding the 'framing' of emissions reduction in the consultation call

(a) Any carbon fee or tax should be temporary in nature

We wish to draw attention to the fact that any carbon tax (or indeed, any programme for reducing emissions) ought always to be considered as *temporary* in nature - i.e., at a certain point the revenue from the carbon tax should fall to zero as there should no longer be any emissions[11]. This may seem self-evident, but often appears to be overlooked by analysts. For example, we are concerned at some of the wording of the consultation call, including the following passage from page 3:

"….it may be expected that at higher rates of Carbon Tax persons and businesses will be incentivised to switch to less carbon intensive technologies. Other things being equal, this suggests that the additional revenue received for every €5 increase in the Carbon Tax rate may reduce over time."

The implication is that if the carbon price is sufficiently high, the revenue 'may reduce over time' in relative terms. This is worryingly unambitious. To use Greta Thunberg's analogy, it is akin to putting out a fire in a small bedroom while the bulk of the house is still in flames and the fire is spreading elsewhere.

If emissions are eliminated then it follows that a carbon tax will be *completely eliminated in absolute terms,* within a relatively short time span. As mentioned above, it is therefore very important not to lock in any kind of long-term dependency on revenue from this tax (for example, funding for infrastructure development). Indeed, if all goes well, the revenue will rapidly diminish, sooner rather than later.

(b) A wider vision is needed

From reading the consultation call, one might have difficulty imagining that climate change is an existential crisis, and emissions elimination an urgent necessity. The call could be discussing VAT on sugar or tobacco - unhealthy but enticing products whose use the government might wish to discourage, but would not seek to eliminate altogether.

There is no mention in the call of risk or danger, or of the fact that time is short. For example, the references to 'offsets' (sections 1.13 to 1.15) seem to focus solely on potential changes to costs to

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[11] If there is sufficient innovation in carbon storage then some emissions may still be possible, but this innovation cannot be counted on, and in any case, the emissions would need to be very modest compared to current levels. See for example https://www.washingtonpost.com/news/theworldpost/wp/2018/05/31/carbon-capture/?utm_term=.bc83ed9ba317

the Exchequer (e.g. an increase in carbon tax leading to an increase in diesel-related rebate claims).

We are in an emergency situation, as the Oireachtas recently recognised, and yet at present, Irish businesses are still being subsidised for using diesel. This subsidisation is undermining emissions reduction and is therefore dangerous. We believe that the fact that increasing the carbon tax might have an unwanted side-effect of increasing this subsidisation should be setting off much louder alarm bells.

We are glad to see recognition in the interdepartmental Climate Action Plan 2019 that a far wider vision is needed to eliminate fossil fuel use in Ireland. We would urge individual Departments, including the Department of Finance, to ensure that this is well reflected in their own policymaking. Fossil fuel elimination will require close cooperation with other Departments so as to enable widespread changes in infrastructure, taxation and overall economic planning in order to render businesses (and households) less reliant on high levels of transportation and other high-carbon activity for remaining financially viable.

Any subsidies aimed specifically at businesses should assist them in transitioning to cleaner transportation methods (as well as retrofitting buildings) rather than in propping up the existing dangerous system; however, as mentioned above, we wish to emphasise that *an emissions-free economy will by its nature include significantly less transportation than our present one does, and this needs to be accepted and taken into account in policymaking*[12]*.* This is further discussed below.

Section 1.16, on 'fuel tourism', is perhaps the most troublingly phrased section of the call. To reiterate: we are in an emergency. 'Fuel tourism' is a form of carbon leakage in Ireland's 'favour' (albeit probably carried about by people who are largely ignorant of the damage it is causing). It is not viable.

(c) Growth, emissions, and the financial system

According to the consultation call, the ESRI's research indicates that "although tax increases of this magnitude can help initiate decoupling in the link between carbon emissions and economic growth, tax changes alone will not be sufficient to meet our emissions target reductions" (section 1.20).

We are glad to see an acknowledgement that changes in carbon taxation will be unable to sufficiently reduce emissions by itself, with an implication that other measures will be necessary to bring this about (and one such measure, we argue, is the 'hard cap' on fossil fuel production and imports described in section 2 above).

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[12] It is notable that a Swedish transport policymaker acknowledges the need to decrease the overall amount of truck haulage in Sweden in the article referred to under point 2 above: https://www.thelocal.se/20190227/swedens-road-traffic-emissions-increased-in-2018-after-years-of-steady-decline

However, we wonder if those carrying out the research have entirely thought through the likely results of implementing such measures, particularly since the call also refers to decoupling economic growth from emissions.

Despite a great many widely-broadcast claims by various governments and international agencies, the feasibility of decoupling economic growth from greenhouse gas emissions is highly questionable. Historically, links between fossil fuel use and GDP are extremely strong; claims of existing decoupling either refer solely to relative (i.e. not nearly sufficient) decoupling or use dubious accounting to come up with their figures[13].

We urge policymakers to take into consideration the fact that to be viable, the future Irish economy will need to include significantly less (and less frenetic) transportation, shorter supply chains (particularly for essential goods), more concentrated housing and workplaces, and working schedules that can adjust to the requirements of renewable energy[14].

We strongly question the widespread emphasis on growth as the ultimate goal for the economy for a great many reasons, environmental but also social[15]. We believe growth needs to be set aside as a goal for Irish economy and society, and genuine progress indicators, which include wellbeing, should take its place. A widespread programme of awareness-raising and education would be advisable to accompany such a shift in emphasis.

A decoupling of the financial system from economic growth[16], along with strong measures to reduce emissions, would be far more advisable and feasible than any attempt to decouple greenhouse gas emissions from growth. In the case of Ireland, this 'finance-growth' decoupling would be

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13 See for example https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1598964 and https://olis.leg.state.or.us/liz/2019R1/Downloads/CommitteeMeetingDocument/164466
See also an interview with Professor Clive Spash in the April 2019 Feasta podcast:
http://www.feasta.org/2019/03/15/beyond-the-obvious-novel-podcasts-for-enquirers/

14 Renewable energy has a lower energy return on investment than fossil fuel - sometimes significantly lower - and is only intermittently available. Storage options for renewable energy exist, but are limited, and despite claims to the contrary there is little likelihood that new technology will improve storage. The economy therefore needs to adapt to a renewables-based pace of activity, and this will result in significant economic contraction during the transition period, hopefully followed by the establishment of a 'steady state' economy. See for example https://www.resilience.org/stories/2018-11-21/the-limits-of-renewable-energy-and-the-case-for-degrowth/ and https://www.lowtechmagazine.com/2017/09/how-to-run-the-economy-on-the-weather.html#more

15 https://www.theguardian.com/politics/2018/sep/16/the-eu-needs-a-stability-and-wellbeing-pact-not-more-growth

16 We are referring here to the financial system's dependency on credit demand in order for new money to be introduced into the economy. Studies have indicated that credit demand is closely linked to economic growth (see for example https://voxeu.org/article/credit-demand-supply-and-conditions-tale-three-crises). This problem could be addressed by allocating the responsibility for introducing new money into the economy to publicly accountable institutions, and ensuring that the money is debt-free. This approach is discussed here: https://www.ft.com/content/d27b000e-6810-11e8-8cf3-0c230fa67aec , https://sovereignmoney.eu , https://www.greattransition.org/publication/money-for-the-people , and https://www.opendemocracy.net/en/opendemocracyuk/just-money-introduction/

carried out at the EU level (since Ireland is in the Eurozone), and so is not directly within the remit of the Department of Finance. However, we would urge financial policymakers to bring it into the 'Overton window' of financial policy debate.

A growth-neutral economy has the potential to make Ireland a happier and more environmentally and socially stable place to live in than at present - provided substantial reforms are made, judiciously and promptly.

More information on the Feasta climate group's work on per-capita dividends can be found at http://www.capandshare.org, http://www.capglobalcarbon.org and http://www.sharingforsurvival.org

Feasta (the Foundation for the Economics of Sustainability*) is an open-membership think tank. Its aims are to identify the characteristics (economic, cultural and environmental) of a truly sustainable society, articulate how the necessary transition can be effected and promote the implementation of the measures required for this purpose. It is a member of the Irish Environmental Network, the Environmental Pillar and Stop Climate Chaos Ireland.*

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