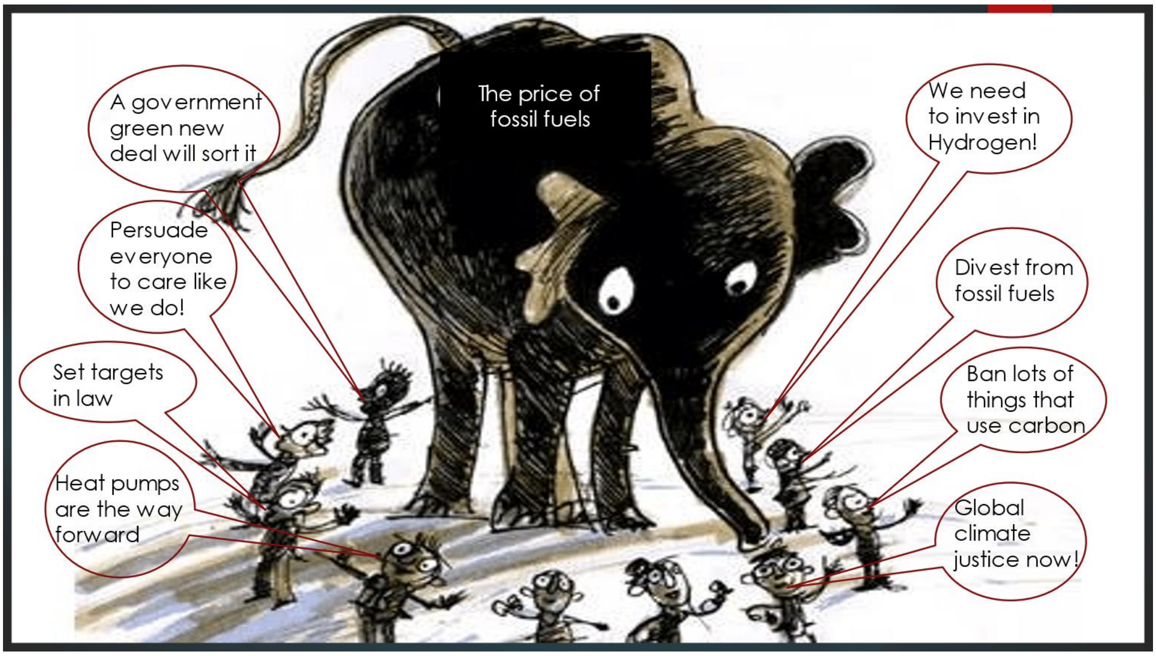
THE CLIMATE SOLUTION HIDING IN PLAIN SIGHT

Governments and environmental campaigners have known for 20 years that, if catastrophic climate change is to be prevented, *the price of fossil fuels must rise*. Nevertheless, governments remember the fuel tax protests; and campaigners fear weakening their cause with proposals that are political non-starters. The result: carbon pricing has become the elephant in the climate policy room. Everything else is discussable – *but not the one thing that would boost every other policy*.



It need not be like this. Assertive carbon pricing can be combined with economic security – making for a simple, popular policy, one with far-reaching impacts. This is being done in Canada and Switzerland. The new Austrian coalition is now set to follow suit.

And it can happen here: in the Spring of 2021 the leaders of the Conservative, Labour and Liberal Democrat groups on Milton Keynes Council were asked to consider putting forward a resolution in support of Carbon Fee & Dividend. All were hesitant (to their credit, they admitted to not knowing about it) and needed time to check it out for themselves. They did so, and in July following a debate marked by a number of enthusiastic speeches, members of Milton Keynes Council voted unanimously for a motion supporting the idea and commending it to government. Perhaps this is because embracing this approach does not mean dropping any of your existing commitments; instead it sits beautifully alongside them.

This note is in three parts:

Part 1 sets out the essential idea of Carbon Fee & Dividend explaining why it is so effective – both economically and politically.

Part 2 addresses questions to which this approach often gives rise. Links and references are provided for those wanting to know more.

Part 3 suggests activities, questions and approaches that may be useful in discussions or in seeking to engage with Councillors, MPs and others in positions of influence.

PART 1 CLIMATE INCOME – WHAT, WHY, HOW

Climate Income in a nutshell

The approach goes under different names: Carbon Fee & Dividend, Revenue Neutral Carbon Pricing, or just plain Climate Income - the name used here. The idea is summarised in the box below – and yes, it really is that simple.

KEY ELEMENTS

1 A charge is levied on fossil fuels at source – mines, oil wells, refineries

Dealing with a few large businesses is administratively straightforward.

2 The levy may be modest initially but increases steadily, year on year.

Businesses and citizens know what to expect and can plan accordingly.

3 The funds raised by the levy are shared out equally among all adult citizens

This is the climate income – and it is not a means-tested benefit.

4 The carbon levy is also paid at ports of entry on fossil fuels and carbon intensive imports from countries that do not price carbon. Likewise, UK exports of carbon-intensive products to such countries may attract a refund.

This 'Border Adjustment Mechanism' prevents 'fee-dodging' and protects UK exporters.

Before explaining how and why this ingenious idea works, three points need to be stressed: first, *think long term*. No quick fixes are available for the climate emergency; industrial societies, especially, are embarking upon a *decades-long* carbon de-tox. Climate Income provides the framework for that. Other policies will rightly address specific challenges (such as bio-diversity); this is the foundation on which they can build.

Second, this is not a tax – it is a *transfer*. The Treasury does not receive the funds and it has no more part in this than it has in the BBC license fee. Even if you trust our politicians to spend an additional tax wisely, surveys show most people are not so trusting, especially when it comes to promises on taxes and benefits. Instead, the funds raised are paid back directly to Citizens. Adults are treated like adults, and supported so they can play their part in the great transition. *In this way what would be highly regressive as a tax, becomes a redistributive transfer tied to requirements of the climate*. Indeed, the less well-off come out ahead. One credible assessment of the effect showed that the least well-off 20% of the income distribution will receive back 50% more in Climate Income than they will lose in additional fuel costs. Why? Because the rich use so much more fuel than the rest of us that they raise the flat rate, per capita pay-outs well above the median additional payments.

Third, Climate Income is not a rigid scheme – it is an *approach* that can be adapted to circumstances. For example, Canada uses a percentage as a contribution to meet the additional costs borne by public bodies that cannot raise prices in the way that businesses may need to. Switzerland has put a fee on heating oil/gas since 2008 with two thirds returned as dividend and one third used for a building renovation fund.

Why it works – the economics

The obvious economic rationale is that the polluter is made to pay the full cost of producing carbon – including the costs that are 'external' to the extraction and processing of fossil fuels. This has become a well understood and widely accepted principle (even if, in this case, the full external costs of burning carbon are incalculable).

More to the point, this is a policy that *works with the grain of economic life*. It does not ask individuals to suspend or sacrifice their economic interest in order to 'do the right thing' – *i.e.*, to adopt zero carbon technologies and lifestyles. No, it makes it in our clear economic interest to 'do the right thing'. The higher the price of carbon, the greater the savings we will all make by switching (*in addition* to the Climate Income we will receive). Think carrots, not sticks.

But the clincher, and perhaps the least understood benefit of the approach, is that it address the fundamental underlying challenge: *How do we, as a society, discover a viable green fuels mix and rapidly reduce the costs and prices of its various elements?* The fact is most of the alternatives are still uncomfortably expensive and no-one knows what the best alternative fuel mix will turn out to be. The technologies are still too uncertain. Some say heat pumps. Others believe hydrogen is the answer. According to others, the future is electric. Some think that Carbon Capture and Storage is crucial. To say nothing of more speculative technologies to fix atmospheric carbon that are under development… Each of these has its advocates – and investors willing to bet on them. But each also has disadvantages, snags and unknowns.

Given this degree of uncertainty, putting all our eggs in one or two baskets makes no sense. We need to pursue a range of possibilities through repeated cycles of development and real-life trialling, so as to evolve, refine and scale technologies that will meet our requirements. What is needed for such a process is now pretty well understood:

1. A stable industrial policy – the risks for those making innovative investments are high enough without political uncertainties making things worse
2. Strong and rising consumer demand – to stimulate investment
3. A range of promising technologies under-pinned by a strong research base
4. A range of green energy financiers – to bring investors and entrepreneurs together for the different stages of business development

The first two conditions are provided by Climate Income - the UK already possesses the third and fourth conditions amply.

How can we be so sure?

Forecasts are very difficult, *especially about the future*. Which is not just a weak joke: the point is that the further into the future we peer the dodgier any forecasts become. So yes, we do not know quite how rapidly and how far these developmental processes will unfold. Nevertheless, the expectation of very substantial falls in price is informed by decades of empirical research across a wide range of technologies. And the reasons for this fall in prices are now well understood.

> *In 2014, the average strike price for an offshore wind project was £150 per megawatt hour. By the 2019 auction, this had fallen to the low forties. That's a truly astonishing gain in technical and cost efficiency — but characteristic of a wider green tech sector where rapid technological improvement is the norm.*
>
> Theresa May, September 8th 2021

It is not just a matter of economies of scale, important though those are. What happens is an industry-wide learning process that generates steady improvements in performance year-on-year. Indeed, the fall in the cost of wind turbines and solar panels exceeded the forecasts – they came good more quickly than predicted. You can see this still happening with battery technology where the price: performance ratio keeps edging up, even after years of large scale production.

This is about the evolution of new *systems* and *infrastructure,* not just the creation of a few new products. This means: the emergence of new supply chains each with its specialist engineers and designers; new manufacturing and logistical processes; new component and product standards;, a vast amount of additional occupational training for new roles; new installation, maintenance and repair services; new advisory services for consumers, new financing and insurance arrangements… the list goes on. This is what it takes for an industry to mature - and why a decade or so is needed, not just a few years.

How it works: the politics

Because our way of life has been hooked on it, coming off carbon presages a rough few decades. Delay will make things worse. Yet the idea of raising the price of fuel alarms politicians – they remember the *gilets jaunes* protests which ran for months during 2018-2019.

In a sense, they are right to be alarmed. fuel is an essential in the household budget, and in the short term it may be very hard to cut back on its use. So, for the less well-off, raising its price reduces very sharply what little discretionary spending remains after essential bills have been met. As a *tax*, it is highly regressive. But the Climate Income arrangement resolves this issue – it can even make the fuel price rise popular. So it is possible to use assertive carbon pricing without undermining public order. We can reassure politicians that the electorate will support them if they do it this way.

The Climate Income approach subtly combines individual and public responsibilities. The government does what only the government can do without presuming to know all the answers, or doing things for and to people. Equally, the Climate Income approach does not put all the onus on individuals implying it is simply up to each of us to reduce our carbon footprint, on our own, as if we were not inter-dependent in our communities. Under Climate Income the government creates a stable policy framework, and then holds the ring while private and social enterprises, civil society and public organizations, work out what is best in their particular circumstances as new industries and solutions evolve.

And here is possibly the most important point. If governments are to avoid a backlash and sustain difficult policies through a huge industrial transition, then the support of progressive activists is not going to be enough. Our political leaders must secure the acquiescence of climate cynics, the buy-in of those pre-occupied with themselves and the short-term, and support from those who are confused and ambivalent. In other words, we need a broad basis for climate policy*, one that doesn't expect everyone to share the same mind-set*. That is what Climate Income offers.

A plan for all reasons

The beauty of this ingenious idea is that it can appeal to *practically everyone*.

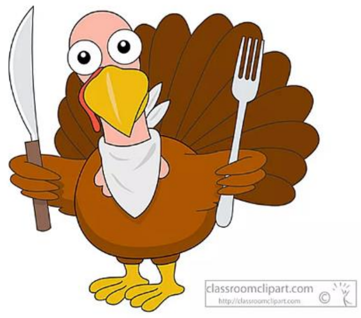
- For those only able to think of themselves and their immediate family, or who feel they do not know who to believe or what to think, "At least I will be no worse off."
- Those who consider politics through the lens of power tend to be concerned about political stability and the social order in a time of extreme climate events and industrial upheaval (and *rightly* so). For them, this approach *buys* the necessary support to ensure

a strong, cross-party coalition that can sustain difficult decisions on this most vital and long-term of issues

- For upholders of the moral/legal order, the policy appeals because it *does what is right*, for both citizens and the climate, and, most unusually, it is *readily enforceable*.
- For business pragmatists, well, they just love the economic opportunities it fosters; sympathetic coverage has appeared in the business press, from the Wall Street Journal to the Financial Times.
- Finally, for eco-egalitarians (‘Greens’), it is a sizable step towards the broader goal of *climate justice.*

You can support this policy whatever your political affiliation.

So the essential message to send to government is: don’t be put-off by tabloid headlines or facile claims voters will no more support higher fuel prices than turkeys will vote for Christmas. Turkeys will vote for a *vegetarian* Christmas – one in which *no one gets eaten.* And so long as they can *trust the farmer*. Which is why the economic protection provided by a tangible Climate Income is essential: it provides that security and at the same time demonstrates that the levy is not being siphoned off for unrelated purposes. This great work of climate protection can be accomplished in ways we the Citizens will support.



Tackled this way we might even go some way towards restoring trust in government - and bringing our country together again.

citizens:mk

This note was prepared as part of the Action on Climate and the Environment campaign of Citizens:mk. For more information on this campaign and recent successes visit – http://www.citizensmk.org.uk/

As part of Thames Valley Citizens, Citizens:mk is a chapter of Citizens UK – for more information visit https://www.citizensuk.org/ .

Citizens’ Climate Lobby

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PART 2 – QUESTIONS, CHALLENGES - AND MORE INFORMATION

1 Let's get down to brass tacks - how will this affect me?
Your bills will gradually increase, year on year, *and* you will receive the Climate Income. Unless you and your family are very well off, the Climate Income will more than compensate for higher bills. How much your bills increase depends on how you live and are housed, and *by what evasive action you take over the next decade or two to reduce your use of carbon*. For example, by changing how you travel around, by better insulating your home; by switching to a different form of heating when the boiler starts to age... And so on.

2 Doesn't the government already plan to do carbon pricing - through the UK Emissions Trading Scheme (ETS)?
Not really. The ETS prices CO_2 emissions, made by the largest users of fossil fuels but covering less than half of the economy; it does not address the transport and domestic sectors where the UK has made limited progress. There is no Climate Income for citizens.

3 By international standards some of our fuel prices are already very high. So isn't it a bit late in the day to be introducing this? How would it relate to existing fuel duties?
There is some truth in this. But far from being a problem, this points to a further opportunity offered by Climate Income. Recently, the prestigious Institute for Fiscal Studies found "Current UK climate policy is fiendishly complex. The most striking feature is the sheer number of policies involved and the wildly inconsistent incentives to reduce greenhouse gas (GHG) emissions that they produce. Overall tax rates on emissions vary dramatically, including by the source of the emissions and the type of end user. For example, emissions from electricity production and road fuel are taxed relatively heavily, while emissions from households' gas use and expensive personal flights are effectively subsidised… Setting highly uneven incentives is an inefficient way to reduce GHG emissions and is making the transition to net zero more costly than it needs to be. The government should move towards greater consistency in taxes on emission" (IFS report)

4 Even if the scheme is put in place, how can you be sure that politicians will actually use it? The fossil fuel industry might lobby hard to keep the price of carbon very low.
In the early years political pressure on governments to use the approach may need to be sustained. But the longer Climate Income is in place, the easier it gets – as the green industries grow stronger, the Climate Income is valued and the fossil fuel industries dwindle.

5 Isn't this politically unrealistic? – the Treasury hates hypothecated taxes and will always block this; and the tabloids will froth at the very idea of a fuel tax…
Not at all. This is clearly winnable – support is growing across the political spectrum – and internationally (keep your eye on Germany, where the Greens are likely to be part of the new government – will they follow Austria's example?). It's true that the Treasury is reluctant to accept this approach (though strictly speaking it is none of their business) - the press has reported vigorous discussions taking place across Whitehall. Institutional resistance is a problem to be overcome, not a reason for continuing to avoid carbon pricing.

6 Gathering in money and then giving it back - what do economists make of this strange idea? Is there evidence that Climate Income has actually changed producer and consumer behaviour?
Economists love it! – and it is supported by extensive research. The CCL website (https://citizensclimatelobby.uk/climate-income/) gives signposts and links to this material.

7 Other countries need to do their bit and are far worse offenders.
Whether or not others are worse offenders, the best single thing the UK can do to encourage de-carbonization by others is to introduce Climate Income with a Border Adjustment Mechanism (BAM). This will accelerate the evolution of greener technologies that others can adopt; and it will give exporters to the UK (and others with Carbon pricing and BAMs) an strong incentive to reduce their own use of carbon. Thus Turkey has signalled it will price carbon in response to the EU ETS scheme.

8 What you say deals with average people in average circumstances; what about those whose circumstances require very heavy use of carbon – they will be worse off, surely?
Fair comment. This approach will not affect everyone equally. People living in slums (whose landlords are unwilling to spend money to improve the buildings), and those in remote rural areas may be cases in point. But *any* scheme to reduce carbon use will need to consider such issues; these are difficulties to overcome, not reasons for inaction.

9 Will voters really believe it when politicians say they will all be given a Climate Income? It sounds too good to be true.
This may be an issue – so communication of the policy will be very important. That said, recent polling evidence suggests growing support for government action, including among Conservative voters. And ultimately, actions are what count: *voters will believe it when they see the money in their bank accounts*.

10 Why not invest money from the carbon fee in green projects?
Many of us hope the government will do more to support the great transition. But one person's wonderful green project is often another person's clunky and ineffectual government scheme! Using funds from the Carbon Fee for controversial purposes would risk undermining support for higher carbon prices.

11 Why are you just tinkering around with the market system when that is what got us into this mess in the first place? We need to change the system!
Unless you have a way to arrange this in the near future, we do not have time. An alternative view is that markets can be a pretty good servant but are a poor master. Climate Income is a way to manage the market – a strategic intervention to set its evolution on a different course.

12 Isn't this just socialist interference in what should be a free market – punishing enterprise and success under the guise of green politics?
No. This is actually a way to reduce the burden of regulation and reduce subsidies. Besides a free market does not address the problem of 'externalities' – a clear-cut case of market failure with potentially market-wrecking consequences.

By far the best source of further information on Climate Income is the website of the Citizens Climate Lobby UK. This contains clear explanations, videos, and the latest news from the UK and around the world. It also has superb material on *relational campaigning* – that is, campaigning through respectful relationships rather than taking an adversarial stance. https://citizensclimatelobby.uk/climate-income .

PART 3 - TAKING IT FORWARD

SELF-ASSESSMENT QUESTIONS/DISCUSSION STARTERS

1 A friend or relative says *"I can see some merit in Climate Income but I'm worried that it is all going to cost the government and the country far too much"*
What aspect of Climate Income might they not have understood? How might you respond?

2 It is claimed that Carbon Fee & Dividend will boost all the calls being made by those who have their backs to the elephant in the diagram on the first page. And "...embracing this approach does not mean dropping any of your existing commitments; instead it sits beautifully alongside them."
Is that claim correct? How might Climate Income assist each of those calls?

3 Imagine you are in discussion about Climate Income with a Councillor or MP who says:
"*The price of the alternatives must come down first, before we discourage use of fossil fuels – otherwise the less well-off will be heavily penalised."*
What *two* aspects of the argument for Climate Income does this seem to overlook? How might you respond?

4 A green campaigner, having heard that Austria is planning to bring in a Climate Income with an initial carbon price of €30 per tonne of CO2, rising to €55 per tonne in 2025, says:
"That is not nearly high enough; it should be at least €100!"
Is this a valid criticism of the Austrian policy? How might a supporter of Climate Income respond?

POSSIBLE QUESTIONS FOR YOUR MP

1 Are you familiar with the idea of Climate Income and the thinking behind it? What is your own thinking as regards carbon pricing?... How might we [xxx group] assist you in engaging with your constituents over the choices that will need to be made in coming off carbon.

2 A government report, from the Department of Business, Energy & Industrial Strategy, said:
"*Placing a price on carbon creates the incentive for emissions to be reduced in a cost effective and technology-neutral way, while mobilising the private sector to invest in emissions reduction technologies and measures. While we recognise the merits of a Carbon Fee and Dividend policy, we do not propose to adopt it at this time."* BEIS, June 2020
In the light of polling evidence supporting more government action on the climate, and the challenges for those in Universal Credit who have lost the £20/week uplift, might this not be the time to consider Climate Income? Could s/he ask the BEIS, 'If not now, when?'

3 Does s/he agree with the IFS assessment that carbon taxes and subsidies are fiendishly complex and add to the costs of reaching net zero? Will s/he ask the Treasury if they are considering a uniform carbon price as a way to simplify?

4 Does s/he agree that the UK needs a Carbon Border Adjustment Mechanism (CBAM) as part of the proposed UK ETS? And will s/he ask the Treasury if it is true (as reported) that they have opposed the introduction of a CBAM, even though this is required for an effective UK ETS?