Cap & Share

A global agreement against inequality

Cap & share: tax the polluters, redistribute to citizens

Global warming is a global challenge and an environmental and economic emergency[1,2]. The EU's Copernicus Climate Change Service[3] states that the atmospheric temperature in 2020 was already 1.25°C above the pre-industrial period. Calculations by the experts contributing to the Intergovernmental Panel on Climate Change (IPCC) show that a global warming of 1.5°C can be expected as early as 2030. Economists and institutions no longer doubt that carbon pricing, thus setting a price on CO2 emissions, is the most efficient and effective way to reduce GHG emissions. Academics and experts have found that, to limit global warming in line with the Paris Agreement, carbon pricing must be expanded globally, with a price of at least $75 by 2030[4]. Despite all that, governments and mistakenly still see carbon pricing as an economic risk. In fact, a robust carbon pricing system, necessary to fight global warming, would lead to a significant and persistent fall in GHG emissions, but also to an increase in energy and materials prices.

This increased process would disproportionately fall on low-income households requiring counterbalancing measures[5]. For that, some **governments avoid introducing an effective carbon pricing system and continue to provide billions of euros of subsidies to the fossil-fuels economy** in the name of social welfare and economic competitiveness[6,7]. On the contrary, an even more robust carbon pricing system is needed, but redistributing **carbon pricing revenues to Low-income households is necessary to reduce the economic costs of carbon pricing and to strengthen public support for an effective carbon pricing initiative[8,9]**. This approach is vital for any carbon pricing system, such as ETS, and should be a main pillar of a future carbon pricing agreement ("Climate Club") with global reach, to be urgently promoted world-wide.

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[1] Council of the European Union - Climate change costs lives and money, 2020.
[2] European Environment Agency, Economic losses from climate-related extremes in Europe. 2023.
[3] Copernicuate Change Service
[4] S. Black, I. Parry, More Countries Are Pricing Carbon, but Emissions Are Still Too Cheap, International Monetary Fund, 2022.
[5] ISPI. From the Green Deal to REPowerEU: The Green Transition in Europe and Beyond, 2022.
[6] European Court of auditors, "Energy taxation, carbon pricing and energy subsidies", 2022.
[7] C. Maarfield et al., Fossil Fuel Subsidies in the EU, CAN Europe, 2023.
[8] Carattini S, Carvalho M, Fankhauser S. Overcoming public resistance to carbon taxes. Wiley, 2018.
[9] Fiscal and Distributional Analysis of the Federal Carbon Pricing System, Ottawa, Canada, 2019.

A Climate Club on carbon pricing

The **climate club** on carbon pricing proposed by this letter is a **global, voluntary agreement between participating countries to undertake a** harmonized GHG emission taxation system. The climate club would agree on an *'international minimum carbon price'* along with a carbon border adjustment mechanism (CBAM) applicable to non-member countries. This CBAM mechanism, agreed for adoption by the EU Carbon pricing system, represents a 'penalty' on imports from non-members and is designed to put a price on the carbon emitted during the production of goods, ensuring that the carbon price of imports is equivalent to the one of domestic production. In this way countries with less stringent climate policies cannot gain an undue competitive advantage.

However, in poorer countries, fossil fuels are disproportionately consumed (relative to income) by richer citizens, whereas in rich countries fossil fuels are disproportionately consumed by poorer citizens. Studies[10] demonstrated that, without any revenue distribution, the initial burden of the carbon tax would fall disproportionately on the poor in richer countries, while also falling unequally on the rich in countries with lower Gross Domestic Product. The involvement of countries with low GDP in the Climate Club could be promoted by the redistribution (share) of carbon pricing revenues lump-sum to those countries that have a per-capita emission lower than the global average.

The Climate Club is therefore expected to establish a incentive Fund[11], to which every country with current or historical per-capita CO_2 emissions above the global average contributes with a proportional fee.

The fund will be used to support **sustainable initiatives in low-GDP countries.**

The structure of a Climate Club on Cap & Share

There are multiple possible implementation solutions for the Climate Club, which will require thorough discussions with all founding countries, as well as with those that may join in the future or participate indirectly.

[10] Mark Budolfson et al. Climate action with revenue recycling has benefits for poverty, inequality and well-being, 2021.https://doi.org/10.1038/s41558-021-01217-0

[11] R. Rajan, A Global Incentive Scheme to reduce carbon emissions, University of Chicago Booth School, 2022.

The basic conditions proposed in this letter represent the foundational structure of a fair Climate Club to ensure an effective and mid-term reduction in global greenhouse gas emissions and to foster a balanced economic system between the global North and South.

1. The Climate Club is based on the "**polluters pay" principle**, meaning a price is applied to CO_2 emissions ($/t CO_2), which will be harmonized and monitored by a specially structured international body**.**

2. Climate Club member countries will apply a Carbon Border Adjustment mechanism **(CBAM)**, meaning a **tariff on products coming from countries outside the Club.**

3. The revenue generated from Carbon pricing must be **redistributed to citizens** to offset the resulting increase in consumer goods prices

4. The redistribution of economic revenue must follow a scheme that **favours lower incomes,** based on the cost of living in each country.

5. Climate Club member countries with a **per-capita CO_2 emission rate above a set value** will annually contribute an amount proportional to their excess over the average value

6. The total amount contributed by HI countries will be used to finance sustainable initiatives in countries with **lower emission rates.**

7. The Climate Club commits to annually and gradually reduce the established per-capita emission value, **aiming for net zero by 2060.**