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EDITORIAL

A CARBON TAX - ONWARDS

The US and Europe (but not Olympics Vancouver) are having cold and snowy winters and the non-peer-reviewed global warming science is suspect. But let’s ignore that. Let’s assume that man warms the atmosphere by thickening the greenhouse gas envelope and exacerbating the warming cycle ...

This Journal has expressed its support for a carbon tax as the best way to control excess carbon and other ‘warming’ gases in the atmosphere. We have written against the ‘cap and trade’ solution. At base that is a tax too. But it is a complex one, certain to enrich the traders and arbitrageurs, confound the wits of the politicians, and scarcely to reduce carbon much at all. It is the committee-designed camel of systems.

Emissions trading imposes ‘quantity-based’ control; carbon taxes use ‘price-based’ control. They both operate in a market, as it were. Emissions trading controls the total amount of emissions, with prices fluctuating as polluters trade for permission to pollute. (They attend a government auction and bid against one another for permits giving them the right to pollute). Carbon taxes increase the marginal cost of emissions. They use the increased ‘price’ on carbon products, like oil, gas and coal, to discourage their use.

Cap-and-trade pioneers themselves doubt the ability of emission trading systems to reduce carbon significantly (despite the much-hyped success with acid rain in the US Clean Air Act). Countries differ in their capacity to use a cap and trade effectively. The price of carbon has dropped and is flat-lining in ‘cap-and-trade’ Europe. So its carbon-reducing power is reduced. High carbon prices are the stick that encourages companies to pursue carbon capture technology. But the economic downturn has pushed the price down and it looks set to remain there for many years.

A simple tax on the mining of carbon products may do the trick. And it might be imposed globally, by all nations, at a low rate varying with the carbon intensity – but, say, about 5% of the coal, gas or oil’s value - collected at source from the miners. Its purpose is not to punish carboners into changing their behaviour so much as to encourage and thereby reduce the cost of energy provision via environment-friendly methods. Making fossil fuels more expensive reduces their use and the amount of pollution from them. But the tax also raises the funds that can be used to encourage renewable energies and minimise pollution. Such a tax will and must be, as we say, ‘revenue neutral’.
The world for now is saying that less carbon and other warming gases in the atmosphere is a global survival goal. Just as the globe is saying that less cigarette smoke in lungs is better, or the pollution of fresh water is undesirable. Taxes are historically the best way to control those undesirables and encourage desirables. And taxes should be simple and open. They should not be surreptitious and deliberately complex like the cap-and-trade options.

Also taxes can be imposed and removed (if climate change is less catastrophic than feared) easily.

Countries like Australia and Canada – not to say Brazil, the US and Russia - or, rather, their companies or the transnational companies - will bear the brunt of the carbon tax. It falls most efficiently on source, at the well or the mine head. The US would find itself or its companies penalised more than companies or countries that are less dependent on fossil fuel. This may be why the US appears to favour emissions trading. It can hope to buy emissions rights from other countries and sidestep domestic reductions. Japan and Russia also stand to gain from emissions trading models.

With carbon taxes, the country taxes the carbon directly. Because it emits the most carbon, coal gets taxed the most; oil and gas less.\(^1\) The miners will pass the tax on, of course, and the public will pay for this as for all things. But this redistribution of revenue – from carbon-heavy economic endeavours to renewable energy-rich endeavours – eventually will have the beneficial effect sought. Carbon taxes also permanently encourage reduction of carbon. Emissions trading might not. As technology makes energy available elsewhere, the demand for carbon permits will fall and the pressure to reduce pollution will fall, too.

The shifting of emphasis and engineering skill that carbon taxes would bring could be enterprising and, although one hesitates to say it, exciting. Providing the tax or revenue is recycled. The carbon tax paid by the carboneers should be used to fund deductions and subsidies. It should encourage the non-combustible energy sources – wind, nuclear (uranium and thorium), sun and hydro. As the fossil energy source is being closed down by the tax, other (initially more expensive) energy sources would be flowering.

The innovators and the University engines of research and innovation could be engaged in a most noble endeavour – the invention of cheap and renewable energy. The mutterings over the tax from the oil and gas companies’ boardrooms could be drowned out by the clapping of their own renewable energy departments, as they engage their own fossil fuel wealth in the pursuit of profit in a non-fossil energy field.

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1 Coal contains .03 tons of carbon per million Btu of energy, oil .024, and gas .016 tons.
For we do not need less but more energy, albeit at higher prices. Of course, too, if carbon capture and storage were working effectively when the coal, oil or gas is mined, then carbon taxes would not apply. It is the extracting of fossil fuels intended for traditional burning and emitting of carbon that attracts the tax.

And if the carbon taxes were extracted globally and at source, the revenue could fund deductions or subsidies, and renewable energy development should be vigorous in resource-rich nations like Australia, Russia, India, Brazil, PNG, East Timor, Nigeria, Iraq and Canada.

It was counter-intuitive, but the Emirates (UAE), having achieved wealth on fossil fuels, is an innovator in renewable energy. It is broadening its economy and securing a prosperous future by developing the technology that makes its primary source of wealth redundant.² It, too, would impose the carbon tax, while there is still profitable oil in the wells. But it would continue to stream that revenue back into further development of alternative energy sources in UAE or elsewhere.

And couldn’t this carbon tax be a global tax? Assessed at source, and its spoils distributed, by an independent authority? Using existing tax methods, rather than starting a new system. Monitored by a global tax court in the fashion that sports disputes are so successfully dealt with by the international sports tribunal³ or trade disputes by the WTO?

The bureaucratization and corruption risks are enormous, of course. Also, carbon tax would be inflationary. Some will argue that it would struggle to have the desired effect because of our addiction for fossil fuels (a heavy smoker still smokes cigarettes even with a 1000% tax). Further, when governments, even NGOs, get the $$$, will it actually go to reduce carbon?

A global carbon tax would not be entirely unprecedented. President Obama is proposing a 10 year global levy on banks, with G20 countries’ institutions being taxed to cover the cost of future bank failures. European rescue levies (taxes) could also grow for global application. Many top European bankers favour a global bank fund to soften banking crises in the future. Globalization is gaining real traction in the taxation area, and the international emphasis is shifting away from harmful tax

² Daniel Enking, ‘A World of Shifting Sands: Will Oil States Lead the Clean Energy Revolution?’

³ The CAS (Court of Arbitration for Sport) or TAS (Tribunal Arbitral du Sport, in French) is the very successful international arbitration body set up to settle sports-related disputes. Its headquarters are in Switzerland (Lausanne). <http://www.tas-cas.org/>.
competition to beneficial tax cooperation. The beneficial effects of a global carbon tax template could be enormous.

The Editors

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4 By Jim Corkery, joint General Editor.