



PAYMENT OVERDUE

Fair ways to make polluters across the UK pay for climate justice

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As large sources of emissions, wealthy countries, fossil fuel companies and rich individuals, are disproportionately responsible for the climate crisis in which we find ourselves. Yet, for decades, they have been let off with not paying to deal with its consequences.

As a result, the world is far behind on the spending needed to ensure a fast and just transition and to deal with increasing climate impacts. Climate action must be fair, meaning that those with the responsibility for the harm and capacity to pay should be footing this growing bill. But it is often those with least responsibility and capacity to pay who are bearing the brunt of the costs.

Here, we outline four ways to raise new finance across the UK through fair ways to make polluters pay.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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SUMMARY

We have around six years left to bring about the transformational change needed to avert the worst of the climate crisis.¹ Today's decisions on spending for climate action will have repercussions for decades to come. We urgently need to find large sums of money to finance a just transition globally, and to support people living in the Global South who are already dealing with escalating climate impacts.

The climate crisis is now a reality: its effects range from the UK breaching 40°C for the first time in 2022 to a devastating and ongoing drought in East Africa, which would not have occurred without global heating.² In the UK and globally, it is people living in poverty who bear the consequences of inaction. Public finance is a critical lifeline for communities on the frontlines of the climate crisis, yet we are increasingly looking to dwindling aid budgets to meet escalating needs. Meanwhile, billionaires amass yet more wealth and fossil fuel producers post record profits.

These polluters have caused – and continue to cause – irreversible damage to our planet, and it's only fair that they pay for the harm caused by their actions. Fairer taxes on the largest polluters would not only generate additional finance but could also create financial incentives for them to reduce their emissions.

The UK is a huge historical emitter.³ It must take responsibility for this, but the onus of paying should not be split equally among the public. Those who have emitted the most and profited while doing so – particularly fossil fuel producers and wealthy people – should be doing the heavy lifting. This paper sets out four options to do this.

The options explored here are a permanent excess profits tax on fossil fuel producers; redirecting fossil fuel producer subsidies; a Frequent Flyer Levy; and taxing high-emitting luxury travel. These options target those who are most responsible for emissions, and who also have the capacity to pay. It is crucial that such measures to raise new finance for climate justice shield lower-income households from having to shoulder the costs.

This report estimates that had these four measures been in place last year, **they could have raised £12.62bn in much-needed new finance for climate justice**. A system that fairly taxes extreme wealth could have contributed up to a further £10.48 bn for climate action last year. Altogether we estimate that in 2022, **the UK may have missed out on £23.1bn for climate action by not making polluters and the wealthiest in our society pay**. That is double the amount that the UK government has committed to spending on crucial international climate finance in the five years up to 2026.

This finance could be used to combat the climate crisis in ways that simultaneously lift people out of poverty, both across the UK and overseas. The money is there – why aren't we harnessing it?

1 INTRODUCTION

We are hurtling towards climate catastrophe: current policies put the planet on track for 2.7°C of warming above pre-industrial levels.⁴ Limiting climate change by staying within a 1.5°C threshold is still possible, but in the words of the UN Secretary General, 'it will take a quantum leap in climate action'.⁵ This quantum leap requires large amounts of finance, and fast. Oxfam estimates that low- and middle-income countries alone will need almost US\$19 trillion between now and 2030 to deal with climate change.⁶ Despite having the resources to lead on accelerating action across the climate pillars of mitigation, adaptation, and addressing loss and damage, the UK Government is failing to deliver.

Financial resources are urgently needed to prepare for escalating climate shocks, to reduce emissions in a just way, and to support people dealing with climate-induced losses and damages. If climate action is financed and undertaken in a just and equitable manner, it will simultaneously improve people's lives and reduce poverty and inequality. But funding is falling far behind the levels needed for this to happen.⁷ A transition that is just should be non-negotiable; reducing emissions must be achieved in ways that advance broader social justice, gender justice, environmental and development objectives – otherwise inequality will only deepen.

While significant levels of private finance will also be required globally, there is an urgent need to identify new and additional sources of public finance (see Box 1). This paper identifies and proposes four mechanisms for the UK to fairly raise finance from wealthy polluters to fund just and transformational climate solutions.

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INSUFFICIENT UK-WIDE SPENDING ON CLIMATE JUSTICE

GOVERNMENTS ACROSS THE UK NOT SPENDING ENOUGH TO ACHIEVE NET ZERO TARGET

The UK Climate Change Committee (CCC)⁸ has repeatedly shown that the UK government is off track to meet its legally binding target of net zero emissions by 2050, and that public and private investments are well below what is required to get the UK onto a net zero trajectory.⁹ The CCC estimates that the costs of delivering net zero are around 1% of GDP annually for the next 30 years, but a WWF report found that the UK government spent only 0.01% of its GDP on efforts to combat climate change in 2021 – one-hundredth of the amount required.¹⁰ The Institute for Public Policy Research (IPPR) estimates that the UK should be investing at least £33bn more every year in order to reach its climate targets.¹¹ Additional spending may be needed to ensure that the transition to net zero in the UK is just.¹²

In spite of being far behind on meeting its own targets, the UK government has recently approved a number of destructive fossil fuel projects, including its first new coal mine in over 30 years.¹³ Even the government's own analysis admits that the policies and budgets in place are not enough for it to reach its 2030 goal of reducing emissions by 68% compared to 1990 levels – a critical milestone for getting the UK to net zero.¹⁴ In Scotland, the Scottish Government has failed to meet four out of the last five annual emissions reduction targets and the CCC warns that progress in reducing emissions has 'largely stalled'.¹⁵ According to the CCC, while Wales met its first carbon budget (2016-2020), it is not currently on track to meet its 2030 emissions reduction targets.¹⁶ Every tonne of emissions we fail to prevent means worse climate impacts, which disproportionately affect people living in poverty.¹⁷

CLIMATE FINANCE COMMITMENTS ARE GROSSLY INADEQUATE AND NEEDS ARE GROWING

It is a cornerstone of international climate cooperation that wealthy industrialised countries, such as the UK, which are largely historically responsible for the climate crisis, should reduce their emissions the furthest and fastest, and provide finance to enable developing countries¹⁸ to deal with climate change. In 2009, developed countries agreed to provide US\$100bn of climate finance per year to developing countries by 2020. This finance is intended to help developing countries reduce their own emissions and adapt to a changing climate. Despite the scale of the 2020 goal widely being regarded as far below the true level of climate finance needs, it had still not been met midway through 2023.

To make matters worse, Oxfam estimates that, due to misleading accounting practices, the real value of finance provided by developed countries in 2020 was only around a third of what was reported.¹⁹ A new and higher financial target will succeed the US\$100bn-per-year goal from 2025 on, as part of the UN climate negotiations. For this new goal to overcome the failings of the current one, the UK and other wealthy countries will need to identify new sources of international climate finance.

Despite global and interconnected crises worsening, including climate change, the UK has recently chosen to deprioritise its aid and development spend. The decision in 2020 to reduce Official Development Assistance (ODA)²⁰ spending to 0.5% of gross national income has had devastating consequences for critical aid and development programmes.²¹ Existing climate finance commitments have been kept, but they take from a massively overstretched aid budget, in effect taking vital resources from poverty-reducing projects, and humanitarian responses. A key agreement of climate financing is that it should be 'new and additional' and not at the cost of other sustainable development objectives.²² With every step back from global responsibility the UK's international standing diminishes, but it is marginalised communities who are suffering most due to its inaction.

UK GOVERNMENT STILL NOT GIVING ANY NEW AND DEDICATED FINANCE TO ADDRESS LOSS AND DAMAGE

From devastating floods in Pakistan to rising sea levels in the Pacific, it is now clear that adaptation will not prevent all losses and damages from climate change. At the most recent UN climate change conference, COP27, Global South countries and climate activists celebrated the agreement to establish a new loss and damage fund, which will support countries in recovering after climate-fuelled events. However, the next struggle will be to ensure that the fund is adequately financed. To date, wealthy countries have committed very little dedicated finance to address loss and damage, and most of it has been taken from already hugely overstretched climate finance and aid budgets.²³

The UK government currently does not give any dedicated finance to address loss and damage. This is a grave injustice considering its large historical emissions and the fact that it continues to encourage new fossil fuel projects. In contrast, at COP26, the Scottish Government became the first wealthy government to commit loss and damage finance, and it repeated this with further allocation of finance at COP27.²⁴ Scotland's actions were particularly welcomed by civil society and lower-income countries as the pledges were new and additional to existing funding committed through the Scottish Government's separate International Development Fund – underlining the vital point that finance to address loss and damage should not take away from existing pots such as ODA and climate finance.

Box 1: Public finance is central to climate justice and equity

Given the scale of the challenge in delivering climate justice, private investment has a critical role to play. However, it is no replacement for public finance from governments. Two key limitations of private finance are: 1) it mainly goes towards mitigation activities, as they are more likely to generate profits, and 2) it generally favours wealthier countries in the Global South, because they are more capable of absorbing private investment through more developed infrastructure and institutions. Adaptation and addressing loss and damage often do not result in returns on investment.²⁵

Areas which are experiencing conflict, or which have weakened state capacity to provide reasonable public services, are frequently deemed 'too risky' to invest in.²⁶ Moreover, without a strong regulatory framework privately financed energy initiatives can push costs on to, and/or fail to share benefits with, communities and workers.²⁷ Private finance often comes with high interest rates, particularly for countries that have lower credit ratings, and hence increases existing debt.

Public finance is therefore a necessity for climate justice. Developed country Parties were confident that private investors would deliver a substantial share of the US\$100bn-a-year climate finance goal, but this has not materialised and is one of the primary reasons for the goal not being met on time.²⁸ Public finance is also needed within the UK to support people through the energy transition, such as with retrofitting housing to make it more energy efficient. Actions like this would simultaneously reduce emissions and improve quality of life.²⁹

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RAISING AND SPENDING FINANCE FAIRLY

Finance for climate action must be raised and spent fairly, to avoid entrenching existing poverty and inequality and to maintain public support for the transition to net zero. This means ensuring that those most responsible for the crisis shoulder the biggest costs of climate action, while protecting those least responsible and who lack the resources to foot the bill.

Around the world, the very richest people have become significantly richer in recent years.³⁰ In the UK, too, wealth inequality has grown, with the richest 1% holding more wealth than 70% of Britons.^{31, 32} On top of the UK having one of the highest levels of income inequality among European countries,³³ the cost of living has increased sharply in 2021 and 2022.³⁴ This puts particular pressure on lower-income households, who spend more of their income on food and energy, with the Joseph Rowntree Foundation estimating that around one in five people in the UK were living in poverty in 2021.³⁵

When considering new taxes, including those that target polluting practices, there is a risk that they could increase inequality. For instance, taxes on consumer goods could disproportionately affect lower-income households if costs are passed on to customers through higher prices. New finance for climate action must be raised in a way that seeks to reduce existing inequalities in the UK rather than exacerbating them, and we have purposefully outlined options that are progressive in nature.

This paper does not go into detail on how this finance should be spent on specific actions for climate justice, as our aim here is to highlight how more finance could be raised fairly by making those with greater responsibility for emissions pay. However, broadly this money should then be spent on climate-just action. This means financing a just transition to net zero across the UK, increasing the UK's international climate finance contribution, and the UK government committing new and additional finance to address loss and damage (see Box 2).

Box 2: Cost of responding to climate-fuelled drought response in East Africa falls on those least responsible

East Africa is in the grip of its worst drought in over 40 years, which has strongly contributed to a devastating crisis where over 28 million people across Ethiopia, Somalia, South Sudan and Kenya face extreme hunger.³⁶ This is loss and damage. A study by World Weather Attribution found that this drought would not have happened at all without climate change and the 1.2°C hotter world we live in. Climate change has made events like the current drought much more severe and more likely; the researchers say a conservative estimate is that such droughts have become about 100 times more likely.³⁷

This is climate injustice playing out in real time: the combined carbon emissions of Somalia, Ethiopia and Kenya reach a mere 0.1% of the global total, whereas the carbon emissions of the G20 countries account for 76%.³⁸ The people bearing witness to this climate-driven drought should not be paying the price for climate inaction. Wealthy countries, including the UK, urgently need to put forward more adaptation finance for climate-vulnerable countries to prepare for future droughts, and additional loss and damage finance to support their recovery.



Mareya Ibrahim, in Wajir country in Kenya, stands among the carcasses of her livestock. (Khadija Farah/Oxfam)

RICH POLLUTERS MUST PAY FOR CLIMATE JUSTICE

The UNFCCC³⁹ founding text is underpinned by the principle of ‘common but differentiated responsibilities and respective capabilities’, meaning that those most responsible for producing emissions and with the resources to do so should reduce their greenhouse gas emissions the furthest and fastest, and also provide climate finance to lower-emitting, less wealthy countries. The responsibility for and costs of climate action should not fall upon those who have contributed little to the problem and do not have the resources to foot the bill. This is true both between countries and between individuals and groups within countries.

High-emitting wealthy countries, polluting companies⁴⁰ and wealthy individuals should therefore shoulder the greatest costs for climate action. Carbon Brief ranks the UK as the eighth highest country in terms of responsibility for cumulative emissions.⁴¹ Analysis shows that 71% of global industrial greenhouse gas emissions between 1988 and 2015 ultimately came from just 100 fossil fuel producers.⁴² It has been widespread consensus since 1992, at the very latest, that fossil fuels cause climate change, and yet since then we have not seen these companies invest in renewables at the required scale or speed.⁴³ These companies are disproportionately responsible for climate change, yet they reap enormous

profits while the average person is left to pay for the consequences of their continued expansion.

Not everyone within a country bears equal responsibility for emissions. The richest people in a society tend to emit vastly more than others; this is known as 'carbon inequality'.⁴⁴ In 2020, Oxfam estimated that the wealthiest 1% of people in the UK each emitted 11 times the carbon emissions of someone in the poorest half of the population, and that their carbon footprint was 6 times the national average.⁴⁵ Rich people are also among the biggest investors too, and have significant power over the direction taken by the UK economy, and the extent and speed of our transition away from fossil fuels.

As such, efforts to address climate change should focus on holding the wealthiest countries and people, and the most polluting companies, to account. Too often, narratives around climate finance present a false dichotomy between the needs of ordinary citizens in the Global North and those of people elsewhere in the world. In reality, there is enough money for both to thrive; it has just been captured by the wealthiest people and corporates. It's time to channel more finance from those with the most to where it is needed most – both to accelerate climate-just action across the UK, and to ensure that affected communities worldwide get the support they deserve.

Narratives around climate finance present a false dichotomy between the needs of citizens in the Global North and those of people elsewhere in the world. In reality, there is enough money to enable both groups to thrive; it is just kept within the hands of the wealthiest people and corporates.

2 NEW AND FAIR OPTIONS TO MAKE POLLUTERS PAY

Many ideas exist to raise additional finance for climate action. As outlined above, it is important to ensure, first and foremost, that any measures target those who are most responsible for emissions and have the greatest capacity to pay. Where possible, options to make polluters pay should also incentivise them to change their behaviour and pollute less. In developing this report, multiple options were considered and prioritised according to the following shortlisting criteria:

- **Potential to raise significant amounts of additional finance.** While methods to raise public funds also have potential to influence behavioural change and should be explored further, the main aim of this report is to identify and explore sources of additional money for climate-just action. As such, options whose main purpose is to affect behaviour and reduce emissions, but would not raise significant additional funds, were not explored.
- **Makes polluters pay.** Those being required to pay should be those who are disproportionately responsible for causing climate change, and the money they are asked to pay should be proportional to the amount of pollution they have caused and continue to cause.
- **Designed in a way that is progressive and does not target those on lower incomes.** An important aim of making polluters pay should be to reduce inequality. We have therefore focused on options which are specifically targeted at those with the greatest financial capacity to pay, and which protect lower-income groups.

We acknowledge that these sources will not generate stable revenues over the long term, as we want these polluting practices to cease as quickly as possible, but it is important that these polluters pay as long as they continue to emit. An accompanying methodology note⁴⁶ outlines what other options to raise finance were considered, and why they were not chosen.

The focus of this paper is on raising urgently needed finance for climate justice, but in order to stay within 1.5°C, much more robust action is also necessary to stop the polluting practices of large companies, including through ending new licences for UK fossil fuel projects. Policies and financial incentives are also needed to enable sustainable behaviour by the public. For many people across the UK, decisions around home heating and commuting are determined by the available infrastructure and ensuring that this is sustainable requires government intervention.⁴⁷

Box 3: Where are UK Emissions Trading Scheme (ETS) revenues going?

An existing mechanism that raises finance from polluters across the UK is the UK ETS. This is a system which caps emissions from participating entities at a certain level, which decreases over time, and for which participants must

purchase ‘allowances’ to cover their annual emissions. The scheme applies to energy intensive industries, the power generation sector and aviation. Allowances are purchased at auction or on the secondary market, where businesses can sell unused allowances.⁴⁸ The revenues from the sale of allowances at the monthly auctions go into the Treasury, and these have received little attention as they have historically been quite low.

However, since 2018 the price of allowances has ballooned, meaning that the revenues flowing to the government have risen substantially. The Office for Budget Responsibility (OBR) calculates that UK ETS revenues were £6.1bn in 2022-2023, and forecasts them to remain over £6bn per year until at least 2028.⁴⁹ Despite these huge sums, 2022 research by the New Economics Foundation (NEF) and Oxfam estimates that only 20% of the new revenue raised from the emissions trading scheme last year was reinvested to tackle climate change.⁵⁰ This is not a ‘new’ mechanism to raise finance, and so is not detailed as an option here; however, given that the purpose of the UK ETS is to reduce emissions, the revenues should be spent in a way that supports a fast and just transition – and there is currently no evidence that they are. The EU recently legislated that EU member states must spend EU ETS revenues on climate and social purposes, and the UK should do the same.⁵¹

Table 1 below summarises the options explored in this paper alongside the key criteria chosen during our research. Substantially more money than that raised by the options outlined in this report is necessary to finance the just and transformational solutions needed to ensure a safe and fair future for all. However, the options presented below are ways that additional finance can be quickly and fairly secured across the UK to urgently accelerate climate justice.

Table 1: Summarizing each option against our key criteria

Option to make UK polluters pay	Potential additional revenue in 2022 (£)	Potential future revenue (next 5 years)	Is it progressive?	Potential to reduce emissions?	How publicly popular?	Ease of implementation
Permanent excess profits tax on fossil fuel companies	2.2bn –4.4bn	High and unpredictable	Yes, but measures must be in place to ensure companies don’t pass the tax on to consumers.	Medium	High	High
Redirecting fossil fuel subsidies	3.35bn	High and predictable	Yes, but measures must be in place to ensure companies don’t pass the tax on to consumers.	Medium	High	High
Frequent Flyer Levy	4.09bn	High and predictable	Yes	Medium	Medium	Medium
Taxing use of private jets	322.4 - 497.7m	Medium and predictable	Yes	Low	High	Medium

Taxing superyachts	283.2m	Low and unpredictable	Yes	Low	High	Low
20% of wealth tax proceeds	4.4bn – 10.5bn	High and predictable	Yes	Medium	High	Medium

Note: The details for this table are elaborated in the later sections of this report. Wealth tax proceeds are shaded in grey because they are not explored in-depth in this paper.



WEALTH TAXES TO REDUCE INEQUALITY AND TACKLE CLIMATE CHANGE

Wealth and responsibility for climate change are highly linked.⁵² This is in part due to the unsustainable travel habits, housing habits, and overconsumption of manufactured products by the richest people. Despite this, in many instances the super-rich pay proportionally lower taxes than the average person, due to the regressive nature of tax systems and their main forms of income falling outside of these (such as dividends, property and capital gains).⁵³

Modelling by Patriotic Millionaires and Tax Justice UK finds that a range of measures to tax wealth more fairly in the United Kingdom could raise over £50bn annually, and that a 1-2% wealth tax on assets over £10mn alone could raise £22bn per year.⁵⁴ If just one-fifth of proceeds from taxing wealth was ringfenced for climate justice, this would mean between £4.4bn and £10.5bn additional finance per year. Wealth taxes are a popular measure, with polling finding that 70% of British people believe that very wealthy individuals should be taxed more to help pay for public services and the cost-of-living crisis.⁵⁵

If one-fifth of a UK wealth tax was ringfenced for climate justice, this would mean at least £4.4bn per year.

The carbon footprints of the ultra-wealthy are not limited to their consumption: 50% to 70% of their emissions result from their investments.⁵⁶ Another measure to reduce emissions and raise finance could therefore be to tax the polluting investments of multi-millionaires and billionaires. This is a promising proposal; however, we could not obtain data to estimate how much it would raise in the UK and so have not covered it further here.

The UK Government has the power to implement a UK-wide wealth tax. This is likely to be the simplest and most efficient option, as it would prevent any risk of capital flight between jurisdictions within the UK. However, there are also options to better tax wealth at devolved and local levels, which should be explored.⁵⁷ A wealth tax fits our selection criteria for both responsibility and capacity to pay and protects lower income households. Yet, as revenues from a wealth tax should also support the delivery of non-climate related actions, such as investing in national care systems and improving poverty-reducing public services, it has not been presented as in-depth as an option in this paper.



OPTION ONE: A PERMANENT TAX ON EXCESSIVE UK FOSSIL FUEL PROFITS

Fossil fuels are the biggest driver of emissions and climate change. Alongside a UK-wide cost-of-living crisis and energy shortages caused by the war in Ukraine and surging prices, oil and energy companies made record profits in 2022.⁵⁸ In response to public pressure the UK government established an 'Energy Profits Levy' (EPL), which was initially set at 25% on UK oil and gas profits on top of the existing 40% headline rate of tax. It came into effect halfway through 2022, meaning only profits made after this were taxed. The rate was later raised to 35% as of 1 January 2023.⁵⁹ Although it was supposed to run through to 2028, in May 2023 the UK government announced that if oil and gas prices returned to 'historically normal levels' the levy would be scrapped and taxes on UK oil and gas producers would return to 40% overall – 38% lower than Norway's (which is set at 78%).⁶⁰

While seen as a step in the right direction, the levy has been criticised for being temporary, being set too low, not having a clear definition of windfall profits, and for containing a climate-wrecking investment incentive which means producers can offset the tax they pay against further investment in oil and gas – thus entrenching long-term climate harm (see option 2 for further details). For example, despite Shell making around \$40bn in profits globally in 2022, it paid only \$134m in taxes under the EPL last year (almost 300 times less than its profits).⁶¹

Converting the windfall tax into a permanent tax on future fossil fuel excess profits and scrapping the investment incentive would be a start in reclaiming the enormous unearned profits from UK fossil fuel producers.

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PROPOSED DESIGN

The excess profits tax proposed here would be a redesign of the current EPL, would apply to companies involved in the extraction of fossil fuels in the UK Continental shelf (UKCS)⁶², and would be permanent in that it would automatically kick in when profits are excess. The tax base would be the annual profits in any future year that are more than 10% in excess of average profits over the years 2010–2021. We have suggested using a margin of 10% to allow for some variation in profits from year to year relative to long-term averages. The tax rate would be at minimum 75%, and we have also presented below how much a 90% rate would raise. This automatic tax would only apply to profits that are ‘excess’, as defined previously as being over 110% of average annual profit. Thus, it would be in addition to Ring Fence Corporation Tax, which is charged at 30%, and the Supplementary Charge, which is charged at 10%, and which would both apply to ‘regular’ profits (not the excess profits).

ESTIMATED SCALE OF ADDITIONAL FINANCE

Using estimates from the Office of Budget Responsibility’s March 2023 Economic and Fiscal Outlook, which indicate that for 2022–23 the EPL raised £5.1bn when set at 25%, we estimate that the profits of fossil fuel producers on the UKCS over the same period were £20.4bn.⁶³ Using data from North Sea Transition Authority,⁶⁴ Tax Justice UK estimates that the average annual profits of oil and gas producers in the UK between 2010–11 and 2020–21 were roughly £5.42bn.

Using our margin of 10% for defining ‘excess profits’, this means that excess profits were around £14.44bn last year. If these were taxed at 90%, it would have raised £13bn. Even if they were taxed at a more generous amount of 75%, it would have raised £10.83bn. This, combined with existing taxes on ‘regular’ profits and depending on the excess tax rate applied, would mean **between £2.2bn and £4.4bn more would have been raised** than the amount collected last year. It is important to note that this is likely to be an underestimate of what could have been raised had the investment incentive also been scrapped, as this allowance expenditure is accounted for in the revenues forecast for the EPL.

To put this amount into context, the financial requirements for providing emergency relief to those facing the devastating drought in Somalia, which climate change has fuelled, are currently estimated at USD 2.6bn (around £2.06 bn).^{65, 66} A higher excess profits tax on the UKCS alone could have covered this. Yet, as of August 2023 the global response was only 32.9% funded.

TARGETING THOSE RESPONSIBLE FOR EMISSIONS

This tax would directly affect fossil fuel companies and their investors, namely those that are making extraordinary profits from fossil fuels, the

burning of which is the primary contributor to climate change. The shareholders of such corporates are primarily the rich, with the Trades Union Congress finding that UK taxpayers earning over £150,000 (barely 1% of all taxpayers) capture around 22% of all direct income from UK dividends.⁶⁷ According to the UN, the use of fossil fuels is by far the largest contributor to global climate change, accounting for over 75% of global greenhouse gas emissions and nearly 90% of all CO₂ emissions.⁶⁸ According to the North Sea Transition Authority, the carbon dioxide intensity⁶⁹ of UK oil and gas production in 2021 was higher than the average.⁷⁰ A recently published study poses that the emissions from 21 fossil fuel companies between 1988 and 2022 mean they owe US\$209bn per year in compensation for extreme weather and other climate change impacts predicted to occur around the world between 2025 and 2050.⁷¹

The International Energy Agency states that the emissions from any new oil and gas fields are not compatible with staying on a 1.5°C pathway.⁷² Instead of rewarding the production of polluting fuels, the UK government should encourage investment in a fast and just transition to renewable energy sources. However, oil and gas companies investing in renewables shouldn't receive investment relief for renewables greater than those available to other energy companies, and this must not be for renewables for the purposes of powering fossil fuel extraction (as with the current decarbonization allowance).⁷³

PROTECTING LOW-INCOME GROUPS

The distributional impacts of the excess profits tax largely depend on the extent to which fossil fuel extraction companies attempt to pass the tax on to energy consumers in the domestic sector. Because it focuses on excess profits, there should be no need to pass the additional cost on to the consumer – yet there is a risk that this could still happen.⁷⁴ As such, this tax option should be combined with measures such as price caps and targeted financial assistance to ensure that low-income households do not lose out. There is a clear precedent for this in terms of the current energy price cap and the various cost-of-living payments announced by the UK government during 2022.⁷⁵

Currently, most of the untaxed profits of fossil fuel producers are being paid out in dividends to investors and repurchasing shares to increase shareholder value.⁷⁶ Often it is either the government, shareholders or consumers who must ultimately pay for increased taxation which can be 'passed on'. To ensure that low-income consumers are protected and to incentivise a just energy transition, governments should also require dividends paid out to shareholders to be capped, and a proportion of them to be invested in a just transition to renewables.⁷⁷ During the coronavirus pandemic, the European Central Bank asked banks not to pay dividends or buy back shares to ensure they could continue to lend to households and small businesses.⁷⁸ There is also precedent for doing this among private companies: the French insurance company MAIF has committed to allocating 10% of its annual profits to supporting biodiversity and climate action, which could be described as an 'ecological dividend' of sorts.⁷⁹

PREDICTABILITY, FEASIBILITY AND EASE OF IMPLEMENTATION

As this tax is deliberately designed to reduce excess rather than usual profits, we would expect revenues to be volatile as – by definition – the tax is only paid if profits are excessive. In terms of technical feasibility, the excess profits tax would be implemented at the UK level as a tax on the profits of fossil fuel extraction companies. This would be along similar lines to the current Corporation Tax system and should be relatively simple to implement.

The IMF states that a ‘supplementary tax on corporate profits when a certain profitability threshold is met [...] is relatively easy to apply’.⁸⁰ To ensure compliance by oil and gas producers, current licences to extract gas and oil from the UKCS could be made conditional on the payment of the excess profits tax (in years where excess profits arise), as with the current corporate taxes on this sector. To combat the risk of companies shifting profits elsewhere to avoid paying higher taxes, governments and relevant international institutions should work together to end the race to the bottom on corporate taxes, including by improving tax transparency and supporting the UN Secretary General’s proposal for a UN Framework Convention on International Tax Cooperation.⁸¹

Politically, while fossil fuel companies may object, in general the UK public is very supportive of a more rigorous windfall tax, with 84% of people who voted Conservative in 2019 and 74% of people who voted Labour believing that ‘a windfall tax on the excess profits of energy producers should be included as part of paying for [an energy] price cap’.⁸²

EFFECT ON EMISSIONS

The most effective way to stop emissions from fossil fuel extraction and production would be for the government to stop issuing new licences, combined with a just transition for workers. However, a permanent excess profits tax, as outlined here, can both raise urgently needed climate finance and send a strong signal to companies that they should shift to renewable energy. Currently, fossil fuel producers are investing little of their profits in renewable energy sources. Client Earth estimates that between 2010 and 2018, Shell dedicated just 1% of its long-term investments to sources of low-carbon energy such as wind and solar.⁸³ Global Witness estimates that only 1.5% of Shell’s total expenditure in 2021 was for wind and solar power generation.⁸⁴

Revising the existing and inadequate EPL will hopefully reduce the incentive for new investments in fossil fuel extraction, but this should be paired with incentives to invest in just renewable energy solutions. However, a possible risk from the tax is if companies seek to reduce reportable profits so they are under the threshold of the excess profits tax, through investing more in oil and gas projects in particularly profitable years.

Box 4: Excess profits taxes should not be limited to energy

Although beyond the scope of this report, to end crisis profiteering, excess profits taxes should be explored for more than just the fossil fuel industry. In 2021 and 2022, Oxfam found that 722 mega-corporations raked in \$1 trillion a year in windfall profits, with an 89% jump in total profits compared to average total profits in 2017-2020.⁸⁵

The Spanish government put in place a temporary windfall tax on large energy firms and banks in 2022, to mitigate the impact of high energy costs and inflation on low-income households.⁸⁶ This puts a 4.8% tax on banks' income from interest and commissions, and a 1.2% tax on utility companies' sales (except for those originated under regulated operations and outside Spain). Although the tax rates might seem low, Spain's windfall taxes apply to turnover (gross profits) as well as to sectors beyond energy that are making excess profits during this crisis.

At the end of 2022, Croatia went further and approved legislation implementing a windfall tax on all sectors. It is set at 33% and applies to companies with income over HRK 300m (around £34.25m) and taxable profit that is at least 20% higher than the average taxable profit between 2018 and 2021.⁸⁷



OPTION TWO: REDIRECTING UK FOSSIL FUEL PRODUCER SUBSIDIES

When the UK held the COP26 Presidency, it oversaw the 'Glasgow Climate Pact', which calls upon countries to 'phase-out... inefficient fossil fuel subsidies' and has committed to ending public financing of overseas fossil fuel projects.⁸⁸ Yet the UK gives many types of relief to oil and gas companies in the North Sea: tax relief for exploration, tax relief for new fields, decommissioning relief deeds, and Research and Development tax relief on increased extraction technologies. These are producer subsidies as opposed to consumer subsidies, the latter referring to supports given to individuals or households to reduce the cost of purchasing goods or services.⁸⁹

The UK CCC has explicitly said it does not think that any fossil fuel subsidies should be classed as 'efficient' in the UK⁹⁰ and, considering current record profits for fossil fuel production, it is hard to see any justifiable reason for subsidizing the industry. Yet bafflingly, in 2016 the sector cost the UK exchequer more than it contributed – by around £369m.⁹¹ Not only are they making enormous profits, but Shell has announced it intends to grow its natural gas business, while BP has weakened commitments to reduce oil and gas output, with both companies demonstrating ongoing commitments to polluting fossil fuel production.^{92,93} Real reductions in fossil fuel production are needed to quickly steer the world to a 1.5°C pathway. As the

UN Secretary General recently said, 'Let's face facts. The problem is not simply fossil fuel emissions. It's fossil fuels – period'.⁹⁴

As noted in Option 1, there is also an element of the Energy Profits Levy which is effectively a subsidy for new oil and gas development in the UKCS.⁹⁵ This means that for every £100 spent on new oil and gas development, these companies get roughly £45 off their tax bill.⁹⁶ The Institute for Fiscal Studies (IFS) criticised the Investment Allowance for being so generous that 'a massively lossmaking investment could still be profitable after tax'.⁹⁷

PROPOSED DESIGN

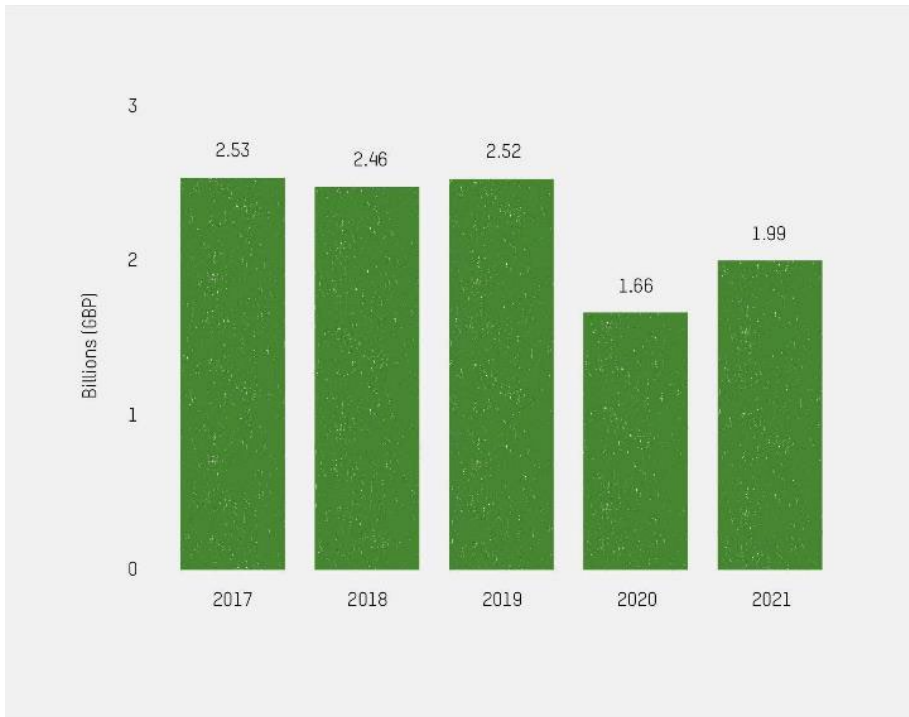
This proposed measure would involve redirecting financial incentives away from enabling polluting practices and towards climate-just solutions. In practice, this would simply mean the UK choosing to invest existing revenues differently. We propose that it commits to investing at least the average amount it currently gives to fossil fuel producers in climate-just action instead.

The OBR estimates that £25.3bn will be spent on new oil and gas projects between the second half of 2022 and the end of 2027, which the Stop Rosebank campaign calculates will result in £11.4bn in tax relief over the same period.⁹⁸ As outlined in Option 1, we recommend that this allowance is scrapped and the money goes to climate action instead.

ESTIMATED SCALE OF ADDITIONAL FINANCE

Using data from the OECD on support to the fossil fuel industry averaged over the years 2017-2021, we estimate that the UK has provided around £2.2bn of support per year to fossil fuel producers for activities such as exploration and decommissioning.⁹⁹ Therefore, we estimate that the net revenue yield from redirecting these reliefs and allowances would also **be £2.2bn annually.**

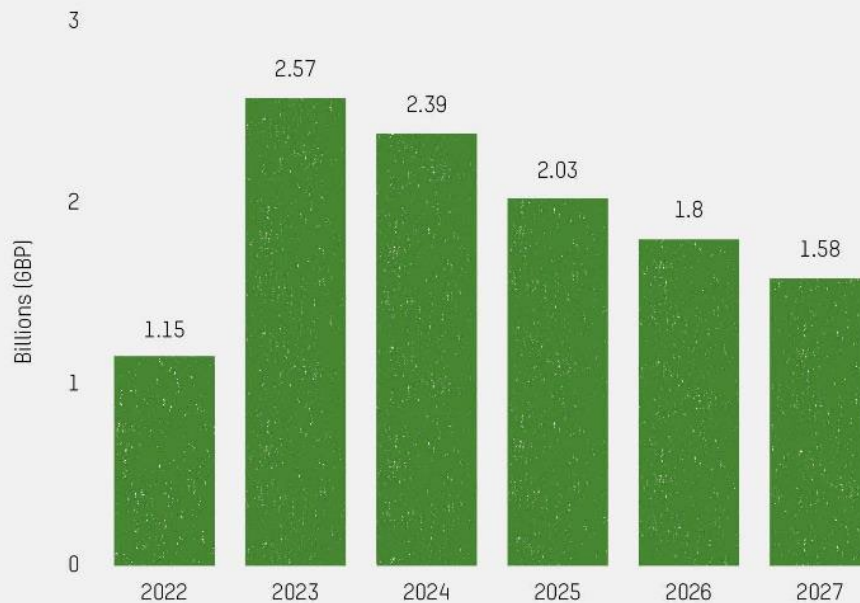
Figure 1: Estimates of fossil fuel producer subsidies from the UK government, 2017-2021



Note: Figures are based on our own estimates made using OECD fossil fuel support data for the United Kingdom.

In 2022, the OBR assumed that companies invested £2.55bn in new oil and gas fields.¹⁰⁰ Given that the Investment Allowance under the EPL results in £45 in relief being given for every £100 invested, we estimate that this means around **£1.15bn in relief was given** for new fossil fuel projects.

Figure 2: Estimates of fossil fuel subsidies under the Investment Allowance linked to the UK Energy Profits Levy, 2022-2027



Note: Figures are based on our own calculations using the supplementary fiscal tables from the OBR's March 2023 Economic and Fiscal Outlook.

As a result, in 2022 around £3.35bn could have been redirected away from the damaging subsidies outlined above and towards climate-just action.

TARGETING THOSE RESPONSIBLE FOR EMISSIONS

This option would target the same group as outlined in Option 1 above.

PROTECTING LOW-INCOME GROUPS

This option would have the same potential effects on low-income groups as in Option 1 above and the same protective measures would need to be in place to prevent companies passing on the costs to low-income consumers.

PREDICTABILITY, FEASIBILITY AND EASE OF IMPLEMENTATION

The revenue from this option could be predictable, as it would divert an annual sum of money that is currently given to support fossil fuel production towards climate action. As a result, it should also be easy to implement. In most cases this could be done at the UK government's next financial statement, for example in the Autumn Statement 2023, although in some cases additional primary legislation might be required and this would have to be explored.

Polling has found that 65% of the British public want to see the government shifting the subsidies it currently provides to domestic oil and gas firms to support the expansion of renewable energy and increasing the energy efficiency of people's homes.¹⁰¹

The UK government claims that it does not provide any fossil fuel subsidies, as it narrowly defines these as government action that ‘lowers the pre-tax price to consumers to below international market levels’.¹⁰² Therefore, it does not count producer subsidies under its definition, despite these being an obvious incentive to fossil fuel exploitation in the UKCS. The lack of acceptance of this could be a barrier to the government acknowledging the need to end fossil fuel producer subsidies, as evidenced in Box 5.

Additionally, HM Revenue & Customs warns against assuming a quid pro quo relationship in removing reliefs and subsequently increasing revenue. The Investment Allowance is supposed to stop companies from shifting their investments elsewhere but in July 2022, BP’s UK head admitted that the windfall tax would not deter its investment in the UK’s energy system.¹⁰³

EFFECT ON EMISSIONS

Fossil fuel producer subsidies are unjust, distort markets, and by encouraging the use of polluting energy sources over cleaner alternatives hinder the transition to a low-carbon economy. While global in scope, research by the International Institute for Sustainable Development (IISD) found that the average country would reduce emissions by 6% by 2030, compared to business as usual, if fossil fuel subsidies were removed.¹⁰⁴

Box 5: Citizens take UK government to court over fossil fuel subsidies

In 2021, a group of citizens (supported by Uplift) took the UK government to the High Court for using public money to subsidise oil and gas – in the process highlighting that the UK is the most profitable country in the world for oil companies to develop large offshore fields.¹⁰⁵ They claimed that the Oil and Gas Authority’s¹⁰⁶ strategy encouraged companies to produce oil and gas without considering the economic repercussions on the public purse and the whole of the UK, and that this was at odds with the UK’s legal duty to achieve net zero emissions by 2050.¹⁰⁷ Despite the judgement acknowledging that oil companies can profit from the UK’s tax regime, the court did not rule in their favour.¹⁰⁸



OPTION THREE: A FREQUENT FLYER LEVY

Below, we look at analysis conducted by the New Economics Foundation (NEF).¹⁰⁹ Transport is a key driver of climate change, with air travel being particularly damaging.¹¹⁰ Aviation emissions account for around 7% of the UK's greenhouse gas emissions and in 2018, were 88% above 1990 levels.¹¹¹ A Frequent Flyer Levy would progressively tax flights, where each additional flight taken by an individual in a year is subject to proportionately higher taxes. This measure would be implemented via an escalating tax on all tickets for international and domestic flights taking off from within the UK and would replace the current flat rate Air Passenger Duty (APD).

While a UK-wide Frequent Flyer Levy, implemented by the UK Government, is likely to be most effective and efficient, the power to introduce a devolved tax on the carriage of passengers by air from airports in Scotland has been devolved to the Scottish Parliament and this could give the Scottish government the ability to introduce a separate Frequent Flyer Levy.¹¹²

PROPOSED DESIGN

Currently, everyone who buys a plane ticket for a flight taking off from the UK pays a set amount in Air Passenger Duty, depending on the distance of the destination and the class of travel. A Frequent Flyer Levy would make the amount paid in tax dependent on the number of flights already taken by an individual in a particular year. As such, someone who flies only once a year may not be affected at all or may even pay a lower price, whereas

someone who flies often and is therefore disproportionately responsible for aviation emissions would see costs rise.

Flight	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th
Leisure (£)	0	25	60	105	160	225	300	385	480	585
Business (£)	25	60	105	160	225	300	385	480	585	700

ESTIMATED SCALE OF ADDITIONAL FINANCE

NEF estimates that a progressive Frequent Flyer Levy could raise up to approximately £15bn in 2050. These revenues would also compensate for the effective subsidization of air travel by the UK government due to the lack of VAT and fuel taxes levied on air travel, which causes the Treasury to lose out on around £7.4bn annually in potential tax revenue.¹¹³ In 2022, a UK Frequent Flyer Levy could **have raised around £4.09bn**.¹¹⁴

TARGETING THOSE RESPONSIBLE FOR EMISSIONS

‘Aviation [has] contributed approximately 4% to observed human-induced global warming to date’.¹¹⁵ Just 15% of people in the UK take 70% of all flights,¹¹⁶ which means that a small group of people is responsible for most of this pollution. Globally, only 1% of the population is responsible for 50% of CO₂ emissions from commercial aviation.¹¹⁷

PROTECTING LOW-INCOME GROUPS

Crucially, a Frequent Flyer Levy would maintain access to air travel for all, while disincentivising it only for people who fly the most. Modelling by NEF shows that a Frequent Flyer Levy could cause the highest-income 20% of the UK population to reduce flying by around 30%, while the 20% with the lowest income would be able to take the same number of flights as if there were no levy.¹¹⁸

An adult who flies a moderate amount could see a reduction in the amount of tax they pay¹¹⁹ and, according to NEF, ‘a charge on frequent flyers would make post-pandemic holidays cheaper for [the] UK’s poorest households’.¹²⁰

As a result, a Frequent Flyer Levy would be progressive in nature. This is especially true when compared to alternatives for reducing aviation emissions. For instance, NEF estimates that increasing the Air Passenger Duty at a flat rate across the board would cause the lowest-income 20% of the UK population to reduce their flights more than the top 20%.¹²¹ As such, a Frequent Flyer Levy is a fairer option.

Finally, according to NEF, a Frequent Flyer Levy would do ‘the best job of protecting jobs in the UK’s regions outside London and the Southeast where, at least historically, unemployment rates have been higher’.¹²² To maintain the accessibility of remote areas of the UK, including islands,

NEF estimates that a progressive Frequent Flyer Levy could raise up to approximately £15bn in 2050. These revenues would also compensate for the effective subsidization of air travel by the UK government due to the lack of VAT and fuel taxes levied on air travel, which causes the Treasury to lose out on around £7.4bn annually in potential tax revenue.

flights to and from locations that are particularly difficult to access over land may have to be exempted.

PREDICTABILITY, FEASIBILITY AND EASE OF IMPLEMENTATION

The practical details of how a Frequent Flyer Levy would be implemented still need to be developed. One option could be to require all air passengers flying to and from the UK to sign up for an account that would be linked to their passport number or other personal details. Care must be taken to avoid evasion and the misuse of personal data.

Fluctuations in demand for air travel may also affect the revenues from a Frequent Flyer Levy. The events around COVID-19 have shown that major shocks may significantly affect demand, but also that those effects are largely temporary. In the long term, demand for air travel is expected to increase.

A Frequent Flyer Levy has the potential to enjoy broad public support. In 2020, members of a citizens' assembly called by the House of Commons¹²³ saw taxes raised on frequent flyers as 'fairer than alternative policy options, such as a carbon tax that would impact all flights'.¹²⁴ 80% of assembly members 'agreed' or 'strongly agreed' that 'taxes that increase as people fly more often and as they fly further should be part of how the UK gets to Net Zero'. Seventy-eight percent of Scotland's Climate Assembly, which was selected to be representative of the population of Scotland, supported the introduction of a Frequent Flyer Levy.¹²⁵ However, the UK government's 'Jet Zero' plan,¹²⁶ which lays out part of the strategy to achieve net zero carbon emissions within the aviation industry, focuses explicitly on 'preserv[ing] the ability for people to fly' and does not include any plans to tax passengers or structurally reduce demand.

The UK government expects emissions to decrease through investing in sustainable aviation fuel. This strategy has been widely criticised by climate experts and campaigners, in part because it relies heavily on technology that has not yet proven itself and will likely remain pricier than traditional fuels,¹²⁷ and because it effectively makes all taxpayers pay for the behaviour of frequent flyers.¹²⁸ The UK government needs to acknowledge that reducing frequent flying is a necessary part of lowering emissions for a Frequent Flyer Levy to be a realistic policy option.

In Scotland, the Scottish government plans to replace Air Passenger Duty with an Air Departure Tax (ADT), using devolved powers held by the Scottish government under the 2016 Scotland Act.¹²⁹ While the subsequent Air Departure Tax (Scotland) Act 2017 made provision for such a tax,¹³⁰ its introduction has been delayed by the Scottish government to allow resolution of issues relating to an exemption for the Highlands and Islands.¹³¹ However, encouragingly, it has committed to 'reviewing APD rates and bands [...] to ensure that any policy aligns with [its] climate change goals'.¹³²

Yet, the Committee on Climate Change has reported that '[t]he Scottish Government has committed to growth in aviation following the pandemic [with] no commitments to use its devolved powers [...] to curb aviation growth'.¹³³ A UK-wide FFL would likely be the most simple and effective

option, as it would prevent people crossing from Scotland to take a flight from England to avoid paying. However, this should not prevent the Scottish government from exploring the use of its devolved powers in this area and, as a minimum, bringing attention to the need for frequent flyers to pay more.

EFFECT ON EMISSIONS

According to modelling by NEF, a frequent flyer tax will reduce demand for air travel, and thus reduce emissions. The scenario where a Frequent Flyer Levy brings in around £15bn in tax revenue annually assumes that CO₂ emissions from air travel in 2050 will be no higher than they were in 2005.¹³⁴



OPTION FOUR: TAXING HIGH-EMITTING LUXURY MODES OF TRANSPORTATION

The very wealthiest individuals in a society are responsible for far more pollution than most people, in part because of their extravagant lifestyles. 2020 research by Oxfam and the Stockholm Environment Institute has shown that the richest 1% of the world are responsible for twice as many emissions as the poorest 50%.¹³⁵

PROPOSED DESIGN

This option involves the UK government, and potentially the Scottish government using devolved powers, introducing new taxes on luxury modes

of transport: specifically, private jets and superyachts. These are examples of lifestyle and consumer goods that are inaccessible to most of the population and allow the ultra-wealthy to pollute far beyond their fair share. The proposed tax would work slightly differently for each mode of transport, based on its unique characteristics.

Private jets: introduce a new, higher rate of Air Passenger Duty (APD)

In 2022, an estimated 90,000–100,000 private planes¹³⁶ took off in the UK, causing around 501,077 tonnes of CO₂ emissions – more than the emissions of the Marshall Islands, Vanuatu and Dominica combined.¹³⁷ Because of these high emissions levels, some organizations, including Greenpeace, have proposed a ban on private jets.¹³⁸ Until such a ban is put in place, private jet passengers should be subject to a new, higher APD rate. There are currently three rates of APD, one of which is a ‘higher rate’ for heavy aircraft that are equipped to carry fewer than 19 passengers. Chartering a private jet to fly from London to Glasgow can cost upwards of £6,400,¹³⁹ while the higher rate of APD comes in at only £78 per person per (domestic) flight – around 1% of the total cost of the charter flight. Additionally, some private jets are lighter than the 20 tonnes that are required for the higher rate to be levied. Since these rates are probably too low to discourage the rich from flying in private jets, and in order to raise substantial new funds, a new, even higher APD rate should be introduced for all private jet passengers.

The Campaign for Better Transport has previously argued for a new ‘super rate’ of APD for all private flights, at 10 times the current highest rate for domestic flights: £780.¹⁴⁰ They estimated that this could result in up to £1.44 billion of additional revenue. Based on a lower average of 4.7 passengers per plane, we estimate that additional revenues would likely be closer to £322.4 million. Instead of a flat rate for all destinations, another option would be to multiply the higher rate by 10 for all destination bands. We estimate that this could result in additional revenues of £497.7 million.

The aim is to introduce taxes that will either raise substantial public funds or discourage private jet use, or both. Further research is needed to determine the best rates to achieve these goals. If the Frequent Flyer Levy proposed under Option 3 is implemented, it may supersede the APD. In this scenario, the new higher rate of APD proposed above should be retained and turned into a private-jet-only duty.

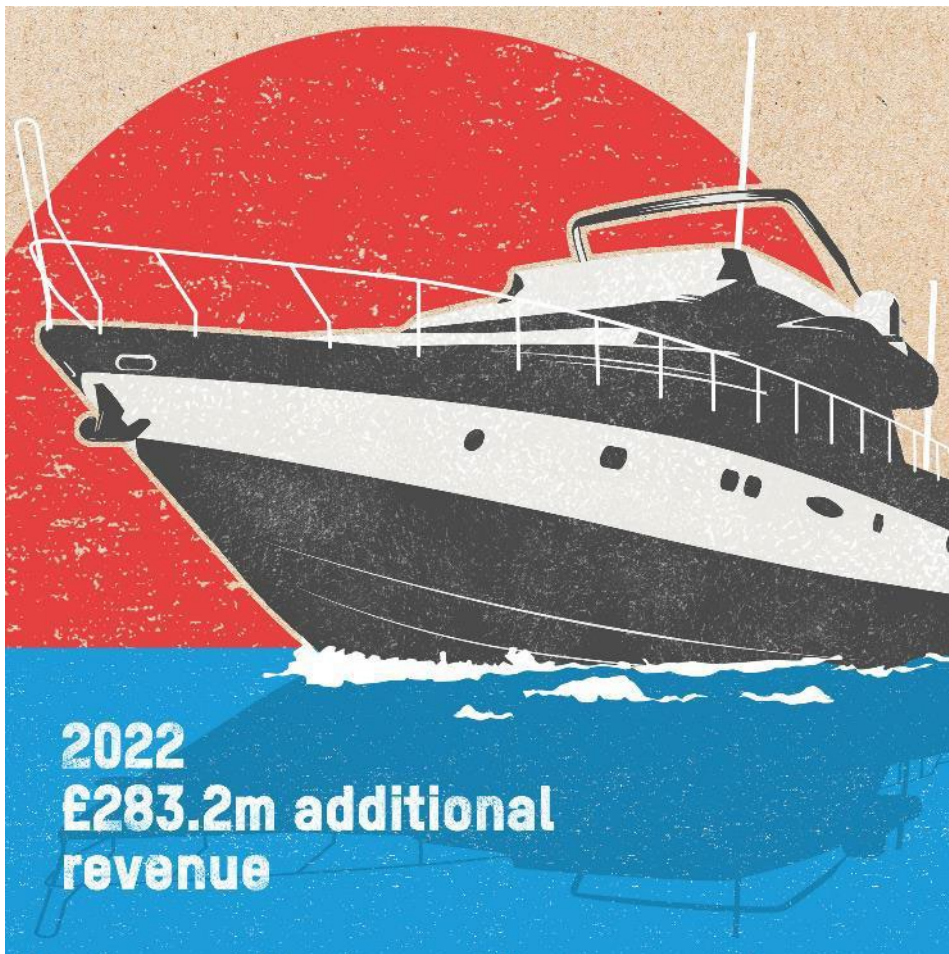
Superyachts: introduce a tax on superyacht ownership in the UK

A superyacht is generally considered to be a boat used for recreational purposes that is more than 24 metres in length. At an average price of £4m,¹⁴¹ and with annual operating costs of around 10% of the initial value,¹⁴² only the super-rich can buy and maintain a superyacht. While yacht sales are subject to VAT, there is no equivalent of car taxes for boats. Registering a boat with the Maritime and Coastguard Agency for the first time can cost as little as £153 for five years.¹⁴³ As such, we propose that a tax on superyacht ownership is introduced in the UK, at a rate of at least 20% of the value of the yacht per year.

ESTIMATED SCALE OF ADDITIONAL FINANCE

Table 3: Estimated additional revenues from taxing high-emitting luxury modes of transportation

<i>Mode of transport</i>	<i>Proposed measure</i>	<i>Initial annual yield</i>
Private jets	Introduce a new, higher rate of Air Passenger Duty	£322.4m–497.7m ¹⁴⁴
Superyachts	Introduce a tax on superyacht ownership in the UK	£283.2m ¹⁴⁵



TARGETING THOSE RESPONSIBLE FOR EMISSIONS

Private jets emit around 10 times more pollutants per passenger than commercial planes.¹⁴⁶ The use of private planes is often for very short distances; Greenpeace found that 55% of private flights in Europe last year were for distances under 750km – which would be easily travelled via much lower-emitting public transport.¹⁴⁷ Superyachts emit around 7,020 tons of CO₂ per year, which is over 1,500 times higher than the annual emissions of a typical car.¹⁴⁸ Roman Abramovich's yachts are estimated to have accounted for more than 22,000 tonnes of CO₂ emissions in 2018.¹⁴⁹

PROTECTING LOW-INCOME GROUPS

Due to the cost of owning a superyacht or using a private jet, these proposed measures would only target the ultra-rich and wealthy companies. These are egregious examples of excessive consumption and pollution.

PREDICTABILITY, FEASIBILITY AND EASE OF IMPLEMENTATION

Private jets and motor yachts are reliant on fossil fuels, so the revenues from taxing their use can usually be expected to be relatively stable.

The Air Passenger Duty already exists at the UK level and is being enforced reliably, so there should be no administrative barriers to increasing it. The Scottish and UK Government should work collaboratively to resolve any issues related to exemptions for remote communities, thereby allowing the Scottish Government to move forward with a replacement Air Passenger Tax, including an additional higher rate for private jet passengers.

Owning superyachts and flying private jets are egregious examples of excessive consumption and pollution.

A tax on yacht ownership at the UK level would be new and may be harder to enforce. As these are highly mobile assets, a superyacht tax may lead to high levels of avoidance, for instance by owners moving their yachts to countries where such a tax is not in place or finding other ways to avoid registering their yachts in the UK. One way to combat such tax-dodging behaviour may be to ban yachts from sailing in UK waters if the superyacht tax has not been paid. Ultimately, however, this type of tax will be most effective when applied equally across a wide range of countries.

EFFECT ON EMISSIONS

It is not clear how much of a disincentive such a tax would be to the super-rich using private jets and superyachts, as they have large amounts of disposable income. However, it would send an important signal from government that high-emitting luxury consumption is not desirable.¹⁵⁰

Box 6: High emitting luxury cars

Although the popularity of electric vehicles is growing, cars continue to be a major source of greenhouse gas emissions in the UK.¹⁵¹ According to the National Audit Office, total carbon emissions from passenger cars have reduced less than expected, in part due to a rise in the sale of sports utility vehicles (SUVs).¹⁵² At the end of 2021, 1.4% of all cars registered in the UK fell into the highest emissions tax band, meaning they emitted more than 255g of CO₂ equivalent emissions per kilometre driven.¹⁵³

This percentage has decreased steadily over the years, but still represents 463,300 cars. For those who require a car for work, such as carers, it can be prohibitively expensive to replace older, high-emitting cars without government subsidies. However, in 2021, 17,300 new cars in the highest emissions band were registered in the UK,¹⁵⁴ and these were primarily expensive luxury cars. The UK government plans to ban the sale of new petrol and diesel cars by 2030.¹⁵⁵ In the meantime, people who continue to buy and use new high-emitting luxury cars should face additional taxes to account for the unnecessary additional pollution that they cause.

Such taxes already exist to some extent. There are two forms of car tax in the UK: a tax when the car is first registered, and an annual tax from the second year onwards. The tax at registration is determined by CO₂ emissions: in 2023, owners of cars in the highest emissions band pay £2,605. The annual tax is roughly the same for all petrol and diesel-powered cars, but owners of cars costing more than £40,000 pay an additional £390 charge for the first five years.

While it is possible to increase these taxes for buyers of new high-emitting luxury cars, the additional revenues would likely be lower than for the other options presented in this paper; especially from 2030 onwards. As such, this option has not been further explored here, but may be a topic for future analysis.

DELIVERING A UK-WIDE WINDFALL FOR CLIMATE JUSTICE

The tax options in this paper are either wholly controlled by the UK government or are likely to be most effective if introduced on a UK-wide basis, with the additional revenues being collected by the UK government. However, their use could generate vital windfall payments to accelerate climate justice in Scotland, Wales and Northern Ireland. If a proportion of the additional revenues raised by the UK government was spent on climate action within England – for example, through insulating homes – the Block Grants, which are transferred to the devolved governments by the UK government (and which make up the majority of devolved government budgets), would also increase.¹⁵⁶ How the additional revenue raised by these new options is spent by the UK government has potential implications for the funding that devolved governments then receive and this additional funding should be spent in support of climate justice across the UK.

To demonstrate this, we have set out hypothetical examples below for annual spend at the Westminster level and what that would then mean for devolved budgets from adjusting the Block Grant:

- If the UK government were to spend £5bn of these additional revenues on green public transport in England, this would mean an additional **£371.39m for Scotland**.
- If the UK government were to spend £2bn of these additional revenues on insulating housing in England, this would mean an additional **£93.62m for Wales**.
- If the UK government were to spend £1bn of these additional revenues on improving community resilience to extreme weather in England, this would mean an additional **£28m for Northern Ireland**.

Due to the devolution of some tax powers to Scotland and Wales, consideration would need to be given as to whether new UK taxes require corresponding changes to devolved budgets via the Block Grant Adjustment.¹⁵⁷

However, devolved governments should not wait for action to make polluters pay at UK level, and should use their devolved power to drive change now. Encouragingly, amid growing concern about missed climate targets, Scotland's Cabinet Secretary for Net Zero says she 'firmly believes in the polluter pays principle'.^{158, 159} While not explored within this paper, Scottish civil society organizations have proposed several ways to raise finance using devolved powers, including raising income tax on high earners. They also propose complementary measures to incentivise behaviour change, for example, linking the level of business rates to a business' carbon footprint, workplace parking levies, and by taxing larger landowners who fail to manage their land to reduce emissions.¹⁶⁰

Wales's status as one of the poorest nations in Europe, and the uncertainty surrounding the availability of EU funding and the UK government's Shared Prosperity Fund for development projects, underlines the critical importance of ensuring that finance for climate action is raised in a fair way. By holding wealthy polluters accountable, the UK government and devolved governments can generate revenue to facilitate progress that simultaneously reduces poverty and emissions, while building resilience to a changing climate.

3 CONCLUSION

For too long, polluters across the UK have been let off with not picking up the climate bill for their harmful actions. This report demonstrates that there are a number of ways for the UK to fairly raise new finance for climate justice, by fairly making polluters pay. It is inexcusable that, while the UK is far behind on adequately funding climate-just action, its polluters are announcing record profits and private jet sales and flights are booming. What is needed is the political courage to redirect this finance away from the wealthiest polluters and towards activities that enable climate justice.

If all four options detailed in this paper had been in place in 2022, they could have raised between £10.25bn and £12.62bn in additional resources. That is over double the amount the UK delivered in climate finance to developing countries in the six years leading up to 2021.¹⁶¹ If coupled with 20% of proceeds from measures to fairly tax wealth, this pot would grow up to between £14.6bn and £23.1bn that could be available to prevent climate catastrophe and ensure a just transition. That is enough to cover the cost of insulating 7 million UK homes and fitting them with low-carbon heating solutions and still have over £11bn left.¹⁶² If these options to raise additional finance had been in place in 2022 and targeted towards climate-just action, they could have saved lives.

Given the speed and scale of transformation required for climate justice, we need both national and globally coordinated action to raise finance, and all possible levers that meet the criteria in this paper need to be considered by the UK government and, where relevant, devolved governments.

If the options presented here were to be implemented and the revenues directed towards accelerating climate-just action, that would be a large step towards achieving climate justice. However, it is important to note that there are more ways to raise finance across the UK than those highlighted in this paper, and that as these polluting practices reduce over time, so too will the revenues they generate. As a result, public finance from other progressive forms of general taxation is also central to the just and transformational climate action we need.

Beyond the domestic UK context, several global initiatives aimed at raising new finance for climate justice are gaining steam.¹⁶³ From proposals around a new global shipping emissions levy to calls for global fossil fuel profit taxes, many of these could generate further genuinely new finance in a fair way.¹⁶⁴ The UK should actively support such initiatives aimed at truly raising new finance for people on the frontlines of the climate crisis.

The climate bill is large and growing, and those with most responsibility and the greatest capacity should be paying it. Currently, the price of inaction is being paid disproportionately by people living in poverty. Policymakers in the UK urgently need to implement new mechanisms, such as those outlined in

this paper, to raise finance fairly and reduce emissions by making the biggest and richest polluters pay.

Faster action to tackle the climate crisis, and to support those already impacted by it, can no longer be delayed. This payment is already long overdue.

4 RECOMMENDATIONS

As a first step, **the Prime Minister** should make an explicit commitment to implement new mechanisms to make polluters pay for climate action, while acknowledging the need to rapidly reduce emissions and put an immediate end to new oil and gas licences in the North Sea.

To fairly raise revenues for climate justice the UK government should consider:

- Start properly taxing extreme wealth and use part of the revenues to accelerate climate justice in the UK and overseas.
- Amend the existing Energy Profits Levy by making it a permanent mechanism which kicks in when profits are 10% or more above the average and remove the damaging fossil fuel investment incentive.
- Stop using public finance to support fossil fuel producers operating on the UK Continental Shelf, and instead put forward the same amount of finance as an annual contribution towards climate justice.
- Begin to tax the climate-wrecking luxury purchases of the ultra-wealthy by placing a 20% tax on superyachts and raising top rates of the Air Passenger Duty for private jet usage.
- Introduce a progressively increasing Frequent Flyer Levy that targets those who are responsible for the most CO₂ emissions when it comes to flying.
- Commit to annually reinvesting all revenues from the UK Emissions Trading Scheme in just and transformational climate solutions in the UK and abroad.

The devolved governments of Scotland, Wales and Northern Ireland should:

- Apply pressure on the UK government to adopt robust UK-wide options to make polluters pay.
- Commit that any resultant increases in funding flowing to the devolved government through the Block Grant would be spent on climate-just action.
- Not wait for the UK government to act, and use existing devolved powers, such as increasing Income Taxes for high earners and better targeting wealth and polluters at local level, to tackle income and wealth inequality, reduce emissions and to raise vital finance for climate action and poverty reduction.
- Rapidly explore and introduce innovative ways to make polluters pay at the devolved and local government levels, for example:

- The Scottish government could impose an additional higher rate of Airport Departure Tax for private jets using Scottish airports and transparently explore the use of devolved powers to implement a Frequent Flyer Levy in Scotland.
- Introduce and scale innovative measures at the local level, such as workplace parking levies and linking business rates with a firm's carbon footprint or level of climate action and invest the revenues in enabling a just transition towards net zero.

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