



# Making Polluters Pay and Delivering Climate Justice

A briefing on the use of fiscal measures  
to tackle the climate crisis

October 2022

# 1. Introduction

We face linked climate and nature crises and tackling them requires urgent and sustained new investment, globally and in Scotland. Scotland missed three annual emissions reduction targets in a row and was only successful in meeting the 2020 target due to the travel restrictions related to the temporary Covid-19 pandemic.<sup>1</sup> The UK Committee on Climate Change (UKCCC) has warned that future targets will be “difficult to meet”<sup>2</sup>, and there is a need to use all available levers to accelerate emissions reduction, while restoring nature.

At the same time, the nations and people who did least to contribute to climate change face spiralling climate impacts, most starkly illustrated by the recent severe flooding in Pakistan. There is a need to substantially increase financial transfers from rich, high-polluting countries to support impacted communities to adapt their lives and livelihoods and to address irreversible climate-induced losses and damages, which will only grow without accelerated emission reduction.

These twin investment priorities – more investment in cutting emissions alongside enhanced international support for impacted communities – must be delivered without diverting resources from other urgent priorities, whether domestic poverty reduction or Scotland’s contribution to international development and humanitarian response. This means either diverting money from other existing budget lines or identifying new and additional sources of revenue.

Over many years, SCCS has promoted action to help tackle the climate crisis, with wider recommendations made by those more focused on the nature crisis. Aiming to increase our knowledge of how fiscal measures<sup>3</sup> could be used to help accelerate, and fund, Scotland’s climate ambitions, SCCS commissioned research that sought to explore:

- The further use of fiscal powers to embed the ‘polluter pays principle’ and drive behaviour change amongst high-emitters to reduce Scotland’s territorial and consumption-based emissions; and
- The use of fiscal powers to raise significant new revenue to accelerate action in Scotland – to reduce emissions and advance adaptation (including linked measures that restore nature) – while funding global climate justice commitments.

Following an open tender process, Dr Richard Dixon, the former Director of both Friends of the Earth Scotland and WWF Scotland, was appointed in June 2022 to undertake this work. His analysis was supported by a steering group of SCCS members, including Oxfam Scotland and SCIAF who provided funding towards this research. SCCS is also grateful to the external reviewers for their valuable feedback. The report was finalised in September 2022 and is available here [www.stopclimatechaos.scot/financing-climate-justice](http://www.stopclimatechaos.scot/financing-climate-justice)

## The Cost of Living Crisis

We are currently experiencing a cost of living crisis that is impacting those on the lowest-incomes worst of all. Brexit impacts, COVID recovery, the war in Ukraine driving rapidly rising inflation, escalating interest rates and spiralling energy bills are all contributing to challenging economic circumstances. Responding to this will dominate political debate and will be the highest priority for both the UK and Scottish Governments in the months ahead.

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1 <https://www.stopclimatechaos.scot/a-tale-of-two-stories-scotlands-climate-achievements-compared-with-ambitions/>

2 <https://www.theccc.org.uk/publication/progress-reducing-emissions-in-scotland-2021-report-to-parliament/>

3 Fiscal measures are, of course, both devolved and reserved. SCCS’ initial interest is in fiscal levers available to the Scottish Government under devolved powers. However, we are also interested in other levers, that might be employed by the UK Government or by the Government of an independent Scotland (or, one where more powers are devolved). In this briefing, unless stated to the contrary, “fiscal levers” refers to both devolved and reserved powers.

It might be argued, therefore, that this is the wrong time to consider the need to spend more money on reducing emissions or supporting those being impacted by the climate crisis. However, the measures to address the climate crisis and address the cost of living crisis can, in fact, be aligned and complement one another. Thus, it is exactly the right time to have this debate, as we cannot afford to slacken our efforts to avert even deeper climate chaos.

Indeed, the Climate Change Committee's 2022 UK progress report made just this point, in their top recommendation which stated that: *"action to address the rising cost of living should be aligned with Net Zero"*<sup>4</sup>. The measures they called for was a *"sustained push for both energy efficiency improvements and electrification"* and rapid deployment of onshore wind and solar energy schemes.

A cost of living crisis may be *exactly* the time to redirect subsidies and tax breaks, impose windfall taxes on energy companies, and increase revenue from (the top-end) of Income and Corporation Taxes, while looking to better tax wealth, thereby to invest in the solutions which will help people out of the current crisis and avoid similar crises in the future. We strongly endorse First Minister Nicola Sturgeon's recognition that the climate and nature crisis is becoming more urgent, and that Scotland's *"response to the cost [of living] crisis must also deliver for the climate"*<sup>5</sup>.

**SCCS strongly supports the report's recommendation that measures to address the cost of living crisis must also reduce emissions so that they help head off future crises, and that well-designed climate measures can help achieve social and wellbeing goals.**

## 2. The Research

Fiscal measures are important tools governments can use to tackle societal challenges. They are vital in addressing climate change because of the need to incentivise businesses and citizens to change their behaviours, as well as to raise revenues for climate action. Fiscal measures cover everything from taxes, levies, duties and charges to subsidies, loans, grants and guaranteed prices.

Research into using fiscal measures to tackle climate change is quite underdeveloped, here and internationally. The report seeks to help plug this gap by looking at current fiscal measures at different levels of government, and at potential new fiscal measures, including those in use or proposed elsewhere in the world. The fiscal measures outlined in the report were selected from an original long list of 130 potential ideas drawn from a range of sources, including the recommendations of Scotland's Climate Assembly.<sup>6</sup>

The selection process was based on criteria including: the scale of the potential impact in raising funds or changing behaviour; delivery of the polluter pays principle; the speed of potential implementation; and alignment with the principles of social and climate justice. Detailed analysis of the distributional consequences of each measure, including by income, gender, race, age, ability and geographic location – across Scotland and internationally – will be needed.

The report concludes that the debate about how to fund faster climate action at home, while contributing a fair share of international climate finance, is one that every industrialised country must have. It considers this question in the Scottish context and raises a range of ideas. As the report makes clear: some can only be done by Westminster; some can be done by the Scottish Parliament. Some can be started tomorrow; while some need more thinking. Some raise revenue, some help persuade people into lower-carbon behaviour, some even do both. All of them deserve further study. If policymakers do not agree with the report's proposals, they must urgently set out what steps they will take to ensure the outcomes above are fully achieved, and how they will be funded.

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<sup>4</sup> <https://www.theccc.org.uk/publication/2022-progress-report-to-parliament/>

<sup>5</sup> <https://www.gov.scot/publications/stronger-more-resilient-scotland-programme-government-2022-23/>

<sup>6</sup> <https://webarchive.nrscotland.gov.uk/web/20220405135322/https://www.climateassembly.scot/full-report>

### 3. Next Steps

This report illustrates the considerable potential for fiscal measures, of all types, to better support the delivery of Governments' climate change ambitions, whilst delivering significant co-benefits in relation to other key priorities. It is, however, only the start – and a contribution to – the debate. It now needs to be picked up and taken further at a speed that reflects the urgency of the climate crisis.

Thus, **SCCS strongly supports the report's key cross-cutting recommendation that the Scottish Government creates and provides a secretariat for a short-life, independent working group to report to Ministers on the specific ideas and the general principles covered by this report.** Such a group needs to include those with expertise in climate change, in fiscal policy and in social justice. SCCS supports the report's view that obvious participants in this working group would include representatives from the STUC, the Just Transition Commission, the Poverty and Inequality Commission, the Scottish Government's Global South Panel and the Scottish Youth Parliament.

Based on the findings of this report, SCCS considers that the remit of above group, as well as the actions taken by the UK and Scottish Governments, as well as local authorities, should include recognition of the following principles:

- the use of their respective fiscal powers, including their existing tax and spend policies, to incentivise emissions reduction, including by enabling behaviour change while protecting those on low-incomes;
- the use of their respective fiscal powers to increase the overall funds available to spend on activities which accelerate emissions reduction, in a socially and climate just manner, to ensure, as a minimum, that Scotland's legal targets (annual, 2030 and beyond) are achieved;
- the need to increase the funds available to deliver Scotland's fair contribution to climate justice in the global south, including supporting low-income countries to adapt to the climate crisis and to address climate-induced losses and damages, as reparations rather than charity;
- the need to raise current and additional funding to deliver climate justice at home and globally in a manner fully consistent with the polluter pays principle, including acknowledgement that higher emissions are linked, on average, to an individual's level of wealth; and
- the urgency for action – further delaying action at the scale and speed necessary means that more emissions' targets will be missed and the cost of meeting them will grow, alongside our responsibility and compensation due to impacted communities in the global south.

In addition, building on the report's recommendations, SCCS believes that the UK and Scottish Government and/or local authorities should give speedy consideration of the following steps.

#### The Scottish Government should:

- Immediately **make an explicit commitment that it will both maximise the use of its existing fiscal levers and identify new and additional sources of finance, using a polluter pays approach, to accelerate emission reduction in Scotland** and to finance Scotland's international climate justice contributions. This important statement of intent should be made in advance of the Scottish Government's international conference on loss and damage in mid-October and COP27 in Egypt in November. It will set a strong example for parties to the UNFCCC to match at a time when all rich, high-polluting nations must accelerate their emissions reduction and simultaneously increase their financial support to impacted communities.
- **Bolster its very welcome policy and financial contributions to international climate justice, including to address climate-induced loss and damage, in the global south.** It should immediately build on its one-off £2m contribution by making a continued, long-term financial commitment to addressing the loss and damage suffered by low-income, climate-impacted communities. This will help set a positive example at

a time when parties to the UNFCCC must use COP27 to establish a new finance facility to address loss and damage, in line with a 'fair shares' approach and ensuring finance committed is additional to existing Overseas Development Assistance and wider climate finance commitments.

- **Make clear that the forthcoming Agriculture Bill, currently subject to consultation<sup>7</sup>, will include a clear statutory purpose to ensure that agriculture subsidies incentivise emissions reductions and carbon sequestration**, and include a provision for the introduction of a nitrogen levy. This is vital given agriculture's significance as a contributor to Scotland's emissions and the amount of public funds allocated to its support. It would deliver a range of the report's recommendations relating to agriculture.

## The UK Government should:

- **Significantly increase taxes (and remove tax reliefs), both short and long-term, on the extraction and production of fossil fuels and invest the revenue in measures to reduce demand for them and to support a faster and just transition.** During the current cost-of-living crisis, this should include serious consideration of the use of windfall taxes on the excess profits of energy companies to protect those paying spiralling energy bills.
- **Ensure that it acts as a champion for the establishment of a new finance facility under the UNFCCC to address climate-induced loss and damage**, based on the 'polluter pays' principle, and with annual contributions based on responsibility for causing climate change and capacity to pay. It should then commit its fair share of resources to the facility, while advancing new, innovative sources to generate finance at scale. As a voting member of the UNFCCC, it must use COP27 to press for agreement on such issues, as well as the subsequent delivery in full of commitments made.

## At local authority level:

- **The proposals for a Workplace Parking Levy scheme in Edinburgh and Glasgow should be progressed as speedily as possible**, with similar schemes considered elsewhere. In all cases, the revenue should be invested in expanding the provision of public or active travel. The schemes should therefore be consistent with, and help deliver, local transport strategies; they should also be required to form part of fair green travel to work plans negotiated with the relevant recognised trade unions. In all cases, the revenue should be invested in expanding the provision of public or active travel.
- **A process should be established to review the investment policies of public sector pension schemes, with the clear objective of divesting from fossil fuels and redirecting these funds towards projects consistent with a just transition to net zero.**

SCCS hopes that this report will spark and contribute to a wider debate about the nature and purposes of fiscal policy across the UK and Scotland – and ensure climate justice is core to these. In addition to the short-term actions, described above, the appropriate levels of governments should give serious consideration to all of the recommendations made – notwithstanding that many need further analysis and development. In particular, the scope to simultaneously deliver both significant emissions' reductions and cost of living benefits through cheaper or free public transport should be assessed, and possibly piloted in key areas.

To inform these debates, and to undertake the analysis and development work necessary, there is therefore considerable merit in the creation of some form of official commission to examine in greater detail some of the longer-term questions raised in the report. On issues related to matters within the current powers of the Scottish Parliament, this could be considered by the Finance and/or the Net Zero Committees. On reserved matters, SCCS considers that the Westminster Parliament or UK Government should do likewise. Those political parties/ organisations proposing constitutional change might also examine how an independent Scottish Government would approach these questions.

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<sup>7</sup> <https://www.gov.scot/publications/delivering-vision-scottish-agriculture-proposals-new-agriculture-bill/>

## 4. Conclusion

If we are serious about tackling the climate emergency and the current cost of living crisis (caused primarily by the use and cost of fossil fuels), we need to act at scale and speed. We have to invest in a more positive future: one that ensures we don't drive further catastrophic climate change at home or internationally, or condemn people to cold and draughty homes or to face increasingly extreme and frequent weather events that sweep away their homes and claim ever more lives.

These further steps, including greater and more effective use of fiscal measures, need to be taken sooner rather than later. It is therefore vital that money channelled to address immediate priorities, like the cost of living crisis, are used wisely to ensure they also actively support efforts to deliver against Scotland's legal climate targets. We cannot solve one crisis at the expense of another.

While SCCS does not claim to have all of the answers, this new report (commissioned by SCCS) is an important step towards identifying the money needed to finance the transition, whether that is diverting existing spend or generating new revenues in fair ways. It also considers what we need to spend it on to deliver against our domestic emissions reduction targets and to fulfil our international moral obligations. There are profound benefits to the climate, our society and every one of us, if we get this right. There are also profound risks if we continue to operate a business as usual approach, continue to fund damaging activities and don't properly invest. This is not just about investing in reducing our climate emissions, it is about investing in everyone's future, and investing in a new direction of travel – investing in a more thoughtful way of running our society and investing in real hope.

We all know that we need to do more – and quickly. And, to do that, we need to start funding it sufficiently. It's in everyone's interest to get this right, and to get on that path quickly.



