

On the necessity of a globally harmonized, but nationally collected carbon emissions tax

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Introduction

- we need to stop extracting coal, petrol and gas worldwide
- but demand for fossil fuels is strong: they are a storable source of energy that is cheaper than renewable energy substitutes (green hydrogen)
- we could try to forbid using fossil fuels - in practice, this would mean policing, potentially across borders, like for hard drugs such as cocaine

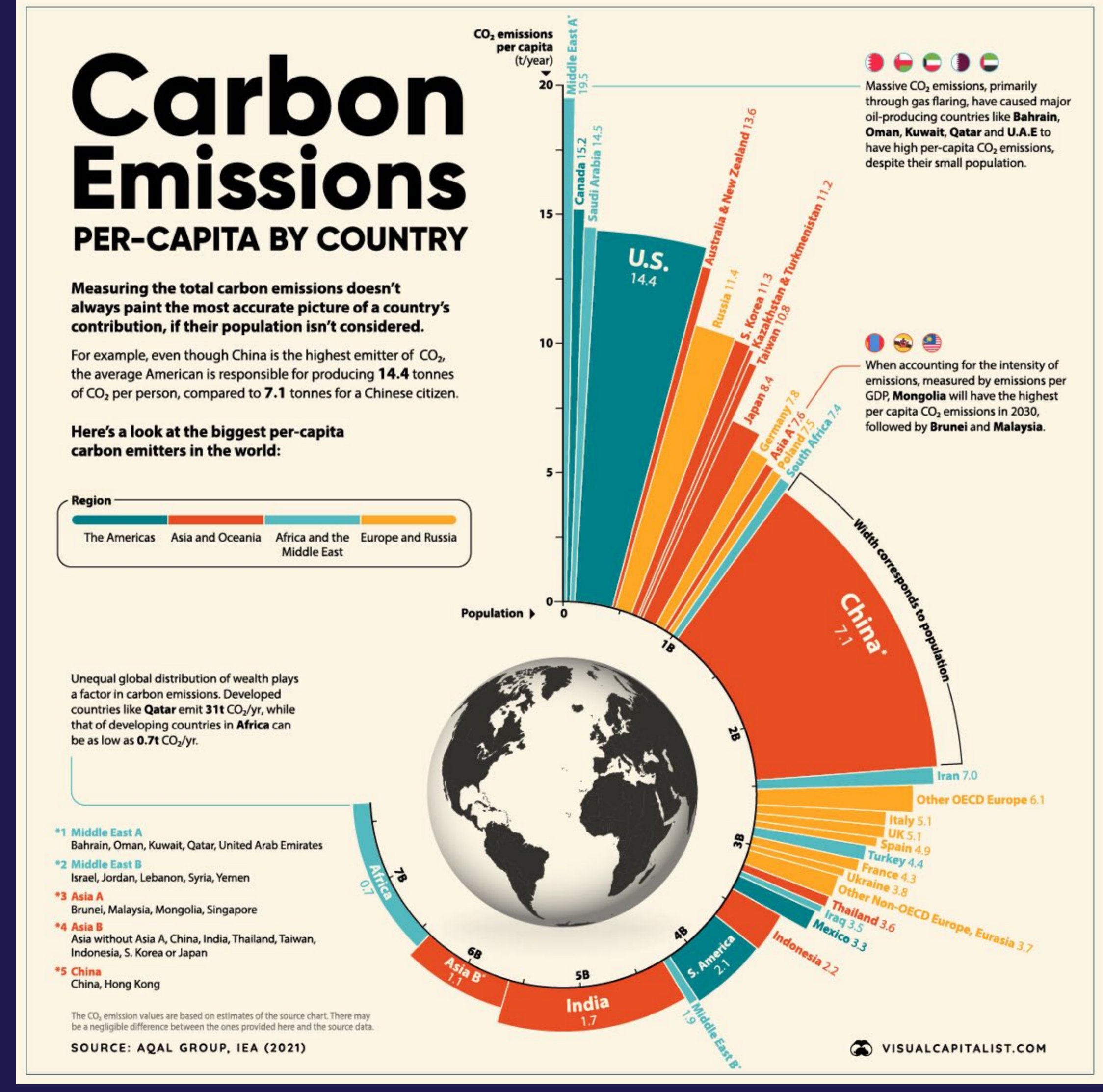
Carbon pricing

- setting a price for carbon emissions is politically and economically more reasonable, like for soft drugs like tobacco
- the carbon price needs to be high enough to have an effect, and to increase each year in order to reach net-zero

Emission Trading Systems (ETS)

Emission certificates are theoretically appealing because politicians only have to agree on a total amount of emissions. The global carbon price would result from market forces and can reflect future scarcity. The EU already uses an ETS (2021-2030). The EU currently gets 80 Euro per ton CO2 and distributes the income to member countries, proportional to their past emissions in 2005-7.

A globally harmonized, but nationally collected carbon tax is the only politically feasible way to make a sustainable energy transition for 8 billion people in 195 different countries possible



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Disadvantages of a global ETS

A world-wide ETS would have severe political downsides:

- politicians need to agree which country can sell how many certificates. For example, if each human is allotted a fixed remaining budget (e.g. 50 tons CO₂), there would be an enormous transfer from rich to poor countries which will lead to resistance in rich countries
- the carbon price is prone to speculation, e.g., some actors could try to become monopolists
- when the price starts to hurt the economy, there would be strong lobbying to increase the number of certificates
- **(most important:) renewable energy investment would remain risky because of uncertainty about the future carbon price**

Alternative: a global carbon tax

A nationally collected, but globally harmonized tax on carbon emissions is a much simpler and politically more feasible way to set a carbon price. It would be similar to VAT, petrol or tobacco taxes. Its advantages are:

- politicians only need to agree on a common carbon price (e.g. starting at 80 EUR/ton).
- one could agree to not decrease it in the coming 20 years - future COPs decide about increasing it
- each country can keep the money inside its national borders, ideally distributing it equally to all citizens
- one could prescribe only a common lower bound, and allow countries to set higher carbon taxes if they want to decarbonize faster
- **renewable energy investment becomes much less risky because there is more certainty about the future price of the fossil competitors**