**International Extraction Charge, Future Generations Fund and Dividend as a first step to a Just Transition**

**Introduction**

The Extractives Sector is key to a Just Transition. Such a transition should have the following characteristics:

* An immediate significant reduction in the extraction of fossil fuels
* An immediate reduction in the loss of biodiversity
* An increase in the welfare of all on the planet, with the basics of life guaranteed
* The protection of the rights of future generations

This paper will outline a brief roadmap indicating that a Just Transition is possible and some of the key policies that are required to enable it. In short, the proceeds from extraction should belong to the people of the planet. Such proceeds should be kept in a global wealth fund or similar. Such a fund should be used to finance renewables and insulation and other elements of an agreed just transition. Dividends from the fund can be paid out to the world’s population as a Basic Income. The principal of the fund would be retained for future generations.

This paper also acknowledges and endorses the submission of the Goa Foundation and The Future We Need “Natural Resources as a Shared Inheritance:

A needed step for a Just Transition.” WBI agree that the proceeds from extractives should respect the rights of future generations, and that in general the proceeds from extraction have been disproportionately distributed to wealthy corporations.

**International Extraction Charge**

As outlined in “Natural Resources as a Shared Inheritance”, it is rare for extractives to be either valued correctly or the benefits directed to people of the current or future generations. The Australian example is instructive: between 2000 and 2010 Australia lost 82% of the value of its minerals. However, there are also examples, albeit rare, where extraction has proved of benefit to people: the Norwegian Pension Fund, and the Alaskan Permanent Fund. Both funds have been formed because of the proceeds of oil extraction primarily. The Norwegian Fund is the biggest in the world at over $1 Trillion, has huge influence over corporate governance given its shareholding of about 5% of the world’s traded shares, and secures a future for future generations in Norway who will benefit from the fund as and when necessary. The Alaskan fund has paid a dividend to every adult in Alaska since 1976 – on average $1600/year (adjusted to 2019 prices).

Subsidies on fossil fuels internationally amount to about $5.2 trillion (2017), even though, “Efficient fossil fuel pricing in 2015 would have lowered global carbon emissions by 28 percent and fossil fuel air pollution deaths by 46 percent, and increased government revenue by 3.8 percent of GDP.”[[1]](#footnote-1)

Various organisations have suggested carbon taxes as high as $75/tonne (it is currently about$3/tonne in effect). Such taxes could raise up to $10 Trillion immediately (and then falling every year as the transition away from carbon gathers pace) – enough for a substantial Wealth Fund and a significant source of Investment for industries required for renewable energy and insulation etc.

World Basic Income suggests a slightly different approach. Extraction rather than use should be impacted. A cap (decided by scientists) should be enacted on carbon extraction (not difficult to enforce as only 100 companies extract 72% of all fossil fuels). The greatly reduced allowed extraction would then require licenses which would raise roughly equivalent to a correctly chosen carbon tax – up to $10 Trillion.

**The two key questions, Good Practices and Other Comments:**

### State Duty to Protect Human Rights

The proposed international carbon cap would generate capital for a green global sovereign wealth fund, which would be invested in renewable energy infrastructure. This immense additional investment in renewable energy combined with an increased price on fossil fuels would facilitate the large-scale switch away from fossil fuels that we urgently require. The resulting dividends paid out as a Basic Income would go a long way to securing human rights.

### Corporate Responsibility to Respect Human Rights

The annual dividends from this fund would be paid out as a monthly cash transfer to every person worldwide. Unlike most ‘Just Transition’ schemes, which address potential unemployment only in the most obviously affected industries, this direct cash support would generate additional local economic demand and employment in every community. As seen during the COVID-19 pandemic, the employment effects of major economic shifts are diverse, and many governments have needed to use cash transfers to offset the impacts. An international carbon cap and dividend scheme would provide this employment and income support on a global scale during the transition to a renewable energy economy. It would also be possible to use some of the dividends to compensate countries for foregone royalties from extraction.

1. **Good Practices and Other Comments**

All extractives should be treated as assets rather than revenue in all international accountancy standards. This is key to ensure intergenerational equity. Assets should be passed on to our children. Their treatment as revenue has been a significant force in extracting without any regard to the finiteness of the world’s resources.

**4 practical things that the UN can influence**

1. International Accounting Standards – extraction should be treated as an asset rather than revenue. This would immediately constrain the pace of extraction and incentivise countries to ensure they receive the full value of the assets extracted. It is possibly the most important impact the UN could make in the near term.
2. The Procedures of the International Seabed Authority Fund. Such a fund should be for the benefit of all humanity as per UNCLOS. The fund should approximate the fund described in this paper.
3. The regulation of ESG investments – corporates will only improve their environmental, social and governance standards if required to do so and held to account by the regulation of ESG investments. Currently there is little or no regulation.
4. An enforceable International Tax/Charging Regime.

**The proposal: International Carbon Charge, Future Generations Fund and Dividend**

Carbon cap and dividend is usually proposed as a national scheme. This paper proposes to adopt it instead as an international scheme, in order to better capture and limit all carbon extraction, and to support a global Just Transition. The scheme would function as follows:

1. A global cap on total fossil fuel extraction would be applied, which reduces annually to ensure Net Zero is achieved within an acceptable time-frame.
2. All companies extracting fossil fuels would be required to buy a permit for each tonne of coal, barrel of oil or litre of gas they extract. This would make fossil fuels much more expensive, incentivising a sharp reduction in fossil fuel use that would complement the effects of the carbon cap.
3. The money raised through these charges would be placed in a global Future Generations Fund (similar to Norway’s Sovereign Wealth Fund), which would be invested in a massive new development of renewable energy infrastructure and related research. Some proceeds could also be used to compensate countries for foregone royalties.
4. The investment dividend from this fund would be distributed via a monthly cash payment to every individual worldwide. This would help people to cope with an increase in certain prices, and would represent a fair 'rent' for the use of their planet's resources by private companies. These transfers would contribute significantly to an ending of extreme poverty, as well as a boost to local economies and employment in low income areas.

Potential charges and distribution amounts from this scheme have been modelled and are published shortly [www.worldbasicincome.org.uk](http://www.worldbasicincome.org.uk). The amounts raised clearly depend on the fee charged on carbon extraction, as well as the speed at which the carbon cap reduces towards zero. One scenario, in which the carbon charge begins at $70 per tonne of CO2 equivalent and rises by 4% each year, while the cap reduces from current extraction levels to zero by 2045, would produce a monthly global dividend above $10 per person per month (including children) by the seventh year and above $20 per person per month by the sixteenth year. By year sixteen the Future Generations Fund would contain over $35 trillion, which would support a vast increase in renewable energy production through the building of new infrastructure.

**Why does international charges and regulation best support a Just Transition?**

As the planet has become more globalised, governance has not been modernised with stronger international institutions. This has suited businesses which operate across national borders, including the Extractives Sector, to help avoid paying significant taxes. These losses are estimated at $500[[2]](#footnote-2)-600[[3]](#footnote-3) billion per year, with poorer countries losing $200 billion. Rich individuals operate similar avoidance schemes so that $7-10 trillion lay in tax havens (10% of global GDP) in 2014.[[4]](#footnote-4)

The regulation of businesses is also imperfect. Large areas of the planet have essentially been plundered with little benefit accruing to local people. National governments are rarely paid a “fair” royalty e.g. Australia is estimated to have lost 82% of the value of minerals extracted in 2000-2010[[5]](#footnote-5), and the UK is estimated to have lost about £400 billion of their oil and gas endowment up to 2014[[6]](#footnote-6). Areas of the planet without government also face unsustainable extraction and pollution such as the sea (overfishing – over 30% of world fish stock[[7]](#footnote-7) and deep sea mining[[8]](#footnote-8)), the Arctic[[9]](#footnote-9) and Antarctica[[10]](#footnote-10).

Land, air and sea pollution are now beyond the boundaries of what the planet can endure without significant climate change.[[11]](#footnote-11) Currently many millions of human and animal deaths result from pollution each year. Yet all our commons could be charged for use and regulated in a sustainable fashion, through mechanisms such as international carbon cap and parallel schemes.

It is of the utmost urgency that charging and regulation of international business is implemented if the world is to address international problems. The OECD’s expertise in international taxation should be transferred to the UN and the G77 countries should play an equal part in determining modalities.

Scientists should determine acceptable levels of resource extraction within planetary boundaries. A guiding principle to follow should be that of intergenerational equity.[[12]](#footnote-12) [[13]](#footnote-13) Extraction proceeds should not be treated as revenue but as part of future generations’ inheritance and therefore proceeds should be placed in a wealth fund which will enable positive investments to be made and will share the economic benefits with future generations.

Ultimately, changes to international taxation have the potential to entirely eradicate extreme poverty by funding a substantial and sustainable worldwide basic income. Potential routes to implementation of such a proposal are outlined by World Basic Income.[[14]](#footnote-14) In particular it is worthwhile noting the estimates of capital that could be raised through various international charges[[15]](#footnote-15), easily sufficient for $30 per month for every man woman and child, with significant potential to rise beyond that as further charges are mobilised. Regular universal cash payments at this scale would bring almost every individual on the planet above the extreme poverty line of $1.90/day, while addressing the majority of the SDGs (the correlation between income and most development indicators e.g. health, housing, education, is strongly positive).

**Employment**

The impact of this transition on employment will be complex, and - unlike many other Just Transition approaches - is likely to benefit the poorest most. A reliable monthly payment to every household member would reduce the necessity of subjecting people to exploitative employment as found in UBI pilot studies such as in India.[[16]](#footnote-16) It is likely to increase remuneration for many essential workers such as shop workers, delivery workers, carers, health workers, and transport workers, by boosting local economic demand and therefore the viability of these services. Finally, pilots around the world have seen increases in employment as people invest in their own farms and small businesses, or improve their education to diversify their job opportunities.

Opportunities for employment may also increase as a result of green investments made by the Future Generations Fund. These are likely to include micro as well as macro initiatives ranging from home solar and micro-grids to major projects such as offshore wind farms and geothermal development. The scale of investment as well as its global basis would ensure that related job creation is distributed worldwide, helping to provide diverse and sustainable employment opportunities in all countries, including those who have traditionally missed out from such investments.

An international body could also introduce charges to encourage a circular economy, thereby discouraging the planned obsolescence and life cycle of many products. With scientific advice, punitive charges could be levied on products that display levels of recyclability below 50, 60, 70 or 80%. Anything that is single use could be banned or charged at a rate covering disposal costs. Such charges would shift Research and Development into sustainable products. Products that are fully recyclable could be subsidised or at least tax exempt. Manufacturers may well cooperate in ensuring parts from various brands of products could be interchangeable.

**Conclusion**

The Just Transition outlined above is a radical plan which would solve two of the greatest problems on earth: poverty and the climate and ecological crisis.

The payment of an equal dividend to the world’s population would be in recognition of our common inheritance, but it would also compensate people for the costs of the transition in terms of increased prices of fossil fuels and other products. Payments should be rolled out in poor countries first in recognition of the higher levels of poverty there as well as the uneven impacts of climate change. World Basic Income has outlined how a fuller worldwide basic income could be paid[[17]](#footnote-17).

This Just Transition is a workable simple model that requires a relatively simple reform of the world’s governance and regulatory systems. The great majority of fossil fuel extraction is undertaken by only a hundred companies, so achieving decent coverage and compliance could be unusually straightforward. The direct impact on climate change would be dramatic - this initiative could on its own go a very long way towards resolving the climate emergency. The amounts collected generated would be staggering, enabling immense investments in renewable energy and related green jobs, as well as a direct and lasting impact on household income for every single person in the world. No other initiative has the potential to address poverty and climate change so fully and directly.

Whilst this paper has focused primarily on Carbon Extraction, the mechanisms described can apply to all extractives, and indeed other industries not associated with the Extractives sector such as deep sea trawling, deforestation and others.

Finally, the governance of the fund could be ultimately controlled by a World Citizen’s Assembly. Such an assembly has already occurred at COP in Glasgow in 2021[[18]](#footnote-18). Key questions could include:

* Criteria for fund investment
* Use of dividends – Basic Income or compensation to countries for not extracting or a mix of the two
1. https://www.imf.org/en/Publications/WP/Issues/2019/05/02/Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509 [↑](#footnote-ref-1)
2. https://www.wider.unu.edu/publication/global-distribution-revenue-loss-tax-avoidance [↑](#footnote-ref-2)
3. https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973 [↑](#footnote-ref-3)
4. [*Gabriel Zucman*](https://en.wikipedia.org/wiki/Gabriel_Zucman) *(August 2014). "Taxing across Borders: Tracking Personal Wealth and Corporate Profits".* [*Journal of Economic Perspectives*](https://en.wikipedia.org/wiki/Journal_of_Economic_Perspectives)*.* ***28*** *(4): 121–48.* [*doi*](https://en.wikipedia.org/wiki/Doi_%28identifier%29)*:*[*10.1257/jep.28.4.121*](https://doi.org/10.1257/jep.28.4.121)*.* [↑](#footnote-ref-4)
5. https://medium.com/@thefutureweneed/australias-looting-machine-16f9b2461a0c [↑](#footnote-ref-5)
6. https://resourcegovernance.org/blog/did-uk-miss-out-%c2%a3400-billion-worth-oil-revenue [↑](#footnote-ref-6)
7. http://www.fao.org/state-of-fisheries-aquaculture [↑](#footnote-ref-7)
8. https://www.theatlantic.com/magazine/archive/2020/01/20000-feet-under-the-sea/603040/ [↑](#footnote-ref-8)
9. https://www.politico.eu/article/5-races-for-the-arctic-trade-resources-supremacy-tourism-salvation/ [↑](#footnote-ref-9)
10. https://www.ft.com/content/2fab8e58-59b4-11e8-b8b2-d6ceb45fa9d0 [↑](#footnote-ref-10)
11. https://www.ipcc.ch/assessment-report/ar6/ [↑](#footnote-ref-11)
12. https://opil.ouplaw.com/view/10.1093/law:epil/9780199231690/law-9780199231690-e1421 [↑](#footnote-ref-12)
13. http://www.if.org.uk/2019/07/08/without-intergenerational-equity-say-goodbye-to-civilisation/ [↑](#footnote-ref-13)
14. http://www.worldbasicincome.org.uk/ [↑](#footnote-ref-14)
15. http://www.worldbasicincome.org.uk/funding-a-world-basic-income.html [↑](#footnote-ref-15)
16. http://sewabharat.org/wp-content/uploads/2019/02/Legacy-Study-Final-Report-a.pdf [↑](#footnote-ref-16)
17. http://www.worldbasicincome.org.uk/distributing-the-money.html [↑](#footnote-ref-17)
18. https://globalassembly.org/ [↑](#footnote-ref-18)