

## **LONG-TERM OPTIONS FOR INTERNATIONAL CLIMATE FINANCE**

The *Robin Hood Tax* Coalition Australia  
Submission

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### **INTRODUCTION**

The *Robin Hood Tax* Coalition in Australia<sup>1</sup> is part of an international campaign supporting the adoption of a Financial Transaction Tax (FTT). The Coalition is grateful for the opportunity to submit its views on the sources of international finance identified in the report of the UN Secretary-General's Advisory Group on Finance (the AGF report).

Climate change is the most significant global environmental and human rights issue we face. The findings of the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report clearly states that action is urgent to avoid catastrophic climate change. International climate finance is an essential element of climate action to ensure that developing countries are able to implement the mitigation and adaptation actions required to ensure the health and survival of their citizens and of ecosystems across the world. As a developed country, Australia has a legal and an ethical obligation to provide sufficient financing for climate change adaptation and mitigation in developing countries.

The *Robin Hood Tax* Coalition welcomes this opportunity to contribute to the discussion of new and *additional* long-term sources of climate finance. It is timely for Australia to be seriously considering how to fulfil its international climate finance obligations under the United Nations Framework Convention on Climate Change, and to meet the following outcome of the Cancun climate negotiations in December 2010:

“Requests developed country Parties to provide developing country Parties, taking into account the needs of those that are particularly vulnerable, with long-term, scaled-up, predictable, new and additional finance, technology, and capacity-building, consistent with relevant provisions, to implement urgent, short, medium and long-term adaptation actions, plans, programmes and projects at local, national, subregional and regional levels, in and across different economic and social sectors and ecosystems.”

(Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention [Ad Hoc Working Group LCA] Sixteenth Conference of Parties, 2010).

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<sup>1</sup> The *Robin Hood Tax* Coalition in Australia spans an alliance of aid agencies, green groups, think tanks, unions and faith-based networks, backed by leading Australian academics and economists. This submission has been prepared by the Coalition's Steering group and Reference group. See [www.robinhoodtax.org.au](http://www.robinhoodtax.org.au)

New and innovative sources of funds are urgently needed to ensure communities around the world can thrive in the face of climate change. The option of a Financial Transaction Tax (FTT) was recognised by the High-level Advisory Group on Climate Change Financing (AGF) as one of the potential sources for long-term climate finance. It would be an important public source of finance that can be utilised for grants which are crucial for adaptation action in the most vulnerable developing countries: Small Island Developing States, African and Least Developed countries. Whilst all financial options must be explored, mechanisms that provide finance as well as social and environmental benefit should be prioritised for implementation. As such, this submission focuses on the potential of a FTT to contribute to the funds necessary for climate finance.

## **ADDRESSING KEY ISSUES OF A FINANCIAL TRANSACTION TAX**

### **New and additional**

Whilst a variety of funding sources may be required to meet climate finance obligations and expectations, the reality is that there are few truly new and additional options. The High-level Advisory Group on Climate Change Financing has identified the FTT as one of the few truly innovative ways to raise new and additional funds if designed and implemented well. Unlike the AGF-favoured option of a carbon tax which if effectively implemented with a high enough price signal will diminish in yield in parallel with the intended reduction in carbon intensive activities, the FTT is a long-term revenue raising mechanism. Nevertheless, we do recognise that in the short to medium term a carbon tax could raise a significant proportion of the much needed funds and implementation of a FTT will not exclude the simultaneous implementation of a carbon price regime of either taxation or carbon trading.

Considering the competing demands on the national budget for domestic spending on education, health, and relief/recovery from several natural disasters such as drought and bush fires as well as the spate of devastating floods, a FTT would enable Australia to meet our international climate finance obligations and generate additional funds for domestic climate action. Australia meeting its climate financing commitments would be a significant and invaluable indication of our commitment to the UNFCCC and its objectives. Given the fragile state of international climate negotiations such action would contribute to restoring faith and trust between developed and developing countries to continue find solutions to climate change.

### **Social and economic co-benefits**

The incredible growth of financial markets trading in recent years had led to the situation where the volume of financial transactions is now many times higher than nominal world GDP. While in 1990 financial transactions were 15 times higher than GDP, they are now 73 times higher.<sup>2</sup> The volume of foreign exchange transactions is around 70 times higher than world trade – almost entirely due to the enormous boom in the derivatives markets. Schulmeister (2009) has found that instead of improving the efficiency of markets in the 'price discovery process' the increased speed of trading exacerbates trends of asset prices and increases price volatility, corresponding to the increased boom and bust cycles we have experienced most recently in the Global Financial Crisis.

A FTT delivers important co-benefits. It could be a disincentive to individuals and financiers who seek to make fast money by 'outguessing' the market over a few minutes, hours or days. Under a FTT price runs could become less pronounced and the boom and bust economy that we have seen in recent years become less marked, whilst the effect on necessary hedging transactions should be negligibly small meaning that a FTT would not the reduce core transactions that play a key role in the market's price setting function. The UK's imposition of a tax on shares has not lead to market reduced functioning.

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<sup>2</sup> Schulmeister, S. (2009) A General Financial Transactions Tax: A Short Cut to the Pros, the Cons and a Proposal. WIFO Working Papers, no. 344, page 5.

Schmidt's (2007) study of the impact of a 0.005% currency transactions tax concluded it would reduce the volume of trading by 14%, which given the inflated size of the financial transactions sector would increase stability in what has been an exponentially growing sector. A tax such as the FTT that encourages longer-term opportunities for investment and increased market stability should increase the effectiveness and stability of markets (Baker 2010). The money which would otherwise be trading on short-term speculative transactions could be put to more productive uses in the economy.

As clearly outlined above this tax is specifically focused on speculative transactions. It should have minimal if any bearing on the goods and services that the vast majority of Australian citizens use in their everyday lives. While the majority of middle class Australians are encouraged to build investment portfolios for specific purposes such as retirement, income on these investments is not generated from constant flipping of stocks and other assets. The tiny fixed cost of a FTT is spread over the long-term horizon of the purchase and sale of assets. Nor does a FTT require government to reduce necessary social spending from consolidated revenue and it could reduce the future likelihood of 'bail-out' demands from financial crashes.

### **Significance of funds**

At the climate negotiations in Cancun, Mexico December 2010, Australia joined the international community in agreeing that developed countries will generate US\$ 100 billion per annum by 2020 for climate finance:

“[The Conference of the Parties] recognizes that developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries.”

(Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention [Ad Hoc Working Group LCA] Sixteenth Conference of Parties, 2010).

This was a reiteration of the commitment made in Copenhagen in December 2009 and is a significant amount of funds. However it should be noted that it falls short of other estimations of the needed amounts of climate finance including those of Sir Nicholas Stern who estimated that mitigation costs alone to stabilise the climate at 450ppm of CO<sub>2</sub> at \$1.2 trillion per annum.<sup>3</sup>

The exact amount levied from a FTT depends on the size of tax, products excluded from its scope, and its dissuasive effect on transactions. The AGF report suggests that between US\$ 2 and 27 billion could be raised by a FTT annually by 2020. Schmidt (2007) estimates that a 0.005% Currency Transactions Tax on the four major currencies (US\$, Yen, Euro and Pounds Sterling) would raise over US\$ 33 billion per annum. Another US study has estimated that between US\$ 117 and \$353 billion could be raised annually through differentiated tax rates for different markets (Barker et al., 2009). The IMF (2010) has estimated \$200 billion could be raised through a one basis point or 0.01% FTT annually. Based on Australian “over-the-counter” and exchange traded market transactions between 2005-06 and 2008-09 as well as allowing for a two-thirds reduction in trade volumes, a FTT of 0.05% in Australia could yield approximately AUS\$16 billion each year (calculations Professor Ross Buckley, Jan 27 2011).

This is a significant amount of funds from one source which could not only meet the amount countries including Australia have committed to raise at the Copenhagen and Cancun climate negotiations, but also make a substantial contribution to what the real international climate finance needs will be.

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<sup>3</sup> The UNFCCC itself has estimated that a minimum of \$200 billion per annum is necessary to reduce CO<sub>2</sub> by 25% on 2000 levels by 2030. These are mitigation figures alone and do not include the cost of adapting to climate change (see UN Department of Economic and Social Affairs 2009).

Now is the time to invest in a comprehensive Australian specific study of the potential yield of a FTT depending on variables of base, rate, location of the levy and socially appropriate exclusions. These are important issues that need to be carefully considered to ensure the effective and appropriate design of a FTT.

Additionally, as the Green Climate Fund was established in Cancun as an international, transparent, democratically managed fund for the distribution of mitigation and adaptation financing; it is appropriate and necessary that Australia deliver our climate finance contributions to this fund. International use of the Green Climate Fund will enable transparent accountability of contributions from individual developed countries, and establish a much needed benchmark for sufficiency of contributions. This will also ensure that climate finance is not merged in national ODA budgets as both poverty alleviation and climate finance are two necessary yet distinct financial obligations of developed countries.

### **Geographic coverage**

The *Robin Hood Tax* Coalition recognises that it is desirable to have a broader base than Australia to ensure the highest potential of a FTT to raise global funds required for climate change and poverty alleviation. We urge the Australian government to support international proposals for FTT in the G20 and other international fora.

We consider our collaboration in the international FTT movement to be invaluable: the benefits of which are demonstrated in the support for the FTT across the public and amongst political leaders. Notably, the European Council was instrumental in ensuring that the IMF consider a FTT in their study of potential contributions from the finance sector to deliver to the G20. German Chancellor Merkel, French President Sarkozy and former UK Prime Minister Brown have all spoken in favour of a FTT and sought to raise debate about it within the G20.

### **Practicality/feasibility**

The implementation of a FTT has been acknowledged by the IMF (2010) as feasible. All international transactions are operationalised by central foreign exchange settlement systems such as SWIFT, and therefore traceable and ultimately taxable (Schmidt 2007). Compared to other tax regimes, a FTT can be efficiently collected at the point of trade as has been demonstrated in Japan and the UK (Baker 2010). Furthermore a study from the North-South Institute has found that a Currency Transaction Tax of 0.005% would not be disruptive to exchange rate volatility (Schmidt 2007).

“There is a long history of financial transaction taxes around the world. They have often raised substantial amounts of revenue. There are no major administrative obstacles to implementing a FTT.”

(Dr Dean Baker statement to the Bundestag 2010: 8).

The major obstacle is political will to tackle the policy related issues of design, implementation and distribution of the FTT. To that end it is imperative that the Australian government commit to supporting international proposals for a FTT in the G20 to assist in international parity, as well as commit to the careful design and implementation of a FTT in Australia to see that required funds are raised whilst ensuring sufficient economic stability.

Some members of the AGF believe that political acceptability and affects on developing countries are difficulties in the implementation of a FTT. However, there is growing political support for a FTT in Europe, and there are a number of multilateral forums to problem solve any possible affects on developing countries that can be accommodated in the design of the tax. The economic and social benefits of a FTT along with the ability to raise substantial new and additional funds in the context of competing and increasing demands for domestic government support, outweigh the difficulties of a FTT.

## CONCLUSION

The *Robin Hood Tax* Coalition in Australia strongly recommends that the Australian government commit to supporting international proposals for a FTT, including contributing to resolving co-operative implementation of a FTT internationally. The Australian government should also proceed at national level to investigate appropriate and effective design of a Financial Transaction Tax of between 0.05 and 0.005% on all wholesale capital market and currency market transactions, with a quarter of the revenue raised to be allocated to international climate finance.

A Financial Transaction Tax:

- Is genuinely new and additional source of funds.
- Has socially and economically productive co-benefits of increasing market stability.
- Is able to generate a significant amount of money.
- Will build trust and faith in collaborative international climate action by demonstrably fulfilling climate financing obligations.

## REFERENCES

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**APPENDIX:**

**ROBIN HOOD TAX COALITION**

The Robin Hood Tax Coalition in Australia is part of a global movement calling for a small tax on financial transactions by investment banks, hedge funds, and other financial institutions to raise billions to tackle climate change domestically and internationally, and support poverty alleviation overseas. Members of the Australian Coalition include Jubilee Australia, World Vision Australia, Oxfam Australia, ActionAid Australia and Catalyst Australia.

Globally, it is an alliance of groups in countries including Australia, the UK, the US, Canada, Germany, France and Belgium. Each of these groups is supported by dozens of their own national social and environment organisations, aid agencies, unions and church groups. The campaign nationally and overseas is endorsed by academics, economists, and social commentators; including Jeffery Sachs, Paul Krugman, Peter Singer and Joseph Stiglitz.

This global movement recognises that international financial speculation is a deeply under-regulated sector that is widely believed to increase volatility across global markets. A tax of between 0.005% and 0.05% on trading of currencies, stocks, bonds, derivatives and interest rate securities would have a very small impact on each transaction, yet have the ability to raise billions of dollars annually.

The aim is to generate funds to redistribute to where they are urgently needed. In the contemporary reality where the gap between the wealthy and the poorer is ever increasing, such forms of taxation are a small contribution to equalising wealth distribution. We believe that 25% of the funds generated from a FTT should be allocated to climate finance. The remaining funds generated should be split between general overseas aid and development (25%), and the domestic environmental and social needs of each nation collecting the tax (50%). This represents areas which are currently significantly underfunded and require new and innovative funding sources to meet present and future needs.