

## **There is something to choose from when distributing the climate costs**

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Dutch society faces enormous challenges in the coming decades. Greenhouse gases must be reduced and we are going to make the country resistant to floods, heat and drought. In addition, we will also suffer from increasing damage as a result of increasingly more extreme weather. This comes at a cost. Although exact amounts cannot be estimated reliably, there is no doubt that these 'climate costs' will rise considerably in the near future. Policy measures are currently being intensified and the effects of climate change will be felt more deeply than before.

It is important that these climate costs are distributed fairly. An unjust distribution is disastrous for the support for any good climate policy, including the energy transition. The distribution of climate costs can be done in different ways (WRR 2023). Do we spread it over all households in the Netherlands, or should the climate costs primarily be borne by highly emitting companies such as steel producer Tata Steel and energy company Shell? What is a just choice in this?

The question is easily posed, but the answer to it is rather complicated. Consider the following: it may be a good idea to reduce fuel consumption by raising the price, because the worst polluter pays higher costs. But when such measures come with dire consequences for citizens on a tight budget, for example because a car becomes too expensive for them, then you can ask yourself whether taking that measure to reduce consumption is really fair. A distribution that is perceived as unfair can lead to great social dissatisfaction, as was the case with the protests of the 'yellow vests' (Les Gilets Jaunes) in France.

Research shows that climate policy is considered 'fair' or 'just' if the distribution of the burden is fair (Dreijerink and Peuchen 2020). We call this distributive justice. But that does not give us the answer to a fair distribution. Namely, what is considered fair is inherent in the individual: one will find a distribution of climate costs in which citizens are spared little financial scope fair, while the other will argue in favour of financially supporting precisely the 'sustainable' in the energy transition. There is no single answer to the question of what constitutes a fair distribution. We give a few examples of what distributive justice can look like.

## **Distribution principles matter**

Most citizens think it is important that our tax money is spent sensibly. For every euro that benefits the emission reduction targets, we expect a maximum amount of CO<sub>2</sub> emissions saved. For example, it has been approved in the Dutch climate agreement, signed in 2019, that the electricity sector will bear the greatest reduction task, because emissions can be reduced in this sector at the lowest cost. This sounds logical and fair, from the point of view that measures should have maximum benefit compared to their cost.

But, as we stated above, what is fair to one person may not necessarily be so to another. The division of the reduction responsibilities is not quite in accordance with the equally embraced idea that a company or sector is responsible for its own emissions and the associated costs. If we focus on another distribution principle, that of 'the polluter pays', then the amount of responsibility imparted on the electricity sector will become smaller and the industry-, agriculture- and construction sectors will have to invest more.

This example shows that distribution principles matter, and that they remain underexposed in current climate policies. Underexposed, because while they exist, they are often hidden within models or policy assumptions. For example: a model generates certain outcomes based on assumptions about cost efficiency. The emphasis naturally land where consumption can be reduced most cheaply and ignores other possible distributions and thus important notions of justice. Climate policy is much more complex than merely minimizing monetary costs.

There are many examples in Dutch climate- and energy policy in which the costs are shared. Consider the discussion about the net metering scheme - should households receive subsidies for solar panels if the costs of that subsidy scheme are 'socially' divided across all households? It is a nice thought that such an endeavour would encourage sustainable behaviour and can certainly be justified from that point of view (Vollebergh 2022). But if we look at who ultimately bears the costs, we should also consider other distribution principles. After all, the result is that the energy bill of households without solar panels will increase, while households that have such energy-saving mechanisms installed benefit financially (Mulder and Straver 2023). The households that can afford, with or without subsidy, to have solar panels installed are often people who will need the

aforementioned subsidy much less from a financial point of view. They already have a higher disposable income to acquire said solar panels.

Or take the differences in water system charges to keep the Nether-lands dry. The water boards are virtually self-sufficient financially. The inhabitants contribute to the services of the water board on the basis of profit. If you own a lot of land as an owner, you pay more for the protection measures against flooding. However, not every water board is created equally: water boards in lower-lying areas on the coast face greater challenges than many others. For example, the sparsely populated water board Scheldestromen, in Zeeland (South-West of the country), is struggling with a major coastal protection task that is paid for in part (10%) by the residents of that water board. After all, they benefit from the dyke protection and it would be fair for them to pay for it, right?

But given climate change and rising sea levels, financing based on this principle may become much more challenging for this water board in the long term. A different division, in which the costs are not divided within each individual water board but between multiple water boards, may in that case be considered more just. In that case the capacity to bear such costs will play a greater role. However, are residents of more wealthy water boards or those with lower costs prepared to contribute even more than the 40% that are already being raised jointly?

## **Fair distributions**

In the report *Rechtvaardigheid in Klimaatbeleid: Over de verdeling van klimaatkosten* (Justice in Climate Policy: The Distribution of Climate Costs), the Netherlands Scientific Council for Government Policy presents a total of ten principles for fair distributions (see figure), based on literature on ethics and philosophy (WRR 2023). Because a fair distribution of climate costs is important for public support, these principles must be explicitly considered when formulating climate policy. Do polluters have to pay for their emissions? Do people who are more sustainable deserve an allowance? Are citizens themselves responsible? Should everyone contribute the same amount or should the well-to-do contribute more? Considerations of justice and associated principles are depicted in the following figure.



(source: WRR 2023)

Too little attention is paid to justice as a separate part of climate policy. If it does come up, it is usually as an afterthought. For example, if there's an outcry about a certain distribution of resources, such as there was about the so-called 'Tesla subsidy', about the exemptions from all kinds of taxes or the allocation of free emission allowances to polluting industry. That is why, by putting the possible distributions on the table in advance, discussing them and finally opting for one distribution over the other in a well-argued way, much can be gained in terms of fairness and justness of climate policy.

With those ten principles, the WRR makes it clear that there is more than thinking in terms of well-known principles such as 'the polluter pays' or 'greatest benefit' when it comes to justice. Well-considered thinking about the fairness of the distribution of climate costs, such as the investments required for the energy transition, is needed urgently. Climate policy, as well as climate change, concerns everyone and will affect everyone.

The ten principles therefore help to gain insight into possible fair distributions of the burden of realising climate policy. This then needs to be discussed, and the outcome of such a discussion can then form the guideline for the implementation of the policies. The answer to the question of what the best choice is, is up to society and the political system. Partly, because of this, in addition to fair

distributions, the procedures that lead to these distributions are equally important. How were choices made and was this done in a fair manner? Research also shows that citizens are more likely to accept divisions that are disadvantageous for them if the procedure has been fair (Dreijerink and Peuchen 2020). Distributive justice and procedural justice are thus linked.

## **Independent body**

Explicit attention to justice is essential to creating widespread support. But how are we going to organise and apply this in practice? In line with the above, the answer is that climate policy should first and foremost be seen as an issue in which costs are shared. Every policy decision, whether it concerns measures for the energy transition, flood-risk management or compensation for pollution, entails a cost allocation. The ten principles help to broaden policymakers' and politicians' thinking about justice. But there is more to it.

To ensure that the question of distribution of climate costs is and remains an important part of policy making, an independent body should monitor this. An institute with expertise in the field of climate policy and its effects. When it comes to the 'governance' of Dutch climate policy, a number of matters are enshrined within the climate act, including a role for the advisory division of the Council of State (hereafter: CoS). Using an assessment framework, this CoS examines, for example, whether climate policy 'does' enough to actually achieve the climate goals, how governments can contribute to this and how this is consistent with other policy.

The CoS also looks at the distribution of the costs of carrying out climate policy. If the CoS takes on this independent assessment of justice, the WRR advocates adding the justice perspective to the assessment of the climate act. Are well-considered considerations made in policy on what constitutes a fair distribution of costs?

The protests of Les Gilets Jaunes were limited to France, but similar discontent among citizens is bubbling up everywhere. After all, justice is what affects citizens. Citizens often find a fair distribution of climate costs even more important than a rapid CO<sub>2</sub> reduction, according to research (I&O Research 2022). It is therefore high time to organise early and systematic attention for this.

## References

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