

Progressive environmental taxation

A pathway towards global tax and environmental justice

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This paper aims to build on the sustainable development mandate for international tax cooperation as laid down in Articles 9d and 10c of the Terms of Reference for a United Nations Framework Convention on International Tax Cooperation (UN FCITC). The convention offers the potential to introduce progressive environmental tax measures on a global scale, but it must be grounded in strong and transparent principles to ensure both tax and environmental justice.

1. Introduction: the ecological and social inequalities trap

The planet's life-support systems are on the brink of collapse. Seven of the nine planetary boundaries – the Earth system processes essential for maintaining global stability, resilience and the conditions that support life – have already been crossed.¹ The pollution of air, water and soil, the loss of biodiversity and climate change are putting people's health and wellbeing at risk as well as severely threatening the life prospects of future generations.

Nature's degradation carries significant implications for equity and social justice: higher levels of income and wealth are closely linked to larger ecological footprints. The wealthiest sections of society worldwide tend to have ecological footprints that far exceed the planet's capacity.² When it comes to climate change, the people and regions that are least responsible for increasing greenhouse gas emissions – both currently and historically – bear the greatest risks to their livelihoods,³ in particular in the global south.⁴ The increased suffering from ecological damage also comes along with the lowest capacities to adapt to the consequences of environmental destruction, and with the lack of financial resources to build the infrastructure needed to transform economies towards sustainable levels of production and consumption.⁵

Around the world, increasing inequalities are intensifying the ecological and social polycrisis. Countries where wealth and income inequality has grown are home to two thirds of the world's population.⁶ The results of this widening gap between the 'haves' and the 'have nots' are declining social trust and fragmentation, the destabilisation of societies and the undermining of social cohesion. On the other side of the spectrum, wealth and power are concentrated at the top of society, with wealth accumulation by the world's billionaires accelerating to unprecedented levels.⁷

A particularly revealing example of the nexus between inequality and the power of polluting industries can be drawn from the 2022 energy and cost-of-living crises. The extraordinary profits earned by the fossil fuel industry that year not only contributed significantly to inflation but also deepened inequality: while profits lined the pockets of the wealthiest segments of society, those without assets in the fossil fuel industry saw their purchasing power eroded. As a result, profiteering by polluting industries exacerbated inflation inequality.⁸

2. Progressive environmental taxation to the rescue

Taxation has a double role to play, both when it comes to addressing inequalities – by distributing financial resources progressively throughout societies and among countries; and as an environmental policy tool to tackle specific environmental challenges. However, the current national and international tax rules and taxation practices form part of those global economic structures that sit at the root of the ecological and social inequalities trap. Flawed global tax rules, loopholes and harmful tax practices, a net of tax havens and financial secrecy enable large multinational corporations and wealthy individuals to reduce their tax payments to the minimum,⁹ depriving the public purse of hundreds of billions of tax revenues.¹⁰ While developed countries lose the highest amounts of revenues in absolute terms, developing countries are hardest hit by international tax dodging in the sense that it is costing them a higher share of their overall revenues.¹¹

Mainstream environmental taxation is meant to trigger behavioural change following a price signal and is based on the concept of the 'internalisation of external cost'. This means that the – theoretical – cost of the damage done to nature and people by certain environmentally harmful products would be added to the price of the consumption of respective products.¹² Through this approach, the final consumer represents the 'polluter' and thus the 'polluter pays principle'¹³ would be satisfied. However, these kind of taxation policies, such as carbon pricing, often carry a high risk of regressivity, directly or indirectly placing disproportionate burdens on financially weaker parts of society, who spend relatively more of their available income on consumption.¹⁴ And with this regressive impact, and potentially increasing inequalities, comes the risk of undermining public support for environmental policies in general, as the large-scale public protests against fuel taxes – veiled as climate levies – organised by the French 'yellow-vest movement' demonstrated.¹⁵ Last but not least, the environmental effectiveness of mainstream environmental taxation has come under criticism for its limited "ability to induce behavioural change, foster disruptive innovation, and drive infrastructure investments, due to its history of low or volatile carbon prices, potential negative distributional effects, and political economy challenges".¹⁶

Against this backdrop, new concepts for progressive environmental taxation are emerging. Taxes being proposed that are targeting polluting assets and capital in the form of, for example, a 'carbon wealth tax'¹⁷ or polluting industries' capital gains and income, such as fossil fuel industries' profit taxes.¹⁸ Such progressive environmental tax policies can reduce capital flows to carbon- and resource-intensive companies and assets in favour of ecologically sustainable capital formation.¹⁹ Another approach that takes into account progressivity and social justice considerations is the taxation of 'luxury consumption'.²⁰ These taxes target consumption patterns and products that entail excessive ecological footprints, including luxury goods such as frequent flights, large cars, private jets or private yachts.

These kinds of progressive environmental taxes aim to catalyse the socio-ecological transformation of global economies towards sustainable production and consumption in a socially equitable manner in two ways. On the one hand, they target the over-consumption of luxury goods usually bought by affluent segments of society. On the other hand, they apply 'supply side' fiscal policy measures by taxing the assets and capital income of environmentally harmful production. Both aim to shift the burden of addressing climate and environmental damage from the public to the most powerful companies, industries and wealthy individuals that played a leading role in causing it.

The ecological overshoot is also the result of a globalised economy, based on international trade and cross-border value chains. Tackling the nature crises requires global cooperation and commonly agreed policy frameworks. Thus, the concept of Excessive Ecological Footprint taxation can best be operationalised through an internationally coordinated system of progressive environmental taxes that target wealthy individuals and the corporate overconsumption of natural resources and public environmental goods. The current development of a UN Framework Convention on International Tax Cooperation (UN Tax Convention or FCITC) is the best opportunity to develop and implement this kind of framework for progressive environmental taxation.

3. The momentum for global tax and environmental justice: the UN Framework Convention on International Tax Cooperation (FCITC)

With the development, from now until 2027, of a UN Framework Convention on International Tax Cooperation comes with the historic opportunity to rebuild the global tax architecture and to transform it into an international tax system that is fit for sustainable development. For the first time, all UN Member States are coming together on an equal footing to negotiate the global tax rules. These deliberations cover key tax justice issues including: a fair allocation of taxing rights, transparency, tackling illicit financial flows (including tax avoidance and tax evasion), equitable taxation of multinational enterprises and effective taxation of high-net worth individuals.²¹

The mandate for the future convention and its protocols has been outlined by the Terms of Reference (ToR) adopted at the end of 2024. These ToR specify the objective to establish "an inclusive, fair, transparent, efficient, equitable and effective international tax system for sustainable development".²² In particular, the reference to issues such as equity and the environment establishes the links between tax policies and key global sustainable development commitments.

Specifically, the ToR mandate environmental protection provisions in the principles, the commitments and the protocols:²³

"Principles

9. Efforts to achieve the objectives of the framework convention therefore should:

[...]

d. take a holistic, sustainable development perspective that covers in a balanced and integrated manner economic, social and environmental policy aspects;"

“Commitments

10. The framework convention should include commitments to achieve its objectives.

Commitments on the following subjects, inter alia, should be:

[...]

c. international tax cooperation approaches that will contribute to the achievement of sustainable development in its three dimensions, economic, social and environmental, in a balanced and integrated manner;”

“Protocols

17. Protocols addressing the following topics, inter alia, could be considered:

a. tax cooperation on environmental challenges;”

The opportunities stemming from this horizontal integration of **environmental policy aspects** and **commitments** into the convention as anchored in these ToR provisions are two-fold:

- first, it means that all provisions laid down in the convention must adhere to environmental protection and social equity imperatives;
- second, it opens the door for international coordination of domestically imposed taxes as well as international taxes ('cooperation') addressing environmental challenges directly.

To make the 'social and environmental mainstreaming' provisions more concrete, particularly in light of the elements for progressive environmental taxation described above, the following text outlines a set of 'principles, commitments and substantive elements'. These are intended to guide the integration and operationalisation of progressive environmental taxation within the framework convention and its subsequent mechanisms and decisions.

a) Principles to ensure carbon and environmental tax justice

When considering that tax measures should take a holistic, sustainable development perspective that covers economic, social and environmental policy aspects in a balanced and integrated manner, the convention should adhere to the following principles:

- **Common but Differentiated Responsibilities and Respective Capabilities** (CBDR – RC)²⁴ calls on all states to cooperate on the protection of the environment while acknowledging the different capabilities and responsibilities of individual countries to address environmental challenges. It takes into account each country's specific circumstances, their contribution to a particular environmental issue and their overall ability to prevent, control and reduce environmental harm.

- **The polluter-pays principle** recognises that the costs of pollution and environmental damage should be borne by those that caused it.²⁵ This principle aims to hold accountable those entities and actors whose activities contribute directly and disproportionately to environmental degradation, promoting fairness and encouraging more sustainable practices.

Brought together, the above two principles are key elements of and crucial to ensure:

- **Carbon and Environmental Tax Justice**,²⁶ addressing equity aspects of:
 - a) who has historically caused and is currently causing environmental damage;
 - b) who is suffering the most from degradation of planetary climate and ecosystems; and
 - c) respectively, who has the capacity and resources to take mitigation and adaptation efforts to address environmental issues.
- **Environmental tax measures** should also comply with key social equity principles, including the commitment to reduce inequality within and between countries and to address gender justice.

In future, other principles of international environmental law should be considered:

- **The precautionary principle**, which requires states to prevent the risk of future long-term harm to the environment, even when the potential effects cannot be fully assessed at the time of the decision-making process.²⁷
- **Principle 2 of the Rio Declaration**, which establishes a state's responsibility to ensure that the activities within its jurisdiction or control do not cause damage to the environment of other states or areas beyond the limits of their national jurisdiction.²⁸

On the basis of these principles, commitments as laid out in the UN Tax Convention should give clear instructions for action and define the specific scope of action.

b) Commitments to social justice and environmental effectiveness

The UN Tax Convention will promote international cooperation and coordination in tax matters and strengthen the coherence between environmental, social and economic objectives and international tax policies. It should support countries in developing and implementing taxation that contributes to achieving sustainable development objectives, including on nature and climate.

The commitments on taxation and international tax cooperation derived from the convention should:

- Contribute towards protecting the planet from further degradation and collapse of life-supporting systems, including through putting into effect sustainable consumption and production and supporting the fulfilment of the Sustainable Development Goals.²⁹
- While ensuring that environmentally harmful activities are regulated with the most effective measures, introduce – when appropriate – progressive environmental taxes. These should deliver on nature and climate protection, contribute to a just transition and reduce inequalities within and between countries.
- Include direct and indirect progressive environmental taxes that combine the pursuit of environmental objectives with the aim of reducing inequalities within and between countries.
- Ensure that existing taxes, tax incentives and tax-based subsidies are not doing harm to the environment by increasing greenhouse gas emissions, biodiversity loss and ecosystems degradation or the pollution of air, soils and water, while ensuring that necessary reforms also fully reflect the aim to reduce inequalities within and between countries.
- Enable progressive, transparent and comprehensively governed tax incentives for domestic production and consumption to catalyse the just socio-economic transformation towards sustainable economies that function within planetary boundaries, while avoiding harmful tax practices that erode the effectiveness or fairness of tax systems.
- Instruct that environmental policies apply the most effective measures prior to applying market-based instruments, including non-market measures in line with policy sequencing.³⁰

- Pursue a planetary boundaries approach to cover the appropriate range of sectoral environmental taxes with regard to the specific mix of environmental policies needed to address a particular environmental boundary, such as addressing biodiversity loss, ecosystems degradation and climate change, and issues around hydrocarbons, direct and indirect land-use and land-use change, resource use, as well as pollution from plastics, air, soil and water.
- Ensure that fiscal policies and practices promote the implementation of international environmental goals and obligations and, in particular, commitments by developed countries to provide international financing relating to, inter alia: the UN Framework Convention on Climate Change (UNFCCC),³¹ including article 2.1c of the Paris Agreement,³² and ambitious New Collective Quantified Goals (NCQG) on Climate Finance; financial commitments under the Convention on Biological Diversity (CBD)³³ and the United Nations Convention to Combat Desertification (UNCCD),³⁴ as well as the UN resolution to end plastic pollution.³⁵

Extractives and natural resource taxation

In addition to the loopholes that allow a broad range of multinational corporations to avoid taxation, there are particular weaknesses in the international corporate tax system that can create additional avenues for extractive industries to use low-tax jurisdictions to reduce their tax payments. For example, extractive industries can artificially move their profits out of the countries of extraction and into low-tax jurisdictions by underquoting the value of natural resources when they are exported from the country of origin.³⁶

The issue of tax incentives is also a key concern in relation to extractive industries. Economically, such incentives have often been found to be inefficient, and tax relief considerations may often play a subordinate role in investment decisions.³⁷ Ultimately, they are undermining efforts to raise adequate resources since tax reliefs mean lost revenues as well as direct – eventually environmentally harmful – subsidies for corporations in scope.

Thus, the importance of effective taxation of extractives at all levels – such as of fossil fuel extraction, minerals mining, agriculture commodities, fisheries and forestry – requires specific provisioning. Environmental tax provisions, as well as tax cooperation on environmental challenges in the sectors, should ensure that:

- Extractive industries are effectively taxed, and 'polluter pays' taxes are introduced to ensure that industries with excessively large ecological footprints also pay additional taxes to match the environmental harm they cause. Effective taxation also entails abolishing tax incentives and closing loopholes – both at the national and international levels.
- All immediate and long-term costs of rehabilitation and rebuilding of extraction sites are covered by extractives companies, and the needs of affected communities suffering from social and environmental damage are addressed. The rights of workers, women and children, as well as indigenous and rural communities affected by mining and extraction, are protected and upheld.
- Priority is given to source state taxation and extractives companies pay their fair share in taxes.
- There is transparency of companies within the extractive industry sector: full disclosure regarding contracts, beneficial ownership, commodities revenues, tax payments and the level of economic activity in all countries of operation (public country by country reporting).

These can take the following form:

- Progressive taxation on rents, profits and dividends of polluting industries and environmentally harmful production patterns, eventually including global environmental taxes or coordinated globally based on common commitments.
- Wealth taxation that also targets environmentally harmful and high carbon emitting activities, assets, investments and their capital gains.
- Progressive taxation on the over-consumption of goods and services that have excessive ecological footprints.
- Progressive environmental tax measures that aim to contribute to a specific mix of environmental policies in a transboundary environment, including environmental issues in agriculture, forestry, fishing, transport, housing, energy production and consumption, plastics, waste landfill and incineration, water and sewerage.
- Progressive tax incentives for domestic producers and consumers that catalyse all dimensions of the just socio-economic transformation in the energy, food and farming, transport, housing, industry and urban and rural development sectors.
- The phase-out of producer fossil fuel and other environmentally harmful subsidies and tax incentives for environmentally harmful production and consumption, while carefully designing progressive consumer subsidies to promote equity.

4. Conclusion

Taxing the excessive ecological footprints of industries and individuals through a system of progressive environmental taxation offers the double dividend of social justice and environmental effectiveness. The ongoing development of the UN Framework Convention on International Tax Cooperation (FCITC) is an ideal place to implement this kind of progressive environmental taxation framework. The principles, commitments and explicit tax measures laid out in this paper should form the basis for operationalising the sustainable development mandate of the UN tax convention.

c) Substantive elements – concrete progressive environmental tax measures

The next steps are: to define and name those progressive environmental and environmentally related taxation and tax measures³⁸ that are suitable to pursue; and to implement the principles and commitments outlined above. These taxes should explicitly favour tackling the investor side, carbon-based wealth and polluting capital returns, triggering disinvestments and the depreciation of polluting assets while operationalising a progressive polluter pays principle and catalysing the just socio-economic transformation of economies.

Endnotes

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Eurodad (the European Network on Debt and Development) is a network of 60 European non-governmental organisations from 28 countries that work together on issues related to debt, development finance, and poverty reduction.

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