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FORUM ON INTERNATIONAL POLICY LEVERS FOR SUSTAINABLE INVESTMENT

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I am pleased to join the important discussions taking place during this G20 Policy Levers Forum.

My thanks to the Sustainable Financing Working Group for the invitation to address the forum on Taxation and the SDGS.

In his 2021 report, Our Common Agenda, the UN Secretary-General gives great prominence to tax policy – and building of fair and effective tax systems – as key to achieve a more just and sustainable world. Tax policy is a powerful tool for mobilization and effective use of domestic resources for sustainable development. Moreover, it can help with simultaneous achievement of multiple goals, such as reducing inequalities, incentivizing sustainability, and promoting health and wellbeing.

This is why the United Nations is fully committed to mainstreaming tax issues into the global efforts on financing for development, the Sustainable Development Goals and climate action.

I thus welcome this opportunity to discuss how tax policy can support just and affordable transitions toward a low-carbon and climate-resilient economy, taking into account country-specific contexts and nationally-defined development priorities.

The UN commitment to a Tax and SDGs approach

The compounded impact of the COVID-19 pandemic, the war in Ukraine and worsening climate crisis threatens to put the world economy into a recession and risk losing SDG gains made in the last 7 years. Stark decreases in tax revenues and stimulus spending are draining state coffers. Now more than ever, whether the right amount of taxes is paid at the right places is a pressing issue for developing countries.

Moreover, developing countries have to balance revenue mobilization with other short- and long-term objectives. In the short term, they have to ensure taxpayers are cushioned against the pandemic's harsh economic and social impact. At the same time, they have to strengthen the contribution of their tax systems and fiscal policies to their sustainable development efforts over the long term. Forums such as this can help countries carefully consider and adapt their tax policy according to their specific circumstances for recovery and their nationally defined priorities for sustainable development.

In this context, I would like to share some of our perspectives and initiatives to support countries in two key areas of tax as a policy lever toward just and affordable transitions.

Extractive industries taxation and related policy changes

First, how do we approach these issues from the perspective of developing countries and their extractives sectors? For some developing countries, the extractives sector (mineral and oil and gas) remains a substantial source of domestic resources for energy production. For these and other developing countries, the extractive industry is likely to remain an important source of government revenue for investing in sustainable development. So what is our approach to the policy levers?

For extractive industries to successfully contribute to sustainable development, several conditions must be met. And each of these require greater international cooperation on tax issues, as set out by the United Nations at our recent Special Meeting of ECOSOC on these matters.

One, the governance of extractive resources must be improved to bolster environmental sustainability, transparency and traceability of global value chains, inclusive decision-making, and accountability. This includes investing rents from extractives into the sustainable development of local populations.

Two, countries need to diversify their economies and reduce dependence on revenues from extractive industries over time. This includes bolstering direct taxation of income and property to enhance fiscal resilience in the sector.

And three, the extractive sector needs to be fully aligned with the SDGs and the Paris Agreement in support of a just and efficient transition. This includes creating tax incentives to encourage sustainable practices in the sector. It also includes shifting fossil fuel subsidies to support increased renewable energy, energy efficiency, and energy access for all.

The policy guidance developed by the United Nations and its Tax Committee on taxation of extractives industries addresses many of aspects of these action areas. More broadly, the UN has advanced and implemented a number of initiatives to help developing countries equip themselves with the necessary tools to protect and expand their tax bases and combat illicit financial flows.

The UN continues to play a crucial role in supporting countries – particularly developing countries – in building capacities in tax administrations to ensure that tax revenues can be generated and collected. And its workstreams on extractive industries and environmental taxation are directly focused on helping ensure that countries can assess the overall efforts needed in their transition journey.

This brings me to a second question: how to optimize the role that carbon taxation can play for the diverse range of countries in bringing about just and affordable transitions?

Carbon taxation and the new UN Handbook for developing countries

Limiting global warming to 1.5°C, a goal countries agreed to pursue in the 2015 Paris Agreement, requires cutting emissions by half this decade. Since then, many countries have established even more ambitious targets, committing to 'net-zero' emissions by mid-century.

Under the UN Framework Convention on Climate Change (UNFCCC), the Paris Agreement also looks to accelerate and intensify the actions and investments needed for a sustainable low-carbon future, with enhanced support for developing countries to achieve this objective.

A carbon tax is one of the policy levers and pricing mechanisms that countries can use to help fight climate change and incentivize sustainability: by compelling economic agents to change behavior to achieve carbon neutrality. The UN Handbook on Carbon Taxation for Developing Countries, published in 2021, provides practical guidance for countries considering to introduce such a tax.

The Handbook addresses key aspects: the design elements of an effective carbon tax; considerations on achieving acceptability for a carbon tax; managing distributional impacts of a carbon tax; and potential uses of revenue generated from implementing a carbon tax.

Putting a price on carbon can generate significant revenues. How the revenues are recycled back into the economy may have important implications for the overall economic cost, increasing climate ambition, and facilitating public acceptance.

The UN is calling on all partners and relevant stakeholders to help support the uptake and effective use of this guidance on carbon taxation.

Further, the UN continues to work on other key aspects of carbon emission reduction through tax policies that concern developing countries.

In particular, the UN has initiated work to produce guidance in the following areas: (i) the interaction of carbon taxation with other national measures, such as in the context of broader tax reform, carbon offsetting programs, or addressing fossil subsidies; (ii) potential effect that a carbon tax can have on the full value chain and the fair allocation of the tax cost and tax revenue; and (iii) the role of carbon taxes and other measures to support energy transition, while ensuring that any measures do not cause a strain on their national capacities.

Carbon pricing and a comprehensive global approach through the UN

Finally, as mentioned, a carbon tax is only one of the policy levers – and pricing mechanisms – that can support just and affordable transitions toward a low-carbon and climate-resilient economy. Other mechanisms have been proposed and are in use in different countries.

A wide array of such measures are currently implemented or in discussion at various levels. This includes the important work undertaken by multilateral organizations such as the IMF, OECD and the World Bank. Of great importance is that all these measures work in one direction: achieving carbon neutrality and advancing real progress toward the SDGs, leaving no one behind.

Given the nature of climate change, the adoption of a minimum carbon price floor by a small group of wealthy countries runs the risk of generating carbon leakages. Companies based in higher-income countries, where a carbon price floor is implemented, could theoretically move their carbon-intensive production streams to countries without such pricing measures. As such, those products would be replaced by more carbon-intensive imports coming from countries with lax standards.

Increasing carbon prices, alone, will do little to reduce carbon emissions if there are fragmented regional and national approaches to adopting a minimum carbon price floor. In addition, focussing carbon prices exclusively on explicit carbon pricing instruments does not recognize the extensive nature of carbon price rates implemented by many countries. Similarly, previous carbon pricing proposals do not recognize the number of possible complementary policies that are associated with carbon pricing and carbon markets.

A comprehensive approach, through global commitments and mutual agreements, and considering both explicit and effective carbon pricing measures, is necessary to avoid carbon leakage and create an efficient carbon price system. Such agreement would cover all countries, with flexible arrangements for phased approaches, as well as for countries reporting effective carbon prices across different sectors.

Countries should have the flexibility of: (i) adopting different carbon pricing systems, including explicit carbon prices using carbon pricing instruments, but also energy and fuel taxes; and (ii) adjusting prices across sectors. Flexibility and financial support should be given for developing countries in establishing a minimum price floor. Such flexibility should be applied to countries, where carbon pricing is politically challenging, as well as for those that face technology challenges in setting-up a carbon pricing market.

Distinguished participants, Dear Colleagues,

I trust we all agree that tax policy has a key role to play in supporting just and affordable transitions toward a low-carbon and climate-resilient economy, taking into account country-specific contexts and nationally-defined development priorities. We can help all countries and stakeholders achieve this outcome through effective taxation of extractives industries, coordinated efforts on environmental tax policies and working together toward a more sustainable future.

I thank you all for your attention and look forward to working with the SFWG and all of you gathered here on these important issues.

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