

Distr.: General
26 September 2023

Original: English

**Committee of Experts on International
Cooperation in Tax Matters
Twenty-seventh session
Geneva, 17-20 October 2023
Item 3(g) of the provisional agenda
Environmental Taxation**

Co-Coordinator's report

Summary

At its Twenty-sixth Session, the Committee considered note [E/C.18/2023/CRP.15](#), which, among other things, provided an update on the progress of the Subcommittee on Environmental Taxation work along its five workstreams.

The Co-Coordinator hereby: present a progress note on its work under the five workstreams for *comment and guidance*, and:

- 1) present for *final approval* the paper produced under **Workstream 1 (Part A)** contained in Annex A to this note.
- 2) present for *final approval* the paper produced under **Workstream 4 (Parts A and B)**, contained in Annex B-1 of this note. For Workstream 4, the Committee's guidance is further sought on whether the two completed parts should be published independently prior to a future publication of Part C (which is presented in Annex B-2 to this note for information and feedback).
- 3) present for *first consideration* the paper produced under **Workstream 2** contained in Annex C to this note.
- 4) present for *first consideration* the paper produced under **Workstream 3** contained in annex D to this note.

Background

1. The Tax Committee established the Subcommittee on Environmental Taxation during its Twenty-third Session. The Committee approved the Subcommittee's proposed workplan at its Twenty-fourth Session, as detailed in document [E/C.18/2022/CRP.9](#), and reviewed progress updates at the Twenty-fifth and Twenty-sixth Sessions (most recent document [E/C.18/2023/CRP.15](#)). The Subcommittee is currently engaged in five workstreams, as follows:
 - (a) Workstream 1: The interaction of carbon taxation with other national measures;
 - (b) Workstream 2: The role of carbon taxes and other measures in supporting energy transition;
 - (c) Workstream 3: The interaction between carbon taxes and carbon offsetting programmes;
 - (d) Workstream 4: Carbon border adjustment mechanisms and how developing countries can avoid undesired spillover effects from the implementation of such measures by other jurisdictions;
 - (e) Workstream 5: Other environmental tax measures other than carbon taxes that are relevant for developing countries.

2. At the Twenty-sixth Session in March 2023, the Subcommittee presented progress under the above workstreams vide E/C.18/2022/CRP20. Some of the points noted for the Subcommittee's attention in the Report are as follows:
 - Workstream 1: to include an analysis of the interaction between carbon taxes adopted at the local and national levels and how to coordinate them;
 - Workstream 3: consider applying an economic analysis approach to the law like the one used in part A of the paper on workstream 1 (E/C.18/2023/CRP.16);
 - Workstream 4 to consider some key areas including:
 - To reflect an objective and neutral description of border carbon adjustments in general rather than focusing on the European Union carbon border adjustment mechanism and its rationale;
 - To include views of developing countries and how they would be affected beyond tax matters, as the workstream is also concerned with the economic competitiveness of countries. The workstream should provide context on the problems shared by countries, including current and historical responsibilities;
 - To provide a better analysis of the role of international cooperation in tax matters in the context;
 - To consider potential domestic coordination and cooperation measures where carbon taxes have been adopted at local and national levels to prevent carbon leakage.

3. Since the Twenty-sixth Session, the Subcommittee convened a three-day virtual meeting from 30 May to 1 June and a physical meeting in Stockholm from 30 August to 1 September, graciously hosted by the Swedish Ministry of Finance. These meetings advanced the workstreams and refined the papers now being presented to the Committee at this session. Additionally, the Subcommittee coordinated efforts with the Subcommittee on Extractive Industries Taxation and the Subcommittee on Transfer Pricing, in line with their respective mandates.

4. The Subcommittee's work directly aligns with the Sustainable Development Goals (SDGs), notably SDG 13 (Climate Action) and its interplay with SDG 7 (Affordable and Clean Energy). The papers before the Committee also help further develop the tax-SDG nexus, especially in the context of energy transition and other environmental taxes, to help developing countries both protect their tax base and generate revenues to finance their sustainable development and promote SDG-aligned policies.

Progress under the various Workstreams

Workstream 1: Interaction of carbon taxation with other national measures in the context of a broader tax reform and particular attention to fossil subsidies

5. Workstream 1 is divided into three parts as follows:
 - Part A: Interaction between carbon taxes and other environmental measures (emissions trading and climate policy).
 - Part B: How to assess and correct the interaction between carbon taxes and other taxes.
 - Part C: Phasing out fossil fuel subsidies.
6. At the Twenty-sixth Session, the Subcommittee presented a draft paper under Part A for discussion and first consideration ([E/C.18/2023/CRP16](#)). The Subcommittee has refined Part A, which is now presented for final approval by the Committee as Annex A to this note.
7. Parts B and Part C will be developed concurrently. Part C outline is included in the Appendix to this paper for information and comments. That part will focus on the relationship between carbon taxation and fossil fuel subsidies, discussing their relevance, available resources, methodological differences, and practical implications for developing countries. The Subcommittee plans to present draft papers for Parts B and C at the Twenty-eighth Session.
8. The Subcommittee suggests that, upon Committee approval, Part A be finalized and published as a short paper, with subsequent parts to follow (see para 12 of [E/C.18/2022/CRP.9](#)).

Workstream 2: The role of carbon taxes and other measures in supporting energy transition

9. At the Twenty-sixth Session, the Subcommittee offered an update on the proposed objectives, scope, and approach of this particular workstream. Since that session, the Subcommittee has made significant strides in drafting the paper. The discussions have been further crystallized, enriched by examples from case-study countries that explore various important dimensions. These dimensions include the meaning of energy transition, the impact of carbon taxes and subsidies along the production and distribution value chain, strategies for responding to challenges in energy security and rising prices, the role of carbon taxes and subsidies in fostering new technologies for energy transition, sector-specific analysis of indirect tax options, and approaches to capacity building for energy transition.
10. The Subcommittee submits the paper, presented as Annex C to this note, for discussion and first consideration by the Committee at this session. Subsequently, the Subcommittee will continue to refine the case studies with a view to presenting the paper for approval at the Twenty-eighth Session.

Workstream 3: The interaction between carbon taxes and carbon offsetting programmes

11. In taking forward the workstream, the Subcommittee has actively engaged in analyzing the intersection of carbon taxes and carbon offset programs, particularly from the standpoint of developing countries. The analysis has covered emerging markets for carbon offset credits, the relevance of Article 6 of the Paris Agreement, and practical experiences from Chile, Colombia, Indonesia and South Africa. The aim has been to identify pressing carbon tax issues that warrant timely intervention by tax authorities. Comparative legal options were explored to guide policymakers, and the Subcommittee has compiled and incorporated data into the paper. The focus remains on building a coherent taxation strategy for carbon credits that supports international tax cooperation. The Subcommittee coordinated efforts with the Subcommittee on Transfer Pricing, in line with their respective mandates. In that context, the Subcommittee on Environmental Taxation focused entirely on carbon taxation aspects of carbon offset credits as per their mandate.
12. The paper is presented in Annex D to this note for discussion and first consideration at this session. Subsequently, the paper will be refined based on comments and guidance obtained at this session in preparation for approval at the Twenty-eighth Session.

Workstream 4: Border Carbon Adjustments: Impact and relevance for developing countries

13. At its Twenty-fourth Session, the Tax Committee approved the Subcommittee's proposal to undertake an analysis of carbon border adjustments and spillover effects for developing countries, to the extent that such work will not be viewed as the Committee's rejecting or endorsing any mechanisms established by countries or regions. This guidance was reiterated at subsequent Committee sessions.
14. Workstream 4 is divided into three parts as follows:
 - Part A: Carbon leakage and ways to address it.
 - Part B: Border carbon adjustment measures.
 - Part C: Potential responses to border carbon adjustments.
15. Since the Twenty-sixth Session, the Subcommittee has refined Part A and Part B, which are now presented together for final approval by the Committee as Annex B-1 to this note. Part C on potential responses by developing countries to border carbon adjustments is still being developed and will be presented for consideration and discussion at the Twenty-eighth Session. A draft, still to be further developed by the Subcommittee, is presented as Annex B-2 to this CRP for information and feedback from the Committee.
16. The Subcommittee suggests that, upon Committee approval, Parts A and B be finalized and published keeping in view the relevance and importance of the topic for developing countries, with publication of Part C to follow (see para 12 of [E/C.18/2022/CRP.9](#)).

Workstream 5: Other environmental measures other than carbon taxes

17. At the Twenty-sixth Session, the Subcommittee presented a draft outline of the foreseen work under this workstream (see Annex to [E/C.18/2023/CRP.15](#)). Since that session, the Subcommittee has been developing a paper that focuses on specific environmental taxes, including waste landfill, waste incineration, plastics (single-use and packaging), pesticides, waste water, air pollution, as well as other forms of indirect taxation of energy than carbon taxation (excise duty, fuel levies, etc.). The paper aims to present a foundational framework for providing guidance on the environmental, social, and economic aspects of these taxes, particularly for the benefit of developing countries. The paper will also feature an inventory of select country-specific environmental tax measures, excluding carbon tax, to serve as tangible references for countries considering similar measures.
18. The drafting is progressing steadily, and the Subcommittee anticipates submitting a paper for the Committee's discussion and first consideration at its upcoming Twenty-eighth Session.

Issues for the Committee

19. The Co-Coordinator presents this report *to inform the Committee* of the progress of the various workstreams and *to seek further guidance* on the work. The Subcommittee presents:
 - Workstreams 1 (Part A) *for final approval*: the paper is contained in Annex A to this note. The Subcommittee further proposes that, upon approval by the Committee, this paper be published as an independent document, with the other parts to follow;
 - Workstream 4 (Parts A and B) *for final approval*: these two parts are contained in Annex B-1 to this note. Part C, which is contained in Annex B-2, is presented for information and feedback. The Subcommittee further proposes that, upon approval by the Committee, the paper on Parts A and B be published as an independent document, with the paper on Part C to follow;
 - Workstreams 2 *for discussion and first consideration*: the paper is contained in Annex C to this note;
 - *Workstream 3 for discussion and first consideration*: the paper is presented as Annex D to this note.

Next steps

20. The Subcommittee anticipates presenting refined versions of Workstream 2 and Workstream 3 papers for approval and first drafts on the pending work under the various workstreams for consideration at the Twenty-eighth Session. As outlined in paragraph 12 of [E/C.18/2022/CRP.9](#), the Subcommittee proposes that, upon final approval from the Tax Committee, the individual papers under the different workstreams be published throughout the mandate. Eventually, the Subcommittee proposes that the various papers be compiled into a single volume at the end of the mandate.

Appendix – Outline of Part C of Workstream 1: Phasing out Fossil Fuel Subsidies**1) Introduction**

- Fossil fuels subsidies (FFS) are policy instruments that target fuels directly, or electricity and heat generated from fossil fuels through monetary transfers, lowering the costs of fossil fuels and/or energy. These have many effects that impact carbon emission reduction objectives
- Delineation of topic (scope, focus on tax expenditures)

2) What is the link between carbon taxation and FFS

- Explain interaction between FFS and carbon tax
 - With regard to Fuel based Approach to carbon taxation
 - With regard to Direct Emissions Approach to carbon taxation
 - Practical examples for both

3) Overview of resources

- Taking stock of information resources on FFS undertaken by various institutions such as: Global Tax Expenditure Database / International Monetary Fund / Organisation for Economic Co-operation and Development / International Institute for Sustainable Development
- The stock take will inform discussions in subsequent parts below

4) Methodological issues and implications

- Present differences in methodological approaches
- Explain limits for interpretation of information and implications

5) Practical considerations for developing countries

- Institutional considerations and administrative impacts of FFS
- Transparency issues and acceptability

6) Conclusions

- Highlighting the most relevant points for developing countries