

Distr.: General
04 March 2024

Original: English

**Committee of Experts on International
Cooperation in Tax Matters
Twenty-eighth session**

New York, 19-22 March 2024

Item 3(g) of the provisional agenda

Environmental Taxation

Co-Coordicators' report

Summary

Under this note, the Co-Coordicators present a progress note on the Subcommittee's work under the five workstreams for *comment and guidance*, and:

- 1) present for *final approval* the paper produced under **Workstream 2** presented as Annex A to this note.
- 2) present for *final approval* the paper produced under **Workstream 3** presented as Annex B to this note.
- 3) present for *discussion and first consideration* the paper produced under **Workstream 1 (Part C)** presented as Annex C to this note.
- 4) present for *discussion and first consideration* the paper produced under **Workstream 4 (Part C)** presented as Annex D to this note.
- 5) present for *discussion and first consideration* the paper produced under **Workstream 5** presented as Annex E-1 to this note as well as the accompanying inventory being an appendix to that paper, presented as Annex E-2 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 subsequent Committee Sessions (most recently at the Twenty-seventh Session vide document E/C.18/2023/CRP35). 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 programs;
 - (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. Since the Twenty-seventh Session, the Subcommittee has convened a two-day virtual meeting on 4-5 December 2023 and a three-day virtual meeting on 29-31 January 2024. These meetings were aimed at further discussing draft papers and addressing comments received from the Committee and other observers during that session. Additionally, the Subcommittee has continued to coordinate efforts with the Subcommittee on Extractive Industries Taxation and the Subcommittee on Transfer Pricing, in alignment with their respective mandates.

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

3. 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.
4. At the Twenty-seventh Session, the Committee approved Part A of the Workstream (presented as Annex A to E/C.18/2023/CRP.35) and authorized its separate publication as a short paper, in accordance with paragraph 12 of [E/C.18/2022/CRP.9](#)). The Secretariat is currently arranging the modalities for the interim publication of the finalized part.
5. The Subcommittee presented a draft outline for Part C for information and comments at the Twenty-seventh Session. It now presents the draft paper on Part C for the Committee's discussion and first consideration at this session (Annex C to this note). Additionally, the Subcommittee presents a brief concept note for Part B for information and comment in the Appendix to this note. The aim is to present Part B for final approval and Part C for discussion and first consideration at the Twenty-ninth Session.

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

6. The Subcommittee presented the paper for discussion and first consideration at the Twenty-seventh Session (Annex C to E/C.18/2023/CRP.35). Since that session, the Subcommittee updated the paper based on comments received and finalized the analysis and presentation of the information on case study countries, and now presents it for final approval by the Committee (Annex A to this note).
7. The Subcommittee suggests that, upon Committee approval, this Workstream be finalized and published as a short paper, in accordance with paragraph 12 of [E/C.18/2022/CRP.9](#).

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

8. The Subcommittee presented the paper for discussion at first consideration at the Twenty-seventh Session (Annex D to E/C.18/2023/CRP.35). Since that session, the Subcommittee updated the paper based on comments received and now presents it for final approval by the Committee (Annex B to this note).
9. The Subcommittee suggests that, upon Committee approval, this Workstream be finalized and published in the interim as a short paper, in accordance with paragraph 12 of [E/C.18/2022/CRP.9](#).

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

10. 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.
11. 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.
12. At the Twenty-seventh Session, the Subcommittee presented Part A and Part B for final approval by the Committee (Annex B-1 to E/C.18/2023/CRP.35). The Committee also authorized the separate publication of those two parts in the interim as a short paper, in accordance with paragraph 12 of [E/C.18/2022/CRP.9](#)). The Secretariat is currently arranging the modalities for the interim publication of the finalized parts.
13. Part C of this workstream was presented for feedback and comment at the Twenty-seventh Session (Annex B-2 to E/C.18/2023/CRP.35). Since then, the Subcommittee has further refined this part in line with the comments received during that session. It is now presented for discussion and first consideration (Annex D to this note). The Subcommittee aims to present this part for final approval at the Twenty-ninth Session.

Workstream 5: Other environmental measures other than carbon taxes

14. At the Twenty-seventh Session, the Subcommittee provided an update on the progress of work under this workstream. Since that session, the Subcommittee has developed 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 features, in its appendix, an inventory of select country-specific environmental taxes and other measures, excluding carbon tax, to serve as tangible references for countries considering similar measures.
15. The Subcommittee now presents the draft paper for the Committee's discussion and first consideration (Annex E-1 to this note) and the accompanying inventory of measures (Annex E-2 to this note). The Subcommittee aims to present this workstream for final approval at the Twenty-ninth Session.

Summary of the progress of the workstreams

16. The table below presents a summary of the above five workstreams.

Workstream title & parts		Status
Workstream 1: Interaction of carbon taxation with other national measures in the context of a broader tax reform and particular attention to fossil subsidies		
	Part A: Interaction between carbon taxes and other environmental measures (emissions trading and climate policy)	Approved – 27 th Session
	Part B: How to assess and correct the interaction between carbon taxes and other taxes	To be developed
	Part C: Phasing out fossil fuel subsidies	1 st reading – 28 th Session
Workstream 2: The role of carbon taxes and other measures in supporting energy transition		Proposed for final approval – 28 th Session
Workstream 3: The interaction between carbon taxes and carbon offsetting programs		Proposed for final approval – 28 th Session
Workstream 4: Border Carbon Adjustments: Impact and relevance for developing countries		
	Part A: Carbon leakage and ways to address it	Approved – 27 th Session
	Part B: Border carbon adjustment measures	Approved – 27 th Session
	Part C: Potential responses to border carbon adjustments	1 st reading – 28 th Session
Workstream 5: Other environmental measures other than carbon taxes		1 st reading – 28 th Session

Issues for the Committee

17. The Co-Coordicators present this report *to inform the Committee* of the progress of the various workstreams and *to seek further guidance* on the work. The Subcommittee presents:
- Workstream 2 *for final approval*: the paper is presented as Annex A to this note. The Subcommittee further proposes that, upon approval by the Committee, the paper be published as an independent document in the interim;
 - Workstreams 3 *for final approval*: the paper is presented as Annex B to this note. The Subcommittee further proposes that, upon approval by the Committee, the paper be published as an independent document in the interim;
 - Workstream 1 (Part C) *for discussion and first consideration*: the paper is presented as Annex C to this note. A brief draft concept for Part B is presented in the Appendix to this note for information and feedback;
 - Workstream 4 (Part C) *for discussion and first consideration*: the paper is presented as Annex D to this note.
 - Workstream 5 *for discussion and first consideration*: the paper is presented as Annex E-1 and the inventory as Annex E-2 to this note. To enhance the practical relevance of this workstream, the Subcommittee utilized multiple country examples primarily drawn from publicly available sources. However, it was not possible to verify the currency of all information on country examples. Therefore, the Subcommittee requests comments from experts and observers in the countries used as examples in this workstream by 20 May 2024.

Next steps

18. The Subcommittee anticipates presenting refined versions of Workstream 1 (Part C) and Workstream 5 papers for approval and first drafts on the pending work under Workstream 1 (Part B) for consideration at the Twenty-eighth Session.
19. 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 – Brief note on the concept of Part B Workstream 1: How to assess and correct the interaction between carbon taxes and other taxes

To be effective, carbon taxes should encompass a sufficiently large environmental steering effect to generate incentives for business and households to produce and consume more climate friendly products. At the same time carbon taxation should support innovation and investment in low carbon options and thereby propel the economy towards a low carbon economy.

Carbon taxes are, however, merely one of several tools that policy makers can use to address climate change. The relationship and interaction between these is critical in the design of a ‘smart mix’ of instruments.

The 2021 UN Handbook on Carbon Taxation for Developing Countries addresses the interactions of carbon taxes and other policy measures, classifying them into policy measures that are complementary, overlapping or countervailing with carbon taxation. The interaction between carbon taxes and specific instruments, especially emissions trading systems, has been explored in Part A of Workstream 1, which deals with 'Interaction between carbon taxes and other environmental measures (emissions trading and climate policy)'¹. Fossil fuel subsidies undermine the efficacy of carbon taxes and have also been examined (Part C of Workstream 1 “Phasing out fossil fuel subsidies”)².

Part B of Workstream 1 will specifically focus on the interaction between carbon taxation and other taxes and will build on the guidance already contained in the Handbook and other work undertaken by the Subcommittee during this current mandate. In response to climate change governments deploy a broad set of fiscal policy measures. These include in particular tax expenditures such as reduced value-added tax (VAT) rates, lower excise duties, personal income taxes credits or corporate income tax deductions and accelerated depreciation programmes.

Each of these types of taxes will be examined in terms of its potential to set incentives for transitioning towards a low carbon economy and for channelling investments towards research and development (R&D) or innovation.

¹ Part A was approved by the Committee at its Twenty-seventh Session in October 2023 – see ANNEX A to E/C.18/2023/CRP35

² Part C is presented for discussion and first consideration at this Twenty-eighth Session (as Annex C to this note).