

Proposed inputs from the Industry and Economy Division:

The existential threats posed by climate change, nature loss and rising toxicity and pollution demand immediate and coordinated global action. An effective mechanism to address these threats is using fiscal and tax policy to ensure the “polluter pays” principle. This approach not only discourages environmentally harmful activities but also generates revenue for sustainable development initiatives, facilitating and supporting the urgently needed, but chronically underfunded, global green transition. Therefore, it is paramount that the United Nations Framework Convention on International Tax Cooperation (UNFCTC) incorporates environmental considerations into its Terms of Reference (ToRs).

Procedural Elements

1. **Inclusive Engagement:** *We advocate for the establishment of inclusive procedural norms within the UNFCTC that mandate the engagement of diverse stakeholders, including those from vulnerable communities, environmental non-governmental organizations (NGOs), and the private sector. This inclusivity will ensure that taxation policies that focus on environmental harms are equitable, balanced, and reflective of a broad spectrum of perspectives.*
2. **Transparency and Accountability:** *It is crucial for the UNFCTC to implement procedural standards that uphold transparency and accountability in the formulation, execution, and evaluation of tax policies. Such standards are essential for maintaining public trust and ensuring that tax revenues from measures targeting environmental harms and damage are allocated effectively and ethically.*

Substantive Elements

1. **Taxation Principles:** *The UNFCTC should outline clear principles for taxing environmental harms, emphasizing the polluter-pays principle, sustainability, equity, and economic efficiency. These principles will guide member states in developing and implementing tax policies that mitigate environmental harm while promoting social justice and incentivizing actions that promote more sustainable practices and products*
2. **Targeting Environmentally Harmful Activities and incentivizing activities that promote more sustainable endeavours:** *The convention must provide a clear framework for identifying and categorizing activities subject to these types of taxes, such as emissions of greenhouse gases, production of products that have a high pollution footprint such as single-use and short lived plastics, or that are derived from activities that caused deforestation and biodiversity loss. Ideally, prices should reflect the full cost of production and consumption, including externalized costs incurred due to market failures.*
3. **Just Transition Mechanisms:** *The UNFCTC should include provisions for just transition mechanisms that protect and compensate the most vulnerable populations. These could take the form of tax exemptions, subsidies, or direct financial support, ensuring that the transition towards a sustainable economy is equitable and inclusive.*

Consideration of Simultaneously Developing Early Protocols

The UNFCTC should prioritize the development of early action protocols targeting sectors where immediate application of taxes can significantly reduce externalized costs and impact, such as in

the fossil fuel industry and high-carbon-emitting sectors. These protocols must be flexible and adaptable, allowing for adjustments based on evolving scientific insights and socioeconomic factors.

Other Considerations for Environmental Action

1. **Integration with Other Fiscal Instruments:** *The convention should explore how taxes can be integrated with other fiscal instruments like green bonds or repurposed subsidies from fossil fuel to renewable energy, enhancing the incentives towards sustainability and synergy with environmental policies.*
2. **Wealth Taxation for Environmental Funding:** *To address broader fiscal and environmental goals, the UNFCTC could consider incorporating mechanisms like wealth taxes, earmarking the revenues for environmental protection efforts and green infrastructure projects. This approach would simultaneously address environmental sustainability and social equity.*
3. **Technical and Administrative Support:** *It is essential for the UNFCTC to facilitate technical assistance and capacity-building efforts for developing countries, ensuring they can effectively implement taxation measures that address environmental harm and instead promote the transition to a green economy.*

Incorporating environmental considerations into the UNFCTC presents a unique opportunity to establish a global standard for sustainable fiscal policies. By focusing on taxing environmental harms, justice, and inclusivity, the convention can lay the groundwork for a just and sustainable global economic system, ensuring a prosperous future for all.