

**Submission to the
Intergovernmental Negotiating Committee (INC) on the United Nations Framework
Convention on International Tax Cooperation (UNFCITC)**

Subject: Forest & Finance Coalition, INESC and the Common Initiative submission regarding the Draft Issue Note of Workstream I of the Intergovernmental Negotiating Committee on the UN Framework Convention on International Tax Cooperation.

Abstract

Global deforestation is accelerating biodiversity loss, environmental degradation and climate change, pushing ecosystems to the verge of collapse and seriously harming human health and wellbeing.¹ These impacts undermine sustainable development and deepen inequalities both within and between countries, limiting opportunities for current and future generations.

The lack of coherent international tax and transparency rules are enabling illegal logging activities and related illicit financial flows, secrecy regimes obscuring its origins and beneficiaries.

A UNCTAD study found that for 48 developing economies included in the calculations, the annual cost to fight climate change, protect biodiversity and cut pollution is projected to cost nearly \$5.5 trillion annually from 2023 to 2030, which is about 18% of their collective GDP.²

Environmentally harmful tax incentives granted to multinational companies are scaling up exploitative business practices that intensify ecosystem destruction. Progressive environmental taxation on the other hand can play a critical role in reducing these harms and in addressing international tax related challenges with regards to deforestation and related industries.

Tax the Nature destroyers

Natural forests and other natural biomes hold high levels of biodiversity and provide ecosystem services that are vital to life on earth. How natural resources are managed—and how their products are traded and consumed globally—has a direct impact on the planet's environmental integrity. The industrial-scale extraction of natural resources, including timber, agricultural commodities and other forest-derived materials, often generates massive excess profits due to the finite nature of these resources and the dominance of a few powerful oligopolistic market players.

However, this exploitation comes at a high cost: deforestation, forest degradation and land use change are major drivers of biodiversity loss, water stress, and climate change, which lead to reduced ecosystems resilience, increased risk of spread of pathogenic diseases, increased risk of extreme weather and fires, which directly impacts communities around the world.

¹ <https://wellcome.org/reports/human-cost-climate-change-health-needed-accelerated-and-equitable-climate-action>

² <https://unctad.org/sdg-costing/climate-change>

Furthermore, the appropriation of large areas of land for exploitation, whether technically legal or not, also drives social conflict and inequality, as local communities lose access to their traditional lands and their commons.

These impacts are compounded by the fact that instead of paying a fair price for the use of common resources, in the form of taxes, these industries that exploit forests and lands often benefit from generous tax exemptions or other preferential tax deals. These work as a negative stimulus to increase the production, externalize the impacts on society, privatize the profits and create an uneven playing field which makes it harder for smaller or more sustainable businesses to compete.

In Brazil, for example, a study by INESC shows that in 2017, the country lost more than BRL 350 billion in taxes, due to exemptions. This was equivalent to around 30% of the net income of the government.³ In Indonesia, a report by Greenpeace highlights a problem of lack of accountability in the use of natural resources, as palm oil and pulp and paper companies often use shadow companies to circumvent restrictions and to evade taxes, which leads to significant loss of revenue for the state.⁴

Tax Justice Network estimated that countries are losing USD 347.6 billion in tax due to multinationals shifting profits offshore to underpay tax every year.⁵ The International Monetary Fund estimates that the indirect revenue losses are likely to be at least three times greater.⁶ Excess profits and rent seeking at the cost of nature is enabled by dysfunctional tax incentives that offer particular economic benefits to large multinational corporations, prone to profit shifting out of the country of extraction⁷. At the same time such special tax regimes e.g. in the form of 'special economic zones' - designated areas within countries that offer exemption from certain reporting and transparency regulations - can facilitate illegal logging activities and related illicit financial flows.⁸

Despite these environmental damages, taxation of industries involved in forest degradation, deforestation and land use change frequently fails to generate adequate public revenues. This shortfall is worsened by tax incentives, weak fiscal policies, and a global tax framework—including loopholes in transfer pricing rules—that enable aggressive tax evasion and avoidance by multinational corporations. As a result, the current tax system largely fails to internalize the

³ <https://inesc.org.br/subsidios-bilionarios-que-matam-como-o-lobby-do-agronegocio-dobra-o-governo-2/>

⁴ https://issuu.com/greenpeaceinternational/docs/deforestation_anonymous

⁵ <https://taxjustice.net/reports/the-state-of-tax-justice-2024/>

⁶ Ibid.

⁷ Christian Aid, the Financial Transparency Coalition, Latindadd; Profit before people and planet: How economic policies and corporate profit maximisation perpetuate the unsustainable exploitation of the Brazilian Amazon and its people; December 2022, <https://www.christianaid.org.uk/sites/default/files/2022-12/profit-before-people-and-planet.pdf>

⁸ Financial Action Task Force, 2021, Money Laundering from Environmental Crime. <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Money-Laundering-from-Environmental-Crime.pdf.coredownload.pdf>

environmental and social costs caused by forest exploitation and degradation, and places a higher tax burden on small to medium enterprises.

Transparency and Beneficial Ownership is Key to Effective Natural Resource Governance

The lack of fair and effective rules on global financial transparency is undermining global goals on biodiversity and climate. Ongoing efforts at the national and international level to halt the trade and financing of illegal natural resource extraction are hindered by the lack of public, verified, and economy wide information about who benefits from this illicit trade. Robust provisions for the ABC's of tax justice are necessary to tackle illegal natural resource extraction in the forestry, mining and agricultural sectors. This includes: **automatic exchange of information** between countries to prevent corporations and individuals from abusing bank accounts they hold abroad to hide the true value of their wealth and pay less tax than they should at home; **beneficial ownership transparency**, with economy-wide, public, verified information about the real person who ultimately owns, controls or receives profits from a company or legal vehicle, even when the company, on paper, legally belongs to another person, like an accountant or a shell company; and **Public country by country reporting** which requires multinational corporations to publish how much profit and cost they build up in each country they operate, giving tax authorities and the public a full picture of multinational corporations' financial accounts, and making it easy to see when corporations are cooking the books to pay less tax than they should.

Conclusion

Imposing progressive environmental taxes on the capital and assets of those sectors profiteering from deforestation, forest degradation and land use change, sets incentives for more sustainable business practices, thus decreasing environmental and social costs of large-scale forest loss. Such measures can influence production and consumption patterns—particularly in industries driving deforestation, like agriculture, logging, and mining—and play a vital role in a comprehensive environmental policy strategy. By mobilizing and redistributing the financial resources generated, Excessive Ecological Footprint Taxes can help accelerate the socio-ecological transition of global economies toward more sustainable, forest-friendly practices. Ensuring global transparency is a necessary step to ensure effective natural resource governance.

Signatures

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