Integrating Climate Imperatives in the UN Tax Convention

Introduction

The proposed framework for integrating climate action into the UN Tax Convention is supported by a growing coalition of stakeholders committed to aligning global finance with sustainable development goals. While the Convention is under negotiation, this advocacy brief reflects the consensus views of:

- **Civil Society and Non-Governmental Organizations (NGOs):**
    - Ágora
    - YOUNGO: The Official Youth Constituency of the UNFCCC
    - Initiatives for Safe Migration and Social Justice
    - Centre for Economic Governance in Kenya
    - Barwaqa Relief Organization
    - L'association CLUB UNESCO DU CENTRE D'ACTION FEMME ET ENFANT EN FRANCE (C.U.C.A.F.E/FRANCE)
    - L'association CLUB UNESCO DU CENTRE D'ACTION FEMME ET ENFANT EN CONGO (C.U.C.A.F.E/CONGO)

Executive Summary: A Historic Opportunity

- **The Opportunity:** The UN Framework Convention on International Tax Cooperation (INC Tax Convention) is a unique chance to embed climate action into global tax governance.
- **Core Goal:** Shift the Convention's role from purely revenue mobilization to proactive global environmental stewardship.
- **Key Action:** Systematically integrate foundational climate principles (Common but Differentiated Responsibilities, Polluter Pays, Climate Justice) into the Convention’s structure.
- **Expected Outcome:** Establish a "green fiscal space" for developing countries and coordinate climate-related fiscal measures globally.

1. Foundational Principles for Governance

Integration must be built on the established principles of the UNFCCC framework.

1.1. Common but Differentiated Responsibilities

This principle acknowledges varying historical contributions and capabilities among nations.

Tax Challenge for Developing Countries	Integration Strategy
Capacity Constraints (Administration, Audit, Expertise)	**Mandatory Capacity Building:** Enshrine tax capacity building as a fundamental obligation for developed countries.
Information Asymmetries (Lack of Climate Data)	**Enhanced Information Exchange:** Create mechanisms for multilateral exchange of climate-relevant data (e.g., carbon footprints) with technical assistance.
Policy Complexity	**Flexible Implementation:** Allow for optionality or phased approaches for complex tax policies.

1.2. Sustainable Development and the Just Transition

The Convention must explicitly link its mandate to the Paris Agreement's goals (1.5°C target) and Nationally Determined Contributions (NDCs).

- **Fiscal Policy Tools:**
  - **Incentivize:** Use tax credits, accelerated depreciation, and reduced rates for certified green investments and businesses.
  - **Disincentivize:** Introduce or strengthen environmental levies and carbon taxes (Polluter Pays).
- **Just Transition Mandate:** Design policies to ensure the shift to a low-carbon economy is fair, using tax revenues to fund social safety nets and retraining programs in affected communities.

1.3. Polluter Pays and Climate Justice

The Polluter Pays Principle is the basis for internalizing environmental costs (carbon taxes, ETS). Climate Justice ensures the financial burden is shared equitably.

- **Climate-Informed Nexus:** Expand the traditional concept of "value creation" in tax to include environmental externalities or the **"carbon footprint"** as a factor influencing the allocation of taxing rights.

- **Revenue Channeling:** Explore mechanisms for sharing a portion of tax revenues from carbon-intensive activities or global levies (e.g., on international shipping/aviation) towards UNFCCC climate funds (GCF, AF).

2. Integration into Operational Protocols

2.1. Cross-Border Services Protocol (Workstream II)

This protocol is vital for green tax innovation, addressing the digitalized economy.

- **Metrics & Adjustments:**
    - Develop international methodologies for measuring the **carbon intensity of cross-border services** (e.g., data centers' energy footprints).
    - Investigate a potential **"services in the Carbon Border Adjustment Initiative"** and establish clear rules to prevent double taxation of carbon across differing carbon pricing regimes.
- **Leveraging Digital Tax for Climate Finance:**
    - **Earmarking:** Channel a portion of revenues from taxing cross-border digital services (via new nexus rules) to UNFCCC climate funds.
    - **Green Incentives:** Offer reduced withholding taxes for payments related to certified green digital services, remote energy management systems, and carbon accounting software.
    - **Technology Transfer:** Introduce accelerated depreciation and reduced withholding taxes for cross-border investments and payments related to green technologies and R&D.

2.2. Dispute Prevention and Resolution Protocol (Workstream III)

Climate-related tax policies will create novel, complex disputes requiring specialized mechanisms.

- **Anticipating Novel Disputes:**
    - Disputes over the scope, calculation, and deductibility of carbon taxes/levies.
    - Conflicts over the measurement, verification (MRV), and origin of embedded emissions (Carbon Border Adjustment Mechanism conflicts).
    - Conflicts regarding eligibility criteria and classification of activities as "green" for incentive purposes.
- **Specialized Resolution Mechanisms:**
    - **Technical Expertise:** Establish specialized rosters/panels of arbitrators/mediators with expertise in both international tax law and **climate science/carbon accounting.**
    - **Multi-Disciplinary Approach:** Mandate panels include diverse expertise and allow for Technical Advisory Boards to provide non-binding scientific or technical opinions.

    - **Data Exchange for Resolution:** Mandate the exchange of standardized climate-related data (emissions data, certifications) specifically for dispute resolution, with technical assistance for developing countries.

3. Strategic Recommendations

The Convention must be inherently climate-responsive and globally equitable.

- **Prioritize Normative Alignment:** Explicitly integrate Common but Differentiated Responsibilities, the Just Transition, Polluter Pays, and Climate Justice into the Convention's core commitments.
- **Develop Climate-Sensitive Tax Rules:** Craft specific provisions to incentivize green investments, facilitate green technology transfer, and manage the cross-border implications of carbon pricing.
- **Strengthen Transparency and Capacity:** Mandate enhanced transparency via the exchange of climate-related tax information (e.g., MNE Country-by-Country environmental impact reporting) and dedicated capacity-building programs for developing countries.
- **Conclusion:** This integrated framework will transform the UN Tax Convention into a powerful and effective instrument for advancing global climate action.

For a comprehensive analysis of the legal, economic, and procedural mechanisms underpinning these recommendations, including the proposed model provisions, please consult the full report available at the following link: agoralab.org/UNFCCCintheTaxConvention