



ECOSOC Special Meeting on International Cooperation in Tax Matters

ECOSOC Chamber, Monday 29 April 2019, 3:00 – 4:30 pm

Session 2: Taxation and environmental protection

Purpose of the session

This session on taxation and environmental protection will examine the different ways in which fiscal policy can support climate protection at the global and local levels. It will seek to identify lessons learned from pioneering initiatives. It will explore the ways in which they might be improved and built upon, while appreciating the need for a differentiated approach that takes into account the capacities and responsibilities of countries at varying levels of development. The session will also explore the necessity for taxation efforts to be included within broader, coherent policy frameworks in order to maximize their impact and avoid contradictory policies.

Background

The adoption of the 2030 Agenda for Sustainable Development marked the global consensus that, to achieve sustainable development, **poverty and inequality must be tackled while protecting the environment and ensuring sustainable production and consumption patterns.** The 2030 Agenda includes ambitious targets on combating climate change and its impacts at the global and local levels, as well as on conservation of ecosystems. Beyond specific goals, solutions to environmental challenges are a foundation to achieving all the objectives of the 2030 Agenda.



Without comprehensive efforts, progress on non-environmental-related areas of the 2030 Agenda will be hindered and recede in the next decades. Human-caused climate change and pollution, which endanger ecosystems, societies and economies have made it necessary for countries at all levels of development to take concrete measures in order to progress towards a sustainable and responsible human development paradigm.

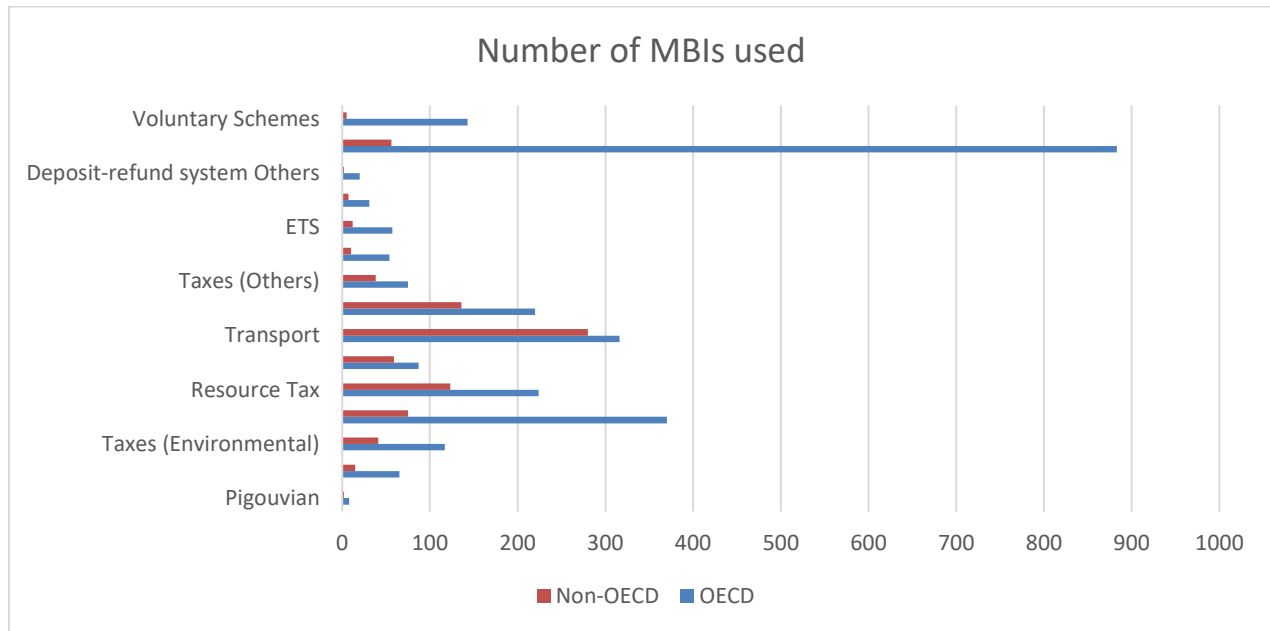
What are potential advantages of environmentally-oriented fiscal policies?

There has been relatively limited experience in use of market-based policy instruments, such as environmental taxation, despite their potential to contribute to sustainable development.¹ According to the 2019 Financing for Sustainable Development Report, carbon taxes alone could raise revenue of almost 1.5% of GDP in developed countries and almost 3% of GDP in G20 developing countries.²

However, **environmentally-oriented fiscal policies have so far only been adopted by a few countries,** due mainly to their perceived administrative complexity, and their potential for impacts on domestic economy and society (for example, higher cost of living) and on private sector competitiveness abroad. It should also be noted that environmental taxes can have far reaching effects, beyond the national dimension, including regional and global economic impacts.

¹ Pigou (1920), Coase (1960), Baumol (1971).

² 2019 Financing for Sustainable Development Report, p. 39-40.



Environmentally-oriented fiscal policies are often less costly and easier to administer than other policy options. Moreover, they **can have lasting effects both as taxes are raised and revenues are spent**. Such policies can be designed and implemented with a view **to steering consumer and producer behavior**, especially if coupled with other measures, including environmentally motivated spending. When polluting production is priced at its real social cost, consumers would be nudged towards goods with a lesser environmental impact, which will become relatively cheaper; and producers would be incentivized to increase the sustainability of their activity. Such a process would in turn support investments into research and development and transfer of green technologies from abroad. It could also enable economies to move past the coordination failures that have so far hampered the development of sustainable production techniques.

On the expenditure side, increased revenues from environmental taxes might be used to **further environmental protection, support transition towards a greener economy, and address other challenges such as poverty and inequality**. In cases

where environmental taxes prove to be regressive, expenditures can be used to offset such effect by supporting those parts of the population that are negatively affected.

The implementation of environmentally-oriented taxes often relies on holistic reforms for the optimization of the tax system as a whole. In the long run, environmentally-oriented fiscal policies have a high potential for positive spillovers, by helping to bring about a rationalization of the tax system and support the capacity development of local tax administrations. Additionally, environmentally-oriented taxes often **imply the collaboration of different government agencies and ministries**, and thus provide an incentive to break down silo organizations and develop better working relationships among different national institutions.

environmentally-oriented tax policies **may also have an important and immediate signaling effect**, as they demonstrate the commitment of the country to climate action and sustainable development. This may have a positive impact in fostering investments and trade and changing the behavior of local economic agents.



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Suggested questions for discussion

- *How can countries at different levels of development use fiscal policies to foster environmental protection?*
- *What are the pros and cons of introducing different fiscal measures, such as carbon taxation, environmental taxation, or environmentally related taxation, for countries at different levels of development?*
- *What other policies should be taken into account when introducing environmental taxation, to promote sustainable development in all its dimensions?*
- *What are the effects of such taxes on equality?*