United Nations E/2023/SR.16

Economic and Social Council

Distr.: General
16 August 2023

Original: English

2023 session
25 July 2022–26 July 2023
Special meeting on international cooperation in tax matters

Summary record of the 16th meeting
Held at Headquarters, New York, on Friday, 31 March 2023, at 3 p.m.

President:	Mr. Chimbindi (Vice-President)	(Zimbabwe)
later:	Ms. Stoeva (President)	(Bulgaria)

Contents

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*)

Panel 1: "Promoting inclusive and effective international tax cooperation at the United Nations" (*continued*)

Panel 2: "Taxation as a policy lever to advance energy transition"

Conclusion of the special meeting

This record is subject to correction.

Corrections should be submitted in one of the working languages. They should be set forth in a memorandum and also incorporated in a copy of the record. They should be sent as soon as possible to the Chief of the Documents Management Section (dms@un.org).

Corrected records will be reissued electronically on the Official Document System of the United Nations (http://documents.un.org/).

23-06108 (E)

Please recycle

In the absence of Ms. Stoeva (Bulgaria), Mr. Chimbindi (Zimbabwe), Vice-President, took the Chair.

The meeting was called to order at 3.05 p.m.

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*)

Panel 1: "Promoting inclusive and effective international tax cooperation at the United Nations" (*continued*)

1. **Mr. Roelofsen** (Member, Committee of Experts on International Cooperation in Tax Matters) said that all tax administrations shared the same interests, worldwide. Despite the assumed lack of inclusivity within international organizations, great progress had been made in terms of tax transparency, and combating tax avoidance through base erosion and profit shifting, to the benefit of all tax administrations. The situation concerning the attribution of taxation rights was different, since countries had opposing interests. Inclusivity, participation on an equal footing and the equitable sharing of tax revenues were therefore essential. However, while it was unlikely that true equality would be achieved, it should be recognized that a country's influence was not necessarily linked to its development status or to membership in the Organisation for Economic Co-operation and Development (OECD). It was simply a matter of fact that large economies and big countries had more influence than others. That problem would not be solved by creating a new intergovernmental body under the auspices of the United Nations. The likelihood of solving it would be decreased if the principle of consensus was abandoned in favour of a majority-of-force approach to decision-making.

2. **Ms. Scarcella** (Observer for the International Chamber of Commerce) said that the Chamber had always underscored the need for international tax cooperation in avoiding double taxation and ensuring greater tax certainty on a global scale. As the representative of millions of companies of all sizes, from all industries and regions of the world, the Chamber had consistently supported and continued to advocate for an efficient, transparent, predictable and stable international tax system. Such a system would incentivize long-term investment, job creation and economic growth, which were all critical for the achievement of the Sustainable Development Goals.

3. There was a need for further and stronger international cooperation, focusing primarily on the effective reduction of tax uncertainty. Accordingly, tax certainty should be at the core of all new proposals in the area of international tax cooperation, since it was essential for businesses and tax administrations alike. To that end, more effective risk prevention and resolution mechanisms would help to increase confidence among taxpayers and tax administrations. However, to achieve tax certainty, it would be necessary to avoid the duplication, fragmentation and multiplication of tax frameworks and policy initiatives. A proliferation of standards and rules would result in additional confusion and layers of compliance, thereby increasing the risk of disputes and accidental non-compliance. Such a scenario would hamper business investment and economic growth. Enhanced coordination and synergy among international tax policy forums would yield much more promising results. Future United Nations tax initiatives should provide for inclusive consultations with the global business community.

4. **Mr. Ahmed** (Member, Committee of Experts on International Cooperation in Tax Matters, and Co-Coordinator, Subcommittee on Environmental Taxation Issues) said that the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy was neither inclusive nor just, which made it unsustainable. For that reason, certain developing countries, including his own country, Pakistan, had rejected it, notwithstanding the tremendous direct and indirect pressure to which they had been subjected. While the Committee had been able to introduce some welcome provisions into the United Nations Model Double Taxation Convention between Developed and Developing Countries, those provisions could not become enforceable law without the consent of both developed and developing countries, which was unlikely. Developing countries needed a platform, time and space to adequately prepare for intergovernmental negotiations, and they needed to set an agenda with the assistance of leading international tax justice champions. General Assembly resolution 77/244 should be interpreted in a way that created space for the reallocation of taxing rights, with a view to making the international tax system more sustainable and just. The time had come to establish a multilateral tax convention administered by a United Nations intergovernmental tax organization.

5. **Mr. Khan** (United Nations Development Programme (UNDP)) said that taxation could play a transformative role in achieving the Sustainable Development Goals by helping Governments to increase and redistribute revenues, and by facilitating the realization of specific targets relating to health, gender, the environment and other areas. Through its Tax for

Sustainable Development Goals Initiative, UNDP was working with its partners to enable Governments in an initial 25 countries to harness the transformative potential of taxation by aligning tax and fiscal policies with the Goals through the use of a taxation framework for identifying and implementing tax policies and reforming tax administrations. UNDP was continuing to support Governments in their efforts to raise tax revenues through the joint UNDP-OECD Tax Inspectors Without Borders initiative, which had already helped developing countries to mobilize more than $2 billion in additional tax revenues. Efforts under that initiative had been expanded in different taxation areas, including through a workstream on the implementation of the two-pillar solution. Recognizing that a fair and inclusive tax system was not a mere formality, but rather a key component of just governance, UNDP organized national and international dialogues aimed at fostering greater engagement on issues relating to taxation and the Goals.

6. **Ms. Nembhard-Parker** (Member, Committee of Experts on International Cooperation in Tax Matters) said that while OECD had undertaken important initiatives and capacity-building projects, its work and the possible duplication of efforts were not the topic of the current discussion. The Council was instead seeking to address the concerns of developing countries regarding international tax cooperation and other issues, such as the definition of responsibilities and ways in which countries could play a more inclusive and effective role in global tax governance and in the allocation of taxing rights. Those legitimate questions required the attention of the United Nations, OECD, and other relevant entities. Most Member States were part of the Inclusive Framework on Base Erosion and Profit Shifting, as they all believed in the potential of multilateral frameworks to combat base erosion and profit shifting. OECD should heed the call of its members and recognize that efforts to include the voices of developing countries had fallen short. Those countries wanted a multilateral framework that integrated the ideals of equality and inclusivity and sustained them through a fairer global tax system instead of defining them in a restrictive manner.

Panel 2: "Taxation as a policy lever to advance energy transition"

7. **The President** said that the subject of the panel discussion had taken on great significance, in the context of multiple overlapping crises. The approach to climate matters should be a holistic one, and measures to address the climate situation should consider the critical issue of energy access, which continued to be a major challenge for millions of people in developing countries. Those countries needed to urgently ensure and protect energy access for all in order to achieve the Sustainable Development Goals. At the same time, to combat climate change, they needed to take adequate policy measures to develop renewable and clean energy sources. The energy transition from fossil fuel to clean energy was at the core of climate action. Yet, fossil fuels continued to be a major driver of economic growth, especially in developing countries, whose economies were, for the most part, dominated by mineral resource extraction. Energy transition should be accelerated and aligned with the goals of the Paris Agreement under the United Nations Framework Convention on Climate Change. While countries were pledging to reduce their national emissions and adapt to the impact of climate change, effective support was required to meet the ambitious target of net-zero emissions.

8. Against that backdrop, developing countries continued to bear the pressure of balancing and integrating their revenue generation and sustainable development priorities with climate considerations. They needed more flexible approaches, which would enable them to apply policy and practical mixes in various sectors. Among other things, the climate response required efficient and effective fiscal, market and regulatory policies that coordinated long- and short-term carbon neutrality goals. In that regard, taxation was a crucial policy lever, since taxes could drive innovation and investment in low-carbon technologies while discouraging the use of fossil fuels and other high-emission options. Through well-designed tax policies, Governments could create incentives to encourage the adoption of sustainable practices and technologies, reduce emissions and promote energy efficiency.

9. However, achieving a sustainable energy transition through taxation would take time and effort. Governments needed to distribute the tax burden fairly to ensure that vulnerable populations were not disproportionately impacted. In addition, tax policies would have to be coordinated at the international level to prevent adverse effects, such as tax evasion and carbon leakage. A level playing field should be promoted for businesses operating in different jurisdictions. To that end, the work of the Committee of Experts on International Cooperation in Tax Matters was essential in reviewing and reflecting on adequate tax policies that could assist countries in their efforts to transition to renewable and clean energies.

10. **Ms. Åkerfeldt** (Co-Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters; and Senior Adviser, Ministry of Finance, Sweden), moderator, said

that while energy was a necessary commodity, the key challenge was to enable countries to combine access to affordable energy supplies while fulfilling their climate and sustainability goals. The energy transition process would vary between countries. While tax measures could be cost-effective tools to that end, they needed to be properly designed and work effectively in order to be accepted by the public. A United Nations Subcommittee on Environmental Taxation Issues, established in 2017, was conducting substantial work in that regard. The panel discussion would focus on carbon taxation and other possible fiscal incentives, and closely examine the issue of reforming fossil fuel subsidies.

11. **Mr. Heine** (Global Lead, Climate Aspects of Fiscal Policy, World Bank), panellist, said that, as part of their recovery from the coronavirus disease (COVID-19) pandemic, countries would need to rebuild their fiscal space, which would be very difficult in the aftermath of a recession. After the 2008 global financial crisis, such efforts had focused on cutting public investment and increasing taxes, thereby contributing to double-dip recessions, losses of human capital, increased income inequality and fractured social cohesion. By delaying climate mitigation efforts, many countries had disrupted their path to sustainable growth. Those policy errors should not be repeated. Countries needed to carefully choose fiscal reconsolidation measures, balancing short-term stabilization objectives with long-term economic sustainability.

12. The prospect of continued public finance constraints in developing and donor countries was a significant threat to the Sustainable Development Goals. If macroeconomic restrictions undermined the achievement of the Goals, the consequences could be severe, including for global macrofiscal stability itself. Raising environmental taxes could help countries to rebuild fiscal space by broadening tax bases at a time when traditional revenue sources were dwindling. Ideally, countries should have wide tax bases with low nominal tax rates and should tax economic activities evenly to avoid distortions of the system. However, such targets were difficult to achieve in developing countries, whose large informal sectors were difficult to cover by resorting to conventional taxes. As a result, many developing countries imposed high nominal tax rates on a narrower formal-sector tax base. Such uneven taxation encouraged tax evasion and informality, and contributed to slower productivity growth. In many countries, shifting the structure of tax revenues away from taxes on labour towards consumption and excise taxes could increase growth, especially when reforms consisted of removing exemptions instead of raising nominal rates.

13. Carbon taxation was the most efficient way to curb emissions and represented a large and mostly unused tax base. To achieve the goals of the Paris Agreement, all countries would have to implement a carbon tax of approximately $75 per ton of carbon dioxide, by 2030. Such a tax would raise 0.5 to 3 per cent of gross domestic product (GDP) in national tax revenues and help to fund fiscal consolidation or post-pandemic expenditure. In comparison with other tax bases, raising revenues through carbon taxes had other desirable characteristics, as upstream carbon taxes could cover the informal sector with lower administration costs and fewer opportunities for evasion. It could also have a more positive impact on employment and output than increased labour and corporate taxes. Carbon taxes also had broader development benefits, such as the reduction of air pollutants and the improvement of local air quality.

14. For those reasons and others, many economists were increasingly calling for the implementation of carbon taxes, and the time had come for finance ministries to heed that call by supporting both fiscal and sustainability objectives. Diverting revenues from fuel price windfalls into economy-wide investment or social support programmes could broaden the political basis for reform. The elimination of fossil fuel subsidies could increase revenues without hurting the most vulnerable communities, whose consumption could be boosted more efficiently by direct transfers. Recent economic research had fundamentally changed the understanding of the equity impact of carbon taxation and fossil fuel subsidy reforms. Carbon taxation was no longer considered to be regressive, since tax and subsidy reforms on carbon or fuels generally induced structural economic changes towards more labour-intensive forms of production, which increased the use of labour, raised wages, and boosted equity. In low-income countries, poorer households generally spent a lower proportion of their income on carbon-intensive products than wealthier households. Furthermore, in all countries, since wealthier households consumed carbon-intensive products at a higher frequency, they tended to pay more in carbon taxes in absolute terms. Like the reduction of fossil fuel subsidies, carbon taxation was therefore an effective instrument for improving equity in all countries, especially developing countries.

15. While there were concerns about the stability of carbon tax revenues as a source of public finance, such revenues could be quite stable, since the reduction of emissions required time, particularly in developing countries, where baseline emissions were rising. Countries typically started carbon taxation on a portion of their national emissions before expanding the tax

base. For political reasons, most countries introduced carbon taxes on a gradual basis and increased rates over time, since the social cost of carbon grew with cumulative emissions. Public revenues from carbon taxation could therefore remain stable over a period that was longer than the usual tax policy planning horizon. Carbon was a good tax base, not only for environmental reasons but also for fiscal reforms. Since public funding was usually required to finance the Goals, using environmental and health taxes to mobilize domestic resources meant that taxation itself could help to reach set targets. Accordingly, closing the remaining gaps would require less public funding, and therefore less taxation overall.

16. That argument was crucial for climate action. Implementing the Paris Agreement without changes to private market incentives required considerable public investment and domestic resource mobilization beyond the available fiscal space of international climate finance. If countries stepped up carbon taxation and fuel subsidy phase-outs, they could raise revenue, reduce the total investment needed to attain climate targets and increase the proportion of the remaining investment needs that the private sector would be willing to bear. Given the intense short-term fiscal pressures created by the pandemic and the war in Ukraine, there was a serious risk of fiscal policy error that could have lasting consequences. In the worst case, delaying action on rapidly escalating threats like climate change could result in a series of macroeconomic crises. Climate-smart fiscal policy measures could help to set countries on sustainable growth paths.

17. **Ms. Corkal** (Senior Policy Advisor, Canada Energy Transitions, International Institute for Sustainable Development), panellist, said that the countries of the global North had historically contributed to emissions to a disproportionate extent, at the expense of developing countries and Indigenous Peoples worldwide. At recent sessions of the Conference of the Parties to the United Nations Framework Convention on Climate Change, States parties had made a historic commitment to phase out inefficient fossil fuel subsidies while providing targeted support to the poorest and most vulnerable groups. Prior to that, in 2009, the Group of 20 had pledged to phase out and rationalize fossil fuel subsidies over the medium term without defining a date. Fourteen years later, subsidies had not been phased out and had even exceeded $1 trillion in 2022, for the first time, despite rising emissions. Governments needed to urgently shift financial flows, notably by reforming tax subsidies. They should start with public financial flows, which they controlled directly, before targeting larger flows from the private sector, and in particular, the oil and gas industry.

18. During the COVID-19 pandemic, many Governments had supported fossil projects that had already been in the pipeline as a quick solution to falling GDP growth. Currently, many oil and gas companies were recording windfall profits during an affordability crisis that was linked to the energy price crisis. That irrational situation had been exacerbated by producer tax subsidies that facilitated oil and gas production and expansion. Many fuel fossil subsidies were transferred to consumers through low tax rates on fuels, which were supposedly necessary to support low-income households. However, research had shown that the wealthiest groups benefited the most from such measures. Tax-related subsidies could be extremely costly and depleted public resources that could otherwise be used to better support the poor or address climate change. In many cases, countries subsidized and taxed fossil fuels at the same time, which was counterproductive and inefficient. Ultimately, fossil fuel subsidies acted as a negative carbon tax.

19. The elimination of tax-based fossil fuel subsidies was a prerequisite for creating sustainable global taxation norms and regimes that addressed the climate crisis. Furthermore, the world needed to phase down the production of fossil fuels in order to comply with the Paris Agreement. Since such measures would erode related revenues in countries that were dependent on them, those countries needed fiscal strategies to avoid revenue gaps that could reverse progress in poverty eradication and economic development. They needed to plan for a managed net-zero transition while avoiding revenue crises. Declining revenues would require Governments to cut spending or increase other revenue streams through economic and fiscal diversification. Tax subsidy reform was a critical tool for removing subsidies and increasing taxes on fossil fuels, and for swapping subsidies from fossil fuels to low-carbon energy. Unfortunately, there was no binding global framework on subsidy reform: thus, apart from the moral incentive to address the climate crisis, incentive to reform consumer and producer subsidies was lacking.

20. Instead, there were loopholes in definitions that enabled Governments to continue to provide those subsidies while claiming to make progress on reform. Such practices should be stopped to improve accountability on global commitments. The international community should set clear timelines, define exclusionary clauses more narrowly and establish financial and technical support for State and non-State actors to implement reform. Given the slow progress in phasing out fossil fuel subsidies, all countries should be seeking

to accelerate their commitments. Governments should increase transparency and report all support for fossil fuels, including with respect to the Sustainable Development Goals, under indicator 12.c.1. They should also develop more stringent language on the need for subsidy reform and identify producer subsidies as a top priority to prevent the lock-in of new fossil investments and the risk of stranded assets.

21. As good planning was essential, she urged Governments to correct pricing through price caps and floors or other automatic pricing features to implement new regimes; manage impacts by mapping potential socioeconomic impacts and reallocating revenues to social protection and assistance for businesses; and build support, including through meaningful stakeholder consultations and robust communications to increase public buy-in. It was not enough to phase out tax subsidies. Savings also needed to be shifted from reformed subsidies into support for clean energy, especially during energy and affordability crises. To expand their commitment on fossil fuel subsidies to all public financial flows, countries should end all public support for fossil fuels in a managed and socially responsible way. Governments needed to progressively phase out new development approvals, as well as the financing, production, sale and use of all fossil fuels.

22. **Mr. Muñoz Piña** (Research and Data Integrity Director, World Resources Institute Mexico), panellist, said that, in the 1990s and 2000s, the Government of Mexico had been locked by public expectation into heavily subsidizing the domestic prices of fossil fuels, and in 2008, half of those price subsidies had benefited the richest 20 per cent of households. By 2018, the country had moved from subsidies to carbon taxation, with more than half of the revenues generated coming from the ultra-rich. Rather than paying out 1.8 per cent of GDP in fuel subsidies, as in 2008, Mexico had taken in carbon tax revenues equivalent to 1.6 per cent of GDP. Thanks to new institutional commitment devices, revenue contributions had been resilient to the COVID-19 pandemic, fluctuating energy prices and oil price shocks. The Mexican carbon pricing experience shed light on the policy inertias and equilibriums that promoted fossil fuel subsidies and on how they could be decoupled.

23. Fossil fuel price signals were one of the most important elements of any successful energy transition. Low fossil fuel prices, whether due to international market conditions or to subsidies, made investment in energy saving and efficiency less profitable and also encouraged carbon-intensive choices. While small low- and middle-income countries could do little to influence fuel price signals at the international level, they could use fossil fuel taxes to correct them domestically. The experience of Mexico showed the importance of having a clear taxation policy that kept domestic fossil fuel prices up when international prices went down. The country's floating, time-lagged net tax structure allowed a price shock to be smoothed over weeks or even months, making it politically feasible to remain in positive carbon price territory. Taxes helped consumers and firms make better decentralized choices about their fuel mix, intensity of use, and investment in efficiency and alternatives. Regulations and public investment could then force, channel or coordinate the major choices remaining.

24. Fossil fuel subsidies should be phased out gradually, with explicit or implicit compensation to vulnerable groups, especially in the context of international price shocks. Implicit carbon pricing in existing excise fuel taxation should be reinforced, and the fiscal and environmental authorities should work together to introduce or enhance explicit carbon taxation that was proportional to carbon content, although consideration of other local criteria such as pollution might be important. Implicit carbon prices could either support more public expenditure or facilitate a tax reform that reduced growth- or employment-inhibiting taxes. In Mexico, the phase-out of fossil fuel subsidies and phase-in of carbon taxes had significantly contributed to reducing carbon emissions without throttling economic growth.

25. In the development context, it was important to measure fossil fuel consumption relative to GDP. Rather than setting an implicit target in its nationally determined contributions, Mexico had pledged a reduction over a baseline that included emissions growth, and it had been able to decouple emissions growth from economic growth.

26. Analysis showed that, in Mexico, fossil fuel excise taxes had been more effective in reducing carbon emissions than any other carbon pricing mechanism. That finding supported the emerging view that carbon pricing should be not rely exclusively on explicit carbon taxes but should also include implicit mechanisms such as excise taxes and emissions trading systems. Furthermore, a country should not have to choose between carbon taxation, technology-based standards, strategic public-private investments or industrial policy subsidies, but should use them all in the best combination possible. The first instrument, carbon taxation, helped by sending the correct price signal. The other instruments made it easier and faster to respond to that signal.

27. In Mexico, carbon taxation was progressive, since it generated revenues used for social spending and investment. The next step was to boost its contribution to sustainable economic growth and a just energy transition by strengthening standards, strategic support, and public and private investment.

28. **Mr. Axelson** (Chief Director, Economic Tax Analysis, National Treasury, South Africa), panellist, speaking via video link, said that his team's main task was to generate revenue in a middle-income country with very low growth and very high unemployment, and where it was difficult to administer a complicated tax system. While aiming to maintain tax neutrality, the team supported the use of taxes to correct clear market failures. After 10 years of consultations, South Africa had introduced a carbon tax effective 1 June 2019. During the long consultation process, the team had modified the design, putting in allowances for industries that were hard to abate or sensitive to global competition. The initial rate had been low, but legislation had been introduced that would increase it dramatically over the next five years in order to encourage rapid change. It was difficult to argue for a tax that would hurt industry and consumers, and industry remained unhappy, but as the impact of climate change became clearer, public acceptance was growing.

29. The tax analysis team was still evaluating the emissions impact of the carbon tax. Discussions of how carbon taxes had worked in other countries would help it to design future adjustments.

30. South Africa took a carrot-and-stick approach to emissions reduction. In arguing for a carbon tax, the Government had committed to use much of the revenue generated to facilitate the green transition. To phase out inefficient coal power plants and boost power production, it had recently raised the tax deduction for investments in renewables to 125 per cent of cost, up front, and had instituted a deduction for households investing in rooftop solar.

31. South Africa also had a general levy on fuel imports that accounted for about 40 per cent of the import price. Up until 2020, it had used increases in the general levy to generate revenue for environmental objectives, but with the current high fuel prices, that was no longer feasible. The levy should continue to rise, and the Government had proposed various measures to cushion the impact, such as boosting grants for low-income households, but there was as yet little public support. As with other levies, it was a matter of finding the right time.

32. **Ms. Noronha** (Assistant Secretary-General and Head of the New York Office of the United Nations Environment Programme), panellist, said that during the high-level dialogue on energy in September 2021, participants had emphasized that, given the scalable nature of green energy solutions, there was no dichotomy between universal energy access and transitioning to renewable energy. Effective tax policies not only could create a fiscal space for harnessing the potential of renewable energy but could also actively promote the transition.

33. As Mr. Heine had indicated, carbon taxes and fuel subsidy reforms promoted a more just transition because they tended to encourage more labour-intensive forms of production, which raised the return on labour relative to that on capital. At the same time, the revenues generated could be used to provide access to sustainable infrastructure, which would further strengthen progressivity.

34. Many developing countries with oil and gas reserves also had deposits of minerals that were critical to the energy transition. The rents from the development of those minerals should be increased and invested not only in the energy transition but also in broader socioeconomic goals, so that natural capital was converted into human and other forms of capital that would ensure sustainable development. Steps must also be taken to diversify economies so as to avoid stranded assets.

35. Environmental taxes generated revenues, improved tax system efficiency and reduced the need to raise conventional taxes. However, when arguing the case for them, it was also important to focus on their added benefits for health and development. To be politically acceptable, proposals for their introduction should be just, well-timed and attentive to the public, and implementation should be gradual.

36. Lastly, taxation had limitations as a policy lever. Environmental tax measures must be accompanied by a variety of non-tax measures, and they would not be accepted without awareness-raising.

Interactive dialogue

37. *Ms. Stoeva (Bulgaria) took the Chair.*

38. **Mr. Koll** (Observer for Germany), noting the need to screen fiscal policies for potentially harmful environmental effects, said that effective screening depended on the availability of quality data, and best screening practices should be exchanged in the appropriate forums. Fiscal policy changes should be tailored to the country context. They should be designed to prevent unintended consequences, ensure societal support, and incentivize and channel private-sector

investment in green activities. Taxation measures should be assessed for their effects on different segments of the population and might need to be accompanied by additional measures to prevent negative impacts on the poor. The sequencing of reforms was key to political buy-in.

39. At the international level, to encourage the elimination of fossil fuel subsidies, for the first year after the elimination of a subsidy, a country could be offered grants or interest-free loans equal to a fixed percentage of the annual amount of the eliminated subsidy. In addition, effective measures for ensuring more sustainable transportation in areas such as maritime shipping should be discussed. Climate adaptation and mitigation funds could help to reduce loss and damages.

40. **Mr. Roelofsen** (Member, Committee of Experts on International Cooperation in Tax Matters) said that the topic under discussion was of keen interest to the Committee, which had a Subcommittee on Environmental Taxation Issues.

41. **Mr. Alih** (Observer for Romania) said that the energy crisis triggered by the war on Ukraine had presented his country with a difficult choice between keeping manufacturing facilities open and reigning in inflation or maintaining excise taxes to deter the use of dirty fuels. Introducing carbon taxation in a small country like Romania was economic suicide without an international agreement on the matter. The European Union had imposed a carbon dioxide emissions tariff on imports of polluting goods. He did not understand how Romania was subsidizing dirty energy producers.

42. **Mr. Tiwari** (India) said that transaction-based taxation of carbon and fossil fuels could be regressive. He wondered if, even from an administrative perspective, it might not be better to focus on direct taxation of excess profits from fossil fuels.

43. **Mr. Heine** (Global Lead, Climate Aspects of Fiscal Policy, World Bank) said that a windfall tax was structurally neutral and, thus, desirable from a fiscal perspective, but to incentivize structural change, non-neutral carbon taxes were essential. India already had carbon pricing, in the form of a tax on domestic coal and excise duties on petrol and diesel. Its reform of liquefied petroleum gas subsidies had massively reduced the largest cash transfer programme in the world. However, cash transfers continued to have a place in fiscal policy. Carbon pricing was almost certainly equity-enhancing, but it did not reduce poverty.

44. **Mr. Muñoz Piña** (Research and Data Integrity Director, World Resources Institute Mexico) said that, to avoid the need for political decisions when windfall profits occurred, Mexico had redefined its royalty structure to take into account the base and any variations in price. The design also provided for subsidies to mitigate excessive losses. Regarding the feasibility of carbon taxation in Romania, three politically very different administrations in Mexico had maintained carbon pricing, at least in part because of its smoothing effect on price shocks. Many countries had excise taxes on fossil fuels, which was a form of carbon pricing.

45. **Ms. Åkerfeldt** (Co-Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters; and Senior Adviser, Ministry of Finance, Sweden) said that the *United Nations Handbook on Carbon Taxation for Developing Countries* had a chapter on addressing the adverse effects of carbon pricing. Sweden, which was even smaller than Romania, had introduced a carbon tax stepwise beginning in 1991.

46. **Ms. Corkal** (Senior Policy Advisor, Canada Energy Transitions, International Institute for Sustainable Development) said that she shared Mr. Heine’s view on the need for both fossil fuel profits taxes and carbon pricing. Windfall taxes must be designed to ensure that tax increases were not passed on to the consumers. Because fossil fuel prices were inherently volatile, transitioning to renewable energy would greatly reduce the likelihood of energy price crises. According to a report prepared by colleagues at the International Institute for Sustainable Development, the fossil fuel revenues of six large emerging economies would fall to around 10 per cent of 2019 levels by 2050 under a net-zero scenario. To prepare for that eventuality, the report suggested using the near-term boom in revenues from fossil fuel profits taxes to create green and social sustainability bond support funds that could be used to leverage private-sector lending and investment in transition projects.

47. **Mr. Heine** (Global Lead, Climate Aspects of Fiscal Policy, World Bank) said that there was no evidence of reduced competitiveness among small countries that had implemented carbon pricing. While carbon-intensive sectors would lose competitiveness, revenues from carbon taxes could be used to avoid rises in corporate income tax, thus maintaining or boosting competitiveness. In the case of countries whose industrial strategies called for entry into a carbon-intensive sector, upstream taxes on carbon-intensive inputs could be combined with an output subsidy per unit of product, which would encourage sector

producers to reduce their use of the carbon-intensive inputs while producing as much as possible.

48. **Mr. Ahmed** (Member, Committee of Experts on International Cooperation in Tax Matters, and Co-Coordinator, Subcommittee on Environmental Taxation Issues) said that tax administrators in developing countries were under constant pressure to generate more revenues and meet revenue targets. The Subcommittee on Environmental Taxation Issues was producing valuable guidance that needed to be disseminated to those tax administrators, but simply dumping it on them was unlikely to produce results. Perhaps a small unit could be set up that would select one or two persons in the tax policy unit in every capital with whom to share guidance gradually.

49. **Mr. Heine** (Global Lead, Climate Aspects of Fiscal Policy, World Bank) said that both the World Bank and the International Monetary Fund offered trainings to countries that wished to develop local capacity in environmental taxation.

50. **Ms. Noronha** (Assistant Secretary-General and Head of the New York Office of the United Nations Environment Programme) said that, in many countries, there were focal points for a wide variety of environment-related issues that often did not communicate with each other. A focal point for environmental taxation issues could coordinate their efforts.

51. **Mr. Muñoz Piña** (Research and Data Integrity Director, World Resources Institute Mexico), addressing the topic of international tax cooperation, said that when fuels with different carbon content were taxed differentially, importers sometimes cheated by passing a high-carbon fuel off as a lower content one. Cooperation with neighbouring countries and trade partners made it possible to catch the cheaters.

52. **Ms. Åkerfeldt** (Co-Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters; and Senior Adviser, Ministry of Finance, Sweden) invited panellists to discuss concerns surrounding extractive industries, policy packaging, and encouraging acceptance of carbon taxation.

53. **Mr. Axelson** (Chief Director, Economic Tax Analysis, National Treasury, South Africa), speaking via video link and elaborating on how he and his colleagues had built support for the carbon tax policy, said that they had listened attentively to comments and concerns and had adapted the policy to take them into account. Finding a solution for globally competitive industries had been difficult. Although carbon tax revenue could theoretically be recycled, South Africa was not as efficient as it might be in such expenditure programmes. By providing assistance in the form of a trade exposure allowance, the team had been able to get some buy-in.

54. It had helped that companies had not been averse to change, owing to pressure from their shareholders to reduce emissions. Introducing the policy gradually had made it more agreeable, and it also allowed time to find solutions. His team had initially considered using the strategy outlined for the European Union carbon border adjustment mechanism, which would be phased in as carbon allowances were phased out, but it had abandoned that approach as unfeasible in such a small country. A lot of work had gone into determining what tax incentives would encourage industries to change and how to provide cushions for lower income households that would not undermine the energy transition.

55. The team had also opted to reduce the carbon tax for companies pursuing projects that could be used to reduce emissions. That had created a whole carbon offset industry and had spurred a lot of additional investment.

56. **Ms. Corkal** (Senior Policy Advisor, Canada Energy Transitions, International Institute for Sustainable Development) said that, during energy crises, the default had often been to reduce existing fuel taxes, which primarily benefited wealthier households and created new fossil fuel subsidies. Alternative go-to mechanisms should be developed to support the most vulnerable households when prices spiked. Addressing the question of how to provide targeted aid to poor households to cushion the impact of a carbon tax, she said that, when reforming subsidies, it was important to have very strong policies in place to ensure that new subsidies would not be introduced later on. It was also important to ensure that, when subsidies were provided for low-income populations which did not have access to cleaner fuels, those populations would eventually transition to low-carbon energy sources.

57. **Mr. Heine** (Global Lead, Climate Aspects of Fiscal Policy, World Bank), discussing the special concerns of extractive-rich countries, said that the devaluation of carbon-dependent assets could trigger a major financial crisis. Extractive taxes could help a country reduce the risk of stranded assets and carbon lock-in.

58. In non-extractive sectors, more sustainable production could be encouraged by moving from traditional commodity taxes to commodity taxes that took carbon intensity into account. Tax authorities could use the sustainability certificates issued in many industries to gauge the sustainability of production.

59. **Ms. Åkerfeldt** (Co-Coordinator, Subcommittee on Environmental Taxation Issues, Committee of Experts on International Cooperation in Tax Matters; and Senior Adviser, Ministry of Finance, Sweden) invited panellists to share final takeaways and closing remarks.

60. **Mr. Muñoz Piña** (Research and Data Integrity Director, World Resources Institute Mexico), summing up, said that both explicit and implicit carbon pricing should be counted as carbon pricing; smoothing mechanisms should be built into the carbon taxation system; and the revenues generated by carbon taxation could be used to reduce its impact and make it progressive.

61. **Ms. Corkal** (Senior Policy Advisor, Canada Energy Transitions, International Institute for Sustainable Development) said that subsidies for fossil fuel producers must end. Extracting oil and gas from new fields was not compatible with a maximum temperature rise of 1.5 degrees Celsius. Faster multilateral action was needed, but it was difficult in the absence of a binding global framework on subsidy reform.

62. **Mr. Heine** (Global Lead, Climate Aspects of Fiscal Policy, World Bank), also summing up, said that it was possible to design environmental taxation so that it advanced economic, social and fiscal objectives, too. It was also possible to work within existing tax frameworks by improving the environmental effectiveness of existing taxes. The World Bank and the International Monetary Fund together had already modelled environmental tax reform for around 175 countries, which meant that impact assessments were available for most countries. There were also technical trainings.

63. **Ms. Noronha** (Assistant Secretary-General and Head of the New York Office of the United Nations Environment Programme) said that time was running out. Member States needed to be able to design tax reforms that benefited themselves and the energy transition. It was important to highlight the availability of technical assistance and to stress the multiple benefits of tax solutions, which would make them more feasible politically.

Conclusion of the special meeting

64. **Mr. Hanif** (Assistant Secretary-General for Economic Development) said that the discussions had provided an opportunity for introspection and open dialogue among States and relevant stakeholders. During the first discussion, on promoting inclusive and effective international tax cooperation at the United Nations, the participants had evidenced deep interest in multilateral solutions. During the second, on taxation as a policy lever to advance energy transition, they had identified issues which, if carefully considered, could help countries reduce their emissions and adapt to the impacts of climate change.

65. **The President** said that the diverse participants in the interactive discussions had provided useful multisectoral perspectives on the matters discussed, which would remain high on the global agenda.

The meeting rose at 5.20 p.m.