TAX JUSTICE: THE MISSING ELEMENT ON THE ROAD TO BELEM?

As the global climate breakdown accelerates, geopolitical tensions are on the rise, multilateralism is in decline, and governments from the Global North are cutting development aid and increasing military spending. The promises of impactful climate finance remain largely unmet, with "developed"/rich/Global North countries hiding behind the excuse that there is not enough public finance available. But there is actually plenty of money out there and we have an open door to achieve global climate and development goals: an ambitious tax justice agenda. Alongside other systemic/macro economic reform, fair taxation would help to mobilise domestic public revenues to finance bold public climate action, and to reform current international taxation rules to make big polluters pay, such as multinational fossil fuel corporations and other sectors harmful for the people and the planet.

A bumpy road on the way to Belem

We are stuck on the road from Baku to Belem[1], without a clear path to scale up climate finance to achieve the $1.3 trillion dollars target needed in the Global South to tackle the climate crisis. The motion to provide adequate climate finance for Global South nations is losing steam. International climate finance flows still lag far behind the funding needed to meet the goals of the Paris Agreement. The gap of international climate financing is estimated at US$187-359 billion per year for adaptation financing alone, against the actual $28 billion provided for that purpose in 2022, according to the adaptation gap report 2024. On top of this, Global South countries require up to $500 billion per year to cope with loss and damage.

(1) The Baku to Belem Roadmap is a process under the UNFCCC negotiations that mandated the COP29 and COP30 Presidencies to explore how to scale up financing to developing country Parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035.

For taxation to become a core source of climate finance, we need a progressive, climate-aligned, transparent and equitable global tax system. Transforming the rules of global taxation can put an end to tax dodging, tackle natural resource crimes enabling illicit financial flows (IFFs), and incentivize the transition away from fossil fuels. This is where tax justice and climate justice go hand-in-hand: to hold governments, specially from the Global North, accountable for delivering the public funds needed for adaptation, mitigation, and reparations, alongside with accelerating a just transition globally.

Polluter Pays Taxes: progressivity and equity as a compass

Taxation is the most powerful tool we have to ensure there are enough public financial resources to restore and protect nature and the climate and to finance the necessary infrastructure. But it's fundamental, in adding tax to an environmental policy toolbox, to avoid regressive impacts. Even taxation that aims to address environmental challenges must be progressive, and guided by equity and the "polluter pays principle."

So far mainstream interpretation and application of this principle through taxation has had regressive impacts. Tax measures with intended environmental impact, like taxes on fuel, are mostly targeting consumers, directly or indirectly. Lower income households who spend a greater proportion of their income on fuel for transportation, cooking, heating their homes etc. carry a relatively higher share of the tax. This regularly provokes large scale public protests by actors who might generally be in favour of climate action, yet at the same time worry about social justice.

Instead, new progressive environmental taxes should target corporations that are profiting from polluting the climate. Taxing the profits of the fossil fuel industry will make the extraction business models less profitable and discourage the continuation of the business as usual. And tapping into their enormous profits will bring in significant tax revenues that can be channeled back into climate action.

New Sources of Public Finance: The Tax Justice Toolbox

Fiscal policy must respond not only to inequality but also to planetary breakdown. Additional resources to fill the climate financing gap can be found by tapping into the toolbox of progressive tax justice instruments.

1. **Taxing Wealth and Hidden Assets:** Taxing wealth first requires bringing to light the hidden offshore wealth, estimates vary between $7.6 trillion and $18.5 trillion. This causes an estimated annual public revenue loss of anywhere between $156 billion and $169 billion, due to minimal taxation of the wealthiest' capital gains, capital income or other taxes due that should be paid on this wealth. This even excludes the potential of an explicit wealth tax, which could raise at least $200 billion annually, even with modest tax rates.

2. **Reforming Corporate Taxation:** The impact of cross-border tax dodging by multinational corporations is significant, with up to $311 billion annually of forgone revenue. Adding so-called 'spillover effects' in by countries competing to offer the lowest taxes, estimates by the IMF run up to $500 billion of tax losses annually, of which $200 billion is lost to the Global South countries.

3. **Tackling Illicit Financial Flows:** Illicit Financial Flows are at the roots of environmental and human rights crimes such as illicit fishing, illicit logging, illicit wildlife trade and illicit mining. Public ownership transparency regarding assets and beneficial ownership of companies, to know who is behind these environmental crimes and human rights abuses, can remove the cost of illicit fishing, $23.5 billion per year, or of illicit logging with at least $50 billion per year, both almost exclusively in the Global South.

4. **Ending Harmful Tax Incentives:** Corporate tax exemptions, while often promoted as a development strategy to attract Foreign Direct Investment (FDI) are frequently proven to be unnecessary for actual investors' engagement, and are open to corruption and abuse due to the vast amount of discretionary exemptions.

5. **Tax the profits of polluting industries:** With its excessive ecological footprint, the fossil fuel industry bears particular responsibility for the worsening climate and ecological catastrophe. Shareholders have benefitted from recent record profits for the fossil fuel industry, which continues to expand its extraction and production rather than meaningfully contributing to the transition away from fossil fuels A surtax on profits of the fossil fuel industry can provide incentives to transform this sector (i.e., tax it out of business) while raising much needed additional public revenues for climate finance.

UN Tax Convention and UNFCCC go together

On their way to COP 30 in Belem, climate justice advocates should stop by the United Nations in New York. In August, the negotiations on the UN Framework Convention on International Tax Cooperation (UNFCITC) will start in earnest. At stake is nothing less than a historic opportunity to reset global tax rules in a truly inclusive way: to tackle the root causes of tax avoidance, tax evasion and illicit financial flows, to institutionalise tax transparency at the global level, to close loopholes, strengthen tax enforcement, and uphold fairness in the tax system to the benefit of the Global South. And climate justice campaigners will meet allies there in their fight for additional public revenues so urgently needed for climate action.

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