



New resources for public climate finance and for the Loss and Damage Fund

**Exploring taxes and levies at EU and
multilateral level**

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Abbreviations

AILAC : Association of Independent Latin American Countries

AOSIS : Association of Small Island States
BEPS : OECD/G20 Base Erosion and Profit Shifting (BEPS) project

CORSIA : Carbon Offsetting and Reduction Scheme for International Aviation

DST : Digital Services Tax

EU ETS : EU Emissions Trading System

GHG : Greenhouse gases

GCF : Green Climate Fund

IAPAL : International Airline Passenger Adaptation Levy

IAPALLnD : International Airline Passenger Levy for Loss and Damage

IATA : International Air Transport Association

Note on terminology

Loss and Damage (capitalised) refers to the policy agenda to address loss and damage; loss and damage (not capitalised) refers to climate impacts not avoided by mitigation or adaptation.

ICAO : UN International Civil Aviation Organization

IEA : International Energy Agency

IMF : International Monetary Fund

IMO : International Maritime Organization

IOPC : International Oil Pollution Compensation Funds

LDC : Least Developed Countries

LDF : Loss and Damage Fund

NCQG : New Collective Quantified Goal

ODA : Official Development Assistance

SIDS : Small Island Development States

TC : Transitional Committee on Loss and Damage

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Summary

The report provides an overview of main options for scaling up new and additional public climate finance resources, summarizing the current state of affairs and providing an outlook with regard to new and innovative sources of funding through new and existing policies at multilateral and EU level. A major focus is resources in the EU and developed countries for the Loss and Damage Fund (LDF) and secondarily the new international climate finance goal which will come into operation after 2025.

Firstly the report summarises implementation of taxes and levies through global agreements or multilaterally through coalitions of 'first mover' countries, and secondly, by and within the EU. For the majority of options agreement at global level is not considered feasible in the near term, but the report explores pathways to global implementation and global revenue estimates to show their desirability.

Key options are explored by financial potential, political and technical feasibility, and compliance with climate justice, namely how they deliver on the polluter pays principle, and how they address global and social equity (inequalities between and within countries). These climate justice principles can facilitate stronger agreement internationally, and are important for public acceptance. The report focuses on progressive taxes targeting polluting companies, luxury consumption, finance and wealth. Accompanying regulatory frameworks are needed to prevent passing on of costs to consumers and workers in a socially regressive way.

Tables 1 and 2 provide an overview of the main results. For global taxes and levies, table 1 presents total estimated financial revenues, and for EU taxes and levies table 2 presents a suggested share of proceeds from total estimated financial revenues. For some of the options in the tables, the report considers additional sub-variants.

Table 1: New and innovative funding sources for climate finance implemented at global level

Sources: Authors' own estimations based on the studies quoted in the respective chapters of the report

Source description	Est. annual financial revenues/US\$	Calculation base /US\$	When can it start?	Climate justice
Fossil fuel extraction levy Agreed at UNFCCC or coalitions of countries, implemented by national tax authorities	US\$ 210 billion	\$5 / ton CO ₂ , base year 2021	Unclear	High
Air passenger levy Agreed by coalitions of countries or at ICAO	US\$ 4-150 billion	Various levy rates, base year 2021	2025-2027	Medium - High
Maritime levy Agreed at IMO, implemented by IMO	US\$ 60 billion	\$100 / ton CO ₂ eq, base year 2026	2027-8	High
Wealth tax Coordinated by coalition of willing countries, implemented by national tax authorities	> US\$ 1 trillion	1% per year on wealth over \$1 million, base year 2016	Unclear	High

Note on methodology: Estimated financial volumes at global level face particular limitations. The estimated revenues can also fluctuate significantly over time and annual revenue estimates are static estimates rather than post-behavioural. Studies on which the figures are based do not use unified base years which limits comparability.

Table 2: New and innovative EU-specific funding sources for climate finance

Source	Proposed share of proceeds	Est. annual contribution to international climate finance / Euro & US\$ ¹	When can it start?	Climate justice
Fossil fuel windfall profit tax Extension EU fossil fuel 'solidarity contribution'	10% , based on 2022 est. revenues	€ 0.75 billion (US\$ 0.8 billion)	Unclear	Low - High
EU-wide private jet flight tax Based on cumulative flight distances	100% , based on 2021 revenues	€ 325 million (US\$ 357.5 million)	2027	High
Aviation fuel tax Member States' use of revenues under EU energy taxation directive	20% , based on 2027 revenues	€ 2.33 billion (US\$ 2,56 million)	2027	High
EU Emissions Trading System Member States' revenues from power, energy-intensive industry, aviation	20% , based on 2021 revenues	€ 4.82 billion (US\$: 5.3 billion)	2025	High
EU Carbon border adjustment mechanism Tax on import of high carbon goods	100% based on est. revenues 2026 & 2030	€ 1.5 (2026) – 2.1 billion (2030) (US\$ 1.65 – 2,31 billion)	2026	Low
EU financial transaction tax Range of levies on securities & derivatives; shares, bonds & derivatives	10% , based on est. 2021 revenues	€ 3.4 – 30 billion (US\$ 3.7 – 33 billion)	2026-2027	Medium
EU digital tax Tax on digital (not physical) presence	10% , based on est. 2017 revenues	€ 500 million (US\$ 550 million)	2025	Medium

1 Using an exchange rate of US\$1.10 per € (average 2021-22)

For global or multilateral options to make polluters pay, the report proposes that in most developing countries revenues would be used entirely to support their domestic resource bases and just transitions, while in developed countries and higher income developing countries in a position to do so, a contribution from the new resources should be made to the LDF and international climate finance. Within the EU the report proposes shares of proceeds to international climate finance and the LDF from a number of new and existing EU mechanisms, with remaining revenues to be used for just transition and public finance in the EU.

The most immediate potential source at multilateral level are a solidarity levy on aviation implemented by a coalition of countries, and within the EU Member States can readily increase contributions from the current and revised EU Emissions Trading System (ETS). To move towards a more climate just approach the EU should also re-commit revenues from its Carbon Border Adjustment Mechanism (CBAM), coming into full force from 2026, to affected developing countries as climate finance. An EU Financial Transaction Tax (FTT) and a digital tax could also be implemented in the near or medium term. Much further diplomatic work and assessment of global equity is required for a shipping levy at the International Maritime Organisation (IMO), and while global taxes on fossil fuels and wealth are highly desirable, coordinated regulation is unlikely in the near term, therefore solidarity levies by coalitions of countries should be pursued. The report concludes with the following recommendations:

Most options would not be available before 2025, which means it is **urgent** to prioritise the most feasible near term options. In the short term term, developed countries must provide significant public finance contributions to the Loss and Damage Fund, and voluntary contributions should be invited, including from other public, private and philanthropic actors. In the near term there are opportunities for the EU to allocate new shares of proceeds from existing EU sources, and at multilateral level a coalition of countries could implement an aviation solidarity levy.

In the longer term, through **the polluter pays principle**, polluters should be made accountable to contribute to international climate financing according to their responsibility and capability. Fossil fuel taxation, levies on shipping or aviation, taxes on profit or wealth are the most pressing options from a financial and climate justice perspective.

Embedding **equity** and aligning with common but differentiated responsibilities and respective capabilities (CBDR-RC) in policies at EU and multilateral level, and in relevant UNFCCC decisions, will help a broader range of countries support their implementation. Within countries, ensuring taxes and levies do not worsen inequalities by targeting corporate polluters, luxury consumption in a progressive way and enhancing support mechanisms for affected lower income and underrepresented groups is also important for public acceptance.

The **EU can demonstrate its commitment** to innovative sources by tapping into existing EU sources. In multilateral efforts, EU diplomacy needs to take into account global equity. The EU should set up a taskforce of EU institution representatives, experts and civil society working across climate diplomacy, international climate and development, and tax policy to advance this agenda.

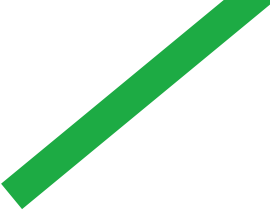
Introduction

This report provides an overview of options for significantly expanding the revenue base for international public climate finance, through new resources from taxes and levies. A major focus for the report is financing the Loss & Damage Fund (LDF), which should be operationalized by a decision at COP28, and for scaling up international climate finance to contribute to the new climate finance goal to come into force after 2025.

In its most recent report, the IPCC clearly set out that the lack of appropriate financing is currently the greatest obstacle to transformation: without significantly scaled up international climate finance, limiting global warming to 1.5 degrees Celsius will be out of reach, and huge financing gaps also already exist for adaptation and to address loss and damage. The Sharm el-Sheikh Implementation Plan resulting from COP27 expressed great concern that there is a massively growing financing gap and that industrialized countries are not meeting their obligations.¹ Developed countries have thus far failed to deliver the US\$ 100 billion international climate finance goal which should have been delivered annually since 2020, and concern remains whether it will be met in 2023,² and whether foregone contributions so far will be compensated retrospectively. There is also a particular shortfall on adaptation finance,³ where grants-based public finance is particularly important. This commitment, falling woefully short of needs, can and should be met through developed countries' existing budget resources; failure is largely on account of lack of political will and de-prioritisation. In addition, reform of international climate finance aimed at expanding its sources and significantly scaling up new and additional contributions is long overdue. Some political groups in Europe often frame Official Development Assistance (ODA) and climate finance as being in competition with domestic social priorities, including the COVID-19 recovery and the cost of living crisis. Therefore it's important that measures for generating new finance address inequalities and are perceived as fair, to facilitate public acceptance.

There are specific entry points to drive change at the UNFCCC. In 2023 the Transitional Committee on Loss and Damage (TC) began its work including looking at innovative sources for the new fund and funding arrangements. In defining an adequately ambitious New Collective Quantified Goal (NCQG) on climate finance to replace the 100 billion goal, 'innovative' as well as public and private sources of finance for the goal are and must be under consideration.

Efforts are also underway outside the UNFCCC. Yet, in spaces where not all countries have an equal opportunity to engage, equity and fairness of new measures is already compromised. The Paris Summit on a New Global Financing Pact co-hosted by President Macron of France and Prime Minister Mia Mottley of Barbados in June 2023, largely failed Global South governments' and civil society's expectations on debt, financial architecture, and tax reform, although some countries chose to highlight the need to tax high-emitting sectors, like maritime shipping, aviation, and fossil fuel industries, financial transactions

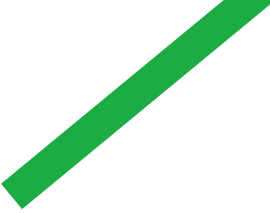


and wealth. The summit took place just ahead of a meeting on environmental issues at the International Maritime Organization (IMO), a UN agency, where it was decided to undertake impact assessment work on new 'technical' and 'economic' measures to tackle the climate impacts of shipping, including a carbon levy. The Indian G20 Summit in September can send further signals, as the development of new global sources of financing is only feasible with active engagement and participation by emerging economies.

But there are also numerous measures the EU can take domestically, making supplementary direct contributions to international climate finance from existing measures, as well as driving forward new taxes and levies to also deliver much needed additional domestic resources.

The approach of this report is to provide political contextualization and evaluation of various taxes and levies, including assessing their financial viability, and political and technical feasibility. The options are selected according to some key principles which underpin climate justice. Definitions of these principles are explored only lightly in this report given their treatment in other publications by civil society.⁴ Instead this report considers how application of some key climate justice principles can facilitate (global) political economy and public acceptance of selected taxes and levies. These include:

- Instruments should result in a net transfer of finance that is **new and additional** to ODA and climate finance, non-debt generating, collectively at a scale that is **adequate, predictable and sustainable**; scaling up grants-based public finance is a key priority;
- **Historical responsibility** of countries and **common but differentiated responsibilities and respective capacities** should be considered when designing multilateral policies in particular;
- The **polluter pays principle** should be applied as far as possible with a focus on big polluters;
- The levying of taxes and charges should contribute to and not undermine the Paris Agreement's **1.5 degree Celsius temperature goal**;
- New taxes and levies should not increase inequalities (in line with UN Sustainable Development Goal 10) between countries (**global equity**) through for example negative impacts on balance sheets of poor or highly indebted developing countries; equally they should not increase inequalities within countries (**social equity**) through regressive impacts on gender equality or poorer or underrepresented groups, for example, by increasing their basic cost of living.



The report begins with definitions and a brief comparison of taxes, levies, and voluntary contributions as possible sources of financing. The main body of the report is dedicated to exploring potential new global sources for climate finance using either fossil fuel companies, aviation, maritime shipping, or wealth as a source of finance, followed by implementation within the EU, and main conclusions and recommendations.

Given the scope of the report is on implementation of the polluter pays principle for new and additional sources of finance, it does not discuss new and innovative sources of financing in the context of the current reform debate at the International Monetary Fund (IMF) (for example, Special Drawing Rights) and the World Bank (for example, expanding climate finance) or other development banks. Debt for climate swaps or climate resilient debt clauses and the role of private sector investment are also not included.



The need for new funding sources

International climate finance contributions from developed countries who are obligated to contribute under the UNFCCC and Paris Agreement are only marginally increasing and at severe risk of stagnating.² Regarding the new Loss and Damage Fund, at the time of writing of this report parties to the UNFCCC had not yet agreed funding sources or who would be obligated to contribute. CAN and other civil society groups propose that the fund should be under the financial mechanism of the UNFCCC and the Paris Agreement, and that main financial inputs to the fund should come from developed country parties to the UNFCCC and Paris Agreement, and be open to other public, private, philanthropic and innovative sources.⁵ Developed countries must make contributions to the LDF in line with their historical responsibility for climate damages. However while the EU is the world's largest collective climate finance contributor, its mitigation and adaptive finance contributions dropped slightly from 2020 to 2021.⁶ The EU budget, comprising collective contributions from both Annex II and Annex I EU Member States, managed by the European Commission, provides an illustrative case study of the challenges in budgets for climate and development finance, which underlines the need for the EU to find resources internally for new and additional loss and damage finance (see Box 1).

2 At the time of its creation, Parties (countries) to the UNFCCC and its Agreements, were divided into Annex 1 (industrialised and economies in transition with a sub Annex 2 of industrialised economies) also referred to in this report as 'developed countries' and non-Annex 1 (developing) countries. Annex 2 countries are obligated to contribute climate finance to developing countries (UNFCCC, Art. 4). EU Member States fall into both Annex 1 and Annex 2.

Box 1

The EU budget's potential contribution to addressing loss and damage

The Global Europe Instrument is the main instrument for channelling international climate and development finance in the EU budget, initially allocated € 79.5 billion for the 2021-2027 period, an instrument under Heading VI 'Neighbourhood and the world' which also includes the humanitarian aid instrument. In the EU budget Mid-Term Review the European Commission proposed targeted reinforcements of €10.5 billion to Heading 6 as well as the creation of a new Ukraine Facility with additional funding of up to €50 billion for loans and grants.

Global Europe is predominantly ODA (90 percent and governed by a 30 percent climate target. Priority areas and objectives of support are determined in country, regional and thematic multi-annual indicative programmes (MIPs). The instrument has an investment framework to raise additional financial resources from the public and private sector, a rapid response mechanism, and a cushion of funds to respond to emerging challenges.

'Green transition' does feature heavily as a priority area in most of the regional and country-level programme plans. The Global Challenges programme includes priority area "Planet", focused on climate change and disaster risk reduction. But none of these specifically mention Loss and Damage. Under the Sub-Saharan African regional programme, the European Commission announced at COP27 its first official loss and damage financing, comprising €60 million as part of the Climate Resilience in Africa Initiative.

Though the NDICI could be used to make small contributions to the Loss and Damage Fund – through for example the cushion – there are many competing priorities for reinforcement and this is unlikely to yield much finance. This funding would also not be new and additional to existing climate and development finance. The investment framework is unlikely to be able to mobilise loss and damage finance, and it would not be grants-based.



Characteristics of different funding sources

Taxes

A tax is a compulsory contribution in the form of a monetary charge imposed by a government body on income, profits and property of individuals and entities, or as an addition to the cost of certain goods, services and transactions. Taxes are applied either as a percentage of a monetary exchange (such as an earned income or a sales transaction) or based on the assessed value of an asset. Taxes are levied both to yield public revenue in order to finance government activities (they universally represent the main source of revenue for governments) or to alter relative prices or disposable income in order to affect supply and, above all, demand.

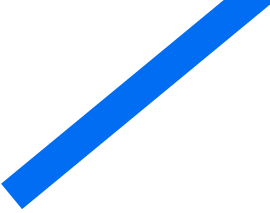
Levies

Levies are a kind of tax, but may only be levied on an occasion-related basis and not permanently. While the specific nature of levies as a one-time charge obviously limits the quantitative potentials of their collection, they can otherwise feature the following advantages: their revenues do not automatically flow into the general fiscal budget (as it is the case with taxes), but rather can be 'earmarked' for the financing of designated purposes; and the adoption and implementation of levies usually has fewer administrative intricacies as well as less political resistance in terms of legislative procedures.

Tradeoffs

Taxes and levies can be designed in two ways, depending on their intended effect. There are two categories of taxes: so-called "behavioural taxes" that primarily aim to alter the behaviour of economic actors (individuals, companies) by increasing the price of certain goods; and "revenue raising taxes" which primarily have the fiscal purpose of raising more public revenues. There are therefore political-economic trade-offs to be borne in mind: if the intended purpose of an environmental tax is primarily to raise fiscal revenues, then it may be set at a relatively low rate, in order not to significantly alter consumers' and producers' behaviour and therefore the tax base. If, on the other hand, the intended purpose is behavioural change, it should be set at a high enough level for reducing the consumption and production of certain goods, but the revenue base may therefore erode over time and be substantially smaller. As such, it is crucial to take into account the intended purpose of a tax, and its resulting behavioural impact on companies and households.

A key climate justice principle set out above is that levying of taxes and charges should contribute to and not undermine the Paris Agreement's 1.5 degrees Celsius temperature goal. The approach taken in this report is to start from a relatively low tax or levy rate, but recognise that to meet longer



term climate objectives, it is necessary to increase that rate over time in order to effect behaviour change, and this way taxes and levies can support the managed decline of certain activities. This also means that, as the tax base from environmental taxes may reduce over time other sources of taxation may become necessary in the longer term.

In addition, eco-taxes or levies present another potential conflict of objectives from a social point of view: due to intended cost increases, they influence the affordability of certain goods and services particularly for low-income earners, who are known to contribute notably less to climate change. Therefore in line with the principle of social equity outlined above, the approach taken in this report is to focus on industry and luxury consumption, and to propose measures be taken to ensure additional costs are not borne by poorer consumers.

Static versus post-behavioural revenue estimates

Whether a tax is primarily revenue-raising or behavioural also has substantial implications on revenues. Static estimates assume that the taxable income or taxable base does not change as a result of the additional tax imposed: they assume that companies and individuals will not alter their behaviour as a consequence of increased prices or costs, something which often is not a robust assumption and will result in over-inflated revenue generation estimations. Post-behavioural costings, attempt to estimate possible behavioural changes to gauge a more accurate picture of the forecasted tax base. Although none of the methods is fully accurate, accounting for behavioural impacts can help avoid an overestimation of revenues. As such, an important caveat of this report is that not all the estimates provided via secondary sources are necessarily post-behavioural, and the revenue generation potential should consequently be considered indicative.

Global tax reform

Significant reform of tax regimes and public finance administration capabilities is required, especially in developing countries, to ensure governments are able to generate and retain tax revenue efficiently and fairly, to prevent the corrosive effects of tax avoidance and evasion. Adequately financed public administrations, which have the freedom to enact fiscal reform are also a pre-requisite to enable effective tax collection. This implies significant reform to actors, such as the IMF, is needed to ensure its policies do not undermine developing countries' public administration capacities in this respect.

When it comes to tax avoidance, estimates suggest that at the global level, countries currently lose over US\$470 billion every year to international tax dodging and global tax abuse by multinational companies and wealthy individuals.⁷ One key option for strengthening international tax cooperation is through the development of a UN Framework Convention on Tax. In addition to addressing international tax dodging and tax abuse, civil society organisations have proposed that such a convention could provide a global framework for tax

coordination, including the potential development of taxes at the international level,⁸ and link global decision-making on tax matters to other key global obligations, including fulfilment of the commitments of all countries to ensure environmental protection, and of developed countries to provide financial resources to assist developing countries.⁹ A UN General Assembly resolution on tax adopted at the end of 2022, followed by a UN Secretary-General mandated report on options for strengthening international tax cooperation,¹⁰ will likely be followed by a new resolution on international tax cooperation, expected to be adopted at the end of 2023, which would set the modalities for an intergovernmental UN process on tax.

In parallel the Organisation for Economic Co-operation and Development (OECD) and the G20 Base Erosion and Profit Shifting (BEPS) project has been widely dominated by OECD members and is not considered globally inclusive: in particular among developing countries there is a perception that the net benefits of the process will be minimal.¹¹

Box 2

Counter example: Non-source specific voluntary contributions

Voluntary contributions to international climate finance based on the principle of solidarity and redistribution could be made by all types of actors, including private philanthropies, foundations and individuals, the private sector, financial institutions and governments. These are not necessarily tied to the levying of taxes or duties. Every year philanthropic foundations award grants amounting to more than USD150 billion, of which only a tiny fraction flows into international climate financing, although foundations' interest in climate is growing. Due to their voluntary nature, these sources can be easily realized without lengthy legal processes, and deliver additional resources in the short term. In the case of voluntary contributions from governments, however, the risk is high that these funds will not be provided in addition to the ODA budget or existing climate finance budget commitments.

The UN Adaptation Fund mobilizes resources on such a wide voluntary basis and is principally open to all types of donors and contributor governments with no specificity on how resources are originally generated or where they come from. Outside climate finance an interesting blueprint is the Global Fund, which mobilises around USD 4 billion in voluntary contributions annually to support programs in

more than 100 countries aiming at ending the AIDS, Tuberculosis, and Malaria epidemics. So far, USD 88 billion have been mobilized for the Fund. The list of contributors has been widened over time. More than 60 countries have made contributions, including all the OECD countries, emerging economies but also some smaller developing nations. Governments have provided 95 per cent of funding, with 5 per cent coming from philanthropic foundations, the private business sector, and other sources.

Financial potential: SMALL. So far, less than US\$ 1 billion in grants has been pledged by a variety of actors to specifically address loss and damage, based on voluntarism, including contributions from Austria, Belgium, Denmark, Germany, New Zealand, Scotland (counted in the UK total climate finance contribution) Denmark and Wallonia.

Technical and political feasibility: Voluntary contributions that provide distributive justice could be the lowest hanging fruit in terms of new and innovative sources, given current political momentum around the fund. However the likely contributions would be of a low scale and unlikely to be new and additional.

Potential funding sources: international

This chapter presents an overview and assessment of new and innovative international climate financing options based on implementation of taxes and levies through global agreements, or multilaterally through coalitions of 'first mover' countries for example. For the majority of these an agreement at global level is currently not politically feasible, however the report explores potential pathways to global implementation and global revenue estimates to illustrate their desirability.

Fossil fuel extraction or solidarity levy

Coal, oil and gas companies are by far the main contributors to climate change, accounting for more than 75 percent of global greenhouse gas emissions. Fossil fuel companies are reaping enormous profits while benefitting from enormous subsidies and lack of mechanisms to account for their negative externalities (implicit subsidies). The urgent need for new taxes, as called for in 2022 by the UN Secretary General, by Prime Minister Mia Mottley of Barbados in the Bridgetown Agenda, and by the EU at COP27, is increasingly recognized. There are multiple implementation options including targeting financial operations of companies to levy a specific excise tax on dividends or on corporate excise stock buy-backs (with the US Inflation Reduction Act offering some precedent for this approach, although not limited to fossil fuel companies), taxing revenues of extractive fossil fuel companies, and extending windfall profits taxes. This latter approach is explored at EU-level later in the report.

Climate Damages Tax: An approach more closely tied to the polluter pays principle and climate objectives would be via a global tax imposed to fossil fuel producing companies on the equivalent of CO₂ emissions of each barrel of oil, ton of coal or cubic meter of natural gas they extract, a so-called "Climate Damages Tax."¹² The concept of a Climate Damages Tax builds on an initiative by the Climate Justice Program and the Heinrich Böll Foundation and was further developed, and campaigned for by a broader NGO alliance.¹³ To date, governments have not formally proposed this approach at multilateral fora, but it has been brought up in the context of the Bridgetown Agenda. Starting at a low rate, which would initially be too minimal to have a significant impact on fuel prices, and give all actors enough time to adapt, a steady rate increase over time would start incentivizing the energy transition.¹⁴ Use of revenues would be key to address equity: this report proposes 100 percent of revenues in most developing countries could be retained for domestic use and just transitions and address social equity and gender equality, for example poor consumers could get a certain compensation for price hikes and support to access renewable energy sources. At the same time high income developing countries especially large fossil fuel producers could transfer a contribution from or all revenues directly to the LDF.

Financial potential: HIGH. With a universal rate of US\$ 5 per ton of CO₂e, a fossil fuel extraction levy could have generated US\$ 210 billion in 2021. Revenues are even significantly higher if one increases the amount by US\$ 5 annually until 2030, then evaluates and increases the annual rate of increase up to US\$ 10, as also discussed.¹⁵ If, on the other hand, the rate were set at a much more moderate US\$ 2 per ton of CO₂e, it would still add up to a substantial US\$ 50 billion per year.¹⁶

Technical and political feasibility: While there exist many forms of fossil fuel taxation at national level, a global fossil fuel tax so far has never been applied. Establishing a global fossil fuel extraction tax would require to first reach agreement under the auspices of the UNFCCC and the Paris Agreement. Since taxes are involved, the tax laws in all countries concerned would have to be adapted accordingly, the taxes would have to be collected by the relevant tax authorities and then transferred in whole or in part to an international fund for the distribution of the revenues. A smaller but more feasible approach would be a "solidarity levy" on extraction. A certain precedent exists in the International Oil Pollution Compensation Funds (IOPC Funds), which compensate for oil pollution damage.¹⁷ The IOPC Funds are financed by contributions paid by customers who receive oil per sea freight, based on the amount of oil they receive to cover possible claims.¹⁸ In the case of fossil fuel companies, they would voluntarily agree to pay a levy, or a country (or group of countries) would impose a solidarity tax on companies extracting oil, gas, or coal on their territories, and/or in countries where the headquarters of the company is located or where they sell their fuels.

Climate justice compliance: HIGH. A fossil fuel extraction levy would internalize the external costs of fossil fuels effectively at the source and create a new and additional layer of revenues for international climate finance, effectively applying the 'polluter pays principle.' According to the Carbon Majors Database,¹⁹ 100 active fossil fuel companies including BHP Billiton, ExxonMobil, Saudi Aramco, Shell and Gazprom are responsible for the extraction of fossil fuels that led to more than 70 percent of all industrial GHG emissions between 1988 and 2017. Through such a tax, in combination with a Loss and Damage Fund, a compensation link could be established between highly polluting individual companies and those suffering from climate-induced loss and damage, or being threatened by it, based on accountability. But important adaptations are required to improve climate justice compliance both within and between countries. Any solidarity levy's impact on vulnerable consumers would need to be carefully assessed and addressed through regulatory frameworks, for example targeted support measures compensating the regressive impacts. In addition the geographic distribution of fossil fuel production varies significantly, with a need for sufficient support for developing countries particularly dependent on energy import, for example Bangladesh. Concerning developed countries and regions such as the EU where fossil fuel production is relatively low, the levy could be extended to the refining of petroleum or to coke oven products to ensure contributions.

Air traffic as a funding source: Air passenger or ticket levy

So far the aviation sector has by and large been excluded from carbon pricing worldwide, even though it contributes around 2.5 percent of global CO₂ emissions and projected emissions are forecast to increase significantly.³ While in 2022 the global aviation industry under the auspices of the UN International Civil Aviation Organization (ICAO) set the goal to achieve net-zero emissions by 2050,²⁰ the International Air Transport Association (IATA) has strongly pushed back all efforts to introduce a mandatory universal carbon levy on flights or kerosene, promoting instead the UN CORSIA offsetting scheme (Carbon Offsetting and Reduction Scheme for International Aviation) with a relatively low carbon price on a voluntary basis until 2026, mandatory from 2027.²¹ In theory in 2027, CORSIA would cover all international flights, except those to and from Least Developed Countries, Small Island Developing States, and Landlocked Developing Countries. This aims at replacing conventional with 'sustainable' aviation fuels to reduce emissions by 80 percent as compared to conventional kerosene. CORSIA under current design does not offer the potential for a significant climate finance contribution, but could be further developed with or complemented by an additional carbon levy, air passenger or ticket levy.²²

Air passenger or ticket levy: An air passenger or ticket levy is a surcharge placed on air tickets. While it applies to the air transport service that entails negative externalities to the climate, it is not necessarily directly based on GHG emissions generated by kerosene.²³ Outside climate finance, in response to the adoption of the UN Declaration on Innovative Sources of Financing for Development, a solidarity levy (or passenger levy) on airline tickets has been applied by France and 11 other countries since 2006, with the aim to raise new revenues to support global health development goals. In France, the solidarity levy applies to all passengers departing from French airports, with rates from EUR 1-40 depending on flight class and destination. The yearly revenue is estimated at around EUR 180 million in France and EUR 22 million in the other countries that apply the solidarity levy.²⁴ An International Airline Passenger Adaptation Levy (IAPAL) to generate climate finance was first proposed by LDCs in 2008 but gained little support.²⁵ Since 2019 the idea of an International Airline Passenger Levy for Loss and Damage as a solidarity levy on all international air passages to mobilize funds to address loss and damage has been revived.²⁶ The proposal set out a levy being differentiated by flight class, with US\$ 6 for an economy-class ticket and US\$ 62 for a business or first-class ticket.²⁷ With a revenue base comprising all international air travel, currently roughly counting a billion passengers per year, and a forecast 5 percent annual increase in flights, the total revenue would be between US\$ 8 to 10 billion per year over the next six years. Revenues raised in developed countries could either go to the Financial Mechanism of the Paris Agreement, sourcing the

3 For example the European Commission expects 300 percent growth rates in aviation's GHG emissions over 2005 levels: <https://www.weforum.org/agenda/2021/07/targeting-true-net-zero-aviation/>

Green Climate Fund (GCF) or the Adaptation Fund, and/or to the new Loss and Damage Fund to be created. Revenues raised in developing countries could also be collected and spent domestically, to ensure no net incidence on developing countries.²⁸ The LDC Group is expected to retake its proposal and to push for it towards COP28.

Through progressive taxation of frequent flyers through a global frequent flyer levy, a more equitable distribution of cost burden would be delivered, as for example presented in a 2022 White Paper by the International Council on Clean Transportation.²⁹ The paper models US\$ 121 billion could be raised annually with either a uniform ticket levy of US\$ 25 or a progressive levy starting at US\$ 9 for the second flight per year and rising to US\$ 177 at the twentieth ticket per year. Varying the level based on flight frequency would allow to very effectively focus the burden on wealthier frequent flyers rather than occasional flyers and from lower income countries to higher income countries. Based on the fact that the richest 20 percent of the global population take 80 percent of all flights and the 2 percent of most frequent flyers are responsible for 40 percent of all flights, the proposed Global Frequent Flyer Levy would generate 81 percent of the revenues from frequent flyers taking more than six flights annually and 67 percent from high income countries, versus 41 percent and 51 percent under a flat levy.³⁰

Financial potential: MEDIUM to HIGH. In 2015, Piketty and Chancel, two French economists, proposed taxing flights with a levy of US\$ 20 on economy class and US\$ 196 on business class tickets to raise an estimated US\$ 150 billion for adaptation in developing countries.³¹ Other calculations with more moderate levy rates come to lower revenues, as for instance Equal international with US\$ 17 billion per year, or Ricardo (2021) for an international flight levy applied by the EU with annual revenues of about EUR 6 billion with a minimum fee rate of EUR 10 per ticket.³²

Technical and political feasibility: Technically, the introduction of an air passenger or ticket levy seems not to be difficult even in the short term. A global frequent flyer levy however faces many implementation barriers due to the lack of centralized passenger flight tracking. Legally, a mandatory ticket levy could either be decided by ICAO and then directly applied to airlines, or under the Paris Agreement, then requiring legal adoption and enforcement at all national levels. Both options will very likely face strong political opposition, especially from the aviation and part of the tourism industries.³³ Several countries already impose different types of flight taxes, others oppose them, and IATA promotes CORSIA. CORSIA offers a ready framework with participant countries which could be complemented with a levy, however the weakness of its overall design for mitigating emissions must be noted, and a number of countries are considering not to participate.³⁴ A universal and mandatory air passenger levy with the specific objective to generate new climate finance is not feasible in the near term. However, such a measure could be introduced relatively easily as a voluntary solidarity levy by single countries or, better still, by an alliance of those countries willing to pioneer such a solution, as the above described precedence case shows.³⁵ In the most recent discussions of the loss and damage funding Transitional Committee, the idea of such a solidarity levy for aviation,

with revenues earmarked to finance the new Fund, have resurfaced.³⁶ Efforts are already underway to coordinate such a coalition by COP28.³⁷ On a voluntary base, the polluter pays principle would still be employed, but covering fewer polluters and fulfilling the criteria of climate justice based on solidarity rather than accountability.³⁸

Climate justice compliance: MEDIUM to HIGH. Taxing international airfares, with much higher rates for business class, would be an effective way to apply the polluter pays principle to individuals with high-polluting lifestyles and to create revenues for redressing the victims of climate-induced loss and damage. This approach would effectively cover privileged elites in emerging economies and developing countries, who can afford to take international flights, and whose carbon footprints outstrip those of working-class Europeans, according to the analysis conducted by Piketty and Chancel.³⁹ However as stated in his 2019 report, the UN Special Rapporteur on human rights and the environment argued that “a progressive air travel levy could impose higher payments on business - and first-class tickets, as well as on longer flights.”⁴⁰ In addition vulnerable states and small island states in particular, with populations and economies heavily dependent on aviation including through tourism, fear negative economic effects. With a low levy on economy class flights, this fear should be mitigated, otherwise additional exceptions or solutions including in use of revenues should be explored. In terms of its contribution to long term climate goals (stabilizing and reducing emissions from aviation) a levy at the levels considered above may not seriously impact emissions, other measures will have to be adopted, such as bans on short distance flights and investment in railway.

Maritime shipping as a funding source

The International Maritime Organization (IMO), the UN specialized agency in charge of shipping, is the regulatory body for the industry: their Fourth Greenhouse Gas Study indicates international shipping contributed approximately 3 percent of global CO₂ emissions in 2018.⁴¹ The widely cited International Council on Clean Transportation (ICCT) recommends that the sector slash emissions by 50 percent by 2030 in order to get on a pathway aligned with the 1.5 degrees goal of the Paris Agreement.⁴² This will only succeed with additional measures that lead to a gradual displacement of oil products as the almost sole fuel in the marine sector to date by alternative fuels and forms of propulsion as hydrogen, ammonia, methanol or battery-powered vessels.⁴³ In order to help alternative propulsion systems and fuels achieve a breakthrough, mandatory regulations like green fuel mandates or energy efficiency measures are key. In addition, making conventional marine fuel more expensive, through imposing gradually increasing levies on marine diesel in the form of a carbon price can support behaviour change in a sector largely exempted from carbon pricing – although risks are that costs will be passed to consumers or workers without adequate additional regulatory protections. This would also generate considerable additional revenue which, in addition to financing the development of a bunkering infrastructure for alternative fuels, could also be used as a new and innovative source of international climate financing.

Carbon levy for international maritime fuels: In 2021, the Marshall Islands and Solomon Islands proposed the IMO impose a universal and mandatory volume-based GHG emissions levy on marine fuel collected directly from ship operators,⁴⁴ starting at US\$ 100 in 2025 and ratcheted up every five years. The proposed price was lower than earlier estimates of a levy of US\$ 250-300 as necessary to transform the shipping sector towards carbon neutrality,⁴⁵ but it roughly corresponds to the CO2 price in EU ETS and was likely chosen for political feasibility. The proposal for revenue use was primarily (at least 51 percent) to compensate vulnerable countries for climate damage and to invest in the development of climate resilience and the transformation to greenhouse gas neutrality. In addition, the revenues would be used to support the decarbonization of shipping.⁴⁶ Revenues would be collected by a dedicated fund, which may be a new one established and supervised by the IMO, or another fund established under another framework, for instance the GCF.⁴⁷

Financial potential: HIGH. A widely cited study by Parry et al (2018), published by IMF,⁴⁸ puts the revenues of a carbon levy of US\$ 75 per ton of CO2 in 2030, doubling to US\$ 150 in 2040, at **US\$ 75 billion in 2030 and US\$ 150 billion in 2040**. The IMF is relatively optimistic on this levy's impact on CO2 emissions, at 15 percent in 2030 and 25 percent in 2040 below business-as-usual levels, with only small increases in shipping costs at 0.075 percent of global GDP in 2030. A more recent technical paper of Dominioni/Englert published by the World Bank in 2022 calculates the potential carbon revenues from international shipping in a range from US\$ 40–60 billion annually.⁴⁹ If a levy of US\$ 100 per ton CO2e is applied, the revenues in 2026 are estimated at US\$ 60 billion.⁵⁰

Climate justice: MEDIUM to HIGH. Ensuring equity in the implementation of such a levy is necessary to facilitate agreement between countries (as demonstrated at the latest discussions, see below). In case of a universally applied levy, small and remote island states in particular, whose economies would be disproportionately affected by an increase in the cost of maritime transport, require special attention.⁵¹ One way to address this would be through revenue use, allocating a disproportionate share of the revenue from the levy to small island states, as proposed by Marshall and Solomon Islands for example, or to address the particular vulnerability of SIDS and LDCs, or to support a just transition in a fair and inclusive manner.⁵² In addition, economic impact assessments on how the levy will affect developing countries with a high integration of shipping-based exports in their economies, often so-called 'emerging economies', will be key to address inequalities between countries. Transport workers' representatives have also highlighted training and health and safety needs of workers for a just transition in international maritime decarbonisation scenarios:⁵³ a share of proceeds would be important to support this. Further it is important to highlight that risks that shipping companies pass on costs of a levy to consumers or workers without additional regulatory protections remain.

Technical and political feasibility: Given its previous emission reduction strategy failed to deliver tangible results, the IMO decided to revise its strategy

and climate targets by July 2023 at the 80th session of the Marine Environment Protection Committee (MEPC80). MEPC80 resulted in updated emissions reductions targets: to reach climate neutrality by around 2050, GHG emissions reductions by 30 percent (or at least 20 percent) by 2030 and by 80 percent (or at least 70 percent) by 2040, compared with 2008 levels, were set as indicative check-points.⁵⁴ The strategy also includes a goal on climate-neutral technologies, fuels and energy sources, but failed to agree a basket of measures to support implementation, including 'technical' measures, namely a goal-based marine fuel standard, and an 'economic measure' in the form of a GHG emissions pricing mechanism. Instead impact assessment work is to be undertaken on potential measures, with eventual adoption in 2025, to enter into force 16 months later. Universality and 'no more favourable treatment' are key principles at the IMO, and thus any agreed measure should be a universal one. Amongst the potential economic measures a number of member countries including the EU, a number of African countries and many small island developing states are supportive of a levy without clear consensus on the level or use of revenues. However in addition to the US, Canada and the UK, OPEC members and Turkey, many big maritime shipping emerging economies, developing countries (including Bangladesh) and trading nations from the Global South, such as China, India, Argentina and Brazil, are currently not supportive.

Wealth-related funding sources: Wealth tax

Wealth inequality has been growing for decades throughout the globe, both between and within countries to obscene proportions, tending to be stronger and more persistent than income inequality: the world's nearly 2,500 billionaires own as much as 60 percent of the world's population. At the same time net wealth taxation has been diminishing over the past decades and currently, there are very few states in the world, if any at all, that are taxing the immense increase in wealth of the few in an appropriate way to finance the common good in accordance with the principle of "ability to pay." Fortunately, the urgency of redistribution from the top to the bottom has recently found its way back into the political discourse – thanks to leftist parties, unions, academia and CSOs as the strongest supporters of wealth taxes. This includes the wealth tax of former US presidential candidates Bernie Sanders and Elizabeth Warren;⁵⁵ the demand for a progressive global tax on capital by economist Thomas Piketty;⁵⁶ the concept of a time-limited, European-wide progressive wealth tax assessed on the net worth of the top 1 percent richest individuals by the economists Saez, Zucman and Landais;⁵⁷ and finally first ideas and attempts for a coordinated approach to implement an EU-wide net wealth tax on individuals.⁵⁸ However the debate on wealth taxation and its corresponding revenues predominantly focuses on the promotion of more social justice and is rarely linked to climate justice. There is a need for more awareness of the fact that wealth accumulation not only results in growing social inequality but also deepens the climate emergency, as the wealthiest are responsible for the vast majority of GHG emissions through their lifestyles and investments.⁵⁹ Here notable work has been done by Oxfam in more recent years, and shortly before the Summit for a New Financing Pact, more than 150 economists again called on Global North leaders to redirect trillions of US\$ from fossils, illegitimate debt and wealth to address the multiple global crisis.⁶⁰

Technical and political feasibility: The proposals for wealth taxes that are being discussed are characterized by a very broad typology. As possible bases for taxation they take into account, among others, income from commercial operations, from self-employment and dependent employment, from capital assets, rentals and leases; furthermore, tangible assets such as real estate, companies and other types of property; financial assets in the form of savings, securities and shares; and inheritances. Wealth taxes may be imposed on natural and/or legal persons. They are proposed as direct and indirect taxes and their duration could range from a one-off payment to a limited period, or can be conceived as permanent. Furthermore, they are designed as new, additional taxes, as surtaxes on already existing levies or as more progressive taxes. By and large, to raise substantial revenues, two conditions should apply: firstly, wealth taxes need to encompass all forms of wealth and capital to avoid adverse behavioural impacts such as “wealth shifting” to untaxed assets; and secondly, adjacent regulatory measures such as the shutting down of taxes havens have to be taken to prevent extensive tax avoidance. Although a global approach is a long way off, and the technical challenges of enforcing a global wealth tax are daunting, countries could coordinate proposals through multilateral fora, and dialogue between first implementer countries on coordinated approaches could support a wider implementation. In any case binding global rules are needed to identify, attribute and tax assets, to prevent tax avoidance. Combating international tax evasion should be a key focus of the new UN intergovernmental tax negotiation and eventually a new UN Tax Convention (as explored in the introduction).

Financial potential: MEDIUM to HIGH. Of course, potential revenues from wealth taxes for climate finance are a contentious area as claims would undoubtedly be made on them from all policy fields. But the available estimates for revenues from wealth taxes suggest that they would be weighty orders of magnitude. Estimates for the above-mentioned EU-wide net wealth tax on individuals suggest that potential revenues are rather substantial in the EU, yielding additional public income as high as 10.8 percent of EU GDP (using a strongly progressive tax rate), while affecting between 1 percent and 4.8 percent of households and resulting in an effective tax rate of about 0.3 percent of net wealth.⁶¹ Other estimates with a net wealth tax levied at a rate of 1 percent on net wealth between EUR 1 and EUR 5 million, and 1.5 percent on wealth above EUR 5 million, could raise between EUR 165 and EUR 177 billion after accounting for avoidance and evasion responses. If harmonized EU-wide, such a wealth tax would affect a relatively small fraction of households, ranging between 0.41 percent in Latvia and 8.65 percent in Belgium.⁶² A hypothetical 1 percent global wealth tax on wealth over US\$ 1 million would generate revenues of US\$ 1.159 trillion, as calculated by ActionAid in 2016.⁶³

Climate justice compliance: HIGH. The per capita emissions of people belonging to the richest one percent of the world’s population will be 30 times higher in 2030 than the level compatible with the 1.5 degree target of the Paris Agreement, meaning that the super-rich will damage the climate more than the poorest 50 percent of the world’s population combined.⁶⁴

Potential funding sources: EU

This chapter explores the potential for international climate finance from a number of EU taxes, levies or carbon pricing instruments which are either already in place, in the process of being legislated or under legislative revision, and a small number of options which have not yet been proposed by the EU institutions. As such, opportunities for resources are relatively realistic in the near term. While taxation is in the hands of the Member States, with the EU having only limited competences, there are avenues to EU legislation, but they usually require unanimous agreement by Member States.⁶⁵ While many of these are in principle also applicable beyond the EU, EU implementation is already more advanced, and the EU can and should advance its own models. These can then be aligned to any subsequent international agreements, dependent on maintaining the level of ambition at EU level. The options are presented following the structure in the previous chapter, starting with taxing profits of fossil fuel companies; emissions-related levies including aviation and shipping; border adjustment levies on emissions from imported products; taxing financial transactions, and digital companies. Most of these options' revenues have already been identified by Member States and the EU institutions as potential domestic climate and public finance resources, and as own resources for the EU budget. But clear opportunities remain to assign revenue to international climate finance.



Box 3

The EU's New Own Resources

According to an agreement between EU institutions, funds borrowed for the EUR €800 billion coronavirus recovery fund whose repayment costs are rising due to increasing interest rates, will have to be repaid through the EU's 'own resources.' Own resources are revenue streams directly assigned to the EU. On top of this, new resources will be required to meet the financing needs of the EU post-2027 budget, to meet growing investment needs, social challenges, the green and just transition, and to deliver on the EU's international development, climate and biodiversity commitments. The European Parliament's resolution on new own resources proposed an ambitious selection of taxes, including several in this report. The European Commission's most recent proposed package of new own resources in June 2023 comprised:

- **New temporary statistical based own resource on company profits:** 0.5 percent of the notional EU company profit base in each Member State
- **Emissions Trading System:** 30 percent from all revenues generated by EU emissions trading, expected to generate EU budget revenue of about EUR 7 billion (in 2018 prices) annually from 2024 onwards
- **Carbon border adjustment mechanism:** a 75 percent share of revenues is expected to generate about €1.5 billion per year as of 2028 for the EU budget.
- Budget Commissioner Hahn has called for agreement of this package as soon as possible, while highlighting another package will be needed in the next years.

Current proposals do not envisage any earmarking of new own resources. For the direct climate taxes, the ETS and CBAM, to contribute to the overall EU budget, which includes climate harmful spending, does not comply with the polluter pays principle or the updated spending criteria for Member States of the ETS itself. One way to remedy this would be to assign a percentage of own resources to Heading VI of the EU budget (this would also require an increase in the ceilings of Heading VI), which would directly flow to the Loss and Damage Fund.

Windfall profits tax on fossil fuel companies

Because of the worldwide energy crisis resulting from the Russian invasion of Ukraine, the profits of fossil fuel companies virtually exploded to unprecedented, astronomical magnitudes that have nothing to do with their performance or innovative strength. Meanwhile an increasing number of European households and those in the Global South have been falling into (increased) energy poverty.⁶⁶ Correspondingly the political space has opened up to start to hold the fossil fuel industry accountable for its part in the climate emergency. At the September 2022 UN General Assembly, UN Secretary General António Guterres called for the imposition of windfall taxes on fossil fuel companies that earned record profits, and for revenues to be distributed "to vulnerable countries suffering from the climate crisis and people struggling with rising food and energy prices."⁶⁷

A windfall tax, also referred to as an excess profit tax, is a one-time surtax levied on a company or industry when economic conditions result in unforeseen and unreasonably large profits. The latter are realized due to very unusual, favourable circumstances in the market a company is operating, and can be regarded as excessive or unfairly obtained. A windfall tax is designed to temporarily regulate the market it targets during periods of unusual volatility. Mostly it is imposed on those companies who have benefited the most from the windfall. It covers a limited number of subjects, in a retrospective manner, and it stops when the unusual favourable circumstances no longer exist. Therefore, a windfall tax is temporary. So far, there is no experience of an international tax on windfall profits, but there are several national or regional level examples.

In the EU, on 30 September 2022, the Council of the European Union agreed to impose an EU-wide windfall profits tax on businesses active in the crude petroleum, natural gas, coal, and refinery sectors, with the intention to collect and redistribute the energy sector's surplus revenues by funding relief for vulnerable households and businesses facing high energy prices. The tax (or "mandatory temporary solidarity contribution") is calculated on taxable profits, as determined under national tax rules in the fiscal year starting in 2022 and/ or in 2023, which are above a 20 percent increase of the average yearly taxable profits since 2018.⁴ The solidarity contribution will apply in addition to regular taxes and levies applicable in Member States.⁶⁸ It applies from 1 December 2022 to 31 December 2023. Among EU member states, Spain, Greece, Italy, Hungary, Romania, Bulgaria and the Czech Republic have adopted a national windfall tax or 'solidarity contribution' with widely varying tax rates (33 percent-75 percent) for energy, oil, and mining companies.

Financial potential: MEDIUM. A European Parliament Report explores the solidarity levy on fossil fuels and estimates the projected level of revenue for energy suppliers in the EU. Based on profit data from 2021 (pre-crisis), the estimated revenue gains from the solidarity contribution amount to EUR 4.4 billion and in 2022 EUR~7.5 billion. According to the report, the actual tax revenue might diverge substantially from these numbers due to different energy price levels during the implementation period.⁶⁹ Although the proceeds of the tax are generally used to support the general population and affected businesses, there may be potential in an extended version of the tax to use proceeds to support climate action. Provided that 10 percent of the proceeds would be earmarked for climate finance, the financial potential would of course be limited (around €0.75 billion in 2022). The drop in fossil gas prices in early 2023 back to pre-crisis levels has removed the prospect of public revenues for the current period, but revenues could yet turn out as substantial depending on future market fluctuations, windfall profits and tax rates.

4 The "Council Regulation on an emergency intervention to address high energy prices" includes a revenue cap on inframarginal technologies as well as a solidarity levy for the fossil fuel sector. This report focuses on targeting the fossil fuel sector, and excludes the market revenue cap for inframarginal electricity producers since this includes production from renewables.

Technical and political feasibility: The existing Council regulation applies from 1 December 2022 to 31 December 2023. Extension and coordination at EU-level would be led by the Council of the European Union, the current Council Regulation is silent on the measure to distribute the collected revenue to vulnerable households or hard-hit firms, and could remain that way, although a common agreement to contribute a share of proceeds to international climate finance would of course be desirable across EU Member States.

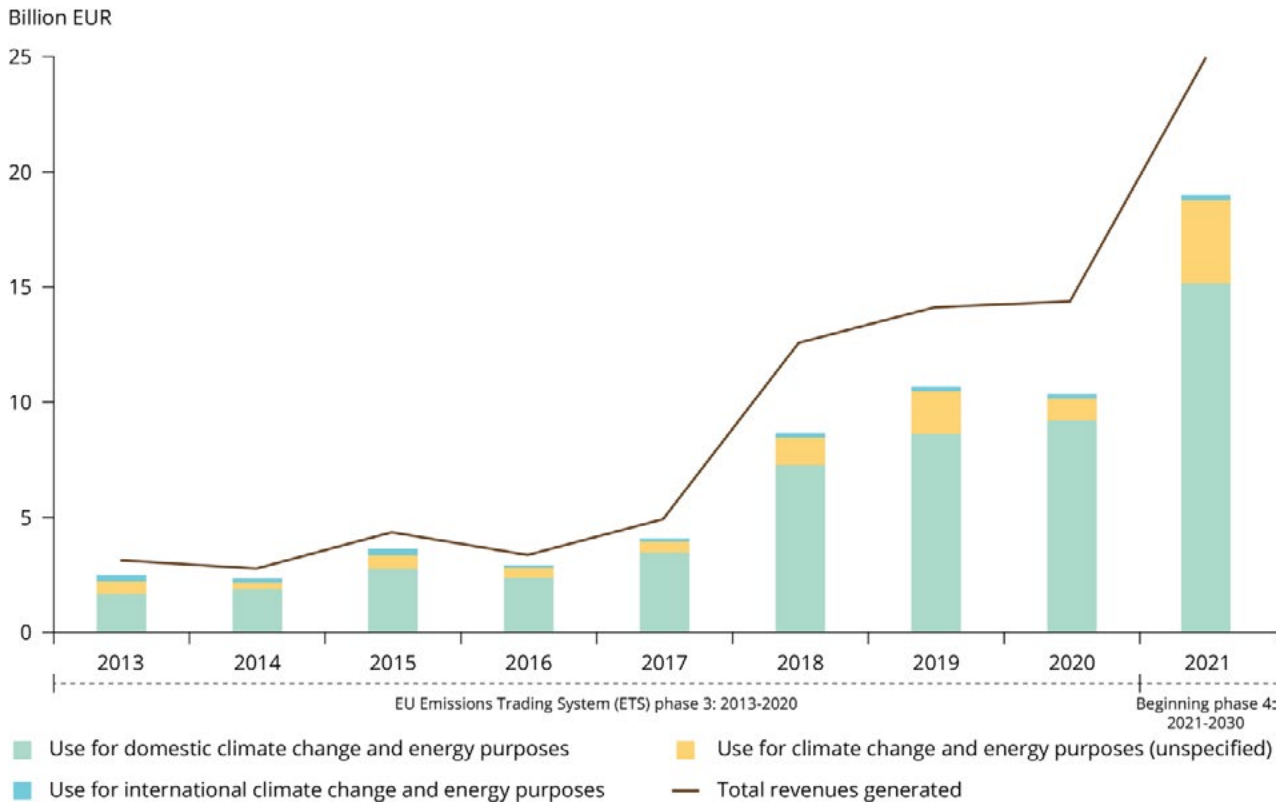
Climate justice: MEDIUM. Such a tax effectively reflects the polluter pays principle and could represent an essential step on the way to achieve climate justice from this industry, but much higher rates of taxation and subsequent modifications and extensions of fossil fuel taxation would be required to ensure the industry is really made accountable. Further advancing to a permanent tax on the economic rent of fossil fuel companies would enhance its justice components. Revenues should be used both to address affected energy consumers and businesses and international climate finance.

EU Emissions Trading System

Through the initiative for Paris Aligned Carbon Markets the EU is advocating for the implementation of domestic compliance and voluntary carbon markets globally, including highlighting the opportunities for contributions to international climate finance.⁷⁰ However many existing markets, particularly voluntary ones, suffer from serious issues of environmental integrity, and require robust and significant reforms. Instead the EU should capitalize on and demonstrate to other countries how new resources in the existing EU Emissions Trading System (ETS) can be used to significantly support international climate finance. In its first iteration 'ETS 1' covers the power, energy-intensive industry and aviation sectors with emission allowances allocated through auctioning. The revenue generated from this auctioning has grown in the past few years, as carbon prices grow. They amounted to EUR 31 billion in 2021. This growth and the use of the revenues are shown in the following figure.



Figure 3: Auctioning revenues of the EU-ETS (EU27) and their reported use.



Source : European Environment Agency (2023) *Use of Auctioning Revenues generated under the EU Emissions Trading System* <https://www.eea.europa.eu/ims/use-of-auctioning-revenues-generated>

Revenues generated from the ETS are mostly used for climate change and energy purposes, with the large majority being used domestically. After small contributions to two EU funds dedicated to climate action, the Modernisation Fund and the Innovative Fund, the allocation of remaining revenues is managed at national level by Member States.⁷¹ Formerly Member States were only recommended to use at least half of their auctioning revenue for climate action at home or abroad: in 2019, Member States used 67.1 percent for climate action and between 2013 and 2019 merely 6.2 percent of ETS revenues for international climate finance contributions.⁷²

The recent revision extended the scope of the ETS to include emissions from the domestic and international maritime sectors as of 2024 and possibly municipal waste incineration from 2028 onwards, pending on a review in 2026. A separate and adjacent ETS ('ETS 2') will cover emissions from fossil fuel combustion in the road transport, buildings and small industry sectors from 2027 or 2028 - depending on the development of energy price levels. The new rules under the revised ETS now require countries to spend all the revenues generated by the ETS on climate-related purposes in line with Article 10(3) of the Directive,⁷³ including addressing social impacts of the transition but also inter alia "financ[ing] climate actions in vulnerable third countries, including the adaptation to the impacts of climate change".⁷⁴ While the support of international efforts is on the list of climate-related purposes, there

is no dedicated sub-target for spending on international support. The large majority of the stipulated purposes are aimed at the EU's domestic transition, the support for European regions and European households and industry as the primary focus.⁷⁵ The ETS2 specifically is forecast to come into full operation only in 2027 or 2028. Parts of its revenues (up to EUR 65 billion) will be used as contributions to a new Social Climate Fund to attempt to mitigate impacts of the extension of the ETS2 to housing and road transport on SMEs and households in the EU.⁷⁶ In addition, the European Commission has proposed that the whole ETS (1 and 2) also contribute to new 'own resources' (see box 3).

This report recommends that after the contributions to the Modernisation and Innovative Fund, and pending the agreed contribution to new 'own resources,' Member States can now decide to establish a share of proceeds of ETS1, with the resulting proceeds in this case being channelled to the Loss and Damage Fund.

Financial potential: SMALL – MEDIUM. The revenue generated will depend on how the share of proceeds is established (a monetary fee or a percentage rate) and its size. Based on EUR 24.1 billion of revenues generated in 2021, a share of proceeds of 20 percent being used for international climate finance in 2021 would be at EUR 4.82 billion.⁷⁷ Future revenue projections vary considerably due to the expanded scope of the ETS1, future carbon price and potential behavioural impacts (since 2021, the price per ton has gone up significantly, currently fluctuating between EUR 80-100), contributions to international climate finance could increase significantly, based on the same 20 percent share of receipts.⁷⁸

Technical and political feasibility: Share of proceeds of carbon markets was under negotiation on Article 6 of the Paris Agreement, specifically on a potential share of proceeds for Article 6.2, which would have seen a share of proceeds established in case the EU ETS was linked to other cap-and-trade systems. The idea of a share of proceeds was strongly opposed by industrialized countries and was not agreed.⁷⁹ The Council also failed to agree a common EU approach to share of proceeds in the revision of the ETS. However the majority of ETS revenues accrue to Member States, who have relative flexibility in allocating them, so this offers the best avenue for a share of proceeds. As explained above the new Directive's Article 10 (3) seeks to make the need to scale-up international climate finance in vulnerable third countries a mandatory consideration for Member States when deciding on the use of revenues. However, this still leaves the decision on how and how much revenue to channel to international climate finance up to each Member State. Political and technical feasibility in this case will depend on each Member States' national circumstances and will vary. Ultimately it could result in individual and uncoordinated approaches to mechanisms and contributions.

Climate justice criteria: HIGH. From a justice perspective, revenues generated by carbon pricing can be considered aligned with the accountability principle, because they impose a price on emitters, thus providing compensatory justice.⁸⁰ This of course also depends on affected polluters not simply passing costs onto consumers. For the ETS1, for which this report proposes a contribution, risk of

cost pass through varies across sectors– and particularly in the power sector the impact of the ETS should also result in gradual decarbonisation of the overall energy mix and therefore a reduction in the exposure of cost-pass through.

Additional ETS contribution from shipping and aviation

In addition to or instead of the proposal above, the potential revenues from the provisions in the ETS to increase the geographical scopes of both shipping and aviation would offer a substantial source of revenues so far without competing demands. Emissions from all voyages between European Economic Area (EEA) ports and 50 percent of emissions from (international) voyages between EEA and non-EEA ports will be fully regulated as of 2026 under the ETS following its recent revision. This follows the principle that responsibility for international voyages should be allocated at a ratio of 50:50 to each jurisdiction on either side of the voyage. If no IMO measure is in force by 2028 – or the measures are not aligned with the Paris 1.5 temperature goal – the EU should increase the geographic scope of the shipping ETS to cover all emissions from international voyages. It can do this equitably by exempting voyages to LDCs and SIDS. Revenue from extending the scope – just over US\$ 4 billion at a carbon price of EUR 90– could be directed in its entirety to climate finance. In contrast, the current aviation ETS scope only covers flights between EEA airports. The ETS will also regulate all departing flights (including those out of the EEA) by 2027 if CORSIA is not strengthened. This would generate an extra US\$ 8.6 billion in revenue, a part of which could also be directed to climate finance.

EU aviation fuel tax

Aside from the EU ETS the Energy Taxation Directive (ETD) offers another avenue to address aviation, specifically the potential extension of the scope to include fuels used in aviation, as part of the revision to the ETD. The ETD is a set of rules and minimum excise duty fares for the taxation of energy products used as motor and heating fuel, and electricity. Though the ETD establishes minimum rates, each Member State sets their own rates, based on that minimum⁸¹. However, the ETD has a series of exemptions and reductions, which until recently included the aviation and maritime transport sectors.

Under the revision of the ETD, fuel used in the aviation industry will no longer be fully exempt from energy taxation, at least for intra EU trips. The minimum rates will be introduced gradually, in a period of 10 years, until it reaches a minimum of 10.75EUR/GJ, while for extra-EU flights, Member States will be able to choose whether to exempt or apply the same levels.⁸² If the EU decided in future reviews of the ETD to extend its scope to include all departing flights by 2027 as well as all incoming and departing ships, this would add an additional EUR 11.64 billion⁸³ per year in revenue, to which a share of proceeds could be applied for international climate finance. Again, using a 20 percent rate, this would mean additional EUR 2.33 billion per year.⁵

5 Original calculations in US\$; figures in Euro are calculated based on an exchange rate of 1,1 US\$ per €

The discussions on the review of the ETD do not include a clear focus on the potential use of the revenue generated by this tax. However, as with the rest of the taxes collected under the ETD, it is likely to go into the Member States own budgets, as has been the case for other fuel taxes. It has been suggested that this revenue could be used to counter a potential reduction in total GDP in the EU that could result from this tax.⁸⁴ Introducing a share of proceeds for this new tax could be a way of generating funds that could be channelled to a new Loss and Damage Fund, either by each Member State or through some mechanisms for regional coordination.

EU carbon levy on private jets and luxury yachts

Highly emitting luxury transportation as private jets and luxury yachts and their impact on the climate are increasingly in the spotlight and criticized, including campaigns for private jets to be banned in Europe.⁸⁵ This is linked to the increasing private jet traffic in recent years, and the resulting increase in GHG emissions from a very small proportion of society. A ban is seen by some as an equitable way of reducing emissions, as it only affects people with very high incomes. Other proposals to reduce the use of private jets, which could be more feasible from a political economy perspective and have a more near term impact, include taxing these flights – and ending the tax advantages and incentives that private jets and also luxury yachts benefit from in many jurisdictions. A carbon tax for private jets was introduced in Portugal in early 2023, and is being discussed in other countries.⁸⁶ Taxing luxury yachts and private jets could also be done as a fuel levy, or via other options. Other examples of taxes and levies raised to fund global public goods exist that can serve as a blueprint for a carbon levy on private jets and luxury yachts, or for aviation and shipping more generally. In 2006, the French government introduced a solidarity tax, as part of the tax on air passenger transport, which combines a series of taxes into a single tax, and applies to any public transport company and departs from French territory, including French overseas departments.⁸⁷ The rate increases for first and business class passengers; however, the tax does not apply for non-commercial operators.⁸⁸ More importantly, the revenue was earmarked, with the historical beneficiary of this tax being the Solidarity Fund for Development (FSD), focusing on global public health programs. The levy has served as a more predictable source of finance that has complemented ODA.⁸⁹

Financial potential: LOW. According to a modelled estimate on private jets alone by the organisation Transport & Environment in 2021 based on cumulative flight distances, a private jet tax in the EU could bring in US\$ 325 million.⁶

Technical and political feasibility: As mentioned above, some EU countries already have adopted or have proposed such a tax. However, the proposals differ and it seems unlikely that a common position for the EU will be reached in the short term, as there is opposition to some options from different countries.⁹⁰ Implementation at national level in pioneer Member States potentially offers a way forward ahead of an EU-wide approach.

6 All flights departing from the EU (+UK); using Citizen Convention's rate of 1200€/2000km and a minimum tax of 360€/flight, see: https://www.transportenvironment.org/wp-content/uploads/2021/05/202209_private_jets_FINAL_with_addendum.pdf

Climate justice: HIGH. The idea of using a similar model to the French solidarity tax as a source of new, additional, more predictable and adequate climate finance is not new, and has already been explored, at least for adaptation.⁹¹ However, the focus is still mostly on commercial passenger aviation, and even though the tax is progressive, it excludes the non-commercial, private aviation, that is the cause of a large share of the overall sector's emissions. A focus on establishing a tax on private jets, as well as yachts, would be more in line with the polluter pays principle and ensure that those more responsible contribute the most. A tax should be in conjunction with future regulations such as green fuel mandates and as a stepping stone towards much more stringent regulations including potentially an outright ban.

EU Carbon Border Adjustment Mechanism

The Carbon Border Adjustment Mechanism (CBAM) is a tool the European Union has designed to avoid "carbon leakage," introducing a price for the embedded carbon emissions generated during the production of goods imported to the EU, thus ensuring the carbon price of imports is equivalent to that of domestic production. It will apply to imports of carbon intensive products most at risk of carbon leakage, including cement, iron and steel, aluminium, fertilizers, electricity and hydrogen, as well as to precursors and some downstream products and will enter into a transitional phase on October 1st 2023, with a permanent system entering into force from 1 January 2026. The price of a certificate will be calculated based on a weekly average auction price of the EU ETS allowances in EUR per ton of CO₂ emitted.⁹² So far, it is not fully clear what the use of the revenues will be, in the latest own resources proposal, 75 percent of what Member States collect are proposed to go to the EU budget.⁹³ The only mention of support for developing countries in the CBAM discussions was related to Least Developed Countries (LDCs), and includes support for these countries to decarbonize their industry, with this support coming from the EU budget, but no proposal to increase the relevant instrument's funding.⁹⁴ The CBAM regulation includes a statement of commitment to support low and middle-income third countries towards decarbonisation and to support them, especially LDCs to adapt to the CBAM regulation. It also mentions the EU should support climate adaptation and mitigation, but within the ceiling of the multi-annual financial framework and the financial support provided to international climate finance.⁹⁵ In its current format the CBAM runs counter to the UNFCCC principle of CBRD-RC and may be having potentially severe implications on some developing countries' export markets.⁹⁶ A specific call for CBAM revenue to be directed specifically to address loss and damage has more recently been included in a new version of the Bridgetown Initiative.⁹⁷

Financial potential: LOW. Estimated revenues from the European Commission are EUR 1.5 billion per year from 2026, EUR 1.8 billion in 2028 to EUR 2.1 billion by 2030.^{7,98} Additional forecasts on extended models put revenues up to EUR 293 billion, if coverage was eventually increased beyond what is currently

7 In June 2023 the European Commission presented a revised estimate for 2028 only for 75 percent of CBAM revenues as an own resource, at €1.5 billion. We calculate therefore total revenues of €2 billion.

planned.⁹⁹ Given the inequity in implementing such a tax, all revenues from imported goods from developing countries should contribute to international climate finance.

Technical and political feasibility: Political feasibility seems quite low in light of the existing regulation and the discussions on using the revenue for the EU's own resources. Use of revenues also hinge on the final agreement over the proposal to use a share of CBAM revenue as new 'own resources' with the European Commission proposing 75 percent.

Climate justice: LOW. CBAM has been both welcomed as a means to promote more climate action abroad, but also received with a number of concerns, including the insufficient mitigating measures for the negative impacts on some developing countries' economies given some highly exposed export-based sectors.¹⁰⁰ The use of the CBAM revenues is another aspect open to criticism, especially considering the suggestion that this revenue could be a source of EU income going into the EU budget, or that it could be used as a dedicated source for greening the economy of EU countries. In this last case, this can be perceived as imposing a tariff on developing countries in order to finance the EU's industries.¹⁰¹ Dedicating all revenues to international climate finance could address some of the criticisms, and be seen as a more equitable solution,¹⁰² including a share of proceeds directed towards the Loss and Damage Fund. However this finance could not be considered to comply with the notion of common but differentiated responsibilities, considering it is finance that is being leveraged from developing countries, and rechannelled to them.

EU financial transaction tax

In 1971, the economist James Tobin proposed a currency transactions tax – the so-called Tobin Tax (TT) – in order to curb speculative attacks on currencies and improve the autonomy of the monetary policy. Subsequently, each time a financial crisis hit a group of countries or even most of the planet, the debate on the TT as well as on variations on it was revived. Despite the popularity of the TT, especially at the beginning of the millennium, among civil society as well as numerous political decision-makers it was not possible to get Tobin's proposed, far-reaching regulation of financial and, above all, currency markets off the ground at the international level in the face of continued opposition from the United States and the extraordinarily influential financial industry. Against this backdrop, the level of ambition of financial market regulation was subsequently scaled down notably in its qualitative as well as quantitative scope in order to both create political leeway for new, regionally or even nationally limited initiatives, and at the same time not to provoke an "exodus" of banks, insurance companies, hedge funds, which was loudly threatened.

Instead since the global financial crisis of 2007/08 financial transaction taxes (FTTs) comprising a mix of potential instruments to address only selected financial market instabilities have been under debate. The imposition of the FTTs is limited on the trade in financial instruments such as stocks, bonds, or derivatives, thereby excluding the particularly risk-prone as over-the-counter

and high-frequency trading. Under an FTT, a percentage of the asset's value is paid in taxes when it is traded. Depending on its design and the tax rate, an FTT could, at a lower tax rate, raise significant revenues, or be designed as a speculation prevention mechanism tax rates at such a high level to reduce the amount of financial transactions.

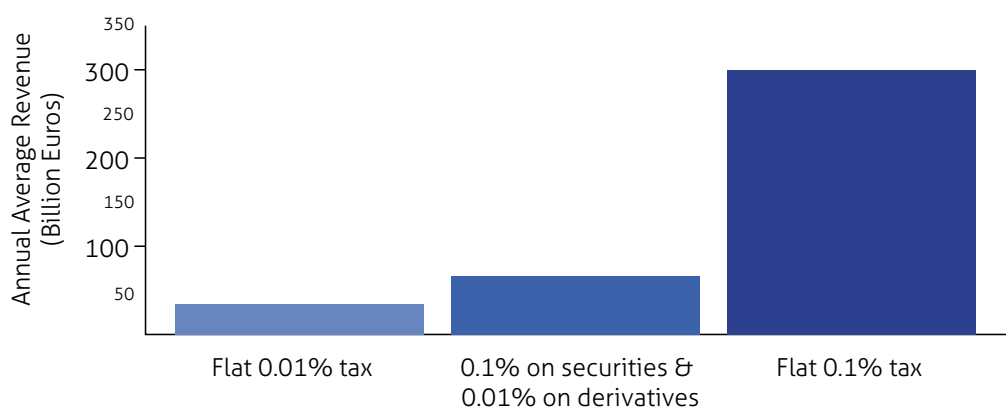
Several leaders of Global South countries have called for adoption of a global FTT or promoted uptake in their own countries. A global coordinated approach is unlikely at this time, however coordination amongst ambitious implementing countries on scope could support increased and more coherent adoption.¹⁰³ Adoption by the EU of an EU-wide FTT could motivate additional 'first-mover' countries. Such a proposal that would levy a 0.1 percent tax on the transfer of shares and bonds and a 0.01 percent tax on derivative contracts was originally put forward by the European Commission in 2011. Due to resistance from several EU member states, in 2013 instead the Commission tabled a proposal aimed at introducing a FTT in eleven Member States (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia) through the instrument of "enhanced cooperation". Currently, following Estonia's formal withdrawal in March 2016, ten Member States are participating in the ongoing negotiations, but did not reach agreement on the design of the FTT. In December 2019, the German Finance Minister issued a revised proposal of the FTT which included an optional exemption for pension schemes and a new system for mutualisation of the FTT revenues, meaning the revenue generated would be allocated between the Member States wishing to introduce the tax. This proposal is still under discussion in the relevant working groups. In parallel, the FTT has also been mentioned as a possible new EU own resource as part of the Union's long-term budget and the EU's "Next Generation EU" and the respective proposal of the Commission is due in June 2024. Meanwhile, several Member States (Belgium, Finland, France, Ireland, Italy, Poland and Spain) have introduced unilateral FTTs that differ significantly across countries.¹⁰⁴

In the forthcoming European Commission proposal on an EU FTT, there is a clear opportunity for assigning even a small portion of revenue directly to the loss and damage fund. A proposed share of 10 percent to the loss and damage fund alone is estimated in table 2 (a greater total share of proceeds could be dedicated to international climate finance also for mitigation and adaptation).

Financial potential: MEDIUM – HIGH. The few estimates available vary considerably depending on the particular specifications of the FTT proposal examined and also on the assumed effects of the tax on trading volumes. According to the European Commission, the EU-wide FTT as proposed in 2011 could have raised approximately EUR 57 billion every year from 2014 onwards within the then 28 Member States. Much of the revenue in additional taxes would go directly to Member States. The part of the tax that would be used as an EU own resource would be offset by reductions in national contributions. Provided that the tax rate was increased to 0.1 percent, total estimated revenues would have amounted to between EUR 73.3 billion and EUR 433.9 billion, or 0.60 percent to 3.54 percent of the aggregated EU GDP. By contrast,

expected additional revenues based on enhanced cooperation with only ten cooperating Member States and a further watered-down FTT variant, would be lower than under previous versions but could raise up to about EUR 35 billion of extra income a year, yet.¹⁰⁵ By replicating the methodology and tax rate options used by the European Commission’s initial study, and scaling it to the current level of financial transactions, with a flat tax rate of 0.01 percent levied on both securities and derivatives, revenues could amount to an average of **EUR 33.8 billion per year**. Similarly, the differentiated model proposed by the Commission, whereby shares and bonds are taxed at a rate of 0.1 percent and derivative contracts, at a rate of 0.01 percent, would raise revenues worth EUR 66.1 billion per year, while a flat tax rate of 0.1 percent on both securities and derivatives could increase the amount to a central estimate of **EUR 300.15 billion** annually.

Chart 2: Mean estimates of EU FTT annual revenues under different design scenarios (EUR, billion)



Source: CAN Europe calculations⁸

Technical and political feasibility: As illustrated by the thus far unfruitful trajectory of a coordinated EU FTT since 2011, however the forthcoming European Commission proposal and need for new ‘own resources’ and public finance needs more generally would give a fresh impetus to EU decision-makers to find an agreement. There would clearly be competing priorities for use of FTT revenues, even beyond new ‘own resources.’ However even securing a 10 percent share of proceeds would generate significant resources for international climate finance of €3.4 – 30 billion (based on the methodology above).

Climate justice: MEDIUM. The case for linking the FTT revenues to the polluter pays principle and international climate justice are not as clear-cut or as readily quantifiable as carbon pricing or more direct climate taxes. However it is clear that financial crises, most notably the 2009 crisis, resulting largely from poorly regulated financial markets, have had major impacts on development prospects and capacity for climate action in many developing countries through declining financial flows, reductions in trade and lower levels of remittances.¹⁰⁶ In this way a share of proceeds from an FTT can act to remedy this.

8 The estimations replicate the [methodology](#) used by the European Commission to derive 2011 estimates based on the 2021 baseline level of financial transactions.

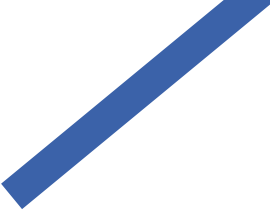
EU Digital Services Taxes

Digital Services Taxes (DSTs) are levies on gross turnover derived from a variety of digital services. They apply to the sale of advertising space, the provision of digital intermediary services (including the maintenance of a digital platform or marketplace), and the sale of data collected from users. DSTs are distinct from income taxes and online sales taxes, aiming at levying companies based on their *digital* presence. Up to now, the existing international tax system only allows governments to tax firms with a *physical* presence in their country. DSTs would ensure that online businesses contribute to public finances at the same level as traditional 'brick-and-mortar' companies.

Since 2012, the OECD has sought to address the tax challenges that have been and still are arising from the digitalization of the economy as part of the so-called Pillar 1 of its Base Erosion and Profit Shifting (BEPS) process. However there are significant shortcomings for developing countries in this process (see introduction) and a prevailing political standstill of the OECD's negotiations. A number of countries have forged ahead with their own digital tax measures in the meantime in order to protect their tax base and tax income derived from certain digital activities carried out within their jurisdiction. Following this trend, in early 2018, the European Commission, with the backing of the European Parliament, proposed measures to tax the digital economy at the EU level, one of which was the adoption of a Directive introducing an interim EU DST.⁹ Yet, the EU DST proposal hit a roadblock in 2019, when the Council was unable to achieve unanimous support for this measure. After the failed proposal for an EU DST, the Commission announced an initiative for the implementation of an "EU Digital Levy" to be tabled in June 2021 and to be introduced at the latest by 1 January 2023.¹⁰⁷

Financial potential: SMALL. An EU DST would be a source of additional own resources for the EU; it would change the tax base and contribute importantly to a cross-border tax system and a multilateral tax policy that could certainly align better with the numerous challenges regarding the urgently needed and yet overdue delivery of climate finance. The 2018 European Commission interim DST proposal estimated that EUR 5 billion could herewith have been additionally generated for Member States. This source of revenue would have amounted to only 0.08 percent of revenues raised in 2017 by EU governments and institutions of the EU.¹⁰⁸ Revenues so far raised and estimates for revenues to be generated in the coming years on the part of the "coalition of the willing" of Member States each pursuing their own digital taxes, do confirm that the potential magnitude of the revenue that DSTs might raise indeed is to be expected to be relatively small – all the more as their proceeds would only partly be dedicated for climate finance.¹⁰⁹

9 The proposed EU DST applied only to enterprises with total annual worldwide revenues above EUR 750 million, and total annual EU revenues exceeding EUR 50 million. The proposed single rate was 3 percent to be levied on gross revenues and applicable to both non-resident and domestic companies and to domestic and cross-border transactions. See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A148%3AFIN>.



Technical and political feasibility: MEDIUM. The European Commission initiative on an EU Digital Levy has been put on hold “until the final details of Pillar One are completed and agreed upon”, and it is not updated in the latest adjusted package of own resources for the EU budget.¹¹⁰ As of January 2023, among EU member states Austria, France, Hungary, Italy, Poland, Portugal, Spain, have implemented a DST, while Belgium, the Czech Republic and Slovakia have published proposals to enact one and Latvia and Slovenia have either officially announced or shown intentions to implement such a tax. The proposed and implemented DSTs differ significantly in their scope and structure.¹⁰ While it is unclear when an EU-wide DST may be implemented, contributions from Member States with operational DSTs could be further explored.

Climate justice compliance: MEDIUM. Given the tremendous electricity consumption of digital companies,¹¹¹ there is a high degree of concordance of DSTs with regard to the polluter-pays principle; the European Parliament for example made a strong link between climate and DSTs in its Resolution on Own Resources.¹¹² It is also necessary to have adjacent regulatory measures in place for costs to be genuinely absorbed by the polluting companies and not passed onto consumers or workers while DSTs maintain their profit margins.

10 Tax rates range from 1.5 percent to 7.5 percent: <https://taxfoundation.org/digital-tax-europe-2020/>.

Conclusions and recommendations

There are multiple options of taxes and levies following the polluter pays principle at multilateral, EU and national level, which could constitute new and innovative sources for international climate finance including the new Loss and Damage Fund. Even a small subset of these could deliver significant new and additional public finance.

Most of the options considered score relatively well in terms of climate justice, if designed appropriately. Designing taxes and levies with global and inter-country inequalities in mind is also important for their political acceptance. In terms of timely implementation, results are more sobering. Aviation solidarity levies agreed by country 'coalitions of the willing', and contributions by Member States from the EU ETS could be implemented as sources for the new Loss and Damage Fund at or soon after its operationalisation.

The EU is in a unique position to advance a number of additional options in the near or medium term. To move towards a more climate just approach CBAM revenues should be returned as climate finance to developing countries. The case for contributions from new legislative initiatives and proposals, the extension of the ETS on aviation and shipping, a digital tax and FTT, are clear. The requirement for Member States to agree unanimously on taxation measures means that EU regulation on certain options is unlikely in the short term, but in these cases individual Member States or a group of Member States can progress action, as should be the case of taxes on private jets and yachts.

The most ambitious options which are also the most urgent, given their financial potentials and climate justice compliance, are at global or multilateral level and require significant diplomatic work and dialogue to progress towards agreement or negotiation phase at the relevant fora. A global shipping levy through the IMO is the most advanced option under discussion, international taxes on fossil fuels or companies and wealth taxes are longer term goals. International tax reform agreements are also needed to ensure developing countries in particular can generate and retain revenue efficiently and fairly. For all international options it must be noted that there are competing interests for the use of the funds, for example, revenues from a shipping levy could remain entirely in the sector.

Consequently new sources of financing should be pioneered and tapped first in specific regions or countries, ideally amongst countries and actors with the greatest responsibility and capability. This comes with some trade-offs. If universality is abandoned in favour of solidarity-based levies implemented by coalitions of first mover countries and regions, new resources can be tapped more easily, but the net application of the polluter pays principle is reduced. For example, by COP28 some format of solidarity levy on aviation could be designed by a group of countries, whereas pursuing it through the more widely applicable ICAO CORSIA scheme would take far more time.

In the short term, for the initial capitalization of the Loss and Damage Fund, **progress is urgently needed to ensure new resource streams are available.** Developed countries must provide the fund's main financial inputs. The loss and damage transitional committee recommendations should also include principles and guidance on implementation of new taxes and levies outside the UNFCCC, and recommend specific options to be pursued. A solidarity levy on aviation by a coalition of countries, and within the EU contributions from the EU ETS could be enacted in a timely manner for operationalisation. But revenues from taxes and levies must be complemented by an invitation to public, private and philanthropic actors including countries outside the 'developed country' bracket who are in a position to do so to contribute, to encourage short-term mobilisation of additional resources on the basis of voluntarism.

According to the polluter pays principle, polluters should be made accountable to contribute to international climate financing according to their responsibility and capability. Fossil fuel taxation, levies on shipping or aviation, taxes on profit or wealth are the most pressing options from a financial and climate justice perspective, with aviation solidarity levies, followed by a shipping levy as the most promising new source of funding in the short term. It is equally important to note that genuinely enforcing the polluter pays principle can also require additional regulatory or complementary social support measures. For example, in oligopolistic markets or for goods with low demand elasticity, polluting companies can pass the costs onto consumers or workers to maintain their profit margins.

Embedding equity and aligning with CBDR-RC in policies at EU, multilateral level, and in related UNFCCC decisions should help a broader range of countries support their implementation. Delivery on existing climate finance commitments and technology transfer is essential to build trust around new international or multilateral policies, without which they will be viewed as an escape hatch from developed countries' obligations and historical responsibility. Within countries, ensuring taxes and levies do not worsen inequalities, targeting corporate polluters and luxury consumption in a progressive way, is also important for public acceptance.

The EU can play a particular role in implementing new taxes and levies within the EU and beyond. To further multilateral taxes and levies, EU diplomatic efforts need to be sensitive to and in line with global equity, and the EU should engage in active coalition building, both with ambitious climate vulnerable countries and to respond to concerns of emerging economies. The EU could set up a taskforce of representatives from the Council of Member States, the European Commission and Parliament, experts and civil society working across climate diplomacy, international climate and development, and tax policy, in order to identify and produce recommendations on priority options. The upcoming European Parliament elections should be used to put these issues on the agenda.

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