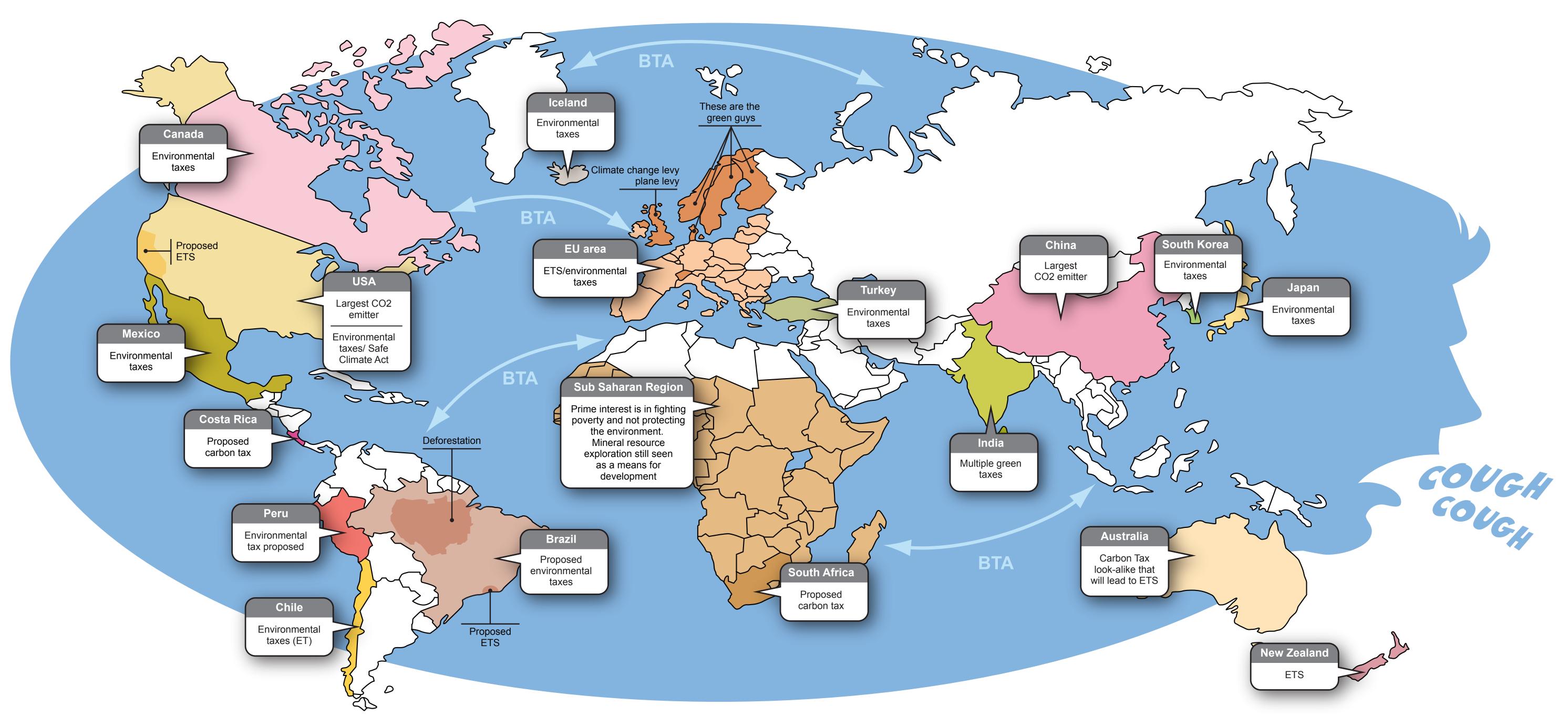
PUTTING A CHARGE ON CARBON:

A PROPOSITION FOR A MODEL CARBON TAX TREATY

State of the Art of Environmental Taxation



BTA: Bilateral Trade Agreement – ETS: Emission Trading Scheme – ET: Environmental Taxes

How about one single Multilateral Carbon Tax Treaty to provide for and substitute all the existing carbon taxes?

The State of the art of environmental taxation is that countries tend to either apply (i) taxes at the emissions level (downstream), merely on a domestic scale; or (ii) upstream taxes designed to be environmental regulators of carbon emissions. This currently leads to international double taxation and to the imposition of Bilateral Tax Adjustments at the border, upon import of foreign products, in order to address competitive concerns from companies that are effectively burdened by a carbon/environmental tax at the country of residence. A worldwide multilateral carbon tax treaty would have the effect of avoiding

double taxation by creating an international rule, providing for the imposition of one single upstream carbon tax on the proxy to the pollution, at the country of source. Thus, it would provide an incentive for countries to give up the imposition of multiple environmental taxes, simplifying tax administration and collection. Adherence to the multilateral treaty would also hinder the application of Border Tax Adjustments towards other member countries, since they would all be subject to the same taxes. The multilateral tax treaty would hence help reduce or eliminate trade barriers such as the Bilateral Tax Adjustment.

PROS

- Elimination of international double taxation
- No BTA for those countries part of the multilateral treaty
- Administrative efficiency and simplicity
- Provides governments with funds to fight climate change and to develop new greener technologies
- Carbon tax earmarked so that funds are applied for environmental purpose
- Build international pressure for all countries to adhere to the common scheme
- Creation of an international fund where part of the revenues collected through the tax would go towards countries in need of aid
- Multilateral treaty would put developed and developing countries at equal footing
- Waive in rules for developing and least developed countries
- Treaty would require a common carbon tax
- Interaction between the carbon tax and the existing ETS schemes would be beneficial to the government and to the companies
- The treaty would provide further means to measure the world's pollution in the member countries

CONS

- Some countries have constitutional limitations against earmarking carbon taxes
- Might give rise to discriminatory behavior, if only the non-treaty partners are "punished" with BTA
- Waive in rules and caveats for developing countries might give rise to further complexity in the scheme
- Countries could grant carbon tax benefits and subsidies domestically, hence disfiguring the nature of the common carbon tax

RESEARCH QUESTIONS

- Why is an international carbon tax needed?
- Who will benefit from a global carbon tax framework?
- Why is a multilateral international carbon tax treaty the best instrument to tackle the issue of carbon/ environmental taxation?
- Why is an upstream carbon tax easier to administer than a downstream carbon tax?
- How should a multilateral tax treaty be structured and what is the desirable framework for an international carbon tax treaty?
- Why would countries want to join a multilateral carbon tax treaty?
- How should the multilateral carbon tax treaty be structured in order stimulate countries to adhere to the treaty?
- How can a common carbon tax system forestall the application of Border Tax Adjustments?
- How would the design of the carbon tax treaty contribute to make Bilateral Tax Adjustments irrelevant?
- Why would a carbon tax treaty also be interesting from a developing country perspective?
- How could a carbon tax treaty contribute to the development of new technologies?

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Time frame:

October 2011- November 2014

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