



“A Climate of Fairness” Environmental Taxation and Tax Justice in Developing Countries

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Fachtagung: Klimagerechtigkeit aus Entwicklungspolitischer Perspektive



A CLIMATE OF FAIRNESS

Environmental Taxation and Tax Justice in Developing Countries



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Jacqueline Cottrell and Tatiana Falcão

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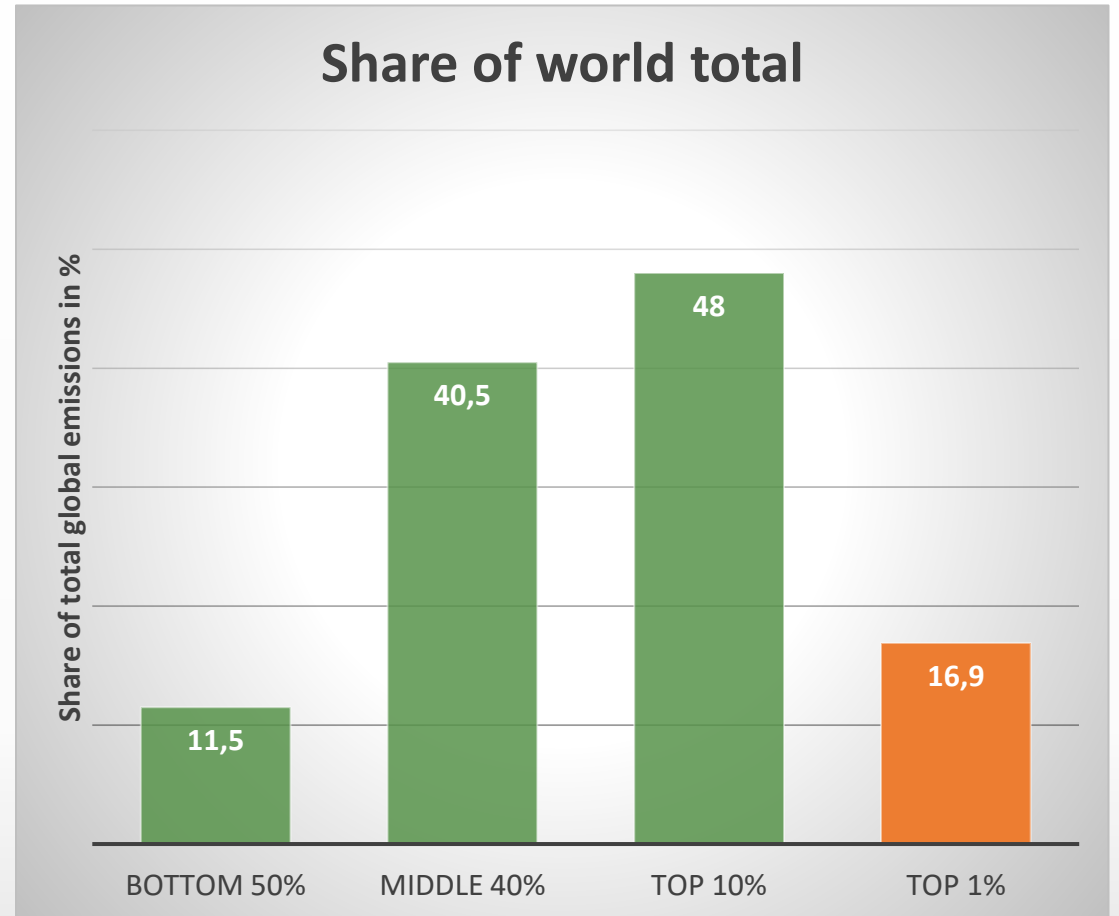
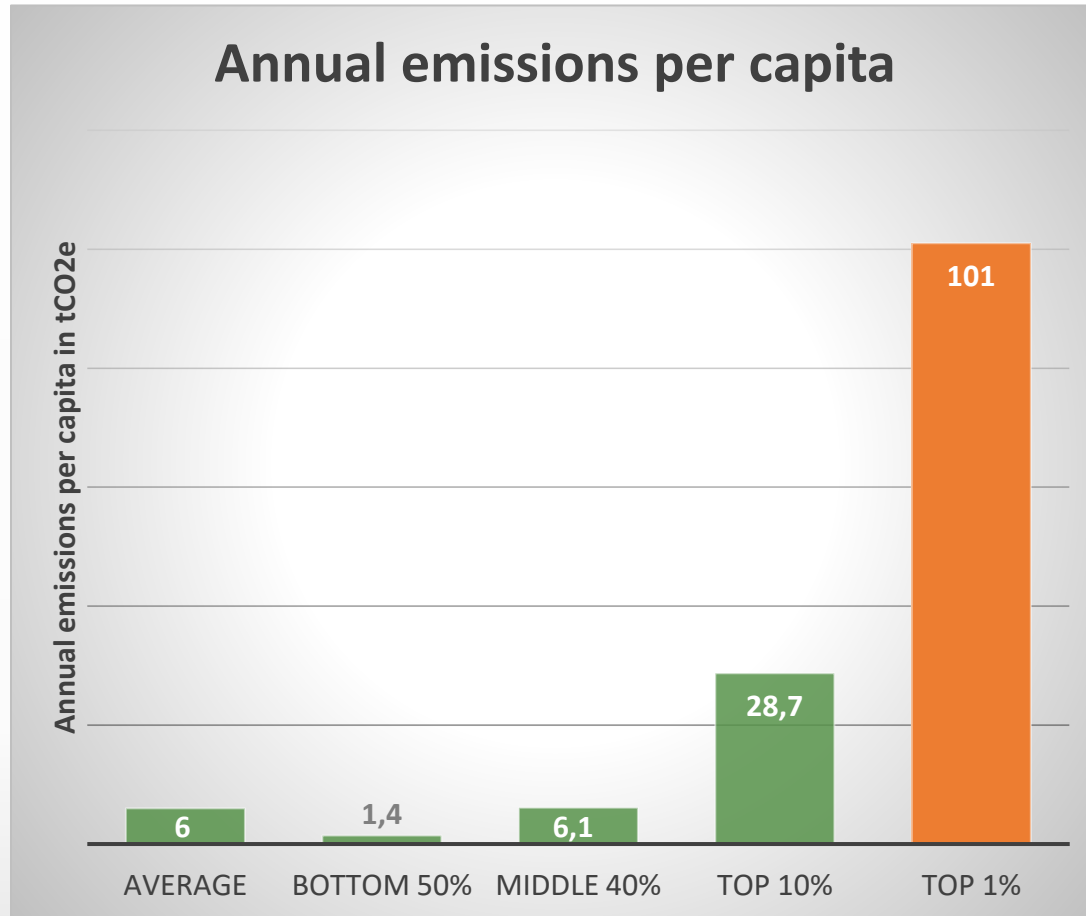
- Report on equity impacts of environmental taxes (ET) in middle and low-income countries
- Explores the potential for ET to safeguard environmental quality while reducing inequality
- Theoretical section: Legal and economic aspects
- Literature review: Generalized (tentative) conclusions, also on gender impacts and case studies
- http://archiv.vidc.org/fileadmin/Bibliothek/DP/A_Climature_of_Fairness.pdf

4 types of inequality

1. Inequality of contributions to pollution
2. Inequality of exposure to the impacts of climate change and environmental degradation
3. Inequality of representation in policymaking
4. Inequality of outcomes resulting from environmental taxation

Inequality of contributions worldwide

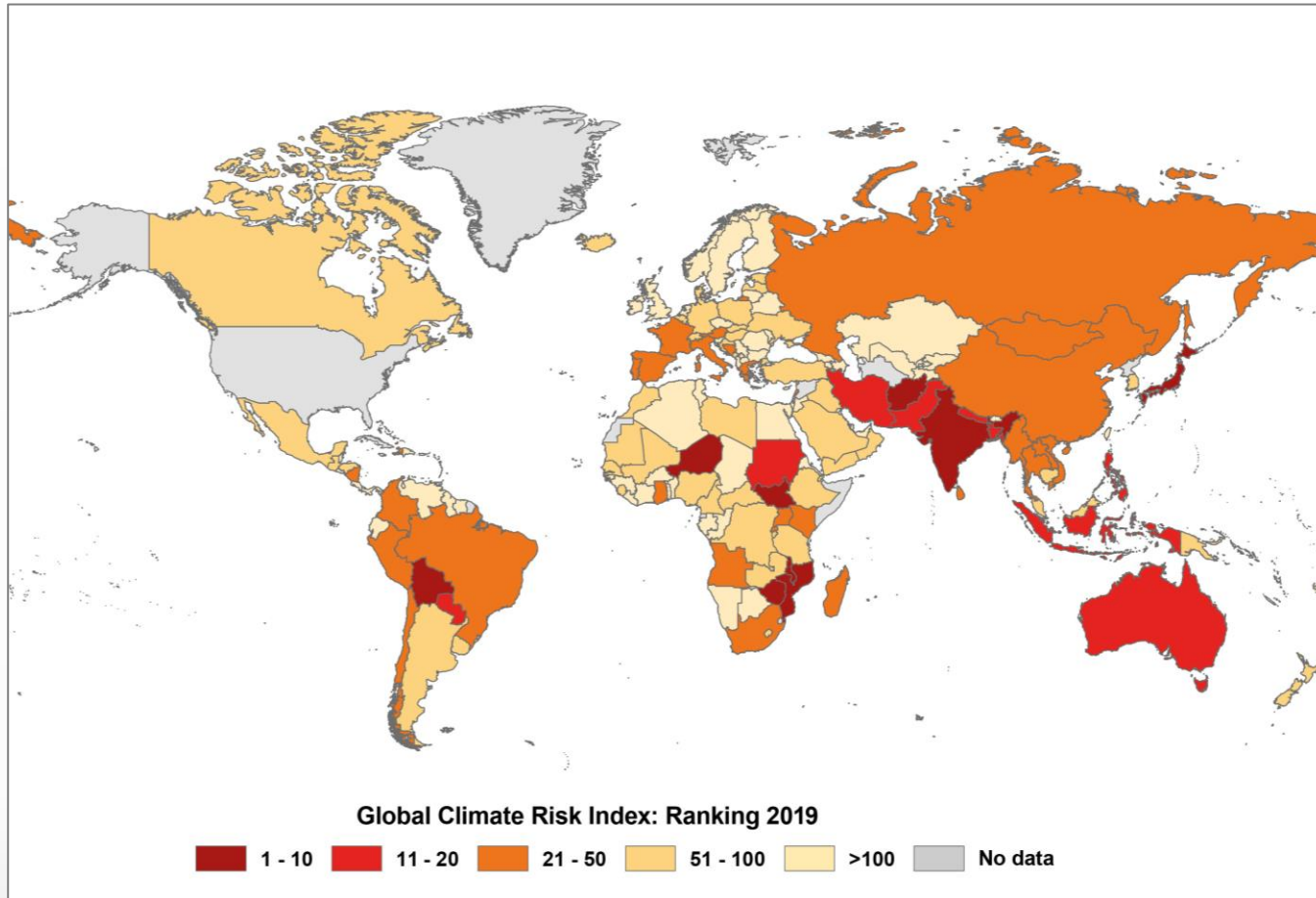
Emissions per capita by income category in tonnes CO2 equivalent



Source: World Inequality Lab <https://wid.world/wp-content/uploads/2023/01/CBV2023-ClimateInequalityReport-3.pdf>

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Inequality of exposure



IPCC Climate Change 2022: Impacts Adaptation and Vulnerability:

- By 2030, there is a high risk that **35–132 million people** will be pushed to extreme poverty
- Economic damages as share of income in 2100 are 9 times larger in the poorest 5% of counties than in the richest 5%

Inequality of representation

- Likely to lead to policies that favour greater protection of higher-income groups and perpetuate the administration of regressive policies
- Failing to incorporate marginalised groups in decision-making is likely to have implications for the environmental effectiveness of policies, esp. where communities have long-standing traditions of natural resource management
- Some claim that uneven power relations – even more than exposure and sensitivity to climatic hazards – make the poor and disadvantaged more vulnerable than more affluent, privileged, and powerful groups and individuals

Inequality of outcomes of environmental taxes (ET)

Explainer: Why are social equity impacts of ETs so hotly debated?

We face several challenges when understanding equity impacts:

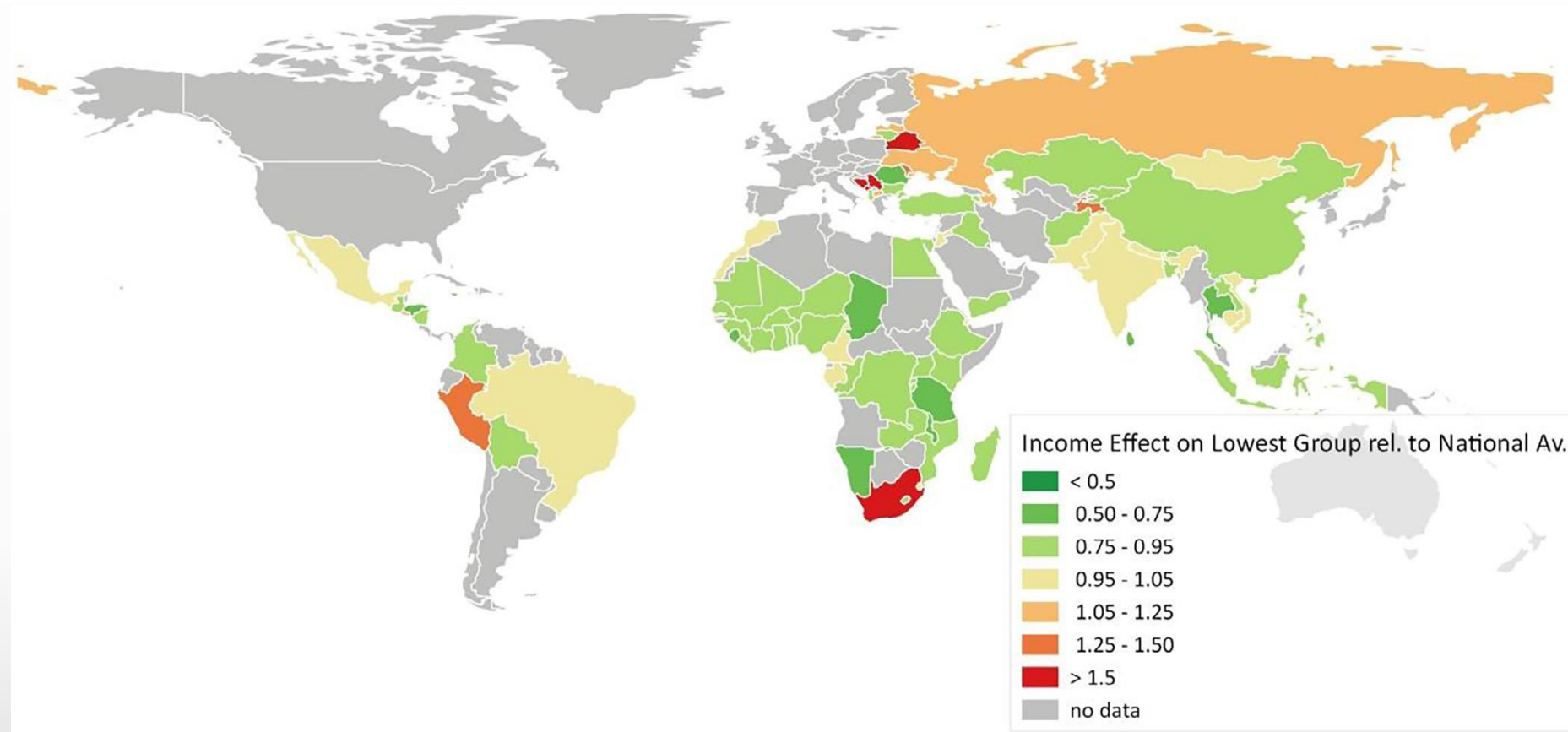
1. Ideally, we need to predict or understand changing impacts over time – thus far, studies tend not to do this
2. Impacts – even within one income group – are not uniform – and we need to analyse these differences
3. Overlapping dimensions of inequality make predicting impacts even more difficult, e.g. gender, age, ethnicity...
4. Indirect impacts are difficult to predict

Equity impacts of environmental taxes – general trends

Taxes on stationary energy use <ul style="list-style-type: none">• Carbon taxes on fossil fuels for power generation• Household energy taxes	Taxes on mobile energy use and transport <ul style="list-style-type: none">• Carbon taxes on transport fuels• Taxes on vehicle ownership• Aviation taxes	Other environmental taxes, e.g. on: <ul style="list-style-type: none">• Agricultural inputs• Pollution• Waste• Natural resources
<p>Generally regressive, particularly in High-Income countries</p> <p>May have progressive impact if energy access is low, or spending on energy unequally distributed</p> <p>Concern: unwanted substitutions, e.g. replace butane/LPG/kerosene for cooking with biomass</p>	<p>Generally progressive or neutral, most progressive in least equal societies</p> <p>Private vehicle ownership is low in many LMICs – such taxes can be considered a “luxury tax” in many contexts</p> <p>Concern: indirect effects, e.g. pass through of fuel price increases drives commodity price increases</p>	<p>Less evidence available – context dependent</p> <p>Regressive if livelihoods of vulnerable are affected</p> <p>Progressive if resources are consumed more by high-income groups</p> <p>Minimal impact if taxes are levied on exported products</p>

In countries with per capita incomes of less than USD 15,000* per year, carbon pricing has progressive distributional effects

Income effect of a USD 30 / tCO₂ carbon tax on the lowest income group relative to the national average: values lower than 1 indicate progressive outcomes

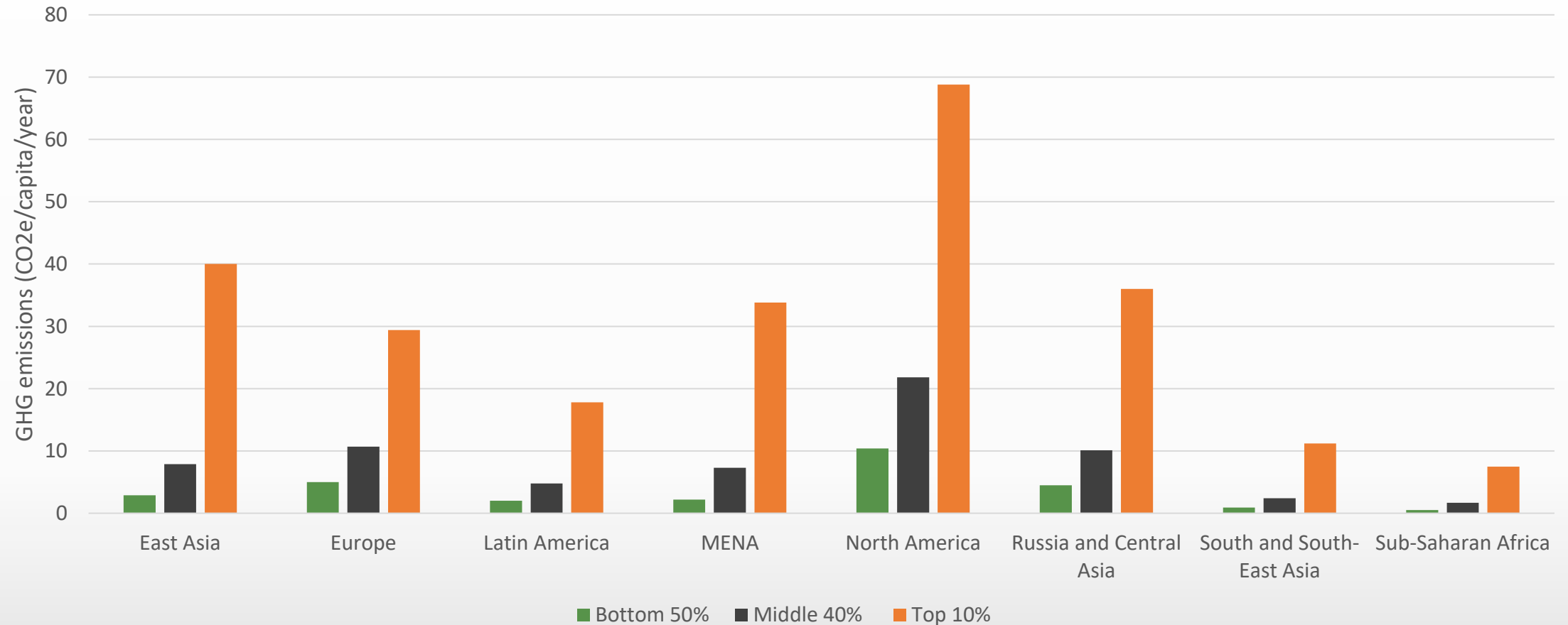


*PPP-adjusted for 2011 USD, modelling conducted in 87 countries

Source: Dorband et al. 2019 <https://doi.org/10.1016/j.worlddev.2018.11.015>

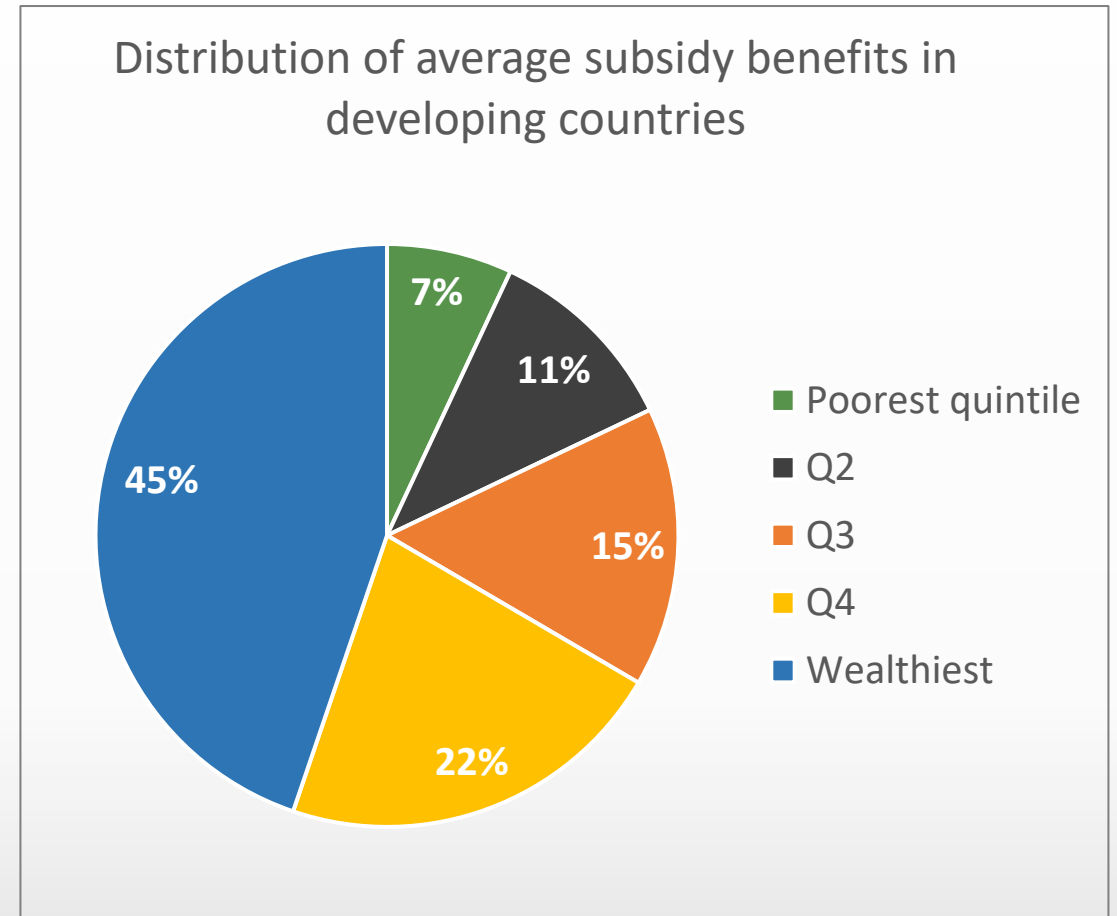
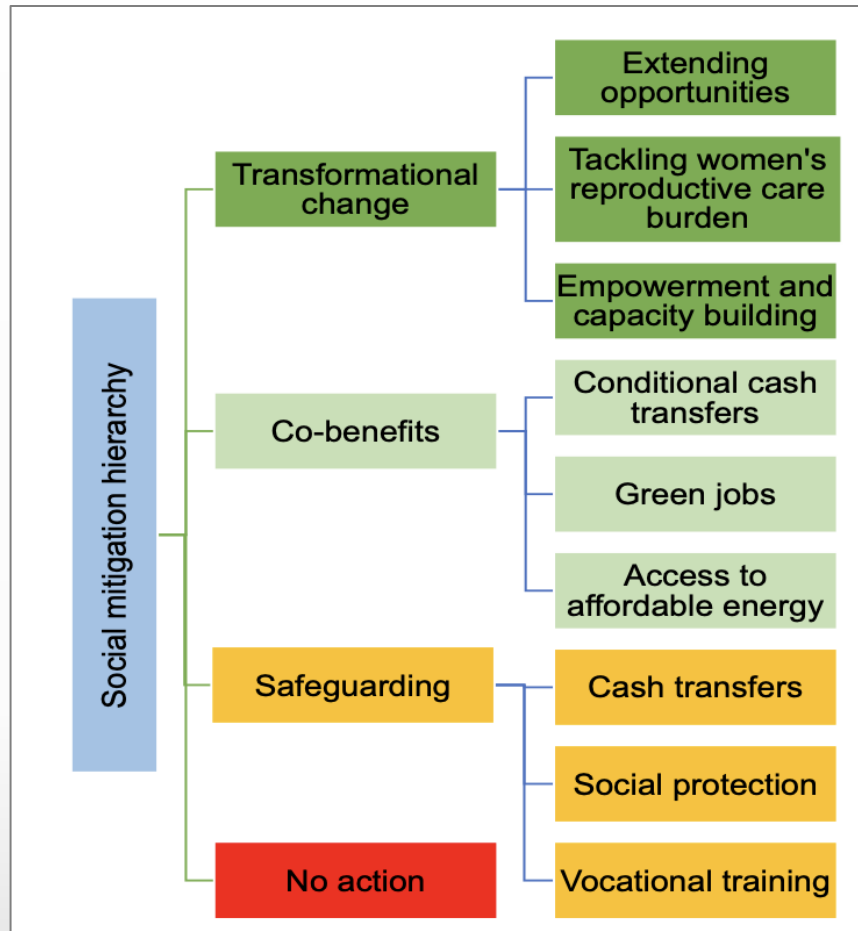
Carbon taxes can be a tool of climate justice

Carbon footprints by income group in different regions of the world in 2019



Source: World Inequality Lab <https://wid.world/wp-content/uploads/2023/01/CBV2023-ClimateInequalityReport-3.pdf>

Key is understanding equity impacts and addressing them effectively



Final thoughts – recommendations (1)

ETs have several benefits for low- and middle-income countries:

- May enhance fiscal governance by boosting tax morale
- Difficult to evade
- Mobilize domestic revenue
- Deliver environmental benefits
- Social mitigation instruments can prevent or mitigate negative equity impacts

Final thoughts – recommendations (2)

International cooperation should be explored:

- Levies on shipping and aviation could raise as much as USD 392 billion if all 195 Paris signatory countries participate
- Multilateral carbon tax treaty – tax rates in line with “common but differentiated responsibilities”
- Alternatively: initiate the harmonization of carbon pricing between smaller groups of countries in combination with a Border Tax Adjustment, e.g. G20 countries (redesign CBAM?)
- Wealth taxes for climate finance?

Thank you very much for your attention!



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