76 – Taxing Carbon Emissions from International Shipping

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The post-apocalyptic world of covid19 will require countries across the world to create novel, and sometimes creative approaches to form new tax bases, capable of generating new resources to recover from the economic downturn caused by the pandemic.

Carbon taxes are one of the main policies raised by the OECD in dealing with the restoration of the public finances post covid 19 crisis. It is therefore one of the main instruments for domestic resource mobilization.

In this article, I will be discussing how carbon taxes might be employed to capture carbon emissions that are released in the high seas, where no country has jurisdiction to tax.

Taxing carbon release into the atmosphere is about pricing negative externalities so that the cost of releasing pollution into the atmosphere is taken into account in the final price of the commercialized product. It is about making the polluter pay for the pollution produced because of its commercial or private activity.

According to this theory, popularly principled as the polluter pays principle, from an economic perspective, it would be impossible, for example, for a UK-based individual to acquire a product manufactured and distributed from China for a cheaper price than the nationally produced product, in a world where the environmental cost of transportation is factored into the overall cost of production. This result is only possible because the environmental cost of production and distribution is not accounted for in the retail price of the product.

As further demonstrated, factoring in the cost of pollution released in the high seas is crucial in attributing a price to products produced and consumed through global supply chains. Only by doing so will one ever know the true cost of production of an item, taking into account the environmental impact that the production and commercialization of that product might generate to the global commons.

Furthermore, an open discussion on the international pricing of carbon – over activities that occur in international (shared) areas, may also motivate countries to issue their own carbon prices, in an attempt not to lose jurisdiction to tax.

The article will suggest policy approaches to assure that the environmental cost of transport, and particularly of the carbon emissions released in international waters is captured in the final price of products traded internationally, in order to reestablish geographic economic equity through the application of a carbon tax instrument.

Biographical note

Tatiana Falcão is a senior policy expert in international and environmental taxation. She is a frequent contributor to the work of the United Nations, most recently acting as the manager of the Green Fiscal Policy Network at the United Nations Environment Program. She has previously worked in the secretariat of the United Nations Committee of Experts on International Cooperation in Tax Matters.

She is a member of the United Nations' Subcommittee on environmental Taxation, and a member of the BEPS Monitoring Group (BMG).

Tatiana's academic work, published in numerous books, articles and scientific papers, focuses primarily on international environmental taxation and the development of policies that aim to curb carbon emissions on a cross-border basis. Tatiana has a monthly column on emerging economy issues in Tax Notes International and is a regular commentator in international tax topics. Her most recent book "A Proposition for a Multilateral Carbon Tax Treaty" was published by the IBFD in 2019.

In 2019 Tatiana was named by the International Fiscal Association's Women in Tax Committee one of the top 40 women-lawyers who have shaped international taxation over the last 100 years.

Tatiana is a graduate of the Vienna University of Economics and Business (AU, Ph.D), University of Cambridge (UK, LL.M), and New York University (USA, LL.M).