

Make polluters pay

Proposal for a surtax on fossil fuel industries' profits



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by Markus Trilling • November 2025

This proposal for a surtax on the profits of polluting corporations' excessive ecological footprints is a discussion paper. The aim of this document is to initiate a discussion, and feedback is welcome. It has been produced by the Global Alliance for Tax Justice (GATJ) and the European Network on Debt and Development (Eurodad).

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The **Global Alliance for Tax Justice (GATJ)** is a South-led global coalition in the tax justice movement. Created in 2013, GATJ comprises regional tax justice networks in Asia (Tax & Fiscal Justice Asia), Africa (Tax Justice Network Africa), Latin America (Red de Justicia Fiscal de América Latina y el Caribe), Europe (Tax Justice Europe) and North America (Canadians for Tax Fairness & FACT Coalition), collectively representing hundreds of organisations. GATJ works for a world where progressive and redistributive tax policies counteract inequalities within and between countries, and generate the public funding needed to ensure essential services and human rights.

The **European Network on Debt and Development (Eurodad)** is a network of 60 civil society organisations from 29 European countries. Eurodad works for transformative yet specific changes to global and European policies, institutions, rules and structures to ensure a democratically controlled, environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all.

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Executive summary

Against the backdrop of rising inequalities and the accelerating climate and environmental crisis, this paper proposes additional taxes – or surtaxes – on the profits of the fossil fuel industry. The purpose of these surtaxes is to speed up the transition away from fossil fuels, to increase equity and to generate additional revenue for the pursuit of sustainable development objectives and climate action. For example, if a 20 per cent surtax had been applied on the global profits of the world's 100 biggest oil and gas companies since the adoption of the Paris Agreement, an accumulated US\$1.08 trillion of additional tax revenues could have been collected.

Mainstream environmental taxation policy, such as carbon pricing, often carries a high risk of regressivity, directly or indirectly placing disproportionate burdens on consumers and the poorest. This bias can lead to social injustice and insufficient environmental protection, and contributes to opposition to climate action and environmental protection more generally. In contrast, taxing the profits of polluting companies is a progressive, supply-side strategy that aligns economic responsibility with environmental harm.

With its excessive ecological footprint, the fossil fuel industry bears particular responsibility for the escalating climate and ecological catastrophe. Record profits for the fossil fuel industry over the past years have yielded significant returns to shareholders, while the sector's investments in the transition away from fossil fuels remain largely insignificant. Instead, the sector is further expanding its fossil fuel business, investing in more extraction and production. This is

diametrically opposed to the need to accelerate the transformation of its business models away from fossil fuels.

Additionally, the fossil fuel industry's profits are extracted at the expense of a safe and stable climate. But this is only part of the cost borne by society. Due to structural flaws in the current international tax system – including tax havens, harmful tax practices and loopholes – multinational corporations continue to significantly reduce their tax payments, avoiding paying their fair contribution to society.

The current international corporate tax rules are particularly problematic when it comes to the taxation of extractive industries. This system creates avenues for these companies to shift their profits away from the source country and into tax havens, depriving countries of crucial domestic revenues. This has an impact on countries all around the world, but hits particularly hard in the global south, where public tax revenues are desperately needed to improve citizens' lives. Profit shifting in the fossil fuel sector flips the polluter pays principle on its head, with the polluter profiting and society at large paying for the damage.

A truly historic opportunity

The coming years offer a historic opportunity to rebuild the global tax architecture and to end the exploitation of the public purse by multinational corporations and climate polluters. A new United Nations (UN) Framework Convention on International Tax Cooperation is currently being negotiated with the aim of

establishing an “international tax system for sustainable development”. Such an agreement, which is set to be finalised by 2027, would open up an avenue towards binding global rules that can ensure equitable taxation of all multinational corporations; effective taxation of the super rich; and international tax initiatives to promote sustainable development, including environmental protection and taxing the companies and polluters at the root of the global ecological collapse.

Effective climate action requires urgent transformation of the business models of polluting industries. At the same time, international tax rules must be reformed to become more progressive and equitable – ensuring they mobilise the financial resources needed for climate action and sustainable development. A surtax on profits from pollution, as outlined in this paper, offers a complementary fiscal climate policy tool that ensures payments from polluters for the damage they cause and incentivises fundamental changes to industry practices.

These kinds of fossil fuel profit surtaxes have already been introduced and implemented in Europe. For example, the so-called ‘EU solidarity contribution’ – the European Union’s (EU) fossil fuel industry windfall profit tax levied in the fiscal years 2022 and 2023 – generated €28.66 billion in additional tax revenues. Profit surtaxes on the fossil fuel industry in Norway and the UK are other examples that show such taxes are feasible and effective.

This paper proposes a three-level approach to fossil fuel profit surtaxes, covering the global, regional and national levels.

Key recommendations:

- ▶ As a part of the UN Framework Convention on International Tax Cooperation, governments should introduce a polluter pays surtax applied to the global profits of fossil fuel companies. This report illustrates a surtax of 20 per cent, which – if it had been levied in the fiscal years 2022, 2023 and 2024 and applied on the world’s 100 biggest oil and gas companies – would have generated an estimated US\$236 billion, US\$184 billion and US\$147 billion respectively. If the 20 per cent surtax had been applied since the adoption of the Paris Agreement in 2015, an accumulated US\$1.08 trillion of additional tax revenues could have been collected. These revenues should form additional contributions, complementing the currently highly inadequate international climate finance commitments. This report also argues that in line with the international objective to transition away from fossil fuels and accelerate action, the global tax should be gradually increased over time, and set to reach 100 per cent by 2050.
- ▶ While the international rules are being negotiated at the UN level, governments around the world should immediately apply profit surtaxes on fossil fuel companies taxable in their own country. These taxes should be designed to co-exist with the global-level surtax, once this has been introduced.
- ▶ At the regional level, governments could determine a minimum surtax rate and coordinate its implementation. For the EU, that means continuing its ‘EU solidarity contribution’ with a minimum tax rate of 33 per cent and a modified tax design, while integrating provisions for the future global-level surtax.

Introduction

This paper puts forward a proposal to contribute to effective and equitable taxation in support of nature protection and climate action. It comes at a time of escalating climate catastrophe, inadequate policy responses and increasing inequality – both within and between countries – exacerbated by a flawed global financial architecture, a severe shortfall in climate finance and notoriously unfair and ineffective international tax rules.

While taxing polluters is a valid environmental and fiscal policy option, it should not burden lower-income groups that carry a very limited share of the responsibility for global environmental crises and spend relatively more on essentials like heating or transport that still rely on fossil fuels. Traditional environmental tax approaches – including carbon pricing – risk increasing inequalities at both national and international levels. Instead, progressive environmental taxation – as proposed in this paper – is targeting the corporate income of polluting industries, aiming for revenue generation combined with a steering effect for the allocation of capital away from polluting business.

This paper zooms in on the fossil fuel industry, but surtaxes on polluting businesses should also be applied to other highly polluting sectors and environmentally harmful businesses. While this paper focuses on taxation as the key policy tool, regulation – including the outright banning of certain activities – is an option that should always be considered when it comes to addressing highly polluting businesses. In the cases where polluting industries continue to operate, this paper argues that those businesses should, at the very least, face financial consequences for the environmentally damaging impact of their activities, according to the polluter pays principle.

In **Chapter 3**, this report first revisits the state of the global climate emergency and highlights the stark shortfall in international climate financing commitments – not to mention the even greater funding gaps to reparations.

Chapter 4 provides a snapshot of the inherent flaws of the current international taxation system, and the reforms needed to address these.

Chapter 5 then explores the structure and dynamics of environmental tax policies, putting taxation into the context of the polluter pays principle and contrasting regressive neo-classical Pigouvian taxes with the progressive supply-side approaches of fiscal climate policy.

Chapter 6 showcases how fossil fuel profit surtaxes have been introduced in the EU in the form of a ‘solidarity contribution’ and highlights examples of how these have been applied at the national level in the UK and Norway.

Chapter 7 presents the tax design for a global surtax, exploring revenue potentials and the interplay with similar taxes at regional and national levels. A sample of the profits of the 100 biggest oil and gas companies between 2016 and 2024 explores the revenue potential of a 20 per cent surtax as a starting point.

Chapter 8 highlights the enormous profits made by the fossil fuel industry globally.

Chapter 9 demonstrates the fossil fuel industry’s misguided use of their profits, further expanding extraction and production rather than investing in the transition of the sector.

Chapter 10 offers conclusions and key recommendations.

Annex 1 uses six scenarios to illustrate the implementation of fossil fuel surtaxes on a fictive fossil fuel company.

The climate crisis

Global carbon emissions from fossil fuels hit a new record in 2024.¹ This followed on the heels of the exceptionally high greenhouse gas concentrations of 2023, and stood in stark contrast to the 42 per cent reduction in greenhouse gases needed to meet global climate policy goals.² The year 2024 marked another historic milestone: it was the warmest year on record and the first with an average global temperature clearly exceeding 1.5°C above pre-industrial levels.³ According to the latest UN assessment,⁴ continuing with current climate policies could heat up the planet by 3.1°C above pre-industrial levels by 2100. This is a far cry from the 2015 Paris Agreement goal to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

The global macroeconomic damages caused by the climate crisis have been estimated as “an income reduction of 19 per cent” by 2050, respectively in a “range of 11-29 per cent accounting for physical climate and empirical uncertainty”.⁵ The biggest losses are expected to be seen in countries that have “lower cumulative historical emissions and lower present-day income”⁶ – in other words, developing countries that are historically not responsible for the climate crises and have little means to adapt.

The Intergovernmental Panel on Climate Change (IPCC) has stressed that limiting the temperature rise to 1.5°C implies reaching net zero CO₂ emissions globally by around 2050.⁷ While a substantial economic transformation of all sectors of the economy is required to achieve this goal, the fossil fuel industry is of particular concern.

In December 2023, at the 28th Conference of the Parties (COP) of the UN Framework Convention on Climate Change (UNFCCC), UN Member States called on all countries to contribute towards “Transitioning away from fossil fuels in energy systems, in a just, orderly and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science”.⁸

With extreme and dramatic weather events threatening livelihoods and economic prospects for generations to come, the growing contradiction between the urgent need for unprecedented climate action and the fossil fuel industry’s business-as-usual stance stands out.⁹ With their investments, the allocations of their accumulated capital and excessive profits, fossil fuel companies and their investors are deciding today what society’s relationship with nature will be tomorrow.¹⁰

Climate finance, climate debt and reparations

Article 3.1 of the UNFCCC states that “The Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof.”¹¹ The Convention also outlines the obligation of developed countries to provide “new and additional financial resources” to developing countries.¹²

Hereinafter, Article 9 of the Paris Agreement underlines that “Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention”.¹³

According to the UN, developing countries would need about US\$1.1 trillion in climate finance from 2025 and some US\$1.8 trillion by 2030.¹⁴

At COP 29 in Baku in 2024, a decision on a “New collective quantified goal on climate finance” was adopted, in which the Parties to the Paris Agreement called on all actors “to work together to enable the scaling up of financing to developing country Parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035” and decided “to set a goal (...), with developed country Parties taking the lead, of at least USD 300 billion per year by 2035 for developing country Parties for climate action: (a) from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources (...)”.¹⁵

This new goal has been heavily criticised by both developing countries and civil society organisations for falling far short of the needs, and has even been referred to as an ‘insult’ and a ‘joke’ by some campaigners.¹⁶

As the climate crisis escalates, the financing needs keep increasing. In addition to the resources required to support mitigation and adaptation in developing countries, there is also a rapidly growing funding gap of what is needed to cover the climate damage already done.

The question of how to cover loss and damage has emerged as an unavoidable issue, especially in relation to the countries that have done the least to cause the climate crisis, but now suffer most from the damaging impacts. In response, the UN Member States decided, in 2022, to establish a fund for loss and damage.¹⁷

However, questions around the sources of finance for this fund remain unresolved.

The discussion about loss and damage is part of a broader discussion about climate debts and the urgent need for reparations – from those who have benefited, and continue to benefit, from excessive pollution, to those who bear the brunt of a crisis they did not create. At the heart of this discussion are the role and responsibilities of countries in the global north, wealthy elites and fossil fuel companies, whose historic and ongoing contributions to the climate crisis demand accountability and action.

For example, researchers Marco Grasso and Richard Heede argue in their 2023 paper that the responsibility for climate change falls equally on producers, emitters and political authorities.¹⁸ They highlight specifically that fossil fuel companies are responsible for a significant share of the current and historical carbon emissions and the related exacerbation of the climate crisis. In addition, these companies influence policy and, through the design of their products, also influence consumers’ emissions. Consequently, Grasso and Heede argue that companies and their owners should be held accountable for the climate damage they have caused; they present a methodology for calculating the reparations owed by the top 21 fossil fuel companies, reaching a total of US\$5,444 billion to be repaid over the period 2025-2050. In their proposal, they stress that “A global reparations scheme, as proposed here, complements and is neither a substitute for climate finance under the UNFCCC nor for climate-related litigation (...) against major oil, gas and coal companies”.¹⁹

Focusing on carbon inequalities between countries, Andrew Fanning and Jason Hickel argue in their 2023 study that CO₂ emissions accumulated by global north countries in excess of their fair share, defined in relation to stable planetary levels, represent a form of appropriation of the atmospheric commons,

establishing 'climate debt' and 'climate coloniality'.²⁰ Fanning and Hickel calculate a necessary compensation of US\$192 trillion by 2050 to the countries of the global south to make up for the loss of their fair share of atmospheric quotas.

The proposals put forward in these two studies do not specify which concrete policy tools could be applied. However, while complementing other policies and measures, the introduction of surtaxes on the profits of the fossil fuel industry, as suggested in Chapter 7 of this report, is a potential proposal in this regard. Such taxes could generate additional public revenues and aim to promote global economic and environmental tax justice.

The climate crisis is on a global scale. There is a strong case to be made that fossil fuel profit surtax revenues should be dedicated to supporting global sustainable development, mitigation, adaptation, and loss and damage. On the condition that it is designed to complement the (highly insufficient) international commitments to provide climate finance, surtaxes on polluting industries' profits could also help to fill the climate finance gap in the global south. Furthermore, by redirecting profit surtax revenues from fossil fuel corporations into climate mitigation, adaptation, loss and damage and sustainable development initiatives, this measure not only mitigates the environmental impact of fossil fuels but can also catalyse the systemic transformation of an unjust economic system.²¹

Tax policy and climate action

As described above, the world is in the midst of a deep, existential ecological crisis. Current environmental and economic policy approaches are proving to be insufficient to prevent environmental breakdown. Significant amounts of public financial resources are needed to protect against the fallout of the ecological crisis and to catalyse the transition to sustainable economies that are operating within planetary boundaries.

Whereas a steep decline in fossil fuel production is needed, the fossil fuel industry is investing in new exploration: the lion's share of the industry's record profits is not being invested in switching the business model towards renewable energy, energy savings and electrification. Instead, they are being put into the development of more fossil fuels, dividend payments to investors and company share buybacks (see more on this in Chapters 8 and 9).

Given the urgency of climate action, tax policy is both a means to steer economic behaviours and to mobilise public financial resources.

Taxation is the most important and sustainable tool for raising revenues for public budgets, including for climate action. Public resources are a significant source of finance, because they can be invested on the basis of public interests and government commitments, as opposed to focusing on maximising return on investments, which tends to be the priority of private finance.

Furthermore, taxation can be used to create incentives for behaviour change and as a tool to implement the 'polluter pays principle' (see more on this in the section below 'Environmental taxation – a rapidly evolving agenda'), including in relation to climate pollution. Over the last few decades, there has been growing momentum for introducing environmental taxation for this purpose.

Unfortunately, the international tax system has also been in its own state of crisis – both in relation to its efficiency, but also from a fairness perspective, as we will see in the following chapter.

The failure of the current international tax system

Multinational corporations and wealthy individuals continue to be able to reduce their tax payments substantially through the use of tax havens, harmful tax practices and loopholes in the international tax system. This type of international tax abuse takes two main forms: tax evasion, which refers to illegal practices; or tax avoidance, which refers to tax practices that are often legal from a technical perspective but nevertheless undermine the spirit and effectiveness of tax laws.

Tax abuse by wealthy individuals

Tax abuse by wealthy individuals most commonly happens through tax evasion. The Tax Justice Network has estimated that the world's countries lose an estimated US\$144.8 billion every year due to wealthy elites hiding their fortunes in tax havens.²² As highlighted, for example, by the European Commission,²³ international tax abuse has also been a key reason why governments around the world have, over the last few decades, largely abandoned wealth taxes, which otherwise represent a highly progressive type of tax that directly serves to lower inequality.

Tax abuse by multinational corporations

For multinational corporations, tax avoidance is the prevailing type of international tax abuse. A central part of the problem is the methodology developed by the Organisation for Economic Co-operation and Development (OECD) known as 'transfer pricing' and 'the arm's length principle',²⁴ which currently dominates the global corporate tax system. Under this system, subsidiaries of multinational corporations are treated as independent entities, rather than in accordance

with the economic reality that they are part of a single multinational enterprise (MNE) under central ownership and control.

Countries tax these entities by starting from the accounts that the subsidiaries report in each jurisdiction. It has always been clear that these accounts are artificial, since the entities are not actually independent. Thus, national laws give tax authorities the power to adjust the accounts to prevent diversion of profits to low-tax jurisdictions. However, methodologies developed by the OECD, embodied in the Transfer Pricing Guidelines first issued in 1995, focus on the pricing of transactions between these entities, and on ensuring that their profit margins are in line with those of similar independent firms. This overlooks the enormous super-profits that large MNEs generate due to the large scale and synergy of their operations as a whole. In addition, many of the financial transactions between subsidiaries of MNEs concern intangible assets (such as use of patents, brands and 'knowhow') for which no comparable independent price exists (and thus, it is very difficult for tax authorities to challenge them).²⁵

The independent entity or so-called 'arm's length principle' has enabled MNEs to channel a large share of these super-profits to entities that are taxed at low or zero rates. These tax avoidance practices have increased exponentially, particularly after 1995. The EU Tax Observatory has shown how global corporate tax revenue losses from the shifting of profits to tax havens grew from below 2 per cent in 1990-1995 to nearly 10 per cent of global tax revenue collected in

2020, amounting to US\$1 trillion in 2022 alone.²⁶ Similarly, the Tax Justice Network has estimated that corporate tax avoidance is costing countries US\$347.6 billion per year in lost tax revenue.²⁷

The OECD approach has been criticised by academics since its inception,²⁸ and these critiques have been taken up by civil society organisations for being inherently open to tax abuse, inefficient and unjust. Academics have called for this approach to be replaced by a system based on ‘unitary taxation’ with ‘formulary apportionment’.²⁹ This would enable countries to tax their fair share of the global profits of MNEs allocated on the basis of a formula reflecting the level of economic activity in each country.

Despite the calls for formulary apportionment, the international corporate tax system is still today largely based on the OECD transfer pricing system. As mentioned above, there is ample evidence that corporations continue to shift their profits out of the countries where they have business activity (such as extraction, production, large numbers of workers, users, sales and assets) and into tax havens.

Specific tax challenges in the extractive sector

In addition to the loopholes that allow a broad range of multinational corporations to avoid taxation, there are particular weaknesses in the international corporate tax system that can create additional avenues for extractive industries to shift their profits to low-tax jurisdictions. Given that the current international system relies on treating affiliated entities of MNEs as separate entities, extractive industries can shift profits by attributing high profits to activities such as commodity trading in countries like Switzerland where they are taxed at a lower rate, and underquoting the value of natural resources when they are exported from the countries of extraction.

In a working paper published by the International Monetary Fund (IMF), researchers estimated the annual global tax loss in the extractive sector at US\$44 billion per year. Furthermore, they highlight that “[l]arge revenue losses are more frequent in low income and developing countries”, and that “revenue losses are largest in emerging markets”. The report also concludes: “Ongoing international reform discussions do not (yet) fully reflect the challenges of collecting income tax from the extractive industries”.³⁰

Harmful incentives

However, not all deficits in fairness and efficiency of extractive industries’ taxation have their roots in dysfunctional international tax systems. Some issues are caused by flawed national tax designs, in particular when it comes to extractive industries – creating loopholes or incoherent exemptions³¹ and harmful incentives for extractive industries or highly polluting activities.³² With the aim to attract foreign investments tapping into natural resource wealth, governments are granting tax incentives to extractive industries. Ultimately, however, this is undermining efforts to raise adequate resources since tax reliefs mean lost revenues as well as direct subsidies for corporations in scope. Such tax incentives have often been found to be inefficient, as tax relief considerations play a subordinate role in making investment decisions.³³

The race to the bottom and the rise of regressive taxation

As with the above-mentioned case of wealth taxes, the existence of tax havens and widespread international tax abuse has pressured governments to lower corporate tax rates. This has triggered a ‘race to the bottom’, where countries compete by offering ever-lower tax rates to attract or retain businesses. As a result, the global average statutory corporate tax rate has fallen from over 40 per cent in the 1980s to less than 25 per cent by 2015.³⁴

With wealthy individuals and corporations being increasingly difficult to tax, governments have instead relied heavily on taxing actors that are not

able to engage in international tax abuse – such as consumers and workers. For example, the value added tax (VAT), which was first introduced in France in the 1950s,³⁵ has now been adopted in over 170 countries worldwide.³⁶

Since poorer households tend to spend a larger share of their income on consumption, there is a clear risk of regressive impacts of consumption taxes such as VAT.³⁷ While these impacts can be reduced to some extent through exemptions or government transfers to the poorest, this is often difficult to guarantee – both politically and in practice. The bottom line is that VAT entails risks of regressive impacts and does not have the direct progressive impacts that, for example, taxes on profits of corporations, capital income and wealth would have. Furthermore, since women generally have lower incomes and allocate a larger share of their income on household consumption, VAT tends to disproportionately impact them.³⁸ As discussed below, a similar pattern can be observed in the realm of environmental taxation.

Biases against developing countries

The current tax system is biased against the interests of developing countries. This is related to the fact that the current system has been developed by the OECD, an international organisation formed and dominated by the world's richest countries. Specific concerns relate to the way the rights to tax profits of multinational corporations are allocated between countries, and that the rules give advantages to capital-exporting countries and the home countries of multinational corporations (which are mainly richer countries).³⁹ Due to the loopholes in the OECD's transfer pricing system, and the resulting impacts of tax havens and corporate profit shifting described above, the current reality is that high-tax countries in both developed and developing countries lose large amounts of tax income from corporate activities in their countries.

Attempts at reform

Following the financial crisis of 2008-2009, the evident failures of the international tax system led G20 world leaders to lend their political support to an effort to tackle what the OECD named Base Erosion and Profit Shifting (BEPS). In 2013, the G20's St Petersburg Tax Declaration⁴⁰ called for reform of the rules to ensure that multinationals could be taxed "where economic activities occur and value is created".

Regrettably, the OECD's first Action Plan aimed only to patch up the system, retaining the separate entity, or 'arm's length principle'. The BEPS package was adopted in 2015, and shortly afterwards, the OECD established the so-called Inclusive Framework with the key purpose of implementing the package. While all countries have been invited to become members of the Inclusive Framework, it is on the condition that they commit to implementing the BEPS agreement, which is almost 2,000 pages long.⁴¹ Still today, roughly one third of the UN Member States are not members of the OECD's Inclusive Framework.⁴²

It did not take long, however, before there was a growing recognition that the problems prevailed. Thus, the OECD initiated a second reform process in 2019 called "Tax challenges arising from digitalization". This initiative led to what is known as Pillar 1, which focuses on a reallocation of taxing rights (the so-called Amount A), and Pillar 2, which centres around a minimum corporate tax rate. Unfortunately, both pillars have shown great weaknesses in terms of fairness, efficiency and political sustainability.⁴³

One major shortcoming of Pillar 1 'Amount A' is that it was designed to apply to only around 100 of the largest and most profitable MNEs, and only for a small share of their profits, leaving in place the separate entity principle for all other purposes. The second flaw has proven more fatal. The mechanism relied on a multilateral OECD instrument that included a point system by which a total of 999 points was allocated between 19 countries and jurisdictions.⁴⁴ In order to enter

into force, the multilateral instrument would have to be signed by countries and jurisdictions representing a minimum of 600 points. Since the United States (US) was awarded no less than 486 out of the 999 points, this gave them the power to prevent the instrument from entering into force. On his first day in office in January 2025, President Trump signed a decree that makes it very clear that the US had no intention of signing.⁴⁵ In other words, the US has put an end to Pillar 1.

Unlike Pillar 1, Pillar 2 does not rely on a multilateral treaty for implementation but can instead be implemented domestically by countries independently. As of January 2025, there are 55 countries or jurisdictions globally that have either enacted or introduced legislation to implement the agreement,⁴⁶ including the 27 Member States of the European Union.⁴⁷

Originally presented as an effective minimum corporate tax rate of 15 per cent, Pillar 2 has, however, also been a source of concern. Firstly, from an effectiveness perspective, the relatively low tax rate risks that the ‘race to the bottom’ would be replaced by a ‘race to the minimum’, meaning that the global average corporate tax rate could continue to drop to 15 per cent.⁴⁸

Secondly, a number of substantial loopholes in the rules meant that corporations could continue to pay well below 15 per cent in tax – possibly even as low as 0 per cent.⁴⁹

From a fairness perspective, a discussion about whether the rules should give preference to the countries where corporations are headquartered (mainly in richer countries) or in the countries where they do business (which would also include developing countries) ended in favour of headquarter countries.⁵⁰ However, even this was undermined by a rule known as the Qualified Domestic Top-up Tax, which was introduced relatively late in the process and created a loophole for tax havens to continue sheltering corporate profits without increasing their statutory rates to 15 per cent.⁵¹ Thus, rather than preventing tax havens, Pillar 2 seems to

have ended up benefiting them.⁵² This outcome caused Pillar 2 to earn the nickname a ‘Tax Havens Rewards Programme’.⁵³ At the same time, in countries such as Switzerland, the introduction of Pillar 2 has been coupled with a discussion of how it might be possible to channel any extra tax revenues collected back to corporations through new types of financial incentives and benefits.⁵⁴

While the concerns about the fairness aspects of Pillar 2 were already very high, they escalated further in June 2025, as the Group of 7 countries (G7) came out suggesting that all US-based corporations should be exempted from the rules.⁵⁵

A new beacon of hope: The UN Tax Convention

Following strong leadership by the Africa Group at the UN,⁵⁶ a new international process has been set up with the aim of delivering a new UN Framework Convention on International Tax Cooperation by the end of 2027. The Terms of Reference (ToR), which were adopted by the end of 2024, specify the objective of establishing “an inclusive, fair, transparent, efficient, equitable and effective international tax system for sustainable development”.⁵⁷ The ToR also make it clear that the Convention will include new government commitments on issues such as “fair allocation of taxing rights”, “equitable taxation of multinational enterprises”, measures to address tax evasion and avoidance, as well as “international tax cooperation approaches that will contribute to the achievement of sustainable development in its three dimensions, economic, social and environmental, in a balanced and integrated manner”.

To summarise, the issues outlined above – the dominance of an unfair global tax system benefiting multinational enterprises (as well as the extractives and fossil fuel sectors), the advancement of regressive taxes on workers and consumers, as well as the historic opportunities related to the negotiation of a new UN tax convention – should all be borne in mind when discussing a new polluter pays surtax on the profits of fossil fuel companies.

Environmental taxation – a rapidly evolving agenda

The polluter pays principle

In June 1992, the world's governments gathered in Rio de Janeiro for the United Nations Conference on Environment and Development – also known as the Earth Summit.⁵⁸ At this summit, a number of landmark decisions were adopted, including the UN Framework Convention on Climate Change. The conference also resulted in the Rio Declaration on Environment and Development, which includes principle 16, also known as the 'polluter pays principle'. This principle states that:

“National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment.”⁵⁹

The neoclassical environmental tax approach: Pigouvian taxes

Environmental taxes can put the polluter pays principle into practice. Until recently, this agenda has placed a strong focus on so-called Pigouvian taxes, named after the 1920's British economist Arthur Pigou. In particular, carbon taxes have gained a lot of attention.⁶⁰ Pigouvian taxes are levied on goods or activities that cause environmental harm, such as greenhouse gas emissions (GHGs). In theory, the tax rate is determined by the 'costs to society' caused by the consumption of environmentally harmful

goods or services. These 'external costs' are then added to the price and the increase – via the tax – reduces the consumption. Furthermore, the company changes to less environmentally harmful products and, in consequence, the environmental impact decreases, so the neoclassical economic theory goes.

Revenues from environmental taxes in the EU are modest, and in decline, at 4.8 per cent of all tax revenues in 2022. Energy taxes are generating three quarters of the total.⁶¹ The European Commission reports that historically “the contribution of households to environmental tax revenues in nominal terms have been larger than that from the production side of the economy [...]”.⁶² This fact underlines the point that the current environmental tax approach has had a demand-side bias – as opposed to an approach that looks at both the consumers and the suppliers. In particular, the Commission points out that “energy taxes are primarily borne by household[s]”, making up more than 40 per cent of total energy tax revenues.⁶³

Concerns about social impacts and inefficiencies

The bias against consumers causes concerns about the risk of negative social impacts of carbon taxes. As noted in the 6th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR6): “The most commonly studied distributional impact is the direct impact of a carbon tax on household income. Typically it is regressive; the tax induced increase in energy expenditures represents a larger share of household income for lower income households”.⁶⁴ The report also notes that

regressive impacts can – at least in theory – be offset or even reversed through progressive spending policies, but adds that “[i]n countries with a limited capacity to collect taxes and distribute revenues to low-income households, such as some developing countries, carbon taxes may have greater distributional consequences”.

Similarly, Joseph Stiglitz has also stressed that “Pigouvian corrective taxation does not suffice to ‘undo’ the externality in ways which maximize societal welfare” and advocates for a more nuanced approach.⁶⁵

Regressive environmental taxes cause concern not only about increasing inequalities but also about the risk of undermining public support for specific climate policies. They can even provoke large-scale public protests by actors who might generally be in favour of climate action, yet at the same time worry about social justice. The French ‘yellow-vest movement’ is one famous example.⁶⁶

When it comes to the environmental effectiveness of Pigouvian taxes, Isabella Wedl and Thomas Fricke have highlighted that there “is growing consensus that carbon pricing will not generate the necessary momentum for a green transition”.⁶⁷ The tool has, among other things, been criticised for its limited “ability to induce behavioural change, foster disruptive innovation, and drive infrastructure investments, due to its history of low or volatile carbon prices, potential negative distributional effects, and political economy challenges”.⁶⁸

New concepts for environmental taxation

The concerns about social impacts and the need for stronger measures to tackle climate change have given rise to considerations of alternative and more progressive ways of using taxes to combat the climate crisis.⁶⁹ As a result, a number of expanded conceptualisations of environmental taxation have emerged and new approaches to taxing polluting assets are being discussed. For example, policies aiming to catalyse the

socio-ecological transformation of global economies directly targeting polluting industries gained prominence, including considerations to tax fossil fuel industries’ profits.⁷⁰

Another example is the proposal for a ‘carbon wealth tax’, which has been put forward by Jose Pedro Bastos Neves and Willi Semmler.⁷¹ The authors argue that conventional carbon pricing has so far had limited effects and new climate change mitigating tax solutions are required. They therefore stress that “a new type of tax” would be needed “to help finance (and accelerate) the green transition”. They suggest that a tax on “carbon assets” could be levied on carbon-intensive wealth rather than carbon-intensive goods, to complement current carbon pricing schemes. The authors expect that “a tax on carbon-intensive assets would reduce capital flows to carbon-intensive companies in favor of investment in green companies”.⁷² Referring to the proportionality principle in taxation, they state that “those who create a higher proportion of ‘public bads’ – meaning negative externalities – need to pay a higher tax”. With such a tax explicitly tackling the investor side, carbon-based wealth and its capital returns, disinvestments and rapid depreciation of installed fossil fuel capacity could be achieved.⁷³ This proposal on a carbon wealth tax moves the debate on the polluter pays principle and environmentally effective taxation beyond the Pigouvian tax approach towards taxation on capital and its owners causing pollution.

The calls for new ways of using tax instruments to contribute to climate action are also being echoed by governments. For example, in 2024, during the negotiation of the Terms of Reference for a new UN Framework Convention on International Tax Cooperation, a submission from the government of Colombia explicitly called for commitments on “non Pigouvian tax measures to finance climate action, such as a global corporate income tax”.⁷⁴

Unlike Pigouvian taxes, including carbon taxes, which generally target the consumer and

thus take a 'demand-side approach', taxes on corporate profits would take a 'supply-side approach', and could be designed to target the corporations profiting from pollution.

The green paradox and supply-side measures

The idea of targeting the supply side of the economic actors causing the climate crisis is not new. Already over a decade ago, the German economist Hans-Werner Sinn flagged a phenomenon that he dubbed 'the green paradox', which includes the premise that the owners of carbon resources are responding to the expectation of future climate regulation by stepping up the production of fossil fuel energy while they still have the chance. The expectation of future reduction in fossil fuel consumption would thus, in the end, have the effect of accelerating climate change.⁷⁵ He argues that the 'green paradox' is a reason to look beyond simply regulating the demand for fossil fuels, and also to consider controlling the supply. Supply-side climate action policies include a range of measures that, among other things, aim to "slow down investments in fossil fuels, thereby reducing carbon lock-in and stimulating investments in renewables".⁷⁶ One such proposal is to introduce taxes on fossil fuel capital income.⁷⁷

Taxation and climate inequality

The World Inequality Lab establishes in its Climate Inequality Report 2023⁷⁸ the nexus of increasing inequality within and between countries, the actual and historical responsibility for the climate crises of the financially richest countries and individuals, and the respective capacities – or lack thereof – of countries and individuals to address them.

The report argues that "profound transformations of international and national tax regimes will be necessary to increase the overall progressivity and returns of taxes and ensure that mitigation and adaptation efforts are shared equitably across the population". The report also argues that more progressive taxes in general and addressing the under-taxation of multinational

companies in particular could support mitigation and adaptation efforts equitably. Lastly, the report looks at specific climate measures and the impacts they have on different social groups. For equitable climate policies that can reduce inequalities by targeting the richest 10 per cent of the population, the report highlights, for example, "wealth or corporate taxes with pollution top-up to finance [the decarbonisation of the energy system]. This would accelerate divestment from [fossil fuels]".

Another call that fossil fuel profits should be used to address global climate inequalities comes from the sector itself, with (current and former) business leaders of Norway's fossil fuel industry demanding "to quit pocketing its oil profits and start giving the money to countries that need help meeting their Paris Agreement climate change goals."⁷⁹

To summarise, from a tax policy perspective, it could be said that a surtax on fossil fuel industries' profits meets progressivity imperatives while at the same time setting transformational incentives for the sector. These effects increase when the proceeds are invested to support climate action where it is needed most. Thus, fossil fuel industry profit surtaxes should be introduced to complement or replace Pigouvian taxes. And indeed, fossil fuel industry profit surtaxes are already applied in a number of countries in various forms, as explored in more detail below.

Taxing fossil fuel industry profits – the European experience

A number of measures that impose taxes or levies on the profits of fossil fuel corporations already exist today, and some of these are outlined below.

The European Union ‘solidarity contribution’

In response to the public outcry over the excessive profits of energy and fossil fuel companies while much of society faced a ‘cost of living crisis’, the European Commission proposed – and EU Member States adopted in October 2022 – a so-called “regulation on an emergency intervention to address high energy prices”.⁸⁰ The regulation proposes profit top-up levies on energy undertakings in the oil, gas, coal and refinery sectors in the EU through a “temporary solidarity contribution”. The tax had the intention of skimming off “profits that do not correspond to any regular profit” and that would not have occurred without the Russian invasion of Ukraine.

The regulation specifies the tax base, the tax rate and the use of the proceeds:

- ▶ The regulation defines ‘solidarity contribution’ as “a temporary measure intended to address surplus profits of Union companies and permanent establishments with activities in the crude petroleum, natural gas, coal and refinery sectors [...]”.⁸¹
- ▶ Taxable are “Union companies or permanent establishments generating at least 75% of their turnover from economic activities in the field of the extraction, mining, refining of petroleum or manufacture of coke oven products”.⁸²
- ▶ The contribution would be collected by Member States on 2022 and/or 2023 excess profits, defined as those above a 20 per

cent increase on the average profits of the previous four years, at a rate of at least 33 per cent.⁸³

- ▶ The proceeds should be used to support energy customers, and in particular vulnerable households, energy intensive industries (conditional on their climate action investments) and to finance other measures that would accelerate the renewable energy transition.⁸⁴ Most Member States opted to use the proceeds to support vulnerable households. Others shared the proceeds among several of the options.⁸⁵
- ▶ Member States, however, had the choice to enact ‘equivalent measures’ with similar objectives under the same rules.⁸⁶

As for European Commission reporting,⁸⁷ most EU Member States followed the Commission’s proposal on how to define the tax base (‘average earnings method’) for the ‘solidarity contribution’ of the fossil fuel sector. Regarding the tax rate, most EU Member States decided to apply the minimum tax rate of 33 per cent. Only a few countries decided to ask for more, with 80 per cent in Slovenia being the highest rate.

- ▶ 10 Member States applied the minimum rate of 33 per cent (Bulgaria, Germany, Denmark, Greece, Finland, France, Croatia, Lithuania, The Netherlands and Poland).
- ▶ Some Member States applied higher rates: 40 per cent (Austria); 55 per cent (Slovakia); 60 per cent (Romania); 75 per cent (Ireland); and 80 per cent (Slovenia).
- ▶ Some put different mechanisms in place, which were acknowledged as equal (Belgium, Czechia, Estonia, Hungary, Italy, Portugal, Spain and Sweden).

- Three Member States (Luxembourg, Latvia, Malta) reported they had no companies or permanent establishments in scope.

According to the European Commission, the total collected proceeds for the fiscal years 2022 and 2023 amounted to €26.15 billion.⁸⁸ And while the estimated total proceeds for the fiscal year 2023 add up to €12.16 billion, once collected, this would bring the total amount of collected revenues to €28.66 billion.⁸⁹

Table 1: Overview of collected and estimated proceeds (in € million) as of 30 June 2024, as reported by Member States to the Commission for the fiscal years 2022 and 2023⁹⁰

SOLIDARITY CONTRIBUTION PROCEEDS (€ MILLION) / YEAR				Total
MEMBER STATE	2022	2023 collected (as of 30 June 2024)	2023 estimated but not (yet) collected (as of 30 June 2024)	
Austria	79.00	18.00		97.00
Belgium	288.94	306.37		595.31
Bulgaria	43.30	111.00		154.30
Croatia	0.00	N/A		
Cyprus	N/A	0.00		
Czechia	N/A	1,564.00		1,564.00
Denmark	N/A	54.90	34.50	89.40
Estonia	81.00	42.10		123.10
Finland	N/A	0.00		
France	67.00	N/A		67.00
Germany	113.00	0.00	1,000.00	1,113.00
Greece	631.00	0.00	478.00	1,109.00
Hungary	351.37	N/A		351.37
Ireland	167.20	99.70		266.90
Italy	2,897.00	3,413.00		6,310.00
Latvia	N/A	N/A		
Lithuania	N/A	0.00		
Luxembourg	N/A	N/A		
Malta	N/A	N/A		
The Netherlands	5,629.00	N/A		5,629.00
Poland	3,901.00	3,026.00		6,927.00
Portugal	4.80	3.50		8.30
Romania	633.22	624.78	162.22	1,420.22
Slovakia	520.00	0.00	401.00	921.00
Slovenia	0.74	0.00		0.74
Spain	1,089.34	390.12	434.85	1,914.31
Sweden	N/A	0.00		
TOTAL	16,496.91	9,653.47	2,510.57	28,660.95

Legal challenges to the EU's 'solidarity contribution'

In response to the EU's 'solidarity contribution', and with reference to the Treaty of the European Union, the Treaty of the Functioning of the European Union and the EU Charter of Fundamental Rights, ExxonMobil launched a legal challenge against the Council of the European Union at the end of 2022. The company argued, among other things, that the EU lacks competence to introduce such a measure; that it violates the principle of conferral; that the legal basis is invalid; that the measure infringes on the general principle of equal treatment, the right to property, the freedom to conduct a business, the general principle of proportionality, the general principle of legal certainty and the presumption against retroactivity. The case is in progress at the Court of Justice of the European Union (CJEU),⁹¹ where the 'solidarity contribution' has also become the subject of a number of other cases.⁹² Furthermore, on the basis of the Energy Charter Treaty, the Klesch Group has initiated arbitration cases against the EU, Germany and Denmark over the 'solidarity contribution'.⁹³ In July 2024, the Tribunal issued a decision on provisional measures ordering Germany to refrain from collecting the contribution from the Klesch Group's refinery in Germany while the case was ongoing. The decision also notes that Denmark had already decided to put the collection of the solidarity contribution on hold.⁹⁴

In June 2024, the EU decided to leave the Energy Charter Treaty,⁹⁵ as several of its Member States had already decided to do (including Germany and Denmark).⁹⁶ The withdrawing European countries are also working together to neutralise a controversial 'sunset clause', which states that existing investments are protected for a period of 20 years after withdrawal.⁹⁷ A number of countries from Europe, the Middle East and Asia remain parties to the controversial treaty.⁹⁸

Energy Profits Levy (EPL) in the UK

Similarly to the EU 'solidarity contribution', the UK government introduced the 'Energy (Oil and Gas) Profits Levy' (EPL) in May 2022 to tax the extraordinary profits of oil and gas companies operating in the UK and on the UK Continental Shelf.⁹⁹ The levy was set at a rate of 35 per cent, bringing the headline rate of tax on upstream oil and gas activities to 75 per cent. In autumn 2024, the EPL was increased to a rate of 38 per cent and extended to 31 March 2030. This newer version excludes previous 29 per cent investment allowances for further fossil fuel exploration, while the decarbonisation investment allowance was reduced from 80 per cent to 66 per cent.¹⁰⁰

The UK government considers that the EPL potentially could impact investment decisions on oil and gas projects in the UK.¹⁰¹ There have been media reports that banks are reducing loans to finance new projects, share prices of targeted companies have dropped¹⁰² and that fossil fuel developers are ending their operations in the North Sea because of the levy.¹⁰³

A Norwegian 'special tax'

The petroleum industry in Norway is subject to an additional special tax of 71.8 per cent, which is said to be important for "the financing of the Norwegian welfare state".¹⁰⁴ The current ordinary company tax rate is 22 per cent and paid company tax is written off when calculating the tax base for the special tax. The result is a combined marginal tax rate of 78 per cent.¹⁰⁵

As the above examples demonstrate, fossil fuel profit surtaxes have actually been introduced and implemented in Europe already. Fossil fuel profit surtaxes can complement a climate action policy mix, representing an alternative 'supply-side' approach carrying transformative incentives.

Proposal for new fossil fuel industry profit surtaxes at national, regional and global levels

While the world is facing a stark lack of financing for climate mitigation, adaptation, loss and damage and sustainable development, fossil fuel companies are harvesting record levels of profits. As shown in the following chapter, appropriation of the profits – cementing fossil fuel dependency – means that the profits of fossil fuel companies are not enabling the socio-ecological transition. On the contrary, investments in renewable energy sources are insignificant, and the fossil fuel expansion continues in order to keep revenues and profits at a high level, in the interest of shareholders and investors. This conundrum, and the failure of capital markets to take into account the costs and damages it causes, makes the case for influencing the cost of capital and strengthening taxation of fossil fuel profits.

Why a tax on profits?

Introducing profit surtaxes on the fossil fuel industry increases the cost of polluting capital and decreases asset value, as well as the value of its reserves and its profitability. It slows or halts investments in fossil fuel production and trade infrastructure, limiting the extent of carbon lock-in. At the same time, it incentivises divestments out of the sector and discourages the continuation of the business as usual. If a carbon lock-in is avoided, and the green transition is accelerated, it will lower mitigation costs and reduce the fossil fuel entanglement and the socio-political influence of fossil fuel interests. And, last but not least, surtaxes on fossil fuel profits will mobilise additional corporate tax revenues.

Taxes on profits, rather than on revenues or taxing input factors, also follows the ‘ability to pay’ principle of taxation. Whereas, for example, a flat tax on extraction or refinement would mean that a highly profit-making company would pay the same amount as a loss-making company, taxing a percentage of the profits means that the amount to be paid increases with higher profitability.

Design of a polluter pays surtax on fossil fuel profits

National-level corporate income taxes or surtaxes can only raise revenue to the extent that multinational corporations book their profits in the country in question, since this determines the size of the base that the country can tax. However, as mentioned in Chapter 4, the current global tax rules contain serious flaws. This means that the profit allocation of multinational corporations rarely reflects the business activity of the corporation. Instead, and to a large extent, multinational corporations are still shifting their profits to tax havens.

From a climate justice perspective, it is particularly problematic that the distribution of fossil fuel profits does not align with the countries most affected by the climate crisis. These countries are largely deprived of the tax revenues linked to the ‘original sin’ of fossil fuel production ultimately causing greenhouse gas emissions. Even if the problem of tax havens were to be resolved, climate-related taxes on fossil fuel companies would bring revenue to the countries where

those companies have their business activities. In theory, it could be agreed that these countries would simply collect the tax revenues and then transfer them to a global fund or ensure that they were distributed to the benefit of the countries most impacted by climate change in other ways. In reality, however, such arrangements have proven very difficult to uphold, and government commitments to international transfers of resources are often not respected.¹⁰⁶

In order to account for these problems, it is important that a polluter pays surtax on fossil fuel profits includes a global component. This could be designed in a way that addresses the risk of tax avoidance by the corporations, and at the same time overcomes the problem of unfair allocation of taxing rights between countries. A global-level surtax on fossil fuel profits could be directly linked to a global fund or otherwise legitimate financing mechanism. This could allocate the revenue from the surtax to promote sustainable development, climate adaptation and mitigation, as well as to pay for loss and damage.

In the outline below, a three-level approach for implementing fossil fuel profit surtaxes is explored, covering the global, regional and national levels. For the global level, the outline also includes an example of the revenue potential of a surtax applied to the world's 100 biggest oil and gas companies.

To illustrate how surtaxes at different levels could interact and what their impacts could be in different scenarios, Annex 1 showcases the application of surtaxes at the global, regional and national level for a fictive fossil fuel company. Annex 1 illustrates the example of a global surtax of 20 per cent, but as explained below, the proposal is to gradually increase this tax to reach 100 per cent by 2050.

At the global level

As mentioned above, the Terms of Reference¹⁰⁷ for the new UN Framework Convention on International Tax Cooperation, which was adopted in 2024, include the overall aim of establishing

an “international tax system for sustainable development”. This agreement opens up an avenue towards binding global rules that can ensure equitable taxation of multinational corporations and international tax initiatives to promote sustainable development, including environmental protection. As a part of the tax convention, governments should introduce a polluter pays surtax on fossil fuel companies' profits at the global level.

Existing methods for calculating global profits

One technical question that arises when discussing a tax on the global profits of fossil fuel companies is whether it is possible to develop a method to calculate these profits. In this context, it is worth noting that a method has already been developed, albeit with the wrong objective. As mentioned in Chapter 4, the OECD has developed a proposal known as Pillar 1, in which the so-called Amount A is defined on the basis of the global profits of corporations.¹⁰⁸ While the OECD agreement contains serious flaws from a fairness and efficiency perspective,¹⁰⁹ and while the Pillar 1 agreement has not entered into force, it shows that taxing corporate profits at the global level is now conceptualised within the international taxation sphere.

The draft multilateral instrument for implementing Amount A of Pillar 1 includes the proposal for a method for calculating the 'Adjusted Profit Before Tax' of a multinational corporation. While the basic idea of calculating global profits should be maintained, these draft rules would not, in their current form, be fit for the UN tax convention. They would thus need to be carefully reviewed, repurposed and fundamentally redrafted. For example, the Pillar 1 agreement includes an exception for profits from extraction, which would need to be removed as the profits generated via extraction will, in fact, be a key target of a fossil fuel surtax. In cases where a multinational corporation has a diverse set of business activities, of which only some should be covered by the fossil fuel surtax, the extraction exemption could in fact be flipped around, so that

profits from extraction are included and profits from other types of non-fossil fuel business are exempt.

The Pillar 1 proposal also includes other components that should be removed, including the method for calculation of 'excess profits', since the fossil fuel surtax should be applied to all profits from polluting industries.

Integrating the fossil fuel surtax into the broader global system

The OECD's Pillar 1 proposal is designed to co-exist with the current transfer pricing system. However, as explained in Chapter 4, that system comes with very serious flaws, and therefore, it should be replaced with a unitary tax system with formulary apportionment. But it is relevant to note that regardless of which system applies, the fossil fuel surtax would be effective. By applying the tax on the global profits of a corporation, it could be ensured that the tax will not be circumvented by corporations that are shifting their profits to tax havens. Another key difference would be that, instead of re-allocating profits between countries, as Pillar 1 aimed to do, a fossil fuel surtax would aim to allocate a share of the profits to a global financing mechanism. National-level collection of corporate income tax and any potential national-level surtaxes would happen after the global-level surtax has been applied.

The negotiation of a new UN Framework Convention on International Tax Cooperation will include a discussion about introducing unitary taxation and formulary apportionment. Starting with the global profits of multinational corporations would make the entire international system more simple, coherent and logical. In that scenario, a fossil fuel profits surtax could simply be integrated into the global allocation formula to ensure that a given share of the profits is allocated to a financing mechanism. Furthermore, a system based on unitary taxation with formulary apportionment would be a consequential step forward in the fight against tax havens, which means that fossil fuel surtaxes at the regional and national levels would start to be more effective.

This is, therefore, the best option from all perspectives.

By developing the tax as a global measure under the UN Tax Convention, the parties to the convention could lay out the specific rules for operationalising the tax (including the rate) and allocating the revenue, as well as ensuring that the system cannot be undermined by non-cooperative jurisdictions. At the same time, this system should ensure that the corporation is required to pay the tax once – but only once – annually, and that the surtax reduces taxable income when taxes and surtaxes are collected from the same company at the regional and national levels.

In practice, the adjusted profit before tax would be calculated for each multinational fossil fuel corporation. This would form the tax base for the global fossil fuel profit surtax. The tax rate would be determined by the governments as parties to the UN Tax Convention. The example presented in this report is based on a 20 per cent surtax rate, which could be a starting point. In line with the international objective to transition away from fossil fuels and accelerate action, that rate could then be gradually increased over time, and set to reach 100 per cent by 2050.

Scenarios for how a global-level surtax could function

Annex 1 illustrates how a global-level surtax could function. In Scenario 2, a global-level surtax is introduced in a situation where companies are still able to shift their profits to tax havens (i.e. where the existing transfer pricing system would continue). As can be seen in Annex 1, the global-level surtax is, in that case, much more effective than simply having surtaxes at the national level (shown as Scenario 1). Furthermore, in the case where a company has shifted most of its profits to a tax haven, the global-level surtax will have a very limited effect on countries that are not tax havens.

In Scenario 4, a global-level surtax is introduced together with further measures against tax

havens such as unitary taxation with formulary apportionment. While the global-level surtax does, in this case, have a more direct impact on the countries that are not tax havens, they are still able to collect substantially more revenue than in a situation where there are no global components at all (which is Scenario 1, without the global surtax, and no additional measures against tax havens).

Scenario 3 in Annex 1 illustrates a situation where additional measures against tax havens are introduced, but without a global-level surtax. In this scenario, the overall level of surtaxes paid by the company goes down, but there is an increase in revenues of non-tax haven countries where the fossil fuel company has business activity. This scenario is good for those countries, but it is a disadvantageous scenario for the country where the company is not doing business – for example, a country with high levels of renewable energy and low levels of fossil fuel consumption. For this ‘green’ country (shown as Country 6 in Annex 1), the global surtax is important – both to ensure a relatively high level of surtaxes overall and thus financial incentives against polluting industries, but also because the global-level surtax would give Country 6 direct access to some of the revenues through the global fund or financing mechanism.

The revenues from a global fossil fuel profits levy could directly feed into a specific global fund. Alternatively, it could be directed to existing financing mechanisms, with the aim of promoting development and helping developing countries to cope with the disastrous impacts of the climate crisis (loss and damage), adaptation and progressing with a just, ecological transition.

Which companies should be covered?

A global level surtax can be designed to target fossil fuel companies over a certain size – for example, as defined by a turnover threshold. The example given below illustrates what a 20 per cent tax on the 100 biggest fossil fuel companies globally could yield, but in order to be effective, a substantially larger scope should be considered.

Furthermore, a global surtax on fossil fuel companies must be in full accordance with the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC). This principle can be integrated in the scope of the tax and/or in the rules for allocating the revenues.

In relation to the scope, the principle gives rise to specific questions about whether all large fossil fuel companies should be covered by a global-level fossil fuel profits surtax. In their paper on estimating the reparations for climate damages by fossil fuel companies, Marco Grasso and Richard Heede identify the same issue, especially in relation to fully state-owned entities (SOEs) in developing countries.¹¹⁰ The solution they suggest is that, while all investor-owned companies and SOEs in developed countries are assigned full reparations, SOEs in less-wealthy countries are assigned partial reparations, and SOEs in poorer countries are exempted. The paper also includes examples of what this would mean in relation to some specific fossil fuel companies.

However, if large SOEs in poorer countries would be exempt from the global surtax, it can impact the overall effectiveness of the measure, not least since the tax exemption might give these entities a competitive advantage that can lead to the extension of their fossil fuel business. It is also important to consider the interests of poorer countries that do not have any major fossil fuel companies, or that decide to leave their fossil fuels in the ground: these countries would not benefit from the exemption, but would still pay the price of pollution in terms of climate impacts.

An alternative would be to introduce the tax for all large fossil fuel companies, and allocate the revenue to a global fund aimed at funding development and climate action, but ensure that the revenues from SOEs in developing countries are fully or partly earmarked for the country of origin. The question on how large a share of the revenue should be earmarked could be determined based on the historical responsibilities and capabilities of the country.

Table 2: 2016-2024 total revenue, income before taxes of 100 world's biggest oil and gas companies (by revenue) and 20 per cent surtax on the income before taxes

US\$ billion fiscal year	2024	2023	2022	2021	2020	2019	2018	2017	2016
Revenue	5,469	5,887	6,425	4,608	3,218	4,460	4,599	3,812	3,024
Income before Tax	734	921	1,179	668	184	505	611	402	205
20% surtax	147	184	236	134	37	101	122	80	41

Source: Author's own calculations, based on data from London Stock Exchange Group (LSEG) Workspace retrieved in August 2025.¹¹¹

This solution would ensure that profits from fossil fuel companies would still help boost development and climate action, while respecting that countries have common but differentiated responsibilities and respective capabilities.

How much revenue could a global-level polluter pays corporate surtax generate?

Table 2 lists revenues and the global income before taxes of the world's 100 biggest oil and gas companies. Applying a global fossil fuel surtax of, for example, 20 per cent on global income before tax would have generated US\$236 billion in 2022, US\$184 billion in 2023 and US\$147 billion in 2024. If the 20 per cent surtax had been applied since the adoption of the Paris Agreement in 2015, an accumulated US\$1.08 trillion of additional tax revenues could have been collected.

This sample covers only a part of the global industries' profits. A comprehensive application on all global companies in scope would lead to higher tax revenues¹¹² (see Chapter 8 for a detailed overview). To state the obvious, applying a higher rate than 20 per cent would also yield higher revenues, and this report argues for a gradual increase in the rate over time, with the set aim of reaching 100 per cent by 2050. However, at the same time, a central objective of the tax is to accelerate the just transition and lower the profitability of the fossil fuel industry. If this effort is successful, it will also entail lower tax revenues, but it would come with the benefit of a very substantial reduction in greenhouse gas emissions.

As mentioned in Chapter 2 (under Climate finance, climate debt and reparations), the current commitments by developed countries to provide climate finance to developing countries are highly insufficient. With that in mind, it is extremely important that the revenues from a global surtax on fossil fuel companies are not double-counted against these commitments, but rather designed to complement them. Furthermore, as mentioned above, it is important to ensure full alignment between the global tax and the principle of common but differentiated responsibilities and respective capabilities, including special rules for SOEs in developing countries.

Existing global taxes or levies

A polluter pays surtax would not be the first example of global initiatives on taxes or levies agreed under the UN. Already in the Kyoto Protocol, which was adopted in 1997, governments introduced the 'Share of Proceeds' on the Clean Development Mechanism to support developing countries to meet the costs of adaptation.¹¹³ An international tax mechanism based on the voluntary contribution of companies in scope has also recently been adopted at the 16th Conference of the Parties (COP16) to the Convention on Biological Diversity (CBD), held in Cali, Colombia, in 2024.¹¹⁴ It was there that the 'Cali Fund' was set up. It stated that companies profiting from the use of genetic information for product development, i.e. benefiting from biodiversity, "should contribute to the global fund one percent of their profits or 0.1 percent of their revenue, as an indicative rate".¹¹⁵ Thus, companies

sharing parts of their profits and paying into the fund support biodiversity conservation and related initiatives, particularly benefiting Indigenous and local communities that steward much of the world's biodiversity.

At the regional level

As mentioned above, surtaxes on the profits of fossil fuel companies have already been introduced as a temporary measure in the EU. With that in mind, it is relevant to consider how a regional component could continue to be part of a global approach to surtaxes on fossil fuel company profits in the future. Thus, in addition to the global-level surtax, governments should consider maintaining, introducing or extending regional-level polluter pays surtaxes for fossil fuel companies.

Annex 1 presents two different possible approaches to introducing a regional component. The first approach, described as Scenario 5, is a regional agreement that simply consists of a coordinated introduction of surtaxes at the national level in the countries that are a part of the region. This resembles the approach that the EU took with its 'solidarity contribution'. This means that countries in the regions that did not previously have surtaxes at the national level would have to introduce them (shown in Annex 1 as the example of Country 4).

The second option, presented as Scenario 6 in Annex 1, is to introduce a regional-level surtax. This would, in essence, be a regional version of the suggested global-level surtax. However, in contrast to the global surtax (which includes all the company's profits globally), the tax base would consist of the sum of the profits recorded in the specific countries participating in the regional scheme.

The regional initiatives can be initiated or continued while the global mechanism is still being developed, but they should be designed to write off surtaxes paid under the global mechanism once it enters into force. To the extent that regional-level initiatives build on the current

global tax system, including the existing rules for allocating taxing rights between countries, these regional-level initiatives should also include a 'transition' clause, which ensures that the regional mechanism will be updated to incorporate the new commitments to fair allocation of taxing rights. This will be negotiated as a part of the UN Framework Convention on International Tax Cooperation.¹¹⁶

Concretely for the European Union, the EU Member States should continue and modify the 'solidarity contribution'. It should be made permanent while adapting its tax design. The tax base should no longer be limited to 'windfall profits'. All companies active in a country generating at least 50 per cent of their revenues along the entire value chain in exploration, extraction, refining, processing, manufacturing, storage, transport, pipeline transportation, distribution, trade, or marketing of fossil fuels and its derivatives should be subject to the tax. Lower surtax rates could be considered for companies below the revenue threshold. Loss-carry-forward should not apply, and the tax rate should be at least 33 per cent. Revenues should be earmarked towards achieving the EU's international climate financing commitments, the Green Deal¹¹⁷ objectives, and potentially contribute New Own Resources¹¹⁸ to the EU budget post 2027 – under the condition that all environmentally harmful subsidies provided by the EU budget are phased out.¹¹⁹ If the global surtax rate is gradually increased, as suggested in this report, it would also mean a correspondingly gradual reduction of the amount of profits available for taxation at the regional level. And if the global rate would eventually reach 100 per cent, the regional tax would no longer yield any income. The logic behind the suggestion of a gradual increase in the global rate is firstly that the impacts of climate pollution do not respect borders. Secondly, the issue of historic responsibility, and the principle of common but differentiated responsibilities and respective capabilities, entail a responsibility by global north countries to ensure that developing countries are able to access financial resources to cope with a climate catastrophe that they did not

cause. Lastly, the perspective of a 100 per cent surtax on fossil fuel profits by 2050 sends a strong signal to the industry that the days of profiting from pollution are numbered.

At the national level

At the national level, countries should immediately introduce fossil fuel industry profit surtaxes, such as in the UK or Norway. The national-level initiatives should be designed to write off surtaxes paid under the global mechanism once it enters into force, as well as any regional initiatives that the country is covered by. Similarly to regional-level initiatives, to the extent that national-level initiatives build on the current global tax system, including the existing rules for allocating taxing rights between countries, these national-level initiatives should include a 'transition' clause. This ensures that the mechanism will be updated to incorporate the new commitments to fair allocation of taxing rights, which will be negotiated as a part of the UN Framework Convention on International Tax Cooperation.¹²⁰ Tax revenues of developed countries should be allocated for the purpose of fulfilling international climate financing commitments.

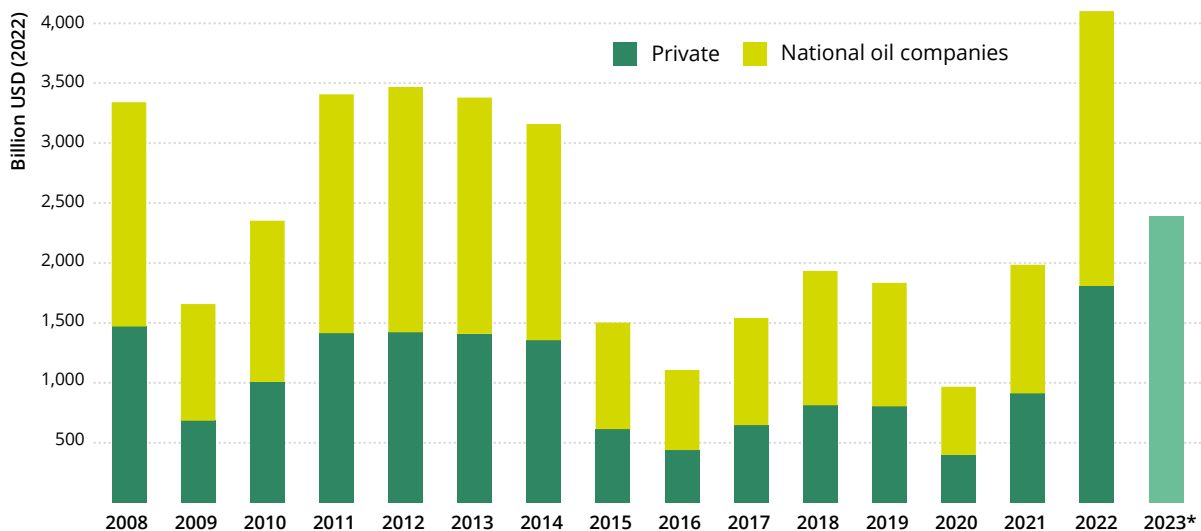
As illustrated in Scenario 1 in Annex 1, there is a significant risk that national-level surtaxes will only have a limited effect if they are not complemented by global components (in the form of a global-level surtax and additional measures against tax havens). However, the national-level surtaxes are an important first step, and can help build momentum for the global components. Similarly to the regional-level surtaxes, the amount of profits available for taxation at the national level would also gradually decrease if the global level surtax rate increases, as suggested in this report.

The scale of fossil fuel industry's profits

The global oil and gas industry's¹²¹ net income jumped to some US\$4 trillion in 2022, according to the International Energy Agency (IEA).¹²² This is equal to 4 per cent of global GDP,¹²³ doubling profits of the previous year.¹²⁴ In 2023, public and private oil and gas exploration and production companies generated US\$2.4 trillion in net income.¹²⁵ The IEA's net-income numbers (see figure 1) include public and private, listed and non-listed companies, demonstrating the large-scale incumbency of the oil and gas industry in the global economy.

The oil and gas industry's historically unseen and extraordinary profits in 2022¹²⁶ were due to a surge in oil prices in relation to the embargoes on Russian fossil fuels, imposed since Russia's invasion of Ukraine in February 2022. However, global oil and gas industry's net income over the past 15 years were significant and remained stable even throughout the Great Financial Crisis in 2008, the 2015-2016 collapse of oil prices,¹²⁷ and the Covid-19 pandemic in 2020, both for national oil companies and private companies (see figure 1).

Figure 1: Net income of the global oil and gas industry 2008 - 2023



Notes: Net income is calculated from oil and gas production at prevailing oil and gas prices (including subsidies) after operating costs but before taxes; "private companies" here includes listed and non-listed companies.

Source: International Energy Agency (IEA. CC BY 4.0.), World Energy Investment 2023, <https://iea.blob.core.windows.net/assets/8834d3af-af60-4df0-9643-72e2684f7221/WorldEnergyInvestment2023.pdf>, p. 61, * International Energy Agency (IEA), World Energy Investment 2024, <https://iea.blob.core.windows.net/assets/60fcd1dd-d112-469b-87de-20d39227df3d/WorldEnergyInvestment2024.pdf>; for 2023, there is no distinction between national oil companies and private companies available.

According to an alternative calculation by Avriel Verbruggen from Antwerp University, based on World Bank data,¹²⁸ the global oil and gas industry has been seeking rent worth an average of US\$1 trillion per year since 1970. Emphasising

the particular nature of economic rents based on resource extraction, i.e. revenues above total costs of production, Verbruggen labels these “super-profits obtained without effort”.

BOX 1

Sellers’ inflation – the responsibilities of fossil fuel companies in the cost-of-living crisis

Starting in 2021, in the aftermath of the Covid-19 pandemic, inflation in Europe reached historically high levels of 10.6 per cent in October 2022. This inflation was induced by increasing food prices and the energy crisis shock after Russia’s invasion of Ukraine.¹²⁹ Welfare losses and reduced real incomes hit society at large, with vulnerable households suffering most,¹³⁰ causing a widespread ‘cost-of-living’ crisis.¹³¹

A number of economists, as well as the European Central Bank, have flagged that corporate profits were a key driver of that inflation.¹³² In particular, the greatest impulse on price increases came from the enormous escalation in fossil fuel prices and the related windfall and excess profits made by the fossil fuel industry.¹³³ This so-called ‘sellers’ inflation’ triggered a cascade of fatal economic developments, hitting poor and vulnerable people and countries worldwide. In order to tame inflation, US and European central banks increased interest rates, leading to higher debt servicing costs, particularly in global south countries,¹³⁴ and contributing to a full-blown debt crisis in the global south.¹³⁵

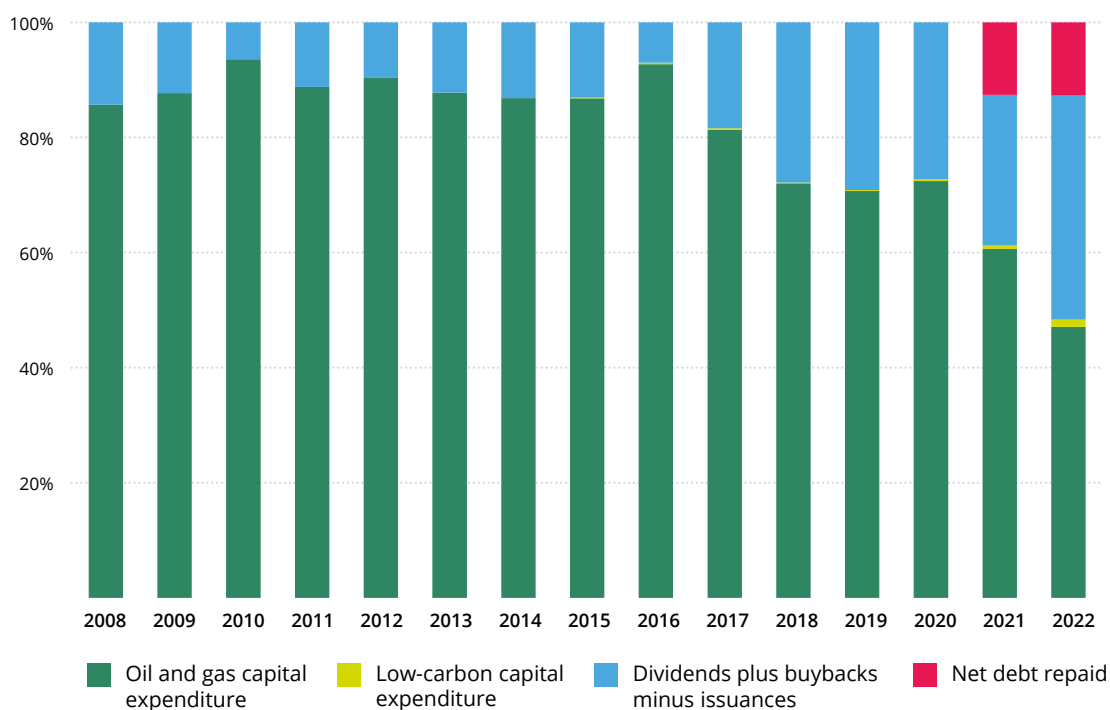
Appropriation of the profits: Cementing fossil fuel dependency

Gratifying polluting assets' shareholders

A higher level of taxation would reduce the profits made by fossil fuel companies. To assess the impact of this, it is relevant to ask how fossil fuel profits are currently used, including whether these corporate profits are currently financing climate action and the socio-ecological transformation.

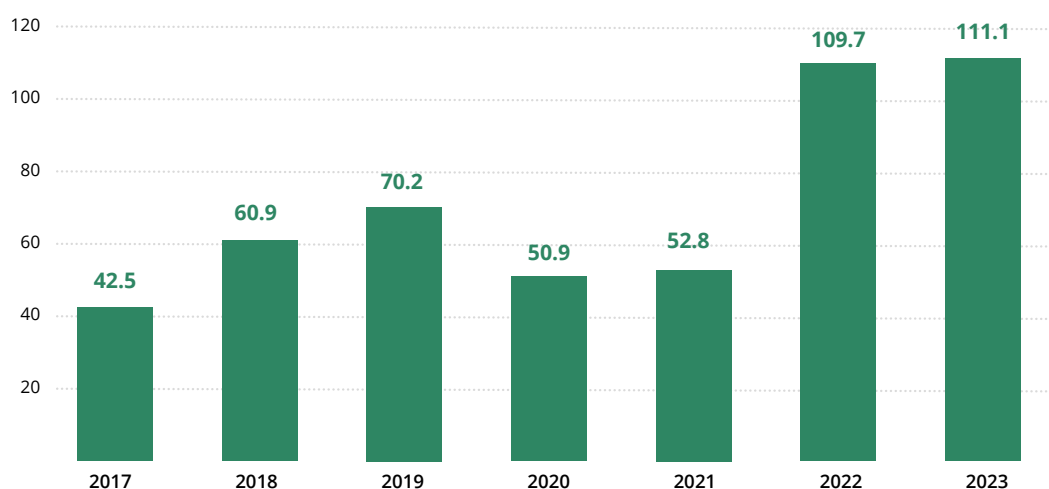
The answers are concerning from a climate emergency perspective: as illustrated in figure 2, data from the International Energy Agency suggests that available cash is mainly used for increased dividend payouts to shareholders and share buybacks, and the expansion of fossil fuel business, while only minor investments were directed towards the clean energy transition.¹³⁶

Figure 2: Distribution of cash spending by the oil and gas industry 2008-2022



Source: <https://www.iea.org/reports/world-energy-investment-2023>, p. 11. According to the IEA methodology, "net income, dividends, share buy backs and cash flows for the oil and gas industry is calculated from oil and gas production at prevailing prices (including subsidies) after operating costs but before taxes; private companies include listed and non-listed companies. The breakdown of oil and gas industry cash spending is based on data sources including Bloomberg and S&P Capital IQ." <https://iea.blob.core.windows.net/assets/50cfc402-1b4d-463f-86ee-4f39c42da35d/WorldEnergyInvestment2024MethodologyAnnex.pdf>. Creative Commons License (CC BY 4.0).

Figure 3: Dividends and share buybacks of BP, Shell, TotalEnergies, Exxon and Chevron 2017-2023 in US\$ billion



Source: Reuters, <https://www.reuters.com/business/energy/big-oil-offers-record-returns-lure-investors-back-2024-02-07>

Thus, in recent years, a broad range of actors, including organisations such as Global Witness,¹³⁷ Amnesty International and Friends of the Earth, as well as politicians such as former US President Biden, are calling for increased taxation of big oil companies.¹³⁸

Share buybacks rose to historic highs in 2023, equal to 20 per cent of cash flow from operations, payouts of dividends rose to around 30 per cent respectively.¹³⁹ The top five western oil and gas companies alone (BP, Shell, TotalEnergies, Exxon and Chevron) returned more than US\$100 billion to shareholders in 2022 and 2023 each in the form of dividends and share buybacks.¹⁴⁰

Fossil fuels expansion

Total investments in 2024 into coal, gas and oil were set to increase to slightly over US\$1 trillion, according to estimates from the IEA. Upstream oil and gas investment increased globally by 9 per cent in 2023, with the 2024 increase of oil and gas investments predicted to be around 7 per cent.¹⁴¹ For 2025, the IEA predicts a further increase to US\$1.1 trillion, which is going to oil, natural gas and coal.¹⁴² In its 'Countdown', the *Lancet* reports that, "fueled by record profits, oil and gas giants have expanded their production plans, and, as

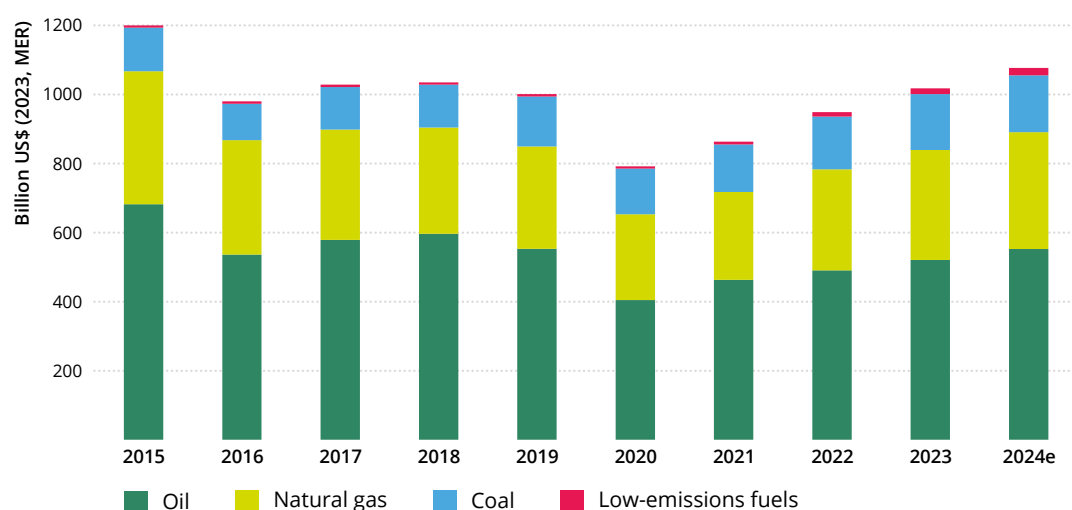
of March 2024, were on track to exceed their emissions compatible with 1.5°C by 189 per cent in 2040, 16 percentage points above the year before".¹⁴³

In contrast to its fossil fuel investments, the IEA estimates that clean energy investment by oil and gas companies amount to US\$28 billion in 2023, less than 4 per cent of the industry's overall capital spending, and less than 1 per cent of net income. Mergers and acquisitions in the clean energy sector in 2023 accounted for just under half of total clean energy investment by the oil and gas industry.^{144,145} For 2022 the IEA reports an estimated 5 per cent clean energy investment share of oil and gas company capital expenditure worldwide, and 1 per cent in 2019.¹⁴⁶

Overall oil and gas companies are currently estimated to account for only 1 per cent of total clean energy investment globally, making the industry "a marginal force in the world's transition to a clean energy system".¹⁴⁷

The IEA points out the inherent threat of creating stranded assets, commenting that "the risk of over-investment would be strong if the world moves swiftly to meet the net zero [carbon

Figure 4: Global fossil fuel investments, US\$ billion



Source: International Energy Agency (IEA), World Energy Investment 2024, p. 87, <https://iea.blob.core.windows.net/assets/60fcd1dd-d112-469b-87de-20d39227df3d/WorldEnergyInvestment2024.pdf>. Creative Commons License (CC BY 4.0).

emission by 2050] pledges and climate goals”, for oil, gas and coal investments.¹⁴⁸ IEA concludes: “Today’s investment trends are not aligned with the levels necessary for the world to have a chance of limiting global warming to 1.5°C above pre-industrial levels and to achieve the interim goals agreed at COP28”.¹⁴⁹

While the IEA displays profit and investment patterns of the oil and gas industry on the global level, a Greenpeace study examining the balance sheets and activities of 12 oil companies in Europe – namely Shell, TotalEnergies, BP, Equinor, Eni, Repsol, OMV, PKN Orlen, MOL Group, Wintershall Dea, Petrol Group and Ina Croatia¹⁵⁰ – draws a similar picture: the profits of these 12 companies increased by an average of 75 per cent in 2022. The investment portfolio in 2022 was dominated by fossil fuels, with an average of 92.7 per cent of investments going into oil and gas, and only 7.3 per cent towards sustainable energy production and ‘low-carbon solutions’, ultimately intending to extend the companies’ fossil fuel-based business model. Remarkably, on average only 0.3 per cent of the companies’ energy volume is made from renewable electricity generation, compared to 99.7 per cent created by their oil and gas production.¹⁵¹

Similarly, an academic study finds¹⁵² that, between 2010 and mid-2018, “out of the total capital expenditures (CAPEX), BP allocated an estimated 2.3 per cent on low-carbon investment, Shell 1.3 per cent, Chevron 0.23 per cent and ExxonMobil 0.22 per cent”. BP, Chevron, ExxonMobil and Royal Dutch Shell were the top four investor-owned companies by size of direct and indirect historical greenhouse gas (GHG) emissions and are labelled ‘Carbon Majors’. The authors Dario Kenner and Richard Heede highlight that these companies “are responsible for the lion’s share of current and historical emissions from their own operations and from products each company has extracted and supplied to global consumers”. The authors assess that, due to the incumbent financial interest and their specific governance structures, these companies would not only be resistant to fully embracing the transition away from fossil fuels, but would proactively aim towards “slowing down the low-carbon transition”. They conclude that “further external pressure” would be needed to halt the industries’ continuing fossil fuel expansion. A surtax on the industries’ profits could play that role.

Conclusions and recommendations

In the face of planetary ecological collapse, the fossil fuel industry is raking in historic profits, rewarding its shareholders and expanding its polluting business. In a world where it pays to pollute, investors will continue to finance companies with unsustainable practices, shifting the burden of the socio-ecological transition to society and ultimately leaving everyone worse off.

The window of opportunity for preventing ecological breakdown is rapidly closing. New approaches to catalysing the socio-ecological transformation are urgently needed. This report argues that current mainstream regressive taxation has reached the limits of social acceptability, political feasibility and environmental effectiveness.

Innovative progressive environmental tax policy options should address the harmful supply side of the economy. Targeted measures such as polluting capital income taxation can provide transformation incentives towards sustainable production and investment patterns. Taxation of polluters' profits and the redistribution of its proceeds to finance development and climate action is a means to ensure environmental tax justice and should replace or complement existing environmental taxation approaches. Higher taxation of the profits of fossil fuel industries would also lower the profitability and thus reduce the incentives to continue business as usual.

Public financing has a key role to play in ensuring that the ecological transition becomes effective, timely and just. Introducing a polluting industry profit surtax in response to the industries' incumbency, an increased level of taxation would shift a higher share of the financial resources and decision-making directly to the governments

that have taken on climate commitments under the Paris Agreement. The revenues from a global fossil fuel profits levy could directly feed into a specific global fund, or could be directed to existing financing mechanisms, with the aim of promoting development and helping developing countries to cope with the disastrous impacts of the climate crises (loss and damage), adaptation and progressing with a just, ecological transition.

The fossil fuel profits surtax can be implemented over three levels:

- ▶ As a part of the UN Framework Convention on International Tax Cooperation, governments should introduce a polluter pays surtax on fossil fuel companies' global profits. The example presented in this report shows that, if a tax of 20 per cent had been applied since the adoption of the Paris Agreement in 2015, over US\$1 trillion could have been collected. In line with the UNFCCC COP 28 decision to transition away from fossil fuels and accelerate action, the global rate should be gradually increased over time, and set to reach 100 per cent by 2050.
- ▶ While the international rules are being negotiated at the UN, governments should immediately apply profit surtaxes on fossil fuel companies taxable in their own country. These taxes should be designed to co-exist with the global-level surtax, once introduced.
- ▶ At the regional level, governments could determine a minimum surtax rate and coordinate its implementation. For the European Union, that means continuing its 'EU solidarity contribution' with a minimum tax rate of 33 per cent and a modified tax design, while integrating provisions for the future global-level surtax.

Taxation should never be seen as an alternative to government regulation, including bans on highly polluting industries. Governments have a duty to uphold their environmental responsibilities and take decisive actions. However, as long as fossil fuel extraction persists, it is essential – at the very least – to ensure compliance with the polluter pays principle and ensure that fossil fuel companies are taxed fairly and effectively.

Tax justice and climate justice are fundamentally interconnected. The development and implementation of a global tax on fossil fuel industry profits must be embedded within broader reforms of the international tax system. Governments now have a critical opportunity to shape the world's first truly global, fair, environmentally just, effective and inclusive agreement on international tax cooperation – one that delivers on tax justice and climate justice at the same time. This is precisely the promise of the UN Framework Convention on International Tax Cooperation: to open up an avenue towards binding global rules that ensure equitable taxation of multinational corporations, effective taxation of the super rich and international tax initiatives that advance sustainable development. This is a critical opportunity that the international community must not squander.

Six scenarios

Fossil fuel profit surtaxes on a fictive fossil fuel company

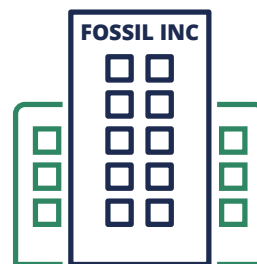
The following six scenarios provide an illustration of the implementation of fossil fuel surtaxes on a fictive fossil fuel company. However, it is important to note that:

- ▶ The outline below is a simplified model. For example, the model assumes that the company is registered in five countries, but in reality, multinational corporations are commonly registered in a much greater number of countries.
- ▶ For the purpose of the model, Country 5 – the ‘Tax haven’ – has a corporate tax rate of 2 per cent. However, in reality, tax havens commonly have relatively high corporate tax rates, but at the same time apply harmful tax practices that reduce the amount of tax actually paid to very low levels. At the same time, countries that are not tax havens also commonly apply some harmful tax practices that lower the effectiveness of corporate tax, but at a scale that is much more limited than tax havens. The illustration below models these effects through the point that different countries have different levels of tax, and tax havens have even lower levels. For the purpose of simplification, the model does not explain that some of these effects are caused by differences in tax rates, and some are caused by different levels of harmful tax practices.
- ▶ In the model, the surtax is applied to all of the company's profits. In reality, countries can also choose to apply the charge to a limited amount of the profits. For example, the EU Solidarity Contribution only applies to ‘windfall profits’, which limits the effectiveness of the measure substantially.
- ▶ In the model, it is assumed that revenue collected at the national level stays at the national level. However, especially in a context of limited climate finance – particularly in the global south – there are good reasons for suggesting that national-level revenue should be allocated to support the fulfillment of international obligations, including the obligation of developed countries to provide climate financing for developing countries. In reality, however, it has proven difficult to ensure that developed countries fully adhere to these commitments. With that in mind, revenue collected through a global fund comes with the advantage that it can be easier to ensure that the funding is allocated in accordance with the international decisions made.

Illustration – the example of FOSSIL INC.

The fossil fuel company 'FOSSIL INC.' is registered in five countries, of which one is a tax haven.

In a given year, FOSSIL INC. makes US\$50 billion in profit globally before income taxes.



The scenarios below illustrate how fossil fuel surtaxes could be applied at the national, regional and global levels, and how the different levels would impact each other. It also looks at how the situation could change if effective measures to stop tax havens were to be introduced. The scenarios model a situation where a global surtax is set at 20 per cent, which could be a starting point. However, this report also argues that the global rate should be gradually increased over time, and set to reach 100 per cent by 2050.

SCENARIO 1

Surtaxes will only be levied at the national levels and no new measures to combat tax havens are introduced. This resembles the situation as it is today.

In the fictive example below, Countries 1-4 have corporate tax rates between 20-30 per cent. Furthermore, Countries 1-3 have introduced fossil fuel surtaxes in addition to the corporate income tax at the national level ranging from 33-50 per cent.

Country 5 is a tax haven, and therefore applies a corporate tax rate of only 2 per cent and has no fossil fuel surtaxes.

To increase its profits – that is, by aiming to avoid paying corporate income tax as much as possible – FOSSIL INC. has shifted most of its profits to the tax haven. Thus, out of the total US\$50 billion FOSSIL INC. has made in profits, US\$47 billion are registered in Country 5.

Because Country 1 has a relatively high corporate tax rate and fossil fuel surtax, FOSSIL INC. has shifted all profits out of this jurisdiction and thus, even if FOSSIL INC. has a high level of business activity and generates income in Country 1, it is reporting zero profits in this country.

For Countries 2-4, FOSSIL INC. is reporting US\$1 billion worth of profit in each.

SCENARIO 1

	COUNTRY 1	COUNTRY 2	COUNTRY 3	COUNTRY 4	COUNTRY 5 (TAX HAVEN)
Profit (US\$ billion)	0	1	1	1	47
Corporate tax (%)	30	25	20	25	2
Surtax (%)	50	50	33	0	0
Payment (US\$ billion)	0	0.75	0.53	0.25	0.94
Of which surtax	0	0.5	0.33	0	0
					
TOTAL SURTAX PAYMENT: US\$0.83 BILLION (1.66%)					

What would be the effect of the fossil fuel surtaxes in countries 1-3?

While three out of the five countries where FOSSIL INC. is registered have introduced fossil fuel surtaxes of 33-50 per cent, these charges are only applied to US\$2 billion out of the US\$50 billion FOSSIL INC. has made in profit. Thus, in this scenario, FOSSIL INC. would in total only pay US\$0.83 billion (or 1.66 per cent) in surtaxes on its profits.

It is also interesting to note that, with a tax rate of only 2 per cent, Country 5 (the tax haven) manages to get more revenue than any of the other countries – because FOSSIL INC. shifts the vast majority of its profits to this country.

In this scenario, all the revenues from the surtaxes remain at the national level in the country that has collected them.

SCENARIO 2

Surtaxes applied both on the global profits and at the national level, but no new measures to combat tax havens are introduced.

In scenario 2, an international surtax of 20 per cent is introduced on the global profits of FOSSIL INC. With US\$50 billion in global profits, this would mean a tax revenue of US\$10 billion, which would be allocated to, for example, a global fund designed to support climate action and development.

After the international surtax has been applied, there is US\$40 billion available to be taxed at the national level. In this scenario, it is assumed that no new measures to combat tax havens are introduced. Thus, the relative distribution of the profits between the five countries remains the same as in Scenario 1.

SCENARIO 2

MULTILATERAL LEVEL					
	Surtax on global profits				
	Profits (US\$ billion)				50
	Surtax (%)				20
	Surtax payment (US\$ billion)				10
	COUNTRY 1	COUNTRY 2	COUNTRY 3	COUNTRY 4	COUNTRY 5 (TAX HAVEN)
Profit (US\$ billion)	0	0.8	0.8	0.8	37.6
Corporate tax (%)	30	25	20	25	2
Surtax (%)	50	50	33	0	0
Payment (US\$ billion)	0	0.6	0.42	0.2	0.75
Of which surtax	0	0.4	0.26	0	0
					
TOTAL SURTAX PAYMENT: US\$10.66 BILLION (21.3%)					

What would be the effect of the fossil fuel surtaxes in Countries 1-3 and the multilateral level?

In this scenario, the total amount of surtax paid by FOSSIL INC. increases to US\$10.66 billion (or 21.3 per cent). The increase happens because the international surtax applies to the global profits of FOSSIL INC., irrespective of in which jurisdiction the profits are booked, and therefore the corporation is not able to use tax havens to avoid the surtax.

Once the global surtax of 20 per cent is paid, the amount of profit available to be taxed at the national level decreases accordingly. In absolute numbers, it is Country 5 (the tax haven) that sees the most significant decline, with revenues dropping from US\$0.94 billion to US\$0.75 billion. This is because a very large share of FOSSIL INC.'s profits is booked in this country, and thus, when the amount of profits available to be taxed at the national level drops from US\$50 to US\$40 billion, it makes a difference. Meanwhile, the revenues in Countries 2-4 also drop with 20 per cent, but since a relatively low share of the company's total profits is allocated to these countries, the change in absolute numbers is less than in Country 5.

Country 1 sees no impact at all, because FOSSIL INC. was not reporting any of its profits in this country. If Country 1 received support from the global fund financed by the international surtax, it would gain access to funding it would not otherwise have received.

SCENARIO 3

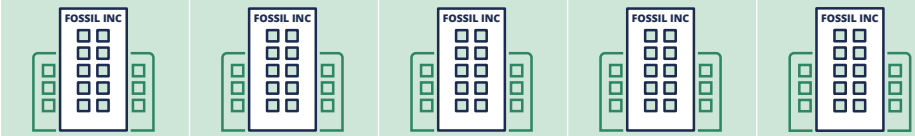
Surtaxes applied at the national levels and new measures to combat tax havens are introduced.

In this scenario, the assumption is that new international measures are introduced to combat tax havens, and that corporate profits are allocated to, and taxable by, the countries where the company has business activity.

In this modelling, it is also assumed that FOSSIL INC. has the highest level of business activity in Countries 1 and 3 and thus a higher share of the profits will be allocated to these countries, and a lower level of activity in Countries 2 and 4. It is also assumed that FOSSIL INC. has a very low level of business activity in Country 5 (the tax haven).

Lastly, in this scenario, it is assumed that there is no surtax applied internationally.

SCENARIO 3

	COUNTRY 1	COUNTRY 2	COUNTRY 3	COUNTRY 4	COUNTRY 5 (TAX HAVEN)
Profit (US\$ billion)	15	9	15	9	2
Corporate tax (%)	30	25	20	25	2
Surtax (%)	50	50	33	0	0
Payment (US\$ billion)	12	6.75	7.95	2.25	0.04
Of which surtax	7.5	4.5	4.95	0	0
					
	TOTAL SURTAX PAYMENT: US\$16.95 BILLION (33.9%)				

What would be the effect of the fossil fuel surtaxes in Countries 1-3?

In this scenario, there is a large drop in the amount of profits allocated to Country 5 (the tax haven), and a corresponding increase in the other countries, in particular Countries 1 and 3 where FOSSIL INC. has its main business activity. This means that the surtaxes in Countries 1-3 are now applied to a much larger share of the profits of FOSSIL INC. As a result, the total amount of surtaxes paid increases significantly – to US\$17 billion (or 33.9 per cent). In the same way, and for the same reasons, the total amount of corporate tax paid increases simultaneously in Countries 1-3, as well as in Country 4, which has a corporate tax rate of 25 per cent but no fossil fuel surtax.

SCENARIO 4

Surtaxes levied both on the global profits and at the national level, and new measures to combat tax havens are introduced.

Scenario 4 combines Scenarios 2 and 3, and thus assumes that a surtax on the global profits of FOSSIL INC. is introduced together with new measures to combat tax havens.

SCENARIO 4

	MULTILATERAL LEVEL				
	Surtax on global profits				
	Profits (US\$ billion)				50
	Surtax (%)				20
	Surtax payment (US\$ billion)				10
	COUNTRY 1	COUNTRY 2	COUNTRY 3	COUNTRY 4	COUNTRY 5 (TAX HAVEN)
Profit (US\$ billion)	12	7.2	12	7.2	1.6
Corporate tax (%)	30	25	20	25	2
Surtax (%)	50	50	33	0	0
Payment (US\$ billion)	9.6	5.4	6.36	1.8	0.03
Of which surtax	6	3.6	3.96	0	0
					
TOTAL SURTAX PAYMENT: US\$23.56 BILLION (47.1%)					

What would be the effect of the fossil fuel surtaxes in Countries 1-3 and the multilateral level?

In this scenario, the surtax on the global profits is applied, and at the same time, the tax bases are aligned with the level of business activity in the respective country, which means that the majority of the profits of FOSSIL INC. are also covered by the national-level surtaxes that Countries 1-3 have put in place. As a result, the total amount of surtaxes paid increases to US\$23.6 billion (or 47.1 per cent).

Compared to Scenario 3, but similarly to Scenario 2, the revenues are now reduced substantially in countries 1-4 because the internationally applied surtax reduces the total amount of profits available for taxation at the national level from US\$50 billion to US\$40 billion. However, while these countries might prefer Scenario 3, there are strong arguments in favour of Scenario 4. These can be illustrated by considering the case of what can be called 'Country 6'.

	COUNTRY 6 (GREEN)
Profit (US\$ billion)	0
Corporate tax (%)	25
Surtax (%)	50
Payment (US\$ billion)	0
Of which surtax	0
	

Country 6 has a very high share of renewable energy and thus, FOSSIL INC. has no business activity at all in this country. For that reason, Country 6 would also never be able to collect any fossil fuel surtaxes (or even corporate tax) from FOSSIL INC. at the national level. But Country 6 is, nonetheless, impacted by the disastrous impacts that FOSSIL INC.'s business activities have on the climate.

Assuming that it would not be possible to introduce a global ban on FOSSIL INC.'s polluting activities, Country 6 could still find value in imposing a very high level of surtaxes on the company. This would reduce its profitability, and in turn weaken the economic incentives for FOSSIL INC. to carry on with business as usual.

Furthermore, since the revenues of the international surtaxes would be transferred to a global fund, Country 6 would be able to access some of these funds as support to address the negative impacts of the climate crisis. This opportunity would not be available for Country 6 if the revenues were all allocated to the countries where FOSSIL INC. had business activities.

SCENARIO 5

Regional coordination of surtaxes at the national level with no global component, no global surtax and no new measures to combat tax havens.

Scenario 5 looks at a situation where Countries 2-4 are working together in a regional approach whereby they agree to introduce fossil fuel surtaxes together in a coordinated manner, with an agreed minimum rate of 33 per cent. This scenario is somewhat similar to the 'EU solidarity contribution' for the fiscal years 2022 and 2023, but in contrast to the EU's approach, the scenario assumes that the surtax is applied to all of FOSSIL INC.'s profits rather than just the 'windfall profits'.

Compared to Scenario 1, the only implication of this is that Country 4, which did not previously have a national-level surtax, now has to introduce one.

SCENARIO 5

		REGIONAL COORDINATION			
	COUNTRY 1	COUNTRY 2	COUNTRY 3	COUNTRY 4	COUNTRY 5 (TAX HAVEN)
Profit (US\$ billion)	0	1	1	1	47
Corporate tax (%)	30	25	20	25	2
Surtax (%)	50	50	33	33	0
Payment (US\$ billion)	0	0.75	0.53	0.58	0.94
Of which surtax	0	0.5	0.33	0.33	0
					
TOTAL SURTAX PAYMENT: US\$1.16 BILLION (2.32%)					

What would be the effect of the fossil fuel surtaxes in Country 1-4?

The regional initiative means that, in addition to Countries 1-3, Country 4 introduced a surtax at the national level as a part of the regional initiative. Consequently, four out of the five countries where FOSSIL INC. is registered have now introduced fossil fuel surtaxes of 33-50 per cent. However, since there are no further measures against tax havens introduced, FOSSIL INC. continues to allocate the vast majority of its profits to Country 5 (the tax haven). Therefore the national level charges are only applied to three out of the US\$50 billion FOSSIL INC. has made in profit. Thus, in this scenario, FOSSIL INC. would in total only pay US\$1.16 billion (or 2.32 per cent) in surtaxes on its profits. This is slightly more than in Scenario 1 (US\$0.83 billion collected in surtaxes), but well below the scenarios that include a global level surtax or further measures against tax havens.

Similarly to Scenario 1, in Scenario 5, all the revenues from the surtaxes remain at the national level in the country that has collected them.

SCENARIO 6

Regional coordination and a regional-level surtax, in addition to a surtax at the global level and new measures to combat tax havens, are introduced.

Scenario 6 includes the measures from Scenario 4 (global level surtax and new measures against tax havens) and Scenario 5 (regionally coordinated surtaxes at the national level in countries 2-4), and adds on an extra surtax of 10 per cent at the regional level. This new regional surtax will be applied to the total amount of profits allocated to countries within the region, and will be collected before the profits are allocated to the national level. Similarly to Scenario 5, it is assumed that the regional approach covers Countries 2-4.

In total, this means that the following measures are in place: a surtax of 20 per cent at the global level; a surtax of an additional 10 per cent at the regional level; surtaxes at the national level in Countries 1-4 and new measures to combat tax havens.

SCENARIO 6

	MULTILATERAL LEVEL				
	Surtax on global profits				
	Profits (US\$ billion)				50
	Surtax (%)				20
	Surtax payment (US\$ billion)				10
	REGIONAL LEVEL (coordination + regional-level surtax)				
	Surtax on regional-level profits (Countries 2-4)				
	Profits available for taxation at the regional level - Countries 2-4 (US\$ billion)				26.4
	Surtax (%)				10
	Surtax payment (US\$ billion)				2.64
	Profits available for taxation at the national level in Countries 2-4 (US\$ billion)				23.76
	COUNTRY 1	COUNTRY 2	COUNTRY 3	COUNTRY 4	COUNTRY 5 (TAX HAVEN)
Profit (US\$ billion)	12	6.48	10.8	6.48	1.6
Corporate tax (%)	30	25	20	25	2
Surtax (%)	50	50	33	33	0
Payment (US\$ billion)	9.6	9.6	5.72	3.76	0.03
Of which surtax	6	6	3.56	2.14	0
					
TOTAL SURTAX PAYMENT: US\$24.94 BILLION (49.9%)					

What would be the effect of the fossil fuel surtaxes in Countries 1-4 and the multilateral and regional levels?

Unsurprisingly, since FOSSIL INC. now pays surtaxes at both the global, regional and national levels (in Countries 1-4), and since it is no longer able to allocate its profits to a tax haven, Scenario 6 would generate the highest amount of total surtaxes paid by FOSSIL INC. – a total of US\$24.9 billion (or 49.9 per cent). Compared to Scenario 4, where the global-level surtax was in place but there was no regional-level surtax, Countries 2 and 3 now see their surtax and corporate tax revenues drop, because the regional-level surtax reduces the amount of profits available for taxation at the national level in the countries that are within the region.

Country 4, on the other hand, sees its total revenue increase to more than double, because the reduction in revenues from corporate tax as a result of the regional surtax is made up for by revenues from the 33 per cent surtax that the country has introduced at the national level as a part of the regional initiative.

The global-level surtax revenue, as well as the revenues in Countries 1 and 5, are unaffected by the regional initiative and are therefore unchanged compared to Scenario 4.

Similarly to Scenario 4, the global-level revenue would be transferred to a global fund, and the national-level revenues would remain in the countries where they are collected. This would again bring the benefit that Country 6, where FOSSIL INC. has no business activity but where the impacts of the climate damages are still felt, would be able to receive some of the revenues through the global fund. From the perspective of Country 6, the most fair solution would be that all payments from climate polluters (in the form of taxes) are allocated to the global level, rather than to the countries where the pollution is taking place. Furthermore, it is in the interest of Country 6 to maximise the incentives for transitioning away from fossil fuels. These are important argument in favor of gradually increasing the global surtax level to 100 per cent, as suggested in this report.

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