Multilateral Carbon Tax Treaty (MCTT)

For discussion purposes

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Preamble

The Contracting States to this Treaty,

Being parties to the United Nations Framework Convention on Climate Change (interchangeably, the Convention or UNFCCC) and to the World Trade Organization (WTO) Agreements,

Acknowledging that change in the Earth's climate and its adverse effects are a common concern of humankind,

Noting recent negotiations on a legally binding instrument under the United Nations Convention on the Law of the Sea on the conservation and sustainable use of marine biological diversity of areas beyond national jurisdiction,

Recognising that carbon dioxide is a long-lived greenhouse gas, that its emission has a long-term influence on climate, and that human activity resulting in carbon dioxide emissions is considered to be the largest anthropogenic factor contributing to climate change,

Concerned that human activities have been substantially increasing the atmospheric concentrations of carbon-rich gases, that these increases contribute to the greenhouse effect, that this will result in an additional warming of the Earth's surface and atmosphere and is already adversely affecting natural ecosystems and humankind,

Recalling the pertinent provisions of the Declaration of the United Nations Conference on the Human Environment, and in particular principle 21, which provides that States have, in accordance with the Charter of the United Nations and the principles of international law, the sovereign right to exploit their own resources pursuant to their own environmental policies, and the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction,

Acknowledging that the discharge of toxic substances or of other substances and the release of heat, in such quantities or concentrations as to exceed the capacity of the environment to render them harmless, must be halted in order to ensure that serious or irreversible damage is not inflicted upon ecosystems,

Recognising that there is sufficient evidence to support that climate change is a reality, as denoted in the IPCC Special Report on the impacts of global warming of 1.5°C,

Recognising further that world-wide carbon emissions can significantly modify the average global temperature in a manner that is likely to result in adverse effects for human health and the environment,

Acknowledging that countries will require additional resources to finance the transition to low carbon technologies, and to adapt and react to the adverse effects of climate change,

Acknowledging also that a carbon tax is the most efficient and effective pricing instrument, capable of mitigating the effects of climate change,

Noting that the non-renewable resources of the earth must be employed in such a way as to guard against the danger of their future exhaustion and to ensure that benefits from such employment are shared by all present and future generations of humankind,

Recognising that international matters concerning the protection and improvement of the environment shall be handled in a cooperative spirit by all countries, big and small, on equal terms. Cooperation through multilateral or bilateral arrangements or other appropriate means is essential to effectively control, prevent, reduce, and eliminate adverse environmental effects resulting from activities conducted in all spheres, in such a way that due account is taken of the sovereignty and interests of all States,

Recognising further the importance of the conservation and enhancement, as appropriate, of sinks and reservoirs of the greenhouse gases referred to in the Convention and recognising the need for financial resources to invest in the development of new technologies associated with carbon capturing and storage,

Recalling that States shall ensure that international organisations play a coordinated, efficient, and dynamic role for the protection and improvement of the environment,

Recalling further the pertinent provisions of the Declaration of the United Nations Conference on Human Environment, adopted in Stockholm on 16 June 1972, in particular, principles 5, 6, 11, 21, 24 and 25,

Recalling also the level of protection achieved, in particular through the adoption of principles 4, 7, 9 and 12, included in the Rio Declaration of the United Nations Conference on Environment and Development, adopted in Rio de Janeiro, 14 June 1992,

Reaffirming the aims and objectives of General Assembly Resolution A/RES/66/288 – "The Future We Want" of 27 July 2012, adopted in the United Nations Conference on Sustainable Development,

Acknowledging that the global nature of climate change calls for the widest possible cooperation by all countries and their participation in an effective and appropriate international response, in accordance with their common but differentiated responsibilities and respective capabilities,

Acknowledging further that carbon taxation is the most efficient policy for the pricing of carbon, particularly if employed at the upstream level, because of its ability to reach the whole of the economy, without the need to focus on certain industries or sectors,

Noting that a carbon tax is a specific excise tax levied by weight or volume on a tonne of carbon,

Noting also that a carbon tax is calculated based on the average carbon content of oil or one of its by-products,

Mindful that a carbon tax can encourage a positive change in consumer behaviour to the extent that it provides an incentive for the consumer to acquire the least carbon-intensive product. The tax is proportionate to the carbon intensity of the product, resulting in a higher tax burden on more carbon-intensive products and a lower tax burden for products that generate less carbon,

Recalling that a carbon tax is relatively easy to administer, and the revenue-generating potential can be determined even before the tax is applied. The volume of a fuel of a known quality is enough to inform and form a prediction of the amount of carbon tax revenue that will be generated as a result of the combustion of that product,

Considering that the correlation between a volume of fossil fuel product and its carbon content is direct, the law can apply pre-calculated tax rates without verifying actual emissions,

Acknowledging also that in order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it,

Recalling that States shall endeavour to cooperate to strengthen capacity-building for sustainable development by improving scientific understanding through exchanges of scientific and technological knowledge, and by enhancing the development, adaptation, diffusion, and transfer of technologies, including new and innovative technologies,

Considering the importance of promoting international cooperation in the research, development and transfer of alternative technologies relating to the control and reduction of carbon-based emissions,

Reaffirming the principle of sovereignty of States in international cooperation to address climate change, and in tax matters,

Recognising that various actions to address climate change can be justified economically in their own right and can also help in solving other environmental problems,

Recognising also the need for all countries to take immediate action,

Determined to protect the climate system for present and future generations,

Have agreed as follows:

Article 1 – Definitions

1. For the purposes of this Treaty, unless the context requires otherwise:

a. "Climate change" means a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods;
b. "Treaty" means the Multilateral Carbon Tax Treaty;
c. "Contracting States" mean the countries that are party to this Treaty;
d. "Convention" means the United Nations Framework Convention on Climate Change (UNFCCC);
e. "Agreement" means the Paris Agreement;
f. "Protocol" means the Kyoto Protocol (KY);
g. "General Agreement" means the General Agreement on Tariffs and Trade (GATT);
h. "Fund" means the Common Carbon Fund;
i. "WTO" means the World Trade Organization and all of its constitutive agreements;
j. "Intergovernmental Panel on Climate Change" means the Intergovernmental Panel on Climate Change established in 1988 jointly by the World Meteorological Organization and the United Nations Environment Programme and is hereby referred to simply as "IPCC";
k. "The high seas" means any area beyond national jurisdiction;
l. "Environmental tax" is a tax imposed for environmental reasons, whose tax base is a physical unit that has a proven specific negative impact on the environment. The term "environmental tax" is to be exclusively employed towards an excise capable of conferring a reduction in corresponding carbon-based emissions into the atmosphere. It is thus regarded to have environmental purpose and effect;
m. "Carbon tax" is an indirect, *in rem*, environmental tax imposed on a physical unit of *in natura* carbon;
n. "Emissions" means the anthropogenic carbon dioxide emissions resulting from the combustion of fossil fuels;
o. "Fossil fuels" means *in natura* and any of the by-products of oil, gas and coal natural resources;
p. "Border Carbon Adjustment (BCA)" measure means any fiscal measure which puts into effect, in whole or in part, the destination principle, by enabling: (i) exported products to be relieved of some or all of the tax charged in the exporting country in respect of similar domestic products sold to consumers on the home market and/or

(ii) imported products sold to consumers to be charged with some or all of the tax charged in the importing country in respect of similar domestic products;

q. "Clean air" means the exhaustible natural resource whose oxygen-based composition contains carbon particles at a concentration considered to be suitable to preserve human, animal and plant life;
r. The words "extracted" and "produced" mean the amount of carbon-based content integral to the mineral ore that is likely to result in an anthropogenic carbon-based emission once submitted to a combustion process. The amount not submitted to a combustion process is not to be considered to be "extracted" or "produced";
s. The expression "quality of" is to reference the type of oil, gas and coal extracted from an oil well or a mine. For example, there is a quality of crude oil which is rich in sulphur, and one which is low in sulphur content. The quality of a fossil fuel resource will affect its industrial application and may influence the carbon content of the product;
t. "Industrial process" means the act of submitting fossil fuels to a refining or transformation process that will produce by-products of oil;
u. "Upstream", "midstream" and "downstream" refer to the production phases in the oil, gas and coal supply chains. The upstream phase for oil, gas and coal occurs at the point of extraction for resource-rich countries, and at the level of import for resource-poor countries. The term "midstream" shall be used to refer to the refinery stage for crude oil and its by-products, or the conversion of a mineral ore into electricity at the level of the power or processing plant. The term "downstream" shall be used to refer to the final consumption of crude oil, gas, coal and its by-products. "Consumption" denotes the combustion of fossil fuel products by individuals and corporate entities for heating or transport purposes, or the employment of fossil fuel products in industrial processes. All transport, whether land based, maritime or air borne, occurs at the downstream level;
v. "Fugitive emission" is the unintended leakage of emissions from the handling of fossil fuels;
w. "International Oil Company" means a privately owned entity with sole or joint proprietorship over a venture, and with rights to explore and/or exploit oil and gas on its own or with the help of the National Oil Company and others;
x. "National Oil Company" means an entity that is typically fully owned by the State or a company in which a State owns majority interest. The National Oil Company can have sole or joint proprietorship over a venture, with rights to explore and/or exploit oil and gas on its own or with the help of an International Oil Company;

y. "Mining Company" means a company with sole or joint proprietorship over a venture, with rights to explore coal reserves on its own or with the help of others;
z. The categories of "high-income" "middle-income" and "low-income" countries follow the classification put forward annually by the World Bank and are based on GNI per capita in USD. "Middle-income" countries denote the set of lower-middle-income countries and upper-middle-income economies as per the World Bank classification;
aa. "Developing country" denotes the set of middle- and low-income countries.

2. As regards the application of this Treaty by a Contracting State, any term not defined herein shall, unless the context requires otherwise, be interpreted in good faith in accordance with the purpose of the Treaty.

Article 2 – Objective of the Treaty

1. The objective of this Treaty is to achieve the stabilisation and reduction of carbon-based emissions in the atmosphere in particular to a level that would prevent dangerous anthropogenic interference with the climate system and would protect clean air.

2. Dangerous anthropogenic interference with a climate system arises (i) if carbon dioxide concentration in the atmosphere reaches 550 parts per million or the world experiences an increase of 2 degrees centigrade in average global temperatures as compared to pre-industrial levels; or (ii) following the climate target defined by the United Nations Framework Convention on Climate Change or one of its agencies.

3. A carbon tax is the instrument of operationalization of the objective of the Treaty. The tax shall be capable of rendering a clear price distinction between greater and lesser carbon-intensive fossil fuels.

4. The application of a carbon tax and adherence to this Treaty does not pre-empt countries from adopting other explicit or implicit carbon pricing instruments as part of a wider climate policy objective.

5. The Contracting States shall pursue the reduction of carbon-based emissions in the atmosphere by discouraging the extraction and production of fossil fuel products that lead to dangerous anthropogenic interference.

Article 3 – Principles

1. In their actions to achieve the objective of the Treaty and to implement its provisions, the Contracting States shall be guided, inter alia, by the principles laid down by the Convention and the Rio Declaration on Environment and Development, and in particular by the following principles:

a. Contracting States shall endeavour to promote the internalisation of environmental costs and the use of fiscal instruments, taking into account the approach that the polluter should bear the cost of pollution, with due regard to the public interest and with minimum distortion to international trade and investment.
b. The Contracting States shall maintain the sovereign right to exploit their own resources pursuant to their own environmental and developmental policies, and the responsibility of ensuring that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction, in accordance with the Charter of the United Nations and the principles of international law.
c. The Contracting States shall take precautionary measures to anticipate, prevent or minimise the causes of climate change and mitigate its adverse effects. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing such measures, taking into account that policies and measures to deal with climate change shall be cost-effective so as to ensure global benefits at the lowest possible cost.
d. The Contracting States shall 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.

2. The Contracting States shall cooperate to promote a supportive and open international economic system that will lead to sustainable economic growth and development in all Contracting States, particularly developing country States, thus enabling them to better address the problems of climate change. Measures taken to combat climate change, in particular the reduction of carbon-based emissions, shall not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Environmental measures addressing transboundary or global environmental problems shall, as far as possible, be based on an international consensus.

3. The specific needs and special circumstances of developing country States, especially those that are particularly vulnerable to the adverse effects of climate change, and those that would have to bear a disproportionate or abnormal burden under the Treaty, shall be given full consideration.

Article 4 – Commitment to Tax

1. The Contracting States commit to achieve the stabilisation and reduction of carbon-based emissions in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system and would protect clean air by applying a commensurate carbon tax.

Article 5 – Taxable Event

1. Presumptive Rule

a. Contracting States shall apply the carbon tax at the upstream level of the fossil fuel supply chain, upon extraction from the ground of the fossil fuel resource containing carbonic minerals.
b. The carbon tax shall be applied on the estimated carbon content contained in the extracted fossil fuel, before it is subject to an industrial process.

2. Secondary Allocation

a. A carbon tax may be applied at the midstream phase, at the level of import, by the country where oil, gas or coal_are, respectively, refined or processed, provided a similar tax has not been previously applied by another Contracting State.
b. In this case, the carbon tax is to be calculated based on the estimated carbon content of crude oil or natural gas, prior to it being submitted to a refining or processing operation.
c. The Contracting States may agree on a method to account for the fugitive emissions not otherwise taxed under this Article.

3. Tertiary Allocation

a. If the fossil fuel is not subject to tax on the upstream or midstream phases, a tax may be applicable upon import of the fossil fuel to the country of consumption.
b. The carbon tax is to be calculated based on the fossil fuel's estimated carbon content.

c. The Contracting States may agree on a method to account for the fugitive emissions not otherwise taxed under this Article.

4. Rule of Common Application

a. The Contracting States shall employ their best efforts to establish a carbon tax at the earliest opportunity, meaning upon first entry of the fossil fuel into the supply chain.
b. The Secondary and Tertiary Allocation rules are subsidiary to the Presumptive Rule, and are to be employed only if a Contracting State does not apply the carbon tax at the level of extraction, with due regard given to the provisions of Article 9.
c. The tertiary rule is subsidiary to the secondary rule of allocation, and shall only be employed if a Contracting State does not apply the carbon tax at the levels of extraction or refining/processing, with due regard given to the provisions of Article 9.
d. The tax administration of each Contracting State shall be responsible for the collection and administration of the carbon tax within its national territory.

Article 6 – Tax Base

1. Carbon is the object of taxation, present in its *in natura* form, prior to being submitted to an industrialisation or combustion process.

2. Carbon shall be quantified according to its weight, with its price expressed as a fixed amount per unit.

3. The Contracting States hereby agree that carbon is to be measured against the standard weight of one metric tonne. For the purposes of this Treaty, the carbon unit is to correspond to one metric tonne of carbon.

4. Due regard is to be had to the quality of the oil, gas or coal in estimating the amount of carbon contained in the mineral resource.

Article 7 – Taxpayer and Tax Collection

1. The following persons are liable to tax:

a. Presumptive Rule – extractor liable to tax – the International Oil Company or the National Oil Company (in oil and gas transactions), and the Mining Company (in coal transactions), shall be liable to the tax levied at the extraction level.

b. Secondary Allocation – importer, refinery, or processing facility liable to tax – the importer, refinery or processing facility shall be liable to tax in transactions involving oil or gas fossil resources, respectively.
c. Tertiary Allocation – importer or distributor liable to tax – the importer or distributor of fossil fuel shall be liable to tax in transactions involving coal, oil and gas products.

2. The subjects identified in Article 7(1) shall be responsible for collection of the tax on behalf of the tax administration.

3. The tax administration of a Contracting State shall be responsible for reviewing and verifying the collection of the tax and administering the revenue proceeds according to the rules established in this Treaty.

Article 8 – Tax Rate

1. The rate applied on the taxable transactions shall be that in force at the time of the chargeable event.

2. The starting presumptive minimum carbon tax rate supported by this Treaty is set at [___] (*USD30, suggested*).

3. The Contracting States shall apply a standard minimum carbon tax rate, which shall be fixed by each State as a price per unit of carbon content measured in metric tonnes, and which shall be the same under the Presumptive Rule, the secondary and tertiary allocation rules.

4. A Contracting State may voluntarily adopt a minimum carbon tax rate that is higher than the one set by this Treaty or adopt a more ambitious schedule of incremental tax rate increases.

5. It Is hereby agreed that for the first fifty years the minimum carbon tax rate for high-income countries will be readjusted according to the following schedule:

5.1. From 1/1/2025 (date of entry into force), the standard carbon tax shall not be less than [_____].

5.2. From 1/1/2030, the standard carbon tax shall not be less than [_____].

5.3. From 1/1/2035, the standard carbon tax shall not be less than [_____].

5.4. From 1/1/2040, the standard carbon tax shall not be less than [_____].

5.5. From 1/1/2045, the standard carbon tax shall not be less than [_____].

5.6. From 1/1/2055, the standard carbon tax shall not be less than [_____].

5.7. From 1/1/2065, the standard carbon tax shall not be less than [_____].

5.8. From 1/1/2075, the standard carbon tax shall not be less than [_____].

6. Having regard to the special circumstances of developing countries, the minimum carbon tax rate of [____] shall be applicable towards middle-income countries who explicitly manifest the economic need to apply this rate.

7. Having regard to the special circumstances of developing countries, the minimum carbon tax rate of [____] shall be applicable towards low-income countries who explicitly manifest the economic need to apply this rate.

8. Middle- and low-income countries may adopt a more ambitious minimum tax rate than that which is foreseen under the Treaty, or choose to follow a more ambitious schedule of incremental tax rate increases.

9. The low- and middle-income country tax rate schedules shall establish a minimum carbon tax at a threshold which is lower than the standard minimum rate foreseen in paragraph 5.

10. It is hereby agreed that for the first fifty years, the minimum carbon tax rate for middle-income countries will be readjusted according to the following schedule:

10.1. From 1/1/2025 (date of entry into force), the standard carbon tax shall not be less than [_____].

10.2. From 1/1/2030, the standard carbon tax shall not be less than [_____].

10.3. From 1/1/2035, the standard carbon tax shall not be less than [_____].

10.4. From 1/1/2040, the standard carbon tax shall not be less than [_____].

10.5. From 1/1/2045, the standard carbon tax shall not be less than [_____].

10.6. From 1/1/2055, the standard carbon tax shall not be less than [_____].

10.7. From 1/1/2065, the standard carbon tax shall not be less than [_____].

10.8. From 1/1/2075, the standard carbon tax shall not be less than [_____].

11. It is hereby agreed that for the first fifty years, the minimum carbon tax rate for low-income countries will be readjusted according to the following schedule:

11.1. From 1/1/2025 (date of entry into force), the standard carbon tax shall not be less than [_____].

11.2. From 1/1/2030, the standard carbon tax shall not be less than [_____].

11.3. From 1/1/2035, the standard carbon tax shall not be less than [_____].

11.4. From 1/1/2040, the standard carbon tax shall not be less than [_____].

11.5. From 1/1/2045, the standard carbon tax shall not be less than [_____].

11.6. From 1/1/2055, the standard carbon tax shall not be less than [_____].

11.7. From 1/1/2065, the standard carbon tax shall not be less than [_____].

11.8. From 1/1/2075, the standard carbon tax shall not be less than [_____].

12. The tax rate schedule delineated in this Article shall be revised every five years together with the Paris Agreement's Global Stocktake process to align the pricing commitment with the level of technology development and ensure that it is commensurate with States' Nationally Determined Contributions.

13. A penalty of [__] is to be applied in the case of a Contracting State effectively taxing carbon at a rate which is less than the *de minimis* rate established in paragraphs 5, 10 and 11, as the case may be.

14. Any Contracting State may propose a change in the tax rate schedule, if experience shows that the tax rate progression is not sufficient to meet the objectives stated in Article 2.

Article 9 – Border Carbon Adjustment

1. A Border Carbon Adjustment is any fiscal measure which puts into effect, in whole or in part, the destination principle. The destination principle enables imported products to be charged with some or all of the tax charged in the importing country in respect of similar domestic products, and enables exported products to be relieved of some or all of the tax

charged in the exporting country in respect of similar domestic products sold to consumers on the home market.

2. A Border Carbon Adjustment measure may be employed, at a Contracting State's discretion, towards another Contracting State when the latter's effective tax rate is 10 per cent or more lower than the tax assessed domestically by the former.

3. The Contracting States shall assess the appropriateness of employing Border Carbon Adjustment measures towards other Contracting States after 2075, according to the scientific evidence available at the time and taking into account the principle of precaution.

4. The Contracting States are hereby authorised to employ a Border Carbon Adjustment towards non-signatory States, provided the border adjustment measure is proportionate to and does not exceed the carbon tax employed domestically.

5. The Contracting States commit not to apply a corresponding border adjustment of the carbon tax upon export of a fossil fuel resource to a third State. A penalty, to be agreed by the Contracting States in the first session, is to be applied in the case of a State employing a Border Carbon Adjustment on export, when the effect is to totally or partially nullify the impact of the carbon tax.

Article 10 – Climate Club

1. The Contracting States employing domestic carbon taxes at the same or similar tax rates and envisaging the same or similar tax rate increase schedules may at their own discretion opt to constitute a climate club.

2. A climate club is an agreement by participating countries to undertake harmonised emissions reductions through the adoption of a coordinated international target carbon tax that homogenises national carbon tax approaches.

3. The rules for creation and adhesion to a climate club shall be devised through a separate and independent instrument.

4. The Contracting States adhering to the climate club shall not be subjected to a Border Carbon Adjustment when transacting with other members of the club.

Article 11 – Aviation

1. Contracting States shall at their voluntary discretion opt to impose a tax on fuels consumed, stored or employed onboard an aircraft on a flight to, from, or across the territory of another Contracting State, as a means of derogation from the Chicago Convention of 1944, provided it is the port of origin.

2. A Contracting State may reserve the right not to apply this Article without prejudice to the remaining provisions under the Agreement.

3. This Article shall prevail over any other arrangement agreed under an Air Services Agreement (ASA) if (i) both parties to the ASA are Contracting States under this Treaty; and (ii) both parties have signed up to Article 11 of this Treaty.

4. Due regard must be had to the avoidance of double taxation, when a Contracting State employs a carbon tax under the terms of this Treaty and is the port of destination of the voyage.

Article 12 – Shipping

1. Transport of goods

a. Contracting States shall at their voluntary discretion opt to impose a tax on a parcel delivered to another Contracting State, when such a parcel has been the object of maritime transport. The tax in this case shall be the product of the distance travelled by the object (counted as from its port of origin) and the cost of the carbon consumed in the process of effecting that trip.
b. The tax shall be quantified according to the carbon content of the fuel employed in the journey, and the distance travelled by the parcel until it reaches its destination.
c. The shipping company shall be elected as the tax substitute, responsible for reporting on the parcel's total carbon footprint, and for paying the tax.

2. Transport of persons including cruise ships

a. Contracting States shall at their voluntary discretion impose a tax on the cross-border transport of persons, including when aboard a cruise ship.
b. For activities operating a round trip, the country competent to tax will be that where the journey begins.

c. For activities operating on a cross-border basis and on the high seas, the country competent to tax will be that where the fuelling takes place.

3. Fishing activities

a. Contracting States shall at their voluntary discretion impose a tax on fishing vessels operating on national jurisdiction and in the high seas, provided the vessel departs from that State.
b. The Contracting State from which the fishing vessel departs will in all instances be competent to tax the emissions generated within a national jurisdiction and in the high seas, provided it is identified as the country of origin of the fishing expedition.
c. Paragraph 8 will also apply in cases where the fishing vessel is refuelled in the high seas.

4. Clauses of common application

a. A Contracting State may reserve the right not to apply this Article without prejudice to the remaining provisions under the Treaty.
b. Due regard must be given to the avoidance of double taxation, when a Contracting State employs a carbon tax under the terms of this Treaty and is the harbour of destination of the transport.
c. Agreement to this provision does not preclude any future coordinated position on the taxation of shipping activities at the level of the International Maritime Organization.

Article 13 – Currency Indexation

1. The tax rate will be indexed according to a composite rate of mixed currencies, denominated 40 per cent in Euros and 60 per cent in US Dollars.

Article 14 – Special Provisions

1. Contracting States shall not grant new unilateral credits, subsidies, reductions or any other form of tax benefits towards fossil fuels not explicitly foreseen by this Treaty. A penalty, to be determined by the Contracting States in the first session, is to be applied towards other Contracting States in breach of this Article.

2. Contracting States may confer a tax credit or reimbursement towards extracted or produced carbonic material which, due to its own intrinsic characteristics, cannot be employed or consumed in a combustible reaction.

3. The tax credit or reimbursement process referred to in paragraph 2 is to be generally denoted as a "reverse charge mechanism". The Contracting States shall, at their first meeting, determine the standard methodology for taxpayers to request the tax credit or reimbursement under the reverse charge mechanism, and the products towards which this Article is to apply.

Article 15 – Export and Further Processing

1. No credit, reimbursement or adjustment shall be authorised on the transfer of a fossil fuel product for:

a. Further processing; or
b. For export.

Article 16 – Reporting Obligations

1. The Contracting States are required to submit annual industry-based reports which are in line with the EITI standard.

2. In addition to paragraph 1, each Contracting State shall provide to the secretariat, within three months of ratification, statistical data on its historic extraction, production, imports and consumption of fossil fuel products.

a. Contracting States who are extracting countries shall provide statistical data on the extraction of the fossil fuel resources covered by this Treaty, including quality specifications regarding the mineral ore.
b. Contracting States who are refining countries or have the facilities to process natural gas shall report on production data (refining of oil and processing of natural gas, also providing information on the quality specifications of the processed mineral ore).
c. Contracting States who import fossil fuels for final consumption shall provide data on the amount of fossil fuel resources historically imported and consumed in the territory, including quality specifications of the imported and consumed products.

3. The Contracting States hereby commit to include information in the annual report regarding:

a. The technical specifications concerning the types and quantities of oil, gas and coal being extracted in the territory;
b. The revenues collected from the carbon tax; and
c. The credits or reimbursements provided under the reverse charge mechanism.

4. The report shall be in line with the principles and requirements foreseen under the EITI standard, while also incorporating the carbon tax-related information foreseen under paragraphs 2 and 3 of this Article.

5. The WTO secretariat shall communicate with the EITI in order to produce reports correlating the data provided by the Contracting States, with the expected carbon emissions released in the calendar year.

6. A penalty of [_____] is to be applied in cases where revenues accumulated via the tax do not match the corresponding volume and carbon content of the ore extracted in any given territory.

7. A list of non-compliant Contracting States is to be produced (i) annually for the first five years (2025–2030), (ii) once every two years for the four years thereafter (2025–2029), and (iii) if verified that compliance rates are positive and steadily growing, every five years thereafter. The list of non-compliant countries shall be published and available for public disclosure.

Article 17 – Non-Compliance

1. The Contracting States, in their first meeting, shall consider and approve the procedures to investigate and apply sanctions on non-compliant countries.

Article 18 – The Common Carbon Fund

1. A Common Carbon Fund entrusted with the aim of providing financial and technical cooperation on a grant or concessional basis, including for the transfer of technology, is hereby established. It shall function under the guidance of, and be accountable to, the WTO and to the coordinating body composed of representatives of the competent authorities of

the Contracting States, which shall decide on its policies, programme priorities and eligibility criteria related to this Treaty.

2. The Fund's operation shall be entrusted to [_____] *(an existing or future international entity)*, as determined by the Contracting States during its first session.

3. A percentage of the revenues accumulated by the Contracting States via the application of the carbon tax shall be destined towards the formation of the Fund's own resources. The percentage shall be determined by the Contracting States, in the Fund's constitutive instrument. Contracting States shall also be allowed to make voluntary contributions and grants to the Fund.

a. Contributions to the Fund shall vary according to a Contracting State's level of economic development, and to its classification as a low-, middle- or high-income country.

4. Percentage contributions made by the Contracting States to the Fund shall be reviewed on an annual basis.

5. The pecuniary penalties paid by virtue of a Contracting State's breach of the terms of this Treaty shall be added to the Fund's own resources.

6. The resources accumulated via the Fund shall be employed towards projects which advance the objectives of this Treaty, and shall primarily be aimed at initiatives envisaging a reduction in carbon-based emissions.

7. The following target areas are essential in achieving the objectives pursued by the Treaty:

a. Renewable energy research;
b. Research on new technology;
c. Carbon capture and storage;
d. Efficiency gains in the use of fossil fuels;
e. Low carbon use of fossil fuels;
f. Carbon alternatives; and
g. Fossil fuel substitution.

8. Any of the Contracting States may request the expansion of the target research areas' list. The Contracting State shall submit its proposal for approval by the other Contracting States through a majority voting procedure.

Article 19 – Settlement of Disputes

1. Any disputes arising between one or more Contracting States shall be submitted to the WTO's Dispute Settlement Body and shall be governed by the procedures described in Annex II of the Marrakesh Agreement Establishing the World Trade Organization entitled "Understanding on Rules and Procedures Governing the Settlement of Disputes".

Article 20 – Cooperation and Technology Development

1. All Contracting States, taking into account their common but differentiated responsibilities, shall promote and cooperate in the development, application and diffusion, including transfer of technologies, practices and processes that control, reduce or prevent anthropogenic carbon-based emissions.

2. All Contracting States applying a carbon tax pursuant to Article 5 of the Treaty shall take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Contracting States, particularly developing countries, to enable them to implement the objectives of the Treaty. Other organisations in a position to do so may also assist in facilitating the transfer of such technologies.

3. Contracting States shall take every practical step to ensure that the best available, environmentally safe substitutes and related technologies are expeditiously transferred to other States under fair and most favourable conditions.

4. The Contracting States shall take into consideration in the implementation of the commitments of the Treaty the situation of other Contracting States, particularly developing country States, with economies that are vulnerable to the adverse effects of climate change. This applies notably to Contracting States with economies that are highly dependent on income generated from the production, processing, export, and/or consumption of fossil fuels and associated energy-intensive products and/or the use of fossil fuels for which such States have serious difficulties in switching to alternatives.

Article 21 – Implementation and Administration of the Treaty

1. A secretariat is hereby established.

2. The secretariat is to function under the shared competence of the United Nations: United Nations Framework Convention on Climate Change and the WTO, and be an integral part of each of these institutions.

3. A coordinating body composed of representatives of the competent authorities of the Contracting States shall monitor the implementation and development of this Treaty. The coordinating body shall effect any action likely to further the general aims of the Treaty.

4. States which have signed but not yet ratified, accepted, or approved the Treaty are entitled to be represented in the meetings of the coordinating bodies as observers.

Article 22 – Participation

1. This Treaty shall be open for signature and subject to ratification, acceptance or approval by States and regional economic integration organisations that are Parties to the Convention and the Marrakesh Agreement.

2. All countries ratifying this Treaty shall participate on an equal footing.

3. In the case of a regional economic integration organisation ratifying this Treaty without a corresponding ratification by one or more of its Member States, it shall nevertheless be bound by all the obligations under this Treaty. In the case of regional economic integration organisations with one or more Member States that have independently ratified this Treaty, the organisation and its Member States shall decide on their respective responsibilities for the performance of their obligations under this Treaty. In such cases, the organisation and the Member States shall not be entitled to exercise rights under this Treaty concurrently.

4. In their instruments of ratification, acceptance, approval or accession, regional economic integration organisations shall declare the extent of their competence with respect to the matters governed by this Treaty. These organisations shall also inform the depositary, who shall in turn inform the Contracting States, of any substantial modification to the extent of their competence.

5. Any body or agency, whether national or international, governmental, or non-governmental, which is qualified in matters covered by the Treaty, and which has informed the secretariat of its wish to be represented at a meeting session as an observer, may be so authorised unless at least one third of the States present object.

6. After this Treaty enters into force, any State which is not a WTO Member may request to be invited to sign and ratify this Treaty. The Contracting States of this Treaty together with the coordinating body shall decide by consensus whether to accept the State's candidacy. For the State ratifying the Treaty in accordance with this paragraph, this Treaty shall enter into force on the first day of the first month of the calendar year following that in which the Treaty is signed.

Article 23 – Application of the Treaty to Territories, Dependent Areas, Administrative Regions and Disputed Territories

1. Each State may, at the time of signature, or when depositing its instrument of ratification, acceptance, or approval, specify the territory or territories to which this Treaty shall apply.

2. Any State may, at any later date, by a declaration addressed jointly to the Secretary General of the United Nations and the Director-General of the WTO, (hereinafter referred to as the "depositary"), extend the application of this Treaty to any other territory specified in the declaration. In respect of such territory, the Treaty shall enter into force on the first day of the first month of the fiscal year following the receipt of the declaration by the depositary.

3. Any declaration made under either of the two preceding paragraphs may, in respect of any territory specified in such a declaration, be withdrawn by a notification addressed to the depositary. The withdrawal shall become effective on the first day of the first month of the fiscal year following the receipt of such notification by the depositary.

Article 24 – Funding

1. The functioning of the Treaty will be funded by its Contracting States, including by contributing a percentage of the revenues accumulated via the application of the carbon tax.

2. Contracting States and Observers in the Group will be responsible for covering the costs of their participation in the work of the Group.

3. Contracting States shall, at their first meeting, adopt by consensus the financial rules for operation of this Treaty.

Article 25 – Relationship to Other International Agreements

1. This Treaty shall not affect the reciprocal rights and obligations of the Contracting States under the existing international agreements which relate to matters covered by this Treaty, or under future international agreements concluded in accordance with the object and purpose of this Treaty.

Article 26 – Amendments to the Treaty

1. Any Contracting States may propose amendments to the Treaty.

2. Unless otherwise stated, amendments will only be allowed upon acceptance by at least 50 per cent of the States. The Contracting States shall reach an agreement on any proposed amendment on the Treaty by consensus.

3. A tax rate readjustment and a change in the tax rate schedule (as foreseen in Article 8, paragraphs 5, 10 and 11) shall be considered to be an amendment to the Treaty. Contracting States shall decide how to implement those changes and adjustments through consensual agreement.

4. All underlying obligations and commitments not explicitly addressed in the Treaty shall be regulated by the provisions of the Vienna Convention on the Law of Treaties (VCLT).

Article 27 – Right to Vote

1. Each Contracting State party to this Treaty shall have one vote, except as provided for in paragraph 2.

2. Regional economic integration organisations, in matters within their competence, shall exercise their right to vote with a number of votes equal to the number of Member States that are parties to this Treaty. Such an organisation shall not exercise its right to vote if any of its Member States exercises its right, and vice versa.

Article 28 – Entry into Force

1. This Treaty shall enter into force on the [___th] day after the date where at least 20 Parties to the Convention accounting in total for (i) at least an estimated [___] per cent of the total

global carbon dioxide emissions, or (ii) [___] per cent of viable global oil, gas and coal reserves in 2025, have deposited their instruments of ratification, acceptance, approval or accession.

2. Solely for the limited purpose of paragraph 1 of this Article, "total global carbon dioxide emissions" means the most up-to-date amount communicated on or before the date of adoption of the Treaty.

3. For each State or regional economic integration organisation that ratifies, accepts or approves this Treaty or accedes thereto after the conditions set out in paragraph 1 of this Article for entry into force have been fulfilled, this Treaty shall enter into force on the [___th] day after the date of deposit by such State or regional economic integration organisation of its instrument of ratification, acceptance, approval or accession.

4. For the purposes of paragraph 1 of this Article, any instrument deposited by a regional economic integration organisation shall not be counted as additional to those deposited by its Member States.

Article 29 – Reservations

1. Reservations to this Treaty are limited to the provisions stated in Article 11 (Aviation) and Article 12 (Shipping).

Article 30 – Withdrawal

1. A Contracting State may withdraw from the Treaty at any time after five years, counted from the date the Treaty entered into force, by giving written notification to the depositary.

2. The Treaty will cease to produce effects with respect to the notifying country as of the first day of the first month of the calendar year following that in which the notification took place.

Article 31 – Authentic Texts

1. The texts of this Treaty are considered authentic in English, French, Spanish, Russian and Chinese.

2. In case of conflict of interpretation the English text prevails.