



# Border Tax Feebate Schemes

Dirk Heine

Economist, Global Macro and Debt Unit

Macroeconomics, Trade and Investment Global Practice

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# The quest for choke points

For forest-related taxes to be feasible, they need to be applied at those points of value chains that are less easy to avoid.

Unavoidable purchasers in the domestic market

- Dominant private entities like central processing units
- Public procurement

Custom gates

- Ports that all commodities need to go through for export



CIT rebates for certificates

Public procurement rules

Excise taxes levied at the border

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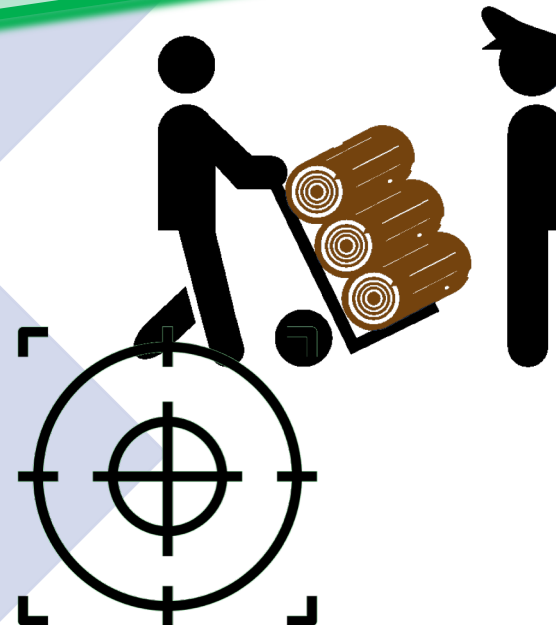
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Covered this morning

Custom gates

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Excise taxes levied at the border

Where countries presently use export taxes on deforestation-related commodities, could those be converted into environmental taxes?

Current export taxes do not vary by production method:  
e.g., Ivorian cocoa tax, Indonesian palmoil tax

Opportunity for reform in these countries:  
e.g., current certification of deforestation-free cocoa and palmoil

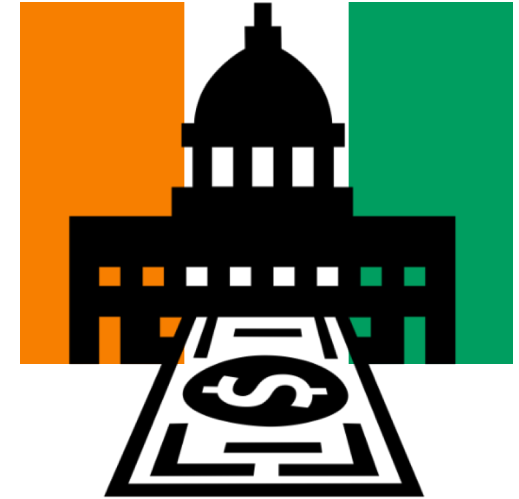


## Ivorian example



Export tax (as currently applicable)

Tax incentive if product is certified

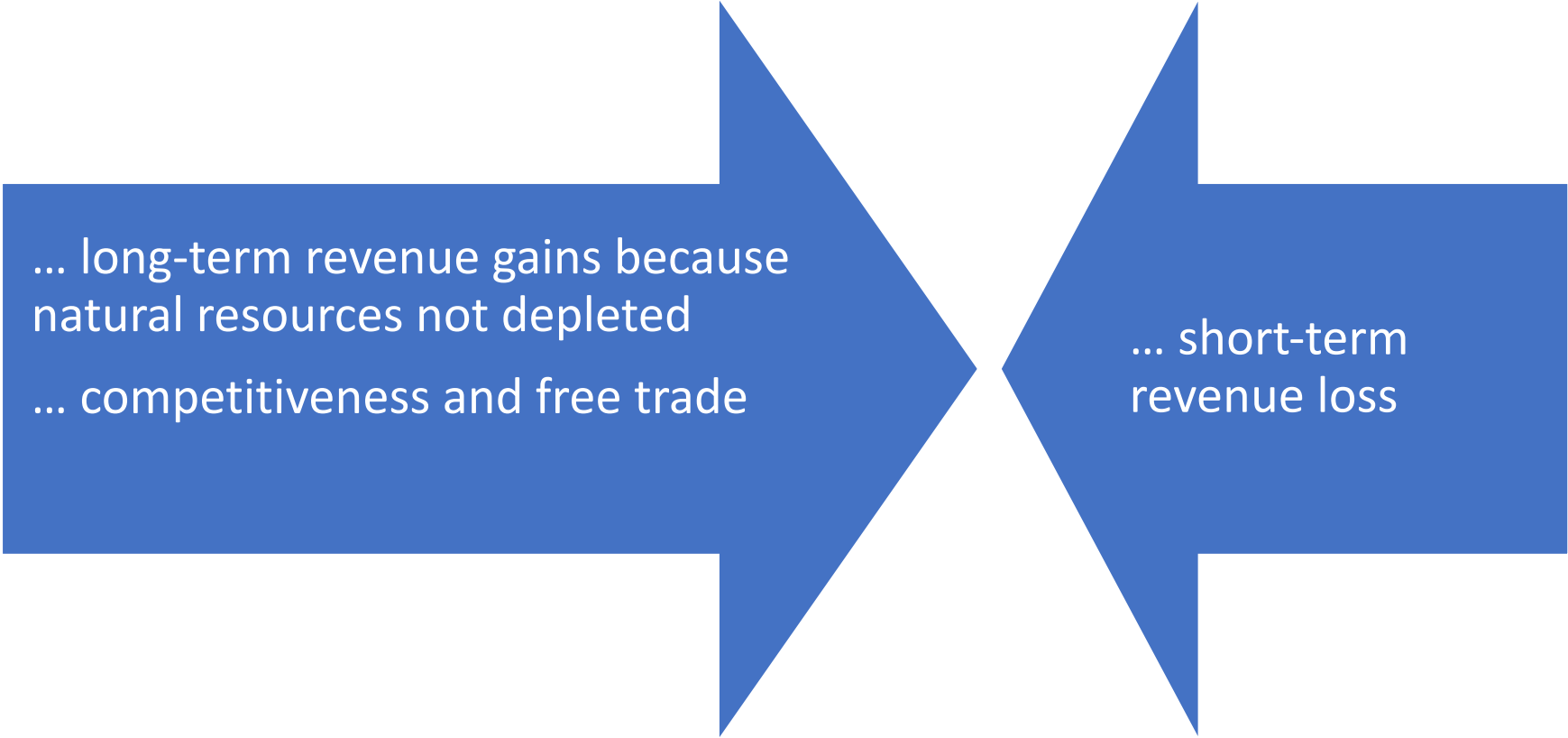


Ivory Coast currently uses an export tax on cocoa, where the tax rate is the same independent of how the cocoa has been produced. The country is also working to certify cocoa that has been produced sustainably.

The Finance Ministry could grant a tax discount for cocoa that has been certified as sustainable.

# Intertemporal trade-off causes political challenge

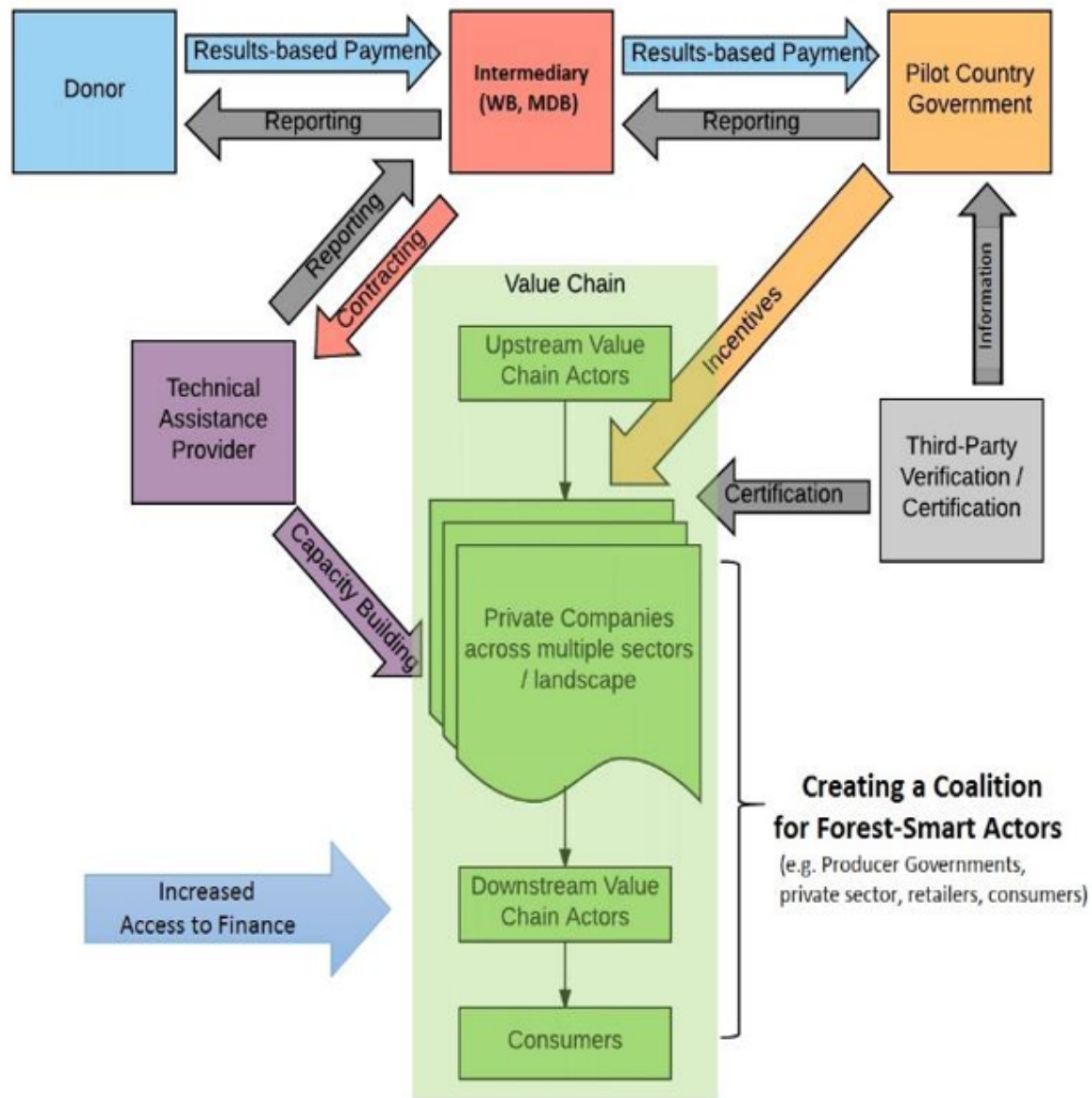
The suggested discounts on export taxes cause...



... long-term revenue gains because  
natural resources not depleted  
... competitiveness and free trade

... short-term  
revenue loss

# International support could help overcome



ITTO Executive Director's suggestion:  
supporting countries that pilot tax-discounts for certificates through transnational results-based payments.

# Where countries presently use market access regulations, can the environmental incentives be improved through environmental taxes?

European Timber Regulation:

- Ban on imports of illegally sourced timber
    - Enforced through complex Due Diligence systems
    - Potential of doubling efforts, when timber legality has already been verified through third-party certification agencies
  - No policy incentive to go beyond mere legality to sustainability
- ➔ Private sector would benefit from granular approach to market access, rewarding any incremental improvement in production methods



Timber  
Imported



Sustainability  
Tax

Step 1



**Default tax:**

This tax is based on the assumption that the timber was sourced through **unsustainable and illegal** production. It reflects a default value for the external costs caused per ton of timber produced in a worst-case scenario of production standards.

Step 2



**Potential tax discount:**

The taxpayer receives a discount on this sustainability tax by showing a **sustainability certificate** for his timber, which proves the timber was legally sourced and was produced in a more sustainable manner than the worst-case scenario assumed in the default value of the tax.

$$\text{Tax} = \text{Tons of timber} \times (\text{Default value of external cost per ton} - \text{Variable discount})$$

### Variation of the tax discount

The customs authority keeps a record of the relative standards of different sustainability certificates, and varies the size of the discount according to how strict these sustainability standards are. Certificates that just guarantee the legality of timber receive a small discount, whereas increasingly strict sustainability certificates receive accordingly greater discounts.

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# This is a form of Border Tax Adjustment

- The default tax is applied as a consumption-based excise tax like current alcohol or cigarette taxes, allowed under GATT Art. 3(2)
- Both the tax and the discount are applied in a non-discriminating way to overseas and domestic production (GATT compatible according to Trachtman 2016)
- The certification instrument raises the needed data on overseas production standard voluntarily, overcoming restrictions on extraterritoriality