

## The Sustainable Union - draft treaty

The present Treaty is open to any country.

It is designed as a win-win Treaty as the vast majority of the population of each country is set to win, from a safer climate, increased government revenues, and sustainable development.

Countries with per capita income below the world average are set to financially gain from the Treaty.

Countries with per capita income above the world average will be net contributors but the new taxes enabled by the Treaty's tax cooperation will entail additional resources for their governments.

The Treaty will make the world's richest individuals contribute resources for sustainable development.

Those put to contribution are polluter (through carbon pricing) and high-net worth (through the wealth tax) individuals.

The Treaty will secure long due financing resources for sustainable development.

The Treaty will guarantee that Parties meet their commitments in terms of official development assistance, climate finance, and nationally determined contributions.

The Treaty will guarantee that the Parties jointly decarbonize in line with the Paris Agreement targets. Therefore, countries at risk of failing their climate targets will secure their decarbonization objectives through the use of internationally transferred mitigation outcomes.

The Treaty will set a benchmark norm on contributions and transfers, resolving a long-standing debate on the burden-sharing of climate mitigation effort: financial contributions should be proportional to GNI while financial transfers and emissions rights are proportional to population.

The Treaty guarantees that Parties respect a carbon budget compatible with the Paris Agreement.

The Treaty establishes an international emission trading system and a carbon price floor, through a coordinated approach to carbon pricing.

The Treaty entails conditional cooperation as it requires higher contributions from current Parties as new Parties join. Thereby, the Treaty solves a collective action problem.

*The Parties to this [Treaty],*

*Reaffirming* the principles set out in the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement, namely equity, common but differentiated responsibilities and respective capabilities;

*Pursuant* of the goal to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and *pursuing efforts* to limit the temperature increase to 1.5°C above pre-industrial levels, *recognizing* that this would significantly reduce the risks and impacts of climate change;

*Recognizing* the need for an effective and progressive response to the urgent threat of climate change on the basis of the best available scientific knowledge;

*Emphasizing* the intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty;

*Recalling* that only five years remain to achieve the Sustainable Development Goals of the 2030 Agenda, *recalling* that the first goal is to end poverty in all its forms everywhere, the goal 10 is to reduce inequality within and among countries, the goal 13 is to take urgent action to combat climate change and its impacts, the goal 17 is to strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development, in particular through international support and resource mobilization, and *noting with concern* that close to 700 million people still live in extreme poverty and that the world is not on track to meet the Sustainable Development Goals;

*Noting* that in the Pact for the Future adopted in 2024, the United Nations committed to scale up our efforts towards the full implementation of 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Agreement, to mobilize significant and adequate resources and investments from all sources for sustainable development, to explore options for international cooperation on the taxation of high-net-worth individuals, to secure an ambitious outcome at the Fourth International Conference on Financing for Development in 2025;

*Recalling* that in 1970, the United Nations agreed that economically advanced country will progressively increase their official development assistance to the developing countries and will exert their best efforts to reach a minimum net amount of 0.7 of their gross national, and that this objective has been renewed ever since, including in the Pact for the Future;

*Taking Note* of the 6th Assessment Report (AR6) of the Intergovernmental Panel on Climate Change (IPCC), stating that the world is not on track to keeping within reach of the 1.5°C limit agreed in Paris and that global emissions must be cut by 43% in this decade;

*Recognizing* the role of multilateralism in addressing climate change and promoting regional and international cooperation in order to strengthen climate action in the context of sustainable development and efforts to eradicate poverty;

*Emphasizing* that Parties to the Paris Agreement recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions, in particular through the use of internationally transferred mitigation outcomes;

*Noting* that developed country Parties to the Paris Agreement shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the UNFCCC and that other Parties of the Paris Agreement are encouraged to provide or continue to provide such support voluntarily;

*Recognizing* the decisions adopted by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, on its third session, held in Glasgow in 2021, in particular that each Party participating in a cooperative approach that involves the use of internationally transferred mitigation outcomes as per the Article 6, paragraph 2, contributes to the implementation of its NDC and long-term low-emission development strategy, if it has submitted one, and the long-term goals of the Paris

Agreement; and that mechanism methodologies for the Article 6, paragraph 4, shall align with the long-term temperature goal of the Paris Agreement; contribute to the equitable sharing of mitigation benefits between the participating Parties; and, in respect of each participating Party, contribute to reducing emission levels in the host Party, and align with its NDC, if applicable, its long-term low GHG emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement;

*Recognizing* that in the first global stocktake in 2023, the Conference of Parties to the Paris Agreement calls on Parties to transition 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;

*Emphasizing* that the United Nations Framework Convention on Climate Change adopted in 1992 recognizes that measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost, and that social development and poverty eradication are the first and overriding priorities of the developing country Parties;

*Noting* that the European directive 2003/87 establishing a system for greenhouse gas emission allowance trading (EU ETS) recognizes in its Article 25 that agreements may be made to provide for the recognition of allowances between the EU ETS and compatible mandatory greenhouse gas emissions trading systems with absolute emissions caps established in any other country or in sub-federal or regional entities;

*Recognizing* successful experiences of linkages of emission trading system, namely between the European Union and Switzerland, as well as between California and Québec;

*Noting* that in the Preparations for the 29th Conference of the Parties (COP29) of the United Nations Framework Convention on Climate Change (UNFCCC), the Council of the European Union invites partners to work with the EU on developing a global approach on carbon pricing;

*Noting* that in the Nairobi declaration of 2023, the African Union urges world leaders to rally behind the proposal of a global carbon taxation regime and other taxes to provide dedicated, affordable, and accessible finance for climate-positive investments at scale, ringfenced from undue influence from geopolitical and national interests;

*Noting* that the 2024 Rio de Janeiro G20 ministerial declaration on international taxation support progressive taxation and international tax cooperation;

*Noting* the Blueprint for a Coordinated Minimum Effective Taxation Standard for Ultra-High-Net-Worth Individuals, commissioned by the G20 Presidency in 2024;

*Emphasizing* that the United Nations General Assembly adopted in the decision A/79/333 the Draft Terms of Reference for a United Nations Framework Convention on International Tax Cooperation, and agreed that such Convention should include commitments to a fair allocation of taxing rights, to addressing tax evasion and avoidance by high-net worth individuals and ensuring their effective taxation in relevant Member States, and agreed that protocols addressing tax cooperation on environmental challenges could be considered;

*Noting* that The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting has demonstrated the potential of international tax cooperation and the international setting of minimal tax rates;

*Have agreed as follows:*

### **1. Terminology**

- “Fossil or industrial CO<sub>2</sub> emissions”, or “emissions” for short, means CO<sub>2</sub> released by the combustion of fossil fuels or by the production of cement.
- “carbon neutrality” means that fossil CO<sub>2</sub> emissions have permanently reached levels below CO<sub>2</sub> sequestration.
- “cumulative” means between [*start year: 2028?*] and carbon neutrality.
- “The Sustainable Union”, or “the Union” for short, means the institution, composed of the Parties, that applies the present treaty.
- “Union’s carbon price” means the price of emissions allowances or, in case the emissions trading system is not yet operating, the carbon price floor.

### **2. Carbon budget**

In accordance with the best available science, and aiming to hold the increase in the global average temperature to well below 2°C above pre-industrial levels, Parties agree that:

1. cumulative fossil or industrial CO<sub>2</sub> emissions should not exceed a “carbon budget” of [*carbon budget: 1000 Gt? (2°C with 67% probability)*];
2. other anthropogenic greenhouse gases emissions should be reduced in line with the temperature target.

### **3. Allocation of emissions rights**

1. Parties agree to jointly limit their fossil CO<sub>2</sub> emissions based on a global emissions trajectory and a benchmark rule to allocate emissions rights between Parties.
2. The global emissions trajectory is such that:
  - a. target emissions decrease every year, in accordance with the best available science and as specified by the Union;
  - b. carbon neutrality is reached by [*year of carbon neutrality: 2080?*] at the latest in the Union;
  - c. cumulative target emissions do not exceed the carbon budget.
3. Every year, joint emissions and joint emissions rights of Parties do not exceed their population share, relative to the world population, of that year’s target emissions.
4. In a given year, the benchmark emissions rights of a Party are its population share of that year’s target emissions.
5. The actual allocation of emissions rights might deviate from the benchmark. The actual allocation of emissions rights between Parties is specified in Annex.

### **4. Emissions trading system**

Parties commit to establish an emissions trading system such that:

1. Every year, the Union auctions to authorized entities emissions allowances corresponding to the sum of emissions rights of Parties.

2. The Union allocates auction revenues to Parties according to their emissions rights, unless this allocation is incompatible with the provisions on international transfers and on conditionalities specified below.
3. Every year, companies that bring to market fossil fuels or produce cement shall surrender emissions allowances corresponding to their emissions of that year. Failure to do so is sanctioned.
4. The Union monitors, reports, and verifies emissions of the Parties and their industrial units.

### **5. Carbon price floor**

The minimal price at which emissions allowances are auctioned is the “carbon price floor”.

1. The carbon price floor is set at [*carbon price floor: €10/tCO<sub>2</sub>*?] in [*start year*];
2. The carbon price floor is increased each year by the average inflation rate among the Parties, unless the Union decides to increase it further.
3. Until joint emissions of the Parties reach the sum of emissions rights of the Parties, the Union can levy a carbon fee equal to the carbon price floor instead of operating an emissions trading system.

### **6. Carbon border adjustment**

1. Parties can levy a fee on imports from non-Parties so that emissions embodied in these imports are priced at the Union’s carbon price.
2. Parties can rebate to exporters the carbon price already paid for exports to non-Parties.
3. Parties can levy a fee on imports from other Parties so that emissions embodied in these imports are priced at their domestic, higher carbon price. However, Parties that do so shall contribute to the Union the revenues corresponding to this carbon border adjustment.

### **7. International tax cooperation**

Parties commit to cooperate on international taxation and on tax evasion. In particular, Parties that have not obtained a transfer waiver aim to:

1. establish a global asset registry that records the assets and liabilities of every person;
2. establish minimum effective tax rates on individual wealth and/or economic income, according to a progressive tax schedule;
3. establish minimum effective tax rates on inherited wealth according to a progressive tax schedule;
4. establish a tax on financial transactions;
5. jointly collect a “target tax revenue” of no less than [*target revenue: 2%*?] of their GNI from new, internationally coordinated taxes.

### **8. International transfers**

Parties commit to international transfers from higher-income Parties to lower-income Parties.

To that aim, Parties aim at contributions to the Union reaching a “pooled resources target” of no less than [*pooled: 1%*?] of their joint GNI.

As a principle guiding international transfers,

- a. contributions shall be in proportion to Parties’ GNI or emissions, and
- b. entitlements shall be in proportion to Parties’ population;
- c. or transfers should follow a formula more favorable to lower-income Parties.

Following the above principle, the “baseline transfer key” of a Party is defined as its gross national income in excess of the world average (with the formula in Annex I.A). A Party is said “contributing” if its key is positive and “receiving” if its key is negative.

Contributing Parties shall contribute to the Union at least their “baseline transfer”, which is the product of their baseline transfer key, pooled resources target, and a Participation Factor allowing for conditional cooperation (formula is in Annex I.C).

From pooled resources (i.e. contributions), the Union pays its operating expenses, transfers a fixed share of [compensation: 5%?] to the Loss and Damage Fund, and allocates the remainder to the receiving Parties.

Receiving Parties shall receive from the Union transfers proportional to their baseline transfer key.

The carbon price revenues collected by the Union count as contributions of Parties (corresponding to their emissions rights multiplied by the carbon price).

Revenues from carbon border adjustment contributed to the Union by Parties count as contributions from them.

Weakening of climate policies or Overseas Development Assistance (ODA) of a Party are counted as negative contributions and must be compensated. Changes are evaluated relative to the 2020-2024 average share of GNI and cover any:

- d. decrease in revenues from carbon pricing or from taxes on fossil fuels due to a lower stringency or expanding exemptions of such policies;
- e. increase in subsidies to fossil fuels or products responsible for emissions, including expanding coverage of such policies;
- f. weakening of regulations or standards on products responsible for emissions (measured as a decrease in the shadow carbon price that would obtain equivalent effects on emissions);
- g. decrease in overall ODA contributions;
- h. decrease in ODA contributions to the least developed countries.

Strengthening of aforementioned policies are not counted as positive contributions.

## **9. Conditionalities for receiving transfers**

1. Receiving Parties shall use transfers from the Union to foster sustainable development, in particular by expanding social protection, public services, and infrastructures.
2. Receiving Parties shall submit a Plan specifying how they will use transfers from the Union and how they will implement the carbon price and new taxes. The Plan shall detail the allocation of transfers’ expenditures. It should also provide guarantees that transactions will be traceable and that funding will not be diverted.
3. Each Plan shall be assessed by a multilateral development bank (MDB) mandated by the Union.
4. The Union will deliver a transfer to a receiving Party upon certification by the mandated MDB that its Plan complies with the requirements.
5. In case three consecutive Plans of a Party fail to comply with the requirements according to the mandated MDB, another MDB shall manage the transfer on behalf and in cooperation with the Party. In any case, the transfer due shall benefit the Party’s population.
6. The implementation of a Plan is audited and verified by the mandated MDB. Any departure from the Plan, diversion of money, or other wrongdoing shall be reported to the Union.

## **10. Sanctions**

1. In case of any wrongdoing by a receiving Party, the Union can sanction it by reducing future transfers to that Party by a proportionate amount, and/or by mandating an MDB to manage such transfers.
2. In case of any wrongdoing by a Party concerning the implementation of the carbon price, such as repeated non-compliance by some companies operating on the Party's territory and a failure to sanction them, the Union can sanction the Party by reducing its emissions rights by a proportionate amount and by imposing a carbon border adjustment on its exports.
3. In case of repeated wrongdoings by a Party, the Union can revoke that Party.

## **11. Deviations from benchmark emissions rights**

1. A non-Party can propose a deviation from the benchmark allocation of emissions rights as a condition to becoming a Party.
2. A qualified majority of Parties is required to approve such proposal. Namely, the Union approves the proposal when the following conditions are respected:
  - a. The proposal is approved by a majority of Parties weighted by their emissions; and
  - b. The joint emissions of Parties that reject the proposal are lower than the joint emissions of countries that would benefit, according to the proposal, from more emissions rights than the actual allocation.
3. A Party that obtains more emissions rights than the benchmark thereby renounces to be a receiving Party, unless otherwise is approved by a majority of receiving Parties weighted by their population.

## **12. Conditional cooperation on carbon pricing**

1. A receiving Party can reduce its contribution due to carbon pricing to the extent that countries with per capita emissions above the Union average are not Parties.
2. To be eligible to reduce its contribution, a Party shall jointly have:
  - a. per capita GNI below the world average;
  - b. emissions rights at or below the benchmark; and
  - c. per capita emissions larger than the Union average.
3. An eligible Party *c* can reduce its contribution by an amount no larger than the price of its emissions in excess of the Union average (see formula in Annex I.D).

## **13. Conditional cooperation on international transfers**

1. A contributing Party can reduce its baseline transfer to the extent that countries with per capita GNI above the world average are not Parties.
2. The Participation Factor that enters the product formula of baseline transfer is determined as follows (with the formula given in Annex I.B):
  - a. Define the "universal participation tax base" as the sum of baseline transfer keys of all countries with a per capita GNI above the world average.
  - b. Define the "actual tax base" as the sum of baseline transfer keys of contributing Parties without a transfer waiver.
  - c. Define the "contributor participation rate" as the ratio of the actual tax base over the universal participation tax base.

d. The Participation Factor is [incentive: no less than one-third, and defined as the square root of the contributor participation rate when this figure is above one-third?].

#### **14. Transfer waiver**

1. A non-Party can propose a transfer waiver as a condition to becoming a Party, by which it would be exempted from contributions.
2. A Party exempted from contributions waives all its entitlements other than the revenues from its emissions rights.
3. A majority of receiving Parties weighted by their population is required to approve a transfer waiver.

#### **15. Conditional participation**

1. Any country is allowed to condition its becoming a Party on:
  - a. specific countries becoming Parties;
  - b. joint emissions of Parties relative to the world's total reaching a specific threshold; or
  - c. joint GNI of Parties relative to the world's total reaching a specific threshold.
2. Any country with per capita emissions above the world average is allowed to condition its becoming a Party to carbon pricing (i.e. implementing the Union's emissions trading system, carbon price floor, and associated contributions) on:
  - a. specific countries becoming Parties to carbon pricing; or
  - b. joint emissions of Parties to carbon pricing relative to the world's total reaching a specific threshold.
4. The above conditions can also specify that the Parties referred to should not have a transfer waiver or a deviation from benchmark emissions rights.

To be negotiated: proposed value

- carbon budget: 1,000 Gt
- start year: 2028
- year of carbon neutrality: 2080
- carbon price floor: €10/t
- target tax revenue: 2%
- pooled: 1%
- compensation: 5%
- participation incentive:  $\max\{1/3; \sqrt{r}\}$



## ANNEX I – Formulas

A. The “baseline transfer key” of a Party  $c$  is defined as:

$$\text{key}_c = \text{pop}_c \cdot (y_c - y_{\text{world}}),$$

where  $\text{pop}_c$  is the Party’s population,  $y_c$  is the Party’s GNI per capita and  $y_{\text{world}}$  is the world average GNI per capita.

B. The Participation Factor is defined as  $f(r)$ , where [incentive:  $f = \max\{1/3; \sqrt{r}\}$ ], and  $r$  is the ratio of the actual tax base over the universal participation tax base as defined in Article 13, i.e.

$$r = \frac{\sum_{c \in \text{Contrib}} \text{key}_c}{\sum_{c \text{ s.t. } \text{key}_c > 0} \text{key}_c}, \text{ where } \text{Contrib} \text{ is the set of contributing Parties without a transfer waiver.}$$

C. The “baseline transfer” of a Party  $c$  is defined as:  $\text{key}_c \cdot \text{pooled} \cdot f(r)$ , where *pooled* is the pooled resources target and the other terms are as defined in Annex A and B.

D. According to Article 12, an eligible Party  $c$  can reduce its contribution by an amount no larger than  $\pi \cdot \text{pop}_c \cdot (e_c - e_{\text{Union}})$ , where  $\pi$  is the Union’s carbon price,  $\text{pop}_c$  is its population,  $e_c$  is its national per capita emissions, and  $e_{\text{Union}}$  is the Union’s average per capita emissions.