


# The characteristics of Russian and Mexican environmental taxation systems


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**Abstract:** This note examines Russia’s current environmental taxation system by comparing it to that of Mexico. In recent years, the process of ‘greening’ Russia’s taxation system has made good progress but it still has a long way to go before it achieves the level of developed countries, the latter operating a whole set of dedicated taxes designed to stimulate sustainable economic growth and generate wealth with zero environmental impact. Russia’s efforts towards a modernized environmental taxation have unfolded by optimizing the existing taxes, fees and non-tax payments, establishing the pollution quotas, and regulating greenhouse gas emissions. In this study, we explore the feasibility of applying Mexican environmental taxation practices in Russia.

**Keywords:** environmental taxation, green tax, green economy, Mexico, Russia.

**Resumen:** Esta nota de investigación examina el sistema fiscal medioambiental ruso y lo compara con el de México. En los últimos años, el proceso de “ecologización” del sistema tributario ruso ha avanzado a buen ritmo, aunque aún le queda un largo camino por recorrer antes de alcanzar el nivel de los países desarrollados. Estos últimos cuentan con todo un conjunto de impuestos específicos diseñados para estimular el crecimiento económico sostenible y generar riqueza con un impacto medioambiental nulo. Los esfuerzos de Rusia hacia una fiscalidad medioambiental modernizada se han desarrollado optimizando los impuestos, tasas y pagos no fiscales existentes, estableciendo las cuotas de contaminación y regulando las emisiones de

gases de efecto invernadero. En este estudio, exploramos la viabilidad de aplicar las prácticas mexicanas de fiscalidad medioambiental en Rusia.

**Palabras clave:** fiscalidad medioambiental, impuesto ecológico, economía verde, México, Rusia.

In present-day society, the economic methods and models that facilitate the transition to a green economy —and seen as capable of accelerating economic growth and creating wealth without damaging the environment— are gradually coming into focus. Since the 2000s, the trend in many European countries regarding what can lead to better environmental safety and compliance has leaned towards stepping away from administrative coercion towards market-based instruments, such as taxes. The need to introduce environmental taxation was first acknowledged in 1973 in the First Environmental Action Programme of the European Community (Programme 1 spanned from 1973-1976).<sup>1</sup> In 2011, environment-related taxes were recognized in the Organization for Economic Cooperation and Development Guide for Policy Makers, as a key means for reducing environmental damage while minimizing harm to economic growth.<sup>2</sup>

Many green economists view specific environmental taxes<sup>3</sup> as an inevitable necessity, especially given their power to stimulate/encourage innovation. After all, with more appropriate technologies in place, societies can expect more cost-effective environmental decision-making. Provided that the State knows how to apply eco-taxation appropriately, it will be possible “[...] to succeed in attaining the tasks of sustainable economic development [...]”.<sup>4</sup> In practice, environmental taxes offer governments ease of administration while being transparent to businesses and society at large. Furthermore, they offer a good source of revenues to budgets at all levels, allowing governments to redistribute/reallocate funds among national programs or socio-economic projects.<sup>5</sup> At the same time, it should be borne in mind that any new environmental tax is never a welcome measure, for it “... bears the threat of social strain ...”.<sup>6</sup> As seen from the above,

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<sup>1</sup> EU Environment Policy, <http://www.library.fa.ru/exhib.asp?id=315> (last visited Jan. 15, 2024).

<sup>2</sup> Organization for Economic Co-operation and Development, *Environmental Taxation. A Guide for Policy Makers* (2011), available at: <https://www.oecd.org/env/tools-evaluation/48164926.pdf>

<sup>3</sup> V.V. Gromov, *Èkologicheskoe Nalogi: Klassicheskoe I Sovremennoe Poniimanie Sushhnosti* [Environmental taxes: classical and modern understanding of the essence], *ÈKONOMIKA, STATISTIKA I INFORMATIKA. VESTNIK UCHEBNO-METODICHESKOGO OBEDINENIA*, Apr. 2014, at 41, 44 (Russ.).

<sup>4</sup> E.S. Vylkova, A.L. Tarasevich, *Èkologicheskoe Nalogooblozhenie kak Instrument Ustoichivoi Nalогоvoi Politiki* [Environmental Taxation as a Tool for Sustainable Tax Policy], *IZVESTIA SANKT-PETERBURGSKOGO GOSUDARSTVENNOGO ÈKONOMICHESKOGO UNIVERSITETA*, Jan. 2020, at 31, 39 (Russ.).

<sup>5</sup> M.A. Nazarov, Orlova D.R. *Èkologicheskoe Nalogooblozhenie: Rossijskii i Zarubezhnyj Opyt* [Foreign Experience of Environmental Taxation on the Path to a “Green” Economy], *VESTNIK ROSSIJSKOGO ÈKONOMICHESKOGO UNIVERSITETA IM. G. V. PLEHANOVA*, Jun. 2012, at 41, 47 (Russ.).

<sup>6</sup> R. Vecseli, M. Begak, *Èkologicheskoe Nalogooblozhenie: Koncepcia Dlia Rossii* [Environmental Taxation: a Concept for Russia], *NALOGOVAIA POLITIKA I PRAKTIKA*, Dec. 2011, at 40, 43 (Russ.).

societies are paying more and more attention to environmental taxation, with “...green taxation being part of green economy mechanisms...”.<sup>7</sup>

In today’s world, human-caused environmental changes seem to be accepted as unavoidable to some degree. While taking care to minimize pollution levels, humanity cannot but accept the damage in order to continue to supply the vital goods and services. In this context, green taxation is exactly the tool needed for achieving a counterbalance by leveraging economic relations and environmental impacts. This idea was officially voiced and advocated by William Nordhaus, the recipient of the 2018 Nobel Prize in Economic Science “for integrating climate change into long-term macroeconomic analysis”.<sup>8</sup> To this end, it should be added that, for green taxation to produce the desired effect, there should be a balance of interests between the State, communities and businesses.

One of the most productive mechanisms to put green economy into action, as proposed by many Western experts and researchers, is through carbon emission regulation. In general, greenhouse gas management is a regulatory process based on tax or quota schemes/systems. The recent trend in many European countries has moved towards introducing a national carbon tax. While modern societies use carbon tax to achieve environmentally friendly living conditions, also enabled through innovation-driven solutions and technologies, it should be borne in mind that carbon tax may not always be beneficial. The positive effects of carbon management include reduced pollution levels, jobs, and national producers with a higher competitive edge. But in the least environmentally friendly countries, any carbon policy is rather a disadvantage. Carbon tax thus represents a prime example of the leverages for driving the green economy; the expediency and necessity of carbon tax has been a major point of discussion in many countries including the Russian Federation (RF).

In the RF, whose stance on green taxation seems to be at variance with global practices, there is an urgent need to reform the tax system to promote environmental objectives. Admittedly, the process of ‘greening’ Russia’s taxation system is lagging behind that of developed countries. According to M.A. Nazarov & D.R. Orlova, “... Russia is yet to establish its environmental taxation system —an important tool in promoting a nation’s environmental policy ...”.<sup>9</sup> One can fully agree with this assertion since Russia’s tax system does not provide for any dedicated eco-taxes. Nor is there any detailed rationale for their application/implementation, although there are some fees and levies stipulated

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<sup>7</sup> M.A. Egorova, *Osnovnye Napravleniia Pravovogo Regulirovaniia «Zelenogo» Nalogooblozheniia Dlia Celej Predprinimatel’skoi Deiatel’nosti: Opyt Zarubezhnykh Stran* [Main Directions of Legal Regulation of “Green” Taxation for Business Purposes: Experience of Foreign Countries], *AKTUAL’NYE PROBLEMY ROSSIJSKOGO PRAVA*, Jul. 2022, at 71, 79 (Russ.).

<sup>8</sup> *Nobelevskaia Premiia po Ekonomike 2018 Goda* [Nobel Prize in Economics 2018], <http://www.library.fa.ru/exhib.asp?id=315> (last visited Dec. 28, 2023).

<sup>9</sup> M.A. Nazarov, Orlova D.R. *Ekologicheskoe Nalogooblozhenie: Rossijskij i Zarubezhnyj Opyt* [Environmental Taxation: Russian and Foreign Experience], *ĖKONOMIKA I UPRAVLENIE: NAUCHNO-PRAKTICHESKIJ ZHURNAL*, Mar. 2020, at 111, 116 (Russ.).

in the Tax Code of the Russian Federation (RF Tax Code), as well as non-tax payments to be paid for any environmental damage caused and can therefore be defined as elements/components, or varieties, of environmental taxes. So, what exactly are the taxes, fees and non-tax payments levied by Russia's current environmental tax system? Before going into that, however, it must be noted that there is no legally established concept of environmental tax in Russian legislation, leaving a gap in the use of terminology.<sup>10</sup>

The fees and taxes that can be roughly classified as dedicated environmental taxes are established in the RF Tax Code<sup>11</sup> and constitute the payment payable by businesses and individuals for the environmental damage caused, to some extent as a compensation. These include: 1) mineral replacement tax, 2) tax on excess hydrocarbon profit, 3) water tax, 4) land use tax, 5) transportation tax, and 6) fees for using wildlife and aquatic biological resources. Three of the above taxes—water tax, mineral replacement tax, and tax on excess hydrocarbon profit—are viewed as likely to unbalance the environmental situation due to the scarcity of water and mineral resources. As prescribed by the Fiscal Code of the Russian Federation (RF FC), 100% of the revenues collected from the taxes on water and excess/surplus hydrocarbon profits go to the federal Russian Federation budget, and those from the mineral replacement tax (depending on the type of mineral produced/extracted) go to the federal budget and those of the Russian regions.<sup>12</sup>

Land use and transportation are known as sources of environmental damage, contributing to air pollution and surface soil degradation. Designed to compensate for this damage, the land and the transportation taxes, however, classify as non-earmarked taxes and go to budgets at the lower levels (100% of land tax revenues go to local (municipal) budgets and 100% of transport tax revenues go to regional budgets). The fees levied on the use of wildlife and aquatic biological resources can compensate for the damage caused as a result of hunting and fishing but only partially. These taxes are not earmarked and, as stated in the RF FC, are sent to the federal budget and the budgets of Russian regions.

It should be noted that the revenues from these taxes and fees are primarily for replenishing RF budgets/coffers, which are used to cover State spending commitments on an aggregate basis as provided for in Articles 84-86 of the RF FC since, pursuant to Article 35, budget expenditures cannot be linked to specific budget revenues. Every year a portion of these revenues is spent to fund environmental protection measures, because, by virtue of Articles 21, 84-86 of the RF FC, the “environmental protection” expenditure item is included

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<sup>10</sup> Ju.N. Solnyshkova, *Razvitiie Ėkologicheskogo Nalogooblozheniia v Rossijskoj Federacii* [*Development of Environmental Taxation in the Russian Federation*], VESTNIK SARATOVSKOGO GOSUDARSTVENNOGO SOCIAL'NO-ĖKONOMICHESKOGO UNIVERSITETA, Feb. 2017, at 87, 89 (Russ.).

<sup>11</sup> Nalogovyĭ Kodeks Rossijskoj Federatsii [NK RF] [Tax Code] art. 3340 (Russ.).

<sup>12</sup> Biudzhetyĭ Kodeks Rossijskoj Federatsii [BK RF] [Budget Code] art. 3823 (Russ.).

at every level of budget spending in the RF budgetary system, encompassing “...environmental monitoring; waste collection and disposal and wastewater treatment; the protection of flora, fauna and habitats; applied environmental research; miscellaneous environmental issues...”.<sup>13</sup> In summary, RF fiscal legislation does provide for using aggregate revenues for environmental protection expenditures, but the amount of funding available in the budgets at all levels does not appear to be enough to fund the transition to a green economy.

The non-tax payments that can be classified as comprising the current Russian environmental taxation include:

1) Environmental handling fee. An environmental handling fee is paid by goods importers and manufacturers for the disposal of products at the end of their useful life. One hundred percent of the environmental handling fee goes to the RF federal budget and must be spent, as stated in Article 24.5 of the Federal Law “Concerning Production and Consumption Waste”,<sup>14</sup> in strict compliance with the RF FC. First enshrined in the Russian legislation on January 1, 2022, these revenues aimed at, *inter alia*, waste disposal following the procedure established in environmental standards. On January 1, 2024, the procedure for paying this fee was drastically reformed to improve the manufacturer accountability mechanisms, as well as to establish new rules for calculating the fee to be paid and the reporting procedure.

2) Vehicle recycling fee. A vehicle recycling fee was imposed for “... protecting human health and the environment from harmful effects of vehicle operation ...”.<sup>15</sup> Article 24.1 of the Federal Law “Concerning Production and Consumption Waste” defines this fee as payable by manufacturers or buyers per every vehicle produced or imported into the Russian Federation in order to cover the cost of ensuring the environmentally safe disposal of vehicles in accordance with the corresponding standards. The vehicle recycling fee is an earmarked, one-time payment, and 100% of its revenues go to the RF federal budget.

3) Environmental impact fee. Negative environmental impact fee is levied in accordance with Article 16 of the Federal Law “Concerning Environmental Protection” on “... the emission of pollutants into atmospheric air by stationary sources; discharges of pollutants into water bodies; and the storage and disposal of production and consumption waste ...”.<sup>16</sup> According to the RF FC, 60% of the revenues from the negative environmental impact fees are sent to

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<sup>13</sup> Biudzhetniĭ Kodeks Rossiĭskoiĭ Federatsii [BK RF] [Budget Code] art. 3823 (Russ.).

<sup>14</sup> Federal'nyiĭ Zakon RF ob Othodah Proizvodstva i Potrebleniia [Federal Law of the Russian Federation on Production and Consumption Waste], Sobranie Zakonodatel'stva Rossiĭskoiĭ Federatsii [SZ RF] [Russian Federation Collection of Legislation] 1998, No. 26, Item 3009.

<sup>15</sup> *Id.*

<sup>16</sup> Federal'nyiĭ Zakon RF ob Ohrane Okruzhajushhej Sredy [Federal Law of the Russian Federation on Environmental Protection], Sobranie Zakonodatel'stva Rossiĭskoiĭ Federatsii [SZ RF] [Russian Federation Collection of Legislation] 2002, No. 2, Item 133.

local (municipality-level) budgets and 40% to regional budgets. Since January 1, 2022, the negative environmental impact fee enjoys the status of an earmarked contribution and is solely used for the purposes specified in Article 16.6 of the Federal Law “Concerning Environmental Protection.” Previously, regional and municipal authorities had the authority to establish the size of environmental protection expenditures at their own discretion. As of January 1, 2024, the fee rate was indexed, while air pollution fines became stricter as part of the efforts to boost nature protection and cultivate a sustainable future for all (businesses, communities, governments).

In 2018, attempts were made to replace the negative environmental impact fee with a unique/special Ecotax and to add a new section, “Ecotax”, to the RF Tax Code to that effect (Initiative dd. August 13, 2018, Project ID: 02/04/08-18/00083016).<sup>17</sup> The Ecotax was to be introduced on January 1, 2020, but had to be shelved due to inconsistencies and flaws in the draft bill. One of the main reasons the government sought to reclassify the negative environmental impact fee as a tax was to increase tax administration efficiency. In such a case, Ecotax revenues would be controlled by the Federal Tax Service—which has access to all the details of a businesses’ core and non-core activities—and not by the Federal Oversight Service of Natural Resource Management (RosPrirodnadzor). Furthermore, Ecotax evasion would not only be subject to administrative sanctions, they would also be criminally prosecuted, thus bringing additional revenue to the budget and coming down hard on business. If implemented, the Ecotax would make it more difficult for businesses to declare and pay the fees/charges/rates since the procedure would require data reconciliation with the RosPrirodnadzor. Furthermore, the initiative did not include any assurance/guarantee to civil society that the Ecotax would actually allocate more funding for environmental protection measures that it did the negative environmental impact fee.

Another initiative (dated October 2, 2018, Project ID: 02/04/10-18/00084496)<sup>18</sup> proposed that the vehicle recycling fee be placed under the jurisdiction of the RF Tax Code by adding a section on “Vehicle Recycling Fee”. This move was originally contemplated in “The 2020 Principal Guidelines for Fiscal and Customs Tariffs Policy and 2021-2022 Planning Period,” a document designed to optimize existing non-tax payments of quasi-tax nature. It

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<sup>17</sup> *O Vnesenii Izmenenii v Chasti Pervuiu i Vtoruiu Nalogovogo Kodeksa RF. Proekt Federal'nogo Zakona ot 13.08.2018 g [On Amendments to Parts One and Two of the Tax Code of the Russian Federation. Draft Federal Law Dated August 13, 2018]*, [https://minfin.gov.ru/ru/document/npa\\_projects/?id\\_4=3230-o-vnesenii\\_izmenenii\\_chasti\\_pervuyu\\_i\\_vtoruyu\\_nalogovogo\\_kodeksa\\_rossiiskoi\\_federatsii](https://minfin.gov.ru/ru/document/npa_projects/?id_4=3230-o-vnesenii_izmenenii_chasti_pervuyu_i_vtoruyu_nalogovogo_kodeksa_rossiiskoi_federatsii) (last visited Dec. 27, 2023).

<sup>18</sup> *O Vnesenii Izmenenij v Chasti Pervuju i Vtoruju Nalogovogo Kodeksa RF. Proekt Federal'nogo Zakona ot 02.10.2018 g [On Amendments to Parts One and Two of the Tax Code of the Russian Federation. Draft Federal Law Dated October 2, 2018]*, [https://minfin.gov.ru/ru/document/npa\\_projects/?id\\_4=4317-o-vnesenii\\_izmenenii\\_v\\_nalogovyi\\_kodeks\\_rossiiskoi\\_federatsii\\_i\\_nekotorye\\_zakonodatelnye\\_aktivy\\_rossiiskoi\\_federatsii](https://minfin.gov.ru/ru/document/npa_projects/?id_4=4317-o-vnesenii_izmenenii_v_nalogovyi_kodeks_rossiiskoi_federatsii_i_nekotorye_zakonodatelnye_aktivy_rossiiskoi_federatsii) (last visited Dec. 28, 2023).

stressed that “... the intention of transferring the Vehicle Recycling Fee, currently classified as a non-tax payment, to the jurisdiction of the Tax Code has been dictated by the need for more stable rules for calculations and payment, as well as an attempt to give businesses further guarantees against possible changes in the makeup of the said payment ...”.<sup>19</sup> Economically, including the vehicle recycling fee in the RF TC can benefit the State by generating extra funds exempt from legal liability (tax and criminal prosecution), while businesses, if found in breach of fiscal regulations, would face extra outlays or face difficulties claiming the amounts paid for vehicle disposal since the very mechanism of such disposal is yet to be determined. The procedure for the recycling fee refund is still too centralized, with 100% of its revenues going into the federal budget.

The next step was the adoption of a federal bill proposing a Climate Experiment, in the summer of 2019 with a timeline spanning from January 1, 2020 to December 31, 2026, envisioning the introduction of a cap and trade scheme in 12 urban areas and districts in Russia.<sup>20</sup> Twenty-nine more cities in 16 regions joined in the fall of 2023. The Climate Experiment seeks to increase the quality of life and environmental safety in major population centers, thus promoting the basic principles of a green economy.

In the fall of 2021, the Russian government approved the Low-Greenhouse Gas Emission Economy Strategy 2050,<sup>21</sup> which provides, among other things, for amendments to be carried out on the current tax policy and to promote green financing. At the same time in 2021, the World Bank released its Russia Economic Report, which recommended that the Russian Federation follow Europe’s plan to establish a carbon tax in 2023 as a measure for a faster and more effective transition to a green economy. However, in the spring of 2022, after Western countries imposed sanctions on Russia in response to its special operation in Ukraine, the implementation of the said strategy was suspended, as was the issue of following the West’s proposed carbon tax. Even then, on March 6,

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<sup>19</sup> *Osnovnye Napravleniia Bjudzhetnoi, Nalogovoi i Tamozhenno-Tarifnoi Politiki na 2020 God i na Planovyi Period 2021 i 2022 Godov* [Main Directions of Budget, Tax And Customs Tariff Policies for 2020 and for the Planning Period Of 2021 and 2022], [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_334706/d9771877fceb7291429718520be673066c38e351/](http://www.consultant.ru/document/cons_doc_LAW_334706/d9771877fceb7291429718520be673066c38e351/) (last visited Dec. 15, 2023).

<sup>20</sup> *Federal’nyi Zakon RF o Provedenii Èksperimenta po Kvotirovaniu Vybrosov Zagriazniashchih Veshchestv i Vnesenii Izmenenij v Otdel’nye Zakonodatel’nye Akty RF v Chasti Snizheniia Zagriazneniia Atmosfernogo Vozduha* [Federal Law of the Russian Federation on Conducting an Experiment on Quotas for Emissions of Pollutants and Introducing Amendments to Certain Legislative Acts of the Russian Federation in Terms of Reducing Air Pollution], *Sobranie Zakonodatel’sтва Rossiiskoi Federatsii* [SZ RF] [Russian Federation Collection of Legislation] 2019, No. 30, Item 4096.

<sup>21</sup> *Rasporiazhenie Pravitel’sтва RF ot 29 Oktabria 2021 g. ob Utverzhdenii Strategii Social’no-Èkonomicheskogo Razvitiia Rossii s Nizkim Urovnem Vybrosov Parnikovyh Gazov do 2050 Goda N<sup>o</sup> 3052-r.* [Resolution Of The Government Of The Russian Federation Of October 29, 2021 On The Approval Of The Strategy For The Socio-Economic Development Of Russia With Low Greenhouse Gas Emissions Until 2050 N<sup>o</sup> 3052-r], <https://docs.cntd.ru/document/726639341> (last visited Dec. 20, 2023).

2022, an official resolution<sup>22</sup> was issued instructing a number of the Russian regions (with the Sakhalin Region as a pilot area) to conduct the Climate Experiment for capping greenhouse gas emissions. This experiment involves GHG inventory, emission and sequestration quotas, as well as mandatory carbon reporting, followed by the adoption of one more resolution,<sup>23</sup> in the summer of 2022, that establishes a charge for exceeding the greenhouse gas emissions quota as part of the Climate Experiment in the Sakhalin Region.

The Climate (*de facto* ecological) Experiment began on September 1, 2022, and is scheduled to end on December 31, 2028. Work is in process in the Sakhalin Region to introduce known carbon management practices and develop new ones. Among its many goals, the experiment aims to find a balance between sources and drops in emissions no later than December 31, 2025. In the fall of 2023, it was officially announced that on ending the experiment in Sakhalin, carbon regulation practices would be implemented in other Russian regions.

As mentioned earlier, the current greenhouse gas regulation system uses carbon tax or quota setting mechanisms. In the RF, GHG emission quotas have been legally established in Article 8 of the Federal Law “Concerning the Experiment to Limit Greenhouse Gas Emissions in Certain Regions of the Russian Federation”,<sup>24</sup> and there is a charge for exceeding GHG emission quotas, as established in a separate RF Government Regulation.<sup>25</sup> Just like carbon tax, this one serves as a mean to urge businesses to reduce their levels of pollution and should be seen as the Russian version of the Western carbon tax — a kind of an alternative of quasi-tax for regulating emissions within a green economy framework. For now, there is no clear vision of what path the green tax process will

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<sup>22</sup> Federal’nyi Zakon RF o Provedenii Ėksperimenta po Ogranicheniju Vybrosov Parnikovyh Gazov v Otdel’nyh Sub’ektah RF [Federal Law of the Russian Federation on Conducting an Experiment to Limit Greenhouse Gas Emissions in Certain Constituent Entities of the Russian Federation], Sobranie Zakonodatel’sтва Rossiiskoi Federatsii [SZ RF] [Russian Federation Collection of Legislation] 2022, No. 10, Item 1391.

<sup>23</sup> Postanovlenie Pravitel’sтва RF ot 18 Avgusta 2022 G. N<sup>o</sup> 1441 o Stavke Platy Za Prevyshenie Kvoty Vybrosov Parnikovyh Gazov v Ramkah Provedeniia Ėksperimenta po Ogranicheniju Vybrosov Parnikovyh Gazov na Territorii Sahalinskoĭ Oblasti [Regulations of the Government of the Russian Federation of August 18, 2022 No. 1441 on the Rate of Payment for Exceeding the Quota of Greenhouse Gas Emissions as Part of an Experiment to Limit Greenhouse Gas Emissions in the Sakhalin Region], Sobranie Zakonodatel’sтва Rossiiskoi Federatsii [SZ RF] [Russian Federation Collection of Legislation] 2022, No. 34, Item 5990.

<sup>24</sup> Federal’nyi Zakon RF o Provedenii Ėksperimenta po Ogranicheniju Vybrosov Parnikovyh Gazov v Otdel’nyh Sub’ektah RF [Federal Law of the Russian Federation on Conducting an Experiment to Limit Greenhouse Gas Emissions in Certain Constituent Entities of the Russian Federation], Sobranie Zakonodatel’sтва Rossiiskoi Federatsii [SZ RF] [Russian Federation Collection of Legislation] 2022, No. 10, Item 1391.

<sup>25</sup> Postanovlenie Pravitel’sтва RF ot 18 Avgusta 2022 G. N<sup>o</sup> 1441 o Stavke Platy Za Prevyshenie Kvoty Vybrosov Parnikovyh Gazov v Ramkah Provedeniia Ėksperimenta po Ogranicheniju Vybrosov Parnikovyh Gazov na Territorii Sahalinskoĭ Oblasti [Regulations of the Government of the Russian Federation of August 18, 2022 No. 1441 on the Rate of Payment for Exceeding the Quota of Greenhouse Gas Emissions as Part of an Experiment to Limit Greenhouse Gas Emissions in the Sakhalin Region], Sobranie Zakonodatel’sтва Rossiiskoi Federatsii [SZ RF] [Russian Federation Collection of Legislation] 2022, No. 34, Item 5990.



take in Russia to come close to global standards, but there has certainly been some progress made towards green taxation in Russia. Despite external pressure and sanctions, the Russian Federation continues to move towards green economy standards, aiming to achieve sustainable economic growth and generate wealth with zero environmental impact.

For the time being, Russia's environmental taxation system operates by means of a set of fees and non-tax payments, and not a by dedicated eco-tax scheme. These fees have been established in the RF Tax Code as non-earmarked for environmental services and are levied for the purpose of replenishing the RF budgets while all current non-tax payments are classified as earmarked and intended to compensate the environmental damage caused. By introducing an alternative to carbon tax, i.e. the charge for exceeding the greenhouse gas emissions quota, Russia has taken another step towards environmental taxation. Further progress in this area should rely on reforming all existing payments and use of eco-taxes as an instrument to transition toward a national economy functioning within an environmental framework.

In the future, it seems expedient to move away from the non-earmarked taxation — which has in recent years been the case in Russia — to allotting all environmental tax revenues to environmental services. It may also be expedient to revive the Federal Environment Facility, which existed in the RF between 1991 and 2001, as well as to re-establish territorial environment facilities for funding local projects and a more effective handling of local environmental issues. Lastly, it seems advisable to channel revenues from some existing taxes (e.g. mineral replacement tax, water tax, transportation tax or land tax) to these federal and local environment facilities so that once they are in place, they can be directed solely to environmental issues.

On the upside, Russia's recent efforts towards green taxation have resulted in having the Environmental Handling Fee and Vehicle Recycling Fee re-classified as from January 1, 2022, into earmarked tax revenues. Another important outcome is Russia's legal establishment, at least on an experimental basis in 2022, of its greenhouse gas emission regulation system, following the 2019 experimental introduction of pollutant emission quotas. The legal frameworks for Russia's environmental taxation have undergone changes and should soon receive important updates expected as to their beneficial effect on the environment.

The process towards a more efficient legal framework for environmental taxation should be continued. Payers of environmental taxes and related non-tax fees should be given ample encouragement to fulfill their obligation to pay on time and in full — even more so when there is positive ecological evidence of the revenues being spent for environmental purposes. Introducing environmentally related taxes has been a significant development and can play an important part in Russia's tax reform.<sup>26</sup>

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<sup>26</sup> L.S. Samodelko, M.V. Karp, *Значение и Принципы Экологического Налогообложения* [*The Meaning and Principles of Environmental Taxation*], VESTNIK UNIVERSITETA, Nov. 2020, at 141, 147 (Russ.).

Mexico's environmental taxation system also has its advantages. In Mexico, tax issues are regulated not only by federal laws, but also by state and municipal authorities. Federal laws generally take precedence over state and municipal laws with the exception of federal carbon taxes to be paid by producers and importers of fuels. Mexico's environmental payments are predominantly regulated by states and municipalities and include: 1) transportation tax, 2) environmental sanitation tax, and 3) carbon (emission) tax.

Mexico levies an annual transportation tax on vehicles and motorcycles. Subject to their home registration, owners pay according to the term, procedure and amount payable to by each state independently. The tax itself may have different names —vehicle ownership tax, vehicle operation tax, or state license plate tax, etc.— but it is still essentially a transportation tax. For example, residents of the states of Chihuahua, Sonora and Baja California Sur are exempt from transportation tax, while those in Tabasco only pay it for vehicles and motorcycles that exceed the established threshold. In Sinaloa and Quintana Roo, vehicle owners may apply for subsidies funded by their state government.

Another element of Mexico's environmental taxation system is the environmental sanitation tax. Levied on tourists arriving in Mexico, its revenues are directed at supporting the country's tourist industry, beaches and related facilities. The right to introduce and regulate the amount of environmental sanitation taxes lies under the jurisdiction of the municipalities. This tax is levied, for example, in the municipalities of Tulum, Benito Juárez, Puerto Morelos, and Solidaridad. Latin America, and Mexico in particular, are working towards achieving their carbon agendas. Hence, carbon markets are shifting from voluntary to mandatory as Latin America introduces mechanisms like carbon tax and emissions trading systems (ETS), which have either been established or are due to appear in Latin America's four largest economies —Brazil, Mexico, Colombia, and Chile.

Mexico is the only country in Latin America with a well-established ETS. Piloted in 2020, the Mexican ETS covers direct carbon emissions from stationary sources in the energy and manufacturing sectors and entered its operational phase in 2023. The government is introducing carbon pricing, and a federal carbon tax introduced in 2014 began to be levied on fuel producers and importers. In fact, this carbon tax sets payment rates for carbon emissions in addition to those attributed to natural gas. Moreover, local carbon schemes (projects) are covered by individual Mexican states. For example, there are carbon emissions regulation systems in the states of Zacatecas (since 2017), Baja California (since 2020), and Tamaulipas (since 2021), among others.

Thus, even though the Mexican environmental taxation system can be described as less diverse than that of Russia, it offers a good example of an environmental tax system that has been in place since 2014. Meanwhile the Russian environmental taxation system currently operates under a set of taxes, fees and non-tax payments, none of which are *per se* a dedicated environmental protection directly. A feasibility analysis of Mexico's environmental taxation

mechanisms like carbon tax and emissions trading systems (ETS) has also been undertaken for their use in Russia.

Summing up, there is an urgent need in Russia to promote environmental taxation in a way that allows balancing the interests of all stakeholders (government, communities, businesses). In modern conditions of socio-economic development, the priority in balancing the economic interests of businesses, social agendas and institutional reforms should be given to environmental concerns. The environmental policy should be comprehensive and provide for institutions, legislative frameworks and measures ensuring that growth-oriented businesses and the private sector operate in way that is environmentally sustainable. The primary purpose of green taxation lies in fostering innovation aligned with green economy standards and not in reflecting the State's intent to apply punitive measures on businesses with limited capacity for greening by prosecuting them either administratively or criminally. As a result of green taxation there has been a noticeable change in the emissions of Russia's largest oil and gas producers —Rosneft, LUKOIL, Gazprom Neft, NOVATEK, Surgutneftegaz, Tatneft, to name a few. At this stage, Russia's system of environmental taxation should aim at a complete overhaul of its environmental economy. The nation's efforts to prevent and reduce environmental damage would be much more effective by implementing environmentally conscious taxation. After all, the economy and human health depend directly on the conditions of the environment.

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