

The Power of Windfalls

The potential of windfall profits taxes on top fossil fuel and financial companies



Key messages

- While the fossil fuel sector's contribution to climate change is well known, it is important to highlight the critical role of the financial sector in funding the extraction and use of fossil fuels. As ActionAid research has found, banks alone poured over US\$3.2 trillion into fossil fuels in the Global South since the Paris Agreement was adopted in 2015¹, making them complicit in climate damage.
- Both the fossil fuels industry and the financial industry have been making extraordinary profits in recent years, widely attributed to the impact of Russia's full-scale invasion of Ukraine, and high interest rates adopted by many countries in response to growing inflation.
- This research analyses the profits of the top 14 fossil fuel companies and top 22 financial corporations by value on the stock market in the 24 months preceding July 2023.
- In the 12 months to July 2023, these 14 fossil fuel companies collectively made US\$278 billion in net profits, up by an astounding 278% compared to the average of the reference period (2017/8 to 2020/1). In the same period, the top 22 financial corporations collectively made US\$388 billion in net profits, up by 32% from the reference period.
- Of these profits across both sectors, US\$242 billion can be considered windfall profits – profits that exceed the average from the baseline four years by over 20%. Windfall profits are often attributed to external context changes and are considered a 'surplus' above the regular and expected profits of the companies.
- In the 12 months to July 2022, the collective profits of the companies in both sectors amounted to US\$552 billion, of which US\$182 billion can be considered windfall profits. It should be noted that while the financial sector companies recorded higher profits in that period than in the baseline one, they were not high enough for any of them to be considered windfall profits.
- A tax of 90% on the windfall profits from the 24 months preceding July 2023 could generate as much as US\$382 billion in revenue just from these 36 companies.
- **This amount could make a significant difference if spent on public services such as education, or on climate action. It is almost 20 times more than the US\$21 billion that was provided by donor countries for climate adaptation in 2021.**
- **Developed country governments should urgently introduce windfall profits taxes, preferably on all sectors, at a minimum covering fossil fuel and financial sectors. They should also consider implementation of permanent excess profits taxes. Revenue from these taxes could be directed towards public services and international climate finance, including the Loss and Damage Fund.**

¹[How the Finance Flows: The banks fuelling the climate crisis | ActionAid International](#)

Introduction

On the first day of COP27 in 2022, Antonio Guterres, Secretary-General of the United Nations, asked governments to tax the windfall profits of fossil fuel companies and redirect that money to those in need and countries suffering loss and damage due to climate change impacts.² Small islands' leaders made a similar call, highlighting the enormous profits made by oil companies that year.³

One year on, only some EU Member States, the UK, and a few Latin American countries, have introduced some forms of temporary and often limited windfall taxes on fossil fuel companies,⁴ leaving colossal profits undertaxed – and climate action underfunded.

In July 2023, research by Oxfam and ActionAid revealed that 722 mega-corporations raked in over US\$1 trillion a year in windfall profits in 2021 and 2022. This research calculated that a windfall tax of 90 percent on these windfall profits could generate US\$941 billion – money that could increase global investment in clean energy by a third.⁵

In this briefing we look specifically at the profits made by the largest fossil fuel and financial sector companies in the 24 months leading up to June 2023, which is based on the latest available data. We examine trends in their profits and the windfall tax revenue potential in the context of climate change and the need to fund climate action. Energy companies, dominated by fossil fuel giants, are a natural contributor to such a tax, in line with the Polluter Pays Principle. While financial companies do not drill for oil and gas themselves, many of the largest ones have been big financiers of fossil fuels extraction and use, gaining indirect profits from these activities. As ActionAid research has found, banks alone poured over US\$3.2 trillion into fossil fuels in the Global South since the Paris Agreement was adopted in 2015,⁶ making them complicit in climate damage.

Windfall taxes are taxes on profits that are considered to exceed expected profit rates and result from external circumstances. Windfall taxes are usually introduced as one-off measures, while excess profits taxes are a similar instrument built permanently into the tax system. There is a growing consensus as to the general nature of excess profits and the need to tax them better. There is a strong economic justice argument for taxing windfall profits (and broader excess profits) in all sectors, as they could limit crisis profiteering as well as fund responses to crises. The fossil fuel and financial sectors also make a particularly compelling case from a climate justice perspective and to fund climate action.

Russia's full-scale invasion of Ukraine in 2022 and the resulting hikes in energy product prices, as well as the increase in interest rates in response to growing inflation in many countries, are often mentioned as key respective drivers of energy and financial companies' record profits in recent years.⁷ The contrast between the astounding corporate profits and the hardships generated by these events for ordinary people puts the incongruity of these profits into yet sharper focus. What is more, corporate profits can further worsen the inflation and cost-of-living crisis. According to the

² [‘Cooperate or perish’: At COP27 UN chief calls for Climate Solidarity Pact, urges tax on oil companies to finance loss and damage | UN News](#)

³ [COP27: Small island nations call for windfall tax on Big Oil to pay for loss and damage | Euronews](#)

⁴ As of September 2023, source: [Tax Policy Reforms 2023 : OECD and Selected Partner Economies | OECD iLibrary \(oecd-ilibrary.org\)](#)

⁵ [Big business' windfall profits rocket to "obscene" \\$1 trillion a year amid cost-of-living crisis; Oxfam and ActionAid renew call for windfall taxes | ActionAid International](#) It should be noted that that research used a different definition of a windfall profit.

⁶ [How the Finance Flows: The banks fuelling the climate crisis | ActionAid International](#)

⁷ E.g. [Big Oil doubles profits in blockbuster 2022 | Reuters](#) and [US banks generated record \\$80bn first-quarter profits despite turmoil \(ft.com\)](#)

IMF, rising corporate profits account for almost half the increase in Europe's inflation over the past two years as corporations have increased prices by more than the spiking costs of imported energy.⁸ These corporate profits also contrast with the fact that only 67% of small and medium size enterprises in the UK in 2021 made any profits at all⁹.

It is high time that we start properly taxing windfall profits and ensure that the revenues are directed to where financing is urgently needed, including public services and climate action. This is one immediate step that can be taken whilst wider reform to the global financial architecture and the global tax system are clearly needed, not least with new and fairer tax rules to be set by the United Nations following the historic vote in November 2023¹⁰.

Box 1. Methodology

This analysis is based on data from companies' financial statements.

The research covers the 200 largest companies by market capitalisation, and only the companies within that group that operate within the fossil fuels and financial sectors. In total, the research looks at 36 companies of which 14 are in the fossil fuel industry and 22 in the financial sector.

Windfall profits were calculated for the period of 12 months preceding July 2023 and 12 months preceding July 2022 in order to capture the most recent profits data.

We define windfall profits as net profit exceeding 20% over the average profit from 4 baseline years, in this analysis the reference years being mid-2017 to mid-2021. This approach is similar to the EU's approach for the Solidarity Contribution, which introduces a form of temporary windfall profits taxes on energy companies. The details of the implementation by EU Member States vary from country to country.

For the calculation of the revenue potential of windfall profits taxes, we consider possible tax rates of 50% and 90%, which reflect current and historical practices in the implementation of such taxes. While the EU Solidarity Contribution only sets a minimum rate at 33%, many Member States opted for higher rates with Slovenia applying a rate of 80%. Historically, an excess profits tax applied in the US during World War II reached the rate of 95%.

Trends in profits – research results

Companies covered by this research in both sectors saw a generally upward trend in their profits over the past 6 years. For the fossil fuel industry, the period of the Covid-19 pandemic brought a significant drop in profits due to low demand and fuel prices. The sector has, however, recovered

⁸ <https://www.imf.org/en/Blogs/Articles/2023/06/26/europes-inflation-outlook-depends-on-how-corporate-profits-absorb-wage-gains>

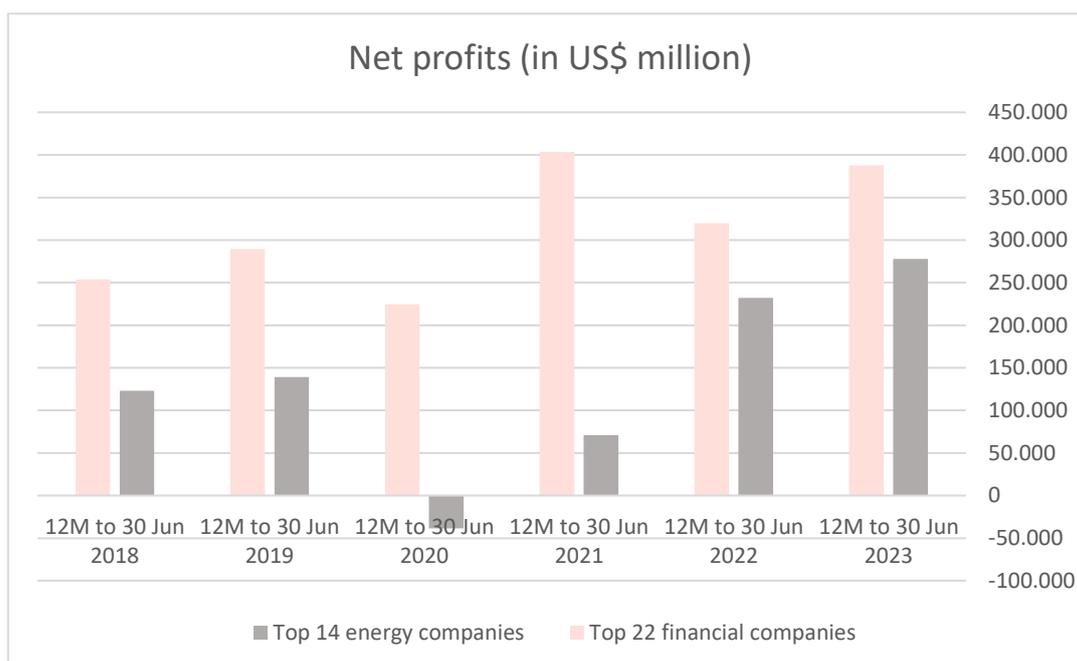
⁹ https://assets.publishing.service.gov.uk/media/61de9d928fa8f50588fedf9c/LSBS_2020_SME_Employers_Final_06012022_updated_January_2022.pdf

¹⁰ <https://actonaid.org/news/2023/historic-un-tax-vote-convention-major-win-public-services>

quickly and Russia's full-scale invasion of Ukraine led to a sharp increase in fuel prices,¹¹ leading to record profits over the past two years.

The financial sector companies recorded a smaller drop in profits during the first year of the pandemic, with a rapid recovery in the following year, when the combined profits of the companies covered by our research reached a record level to date. High interest rates, introduced in many countries in response to the growing inflation over the past two years, and other factors, have led to further increased profitability in the financial sector. Many banks, in the US in particular, made record profits over the past year.¹²

Figure 1. Net profits of top companies by sector, in US\$ million



In the 12 months to July 2023, the top 14 fossil fuel companies by market capitalization, collectively made US\$278 billion in net profits, an increase of an astounding 278% compared to the average of the reference years (mid-2017 to mid-2021). Of these US\$278 billion net profits, US\$192 billion can be considered windfall profits – profits that exceed the average from the preceding four years by over 20%.

In the same period, the top 22 financial corporations collectively made US\$388 billion in net profits, up by 32% from the reference period. Of these US\$388 billion net profits, US\$51 billion can be considered windfall profits. (It should be noted that the relatively low increase in profits from the base years is due to the fact that in 2020/21 the combined profits for the companies reached a record level).

In the 12 months preceding July 2022, the fossil fuel companies made US\$232 billion in net profits and the companies in the financial sector made US\$320 billion, an increase of 216% and 9%

¹¹ [Energy price developments in and out of the COVID-19 pandemic – from commodity prices to consumer prices \(europa.eu\)](https://europa.eu)

¹² [US banks generated record \\$80bn first-quarter profits despite turmoil \(ft.com\)](https://ft.com)

respectively compared to the reference period. US\$155 billion of fossil fuel companies' profits and US\$27 billion of financial companies' profits could be considered windfall profits.

Figure 2. Net and windfall profits of top companies by sector, in US\$ million

	Average net profits for 2017/18 - 2020/21	Net profits in 12M to 30 Jun 2022	Net profits in 12M to 30 Jun 2023	Percent increase in profits, 2021/22 vs. 2017/18-2020/21	Percent increase in profits, 2022/23 vs. 2017/18-2020/21	Windfall profits 2021/22	Windfall profits 2022/23
Top 14 companies in the energy sector	73,560	232,131	277,848	216%	278%	155,039	191,674
Top 22 companies in the financial sector	293,024	319,988	387,774	9%	32%	27,273	50,686

Windfall profits taxes applied on the last two years' profits have a clear revenue potential. However, it is still unclear whether both industries have reached their peak profits yet. The continued growth of profits in most sectors, and the differences in how these profits are affected by external events and factors, raise the question of the utility and viability of permanent excess profits taxes – a question explored in the next section.

Windfall profits tax potential

A windfall profits tax on the 2021/22 and 2022/23 profits from just 36 companies in these two sectors could generate between US\$212 and 382 billion, depending on the rate applied - from 50 to 90 percent. As described above, this spread of rates reflects the current and historical approaches to windfall and excess profits taxes.

Box 2. Definitions

While there is no fixed definition of a windfall profits tax or an excess profits tax, these terms are often understood as taxes on profits exceeding expected levels, often attributed to a change in external context.

The term 'windfall profits tax' is usually applied to a form of temporary levy on excess corporate profits.

A permanent measure of this kind is usually referred to as an 'excess profits tax'

Figure 3. Windfall profits tax potential by sector, in US\$ million

	Windfall profits in 2021/22	Windfall profits in 2022/23	Revenue at 50% windfall tax	Revenue at 90% windfall tax
Top 14 companies in the energy sector	155,039	191,674	173,384	312,091
Top 22 companies in the financial sector	27,273	50,686	38,979	70,163

This is a significant amount of money, which could – even as one-off revenue - make a real difference in climate action or public services. US\$382 billion is, for comparison:

- more than twice what is needed annually to ensure full access to pre-primary, primary and secondary education in low and lower-middle income countries;^{13 or}
- approximately the estimated annual need to cover climate adaptation needs in developing countries;^{14 or}
- almost 20 times more than what was provided by donor countries for climate adaptation in 2021.¹⁵

As mentioned in the earlier section, the sharp increase in corporate profits in many sectors - oil and gas in particular – has stirred a debate and action on windfall profits taxes. It is, however, too early to tell whether these profit levels have already peaked or when that might happen.

Given that excess profits can occur in different sectors at different times, a more permanent way of taxing such profits should be considered. Excess profits taxes could be designed to capture and tax abnormal profits on a regular basis, without the need to pass separate measures each time a global crisis makes a particular sector unusually profitable. Such a measure could also provide more predictability both to public budgets and to businesses, compared to one-off windfall tax measures.¹⁶ The design of such taxes needs careful consideration to ensure that they are fair and effective. That said, recent developments and history show that such taxes are possible. Some European and Latin American countries have introduced forms of windfall profits taxes on energy companies¹⁷ and more recently a number of European countries moved to introduce a windfall profits tax on the banking sector.¹⁸ There has been a growing political interest in recent years, paving the way to further reforms.¹⁹

¹³ The financing gap to provide universal access to pre-primary, primary and secondary education in low and lower-middle income countries was estimated in 2019 at \$148 billion a year between 2020 and 2030. Source: [Methodology Note\(English\).pdf \(oi-files-d8-prod.s3.eu-west-2.amazonaws.com\)](#)

¹⁴ [Adaptation Gap Report 2023 | UNEP - UN Environment Programme](#)

¹⁵ International public finance (multilateral and bilateral) for adaptation reached US\$21 billion in 2021. Source: [Adaptation Gap Report 2023 | UNEP - UN Environment Programme](#)

¹⁶ [IMF sees ad hoc taxes on excess profits as 'problematic' | Reuters](#)

¹⁷ [Tax Policy Reforms 2023 : OECD and Selected Partner Economies | OECD iLibrary \(oecd-ilibrary.org\)](#)

¹⁸ [European countries imposing windfall taxes on banks | Reuters](#)

¹⁹ [Excess Profit Taxes: Historical Perspective and Contemporary Relevance \(imf.org\)](#)

Conclusions and recommendations

The fossil fuels industry and financial companies, often deeply involved with the fossil fuel industry, continue to rake in colossal profits, while many people struggle to get by. At the same time, the climate crisis is rapidly worsening, and high-income countries are failing to keep their promises on climate finance. Public services and social protection systems, which are central to climate resilience,²⁰ are also severely underfunded in many developing countries. Revenue from windfall or excess profits taxes could help scale up international finance for these crucial sectors.

Windfall and excess profits taxes are only one aspect of a country's tax system. Tax systems overall need to be more robust, effective and progressive, preventing tax avoidance and evasion, and ensuring proper taxation of corporations and wealthy individuals in particular. With the increased political interest in taxation and a historic UN resolution paving the way to a more inclusive and effective global tax cooperation,²¹ there is no better time than now to act on this important issue. Windfall taxes can provide urgently needed resources whilst those wider tax reforms are put in place.

In this context, high-income country governments should consider the following steps:

- urgently introduce windfall profits taxes, preferably on all sectors, and at a minimum covering fossil fuel and financial sectors;
- consider implementing permanent excess profits taxes, and cooperate in international platforms to ensure coordination, coherence and exchange of best practices in the implementation of such taxes;
- direct the revenue from windfall profits taxes towards international climate finance, including the recently agreed upon Loss and Damage Fund; and/or towards public services and social protection systems to accelerate progress towards the Sustainable Development Goals in developing countries, where there are well documented shortages of funding, especially in education and health.

Image on cover page: Portrait of Adori, from northern Bangladesh. Flooding has impacted her community as storms become more frequent.

²⁰ [Avoiding the Climate Poverty Spiral: Social protection to avoid climate-induced loss & damage | ActionAid International](#)

²¹ In November 2023 countries at the UN adopted a resolution initiating a process for establishing a UN framework convention on international tax cooperation. Source: [UN adopts plans for historic tax reform - Tax Justice Network](#)