



Tax policy aspects of decarbonisation

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Fiscal reforms for low carbon growth in the Mediterranean,
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Environmentally related taxes – carbon pricing

This presentation

- Starts with an overview of the current use of environmentally related taxes in general,
- Followed by a detailed diagnosis of the use of effective carbon rates.
- It then looks at how the revenues from effective carbon rates are used,
- And argues that choices regarding revenue use are essential to the political and social viability of increased use of carbon pricing, as well as to the economic case for carbon pricing.



Carbon pricing for the low carbon transition

The discussions is set in the context of the low carbon transition.

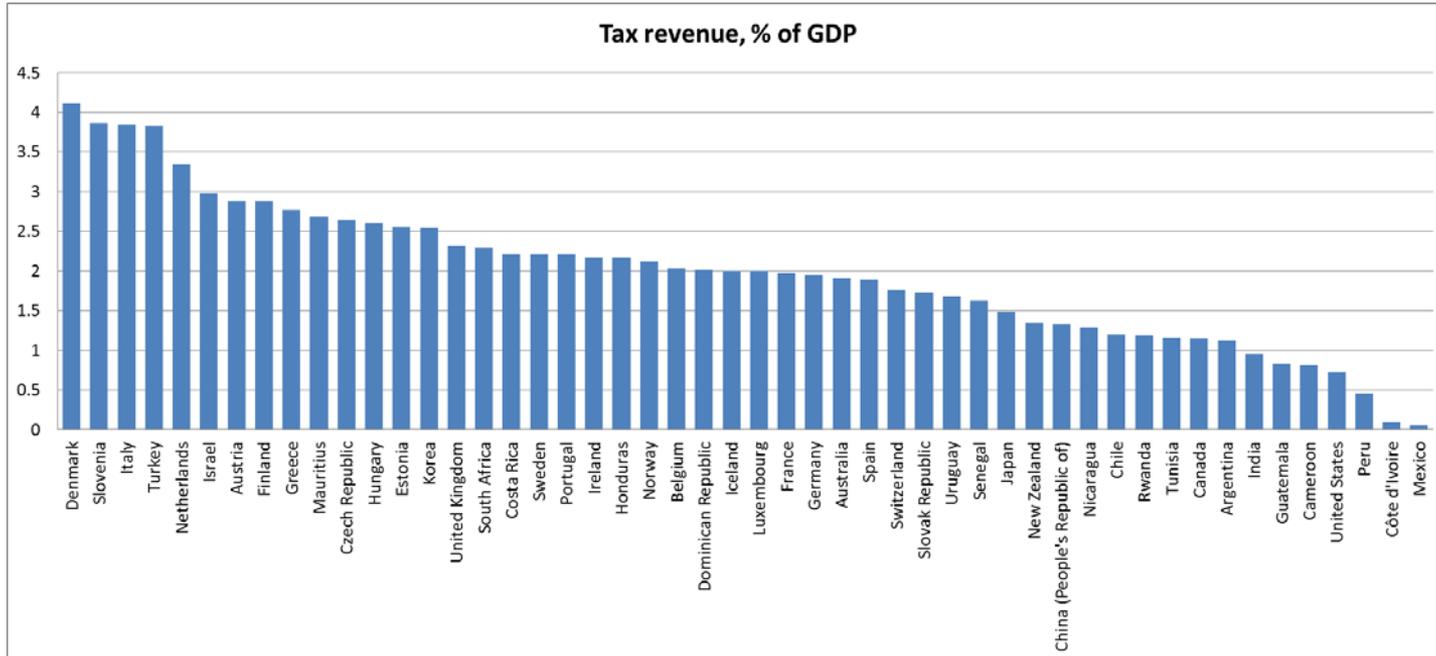
For discussion:

Decarbonisation is about economic transformation, not a correction at the margin. Climate policy is not an add-on to other policies, instead, climate goals directly affect all policy areas. Carbon prices that align with decarbonisation targets will raise substantial amounts of revenues during the transition. Integrating decisions on revenue use with broad fiscal policy (instead treating them separately) is essential to be able to use carbon prices to their full potential.



Environmental fiscal reform – progress

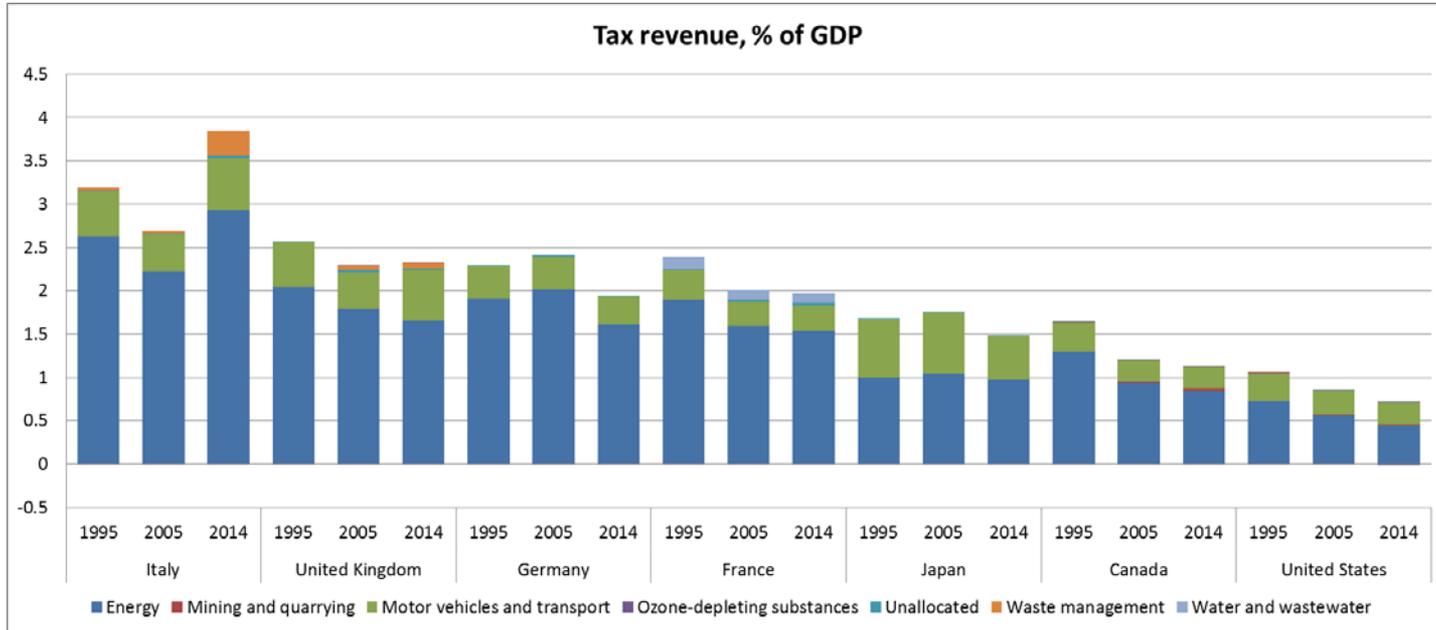
Revenues raised – environmentally related tax revenue in 2014





Environmental fiscal reform – progress

Revenues raised – change over time in G7 countries





Tax policy for the low-carbon transition

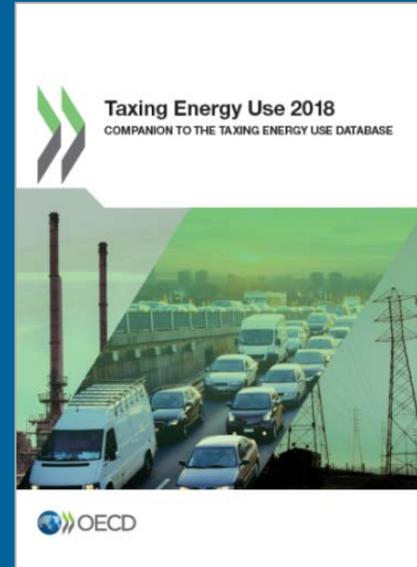
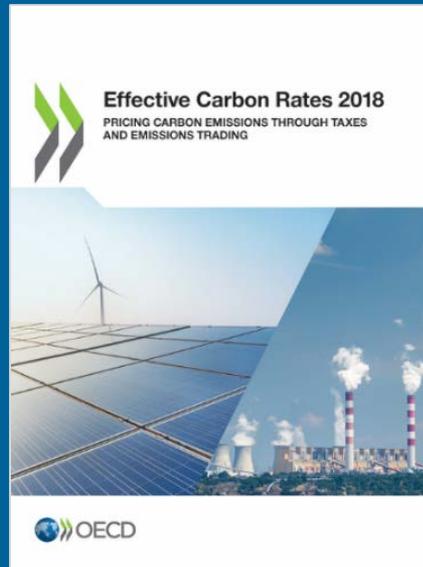
Reducing negative side-effects – driving a low-carbon transformation:
what difference?

Tax policy for low-carbon growth:
effective (climate), efficient (economy), legitimate (public support)

Carbon pricing: rate, base, revenue use

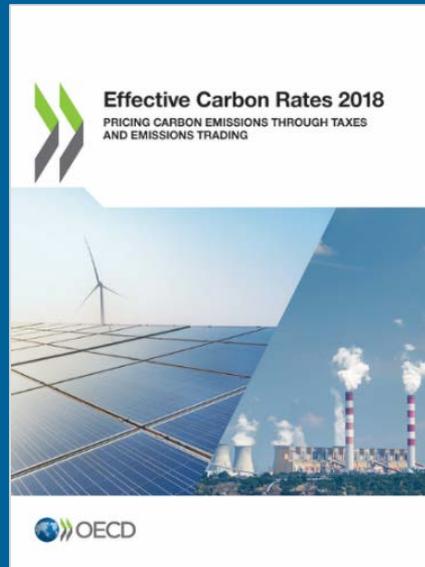


Carbon pricing – a diagnosis





Carbon pricing – a diagnosis





Effective Carbon Rates – What and why

Effective carbon rates:

Measure the strength of price-based incentives to reduce CO₂ emissions from energy use

Focus on economic properties – behavioural margins addressed – and not on labels or stated policy intent.

Include emissions trading, carbon taxes, excise taxes on fuel

Effective Carbon Rate (ECR),
expressed in EUR/tCO₂

Emission permit price

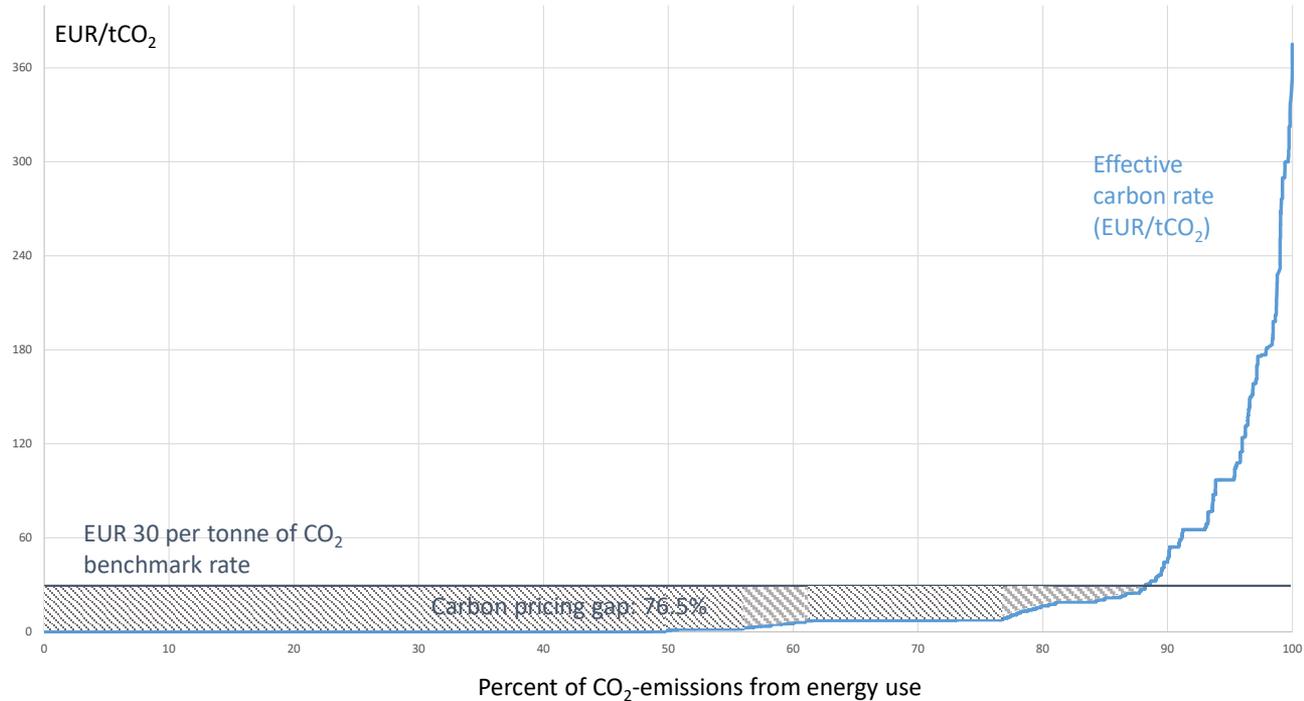
Carbon tax

Specific taxes on
energy use





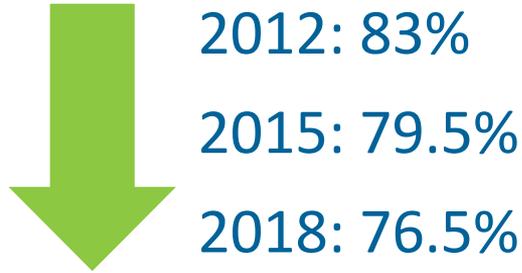
The carbon pricing gap in 2018 is 76.5%





The carbon pricing gap has declined slowly

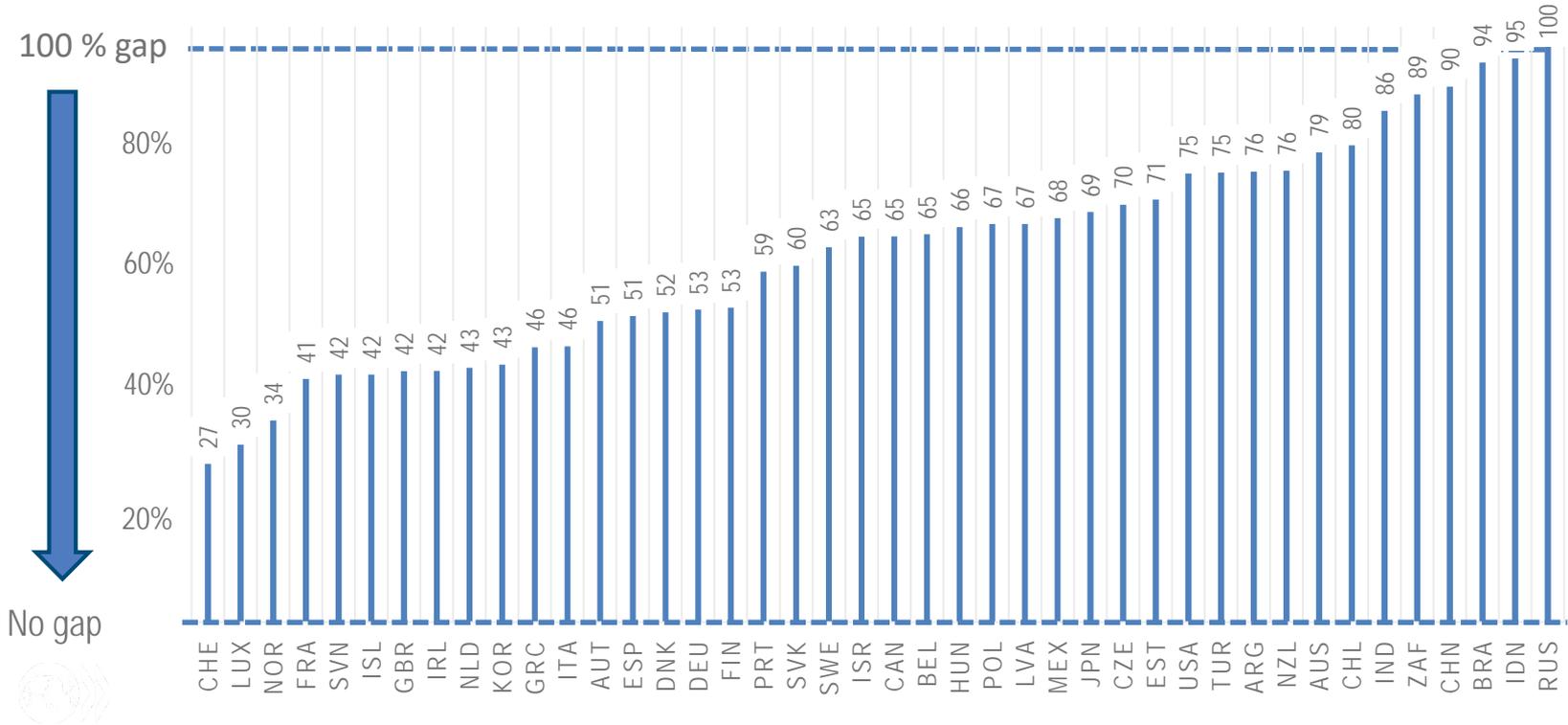
Against the EUR 30/tCO₂ benchmark, the gap declined by about one percentage point per year:





The carbon pricing gap differs across countries

Gap in 2015 in %





The carbon pricing gap differs by sector

Sector	Carbon Pricing Gap at EUR 30/tCO ₂
Agriculture & fisheries	64%
Electricity	84%
Industry	91%
Offroad transport	56%
Residential & commercial	87%
Road transport	21%





Effective Carbon Rates 2018 - Highlights

**Effective carbon rates remain too low
to drive deep decarbonisation in line with Paris Agreement targets**

Effective carbon rates consist mainly of fuel excise taxes but emissions trading is important for electricity

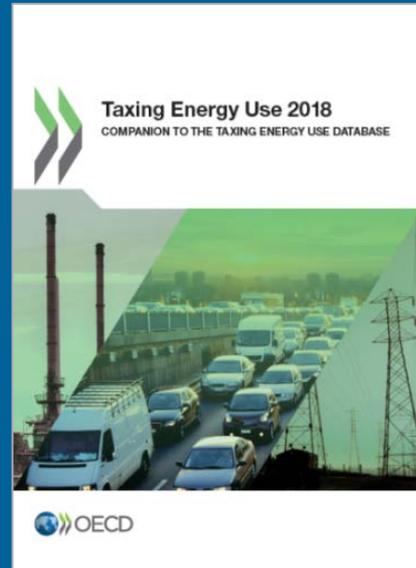
The carbon pricing gap declines from 83% in 2012 to 76.5% in 2018

Rates differ strongly between and within sectors but the carbon pricing gap is large in all sectors other than road transport



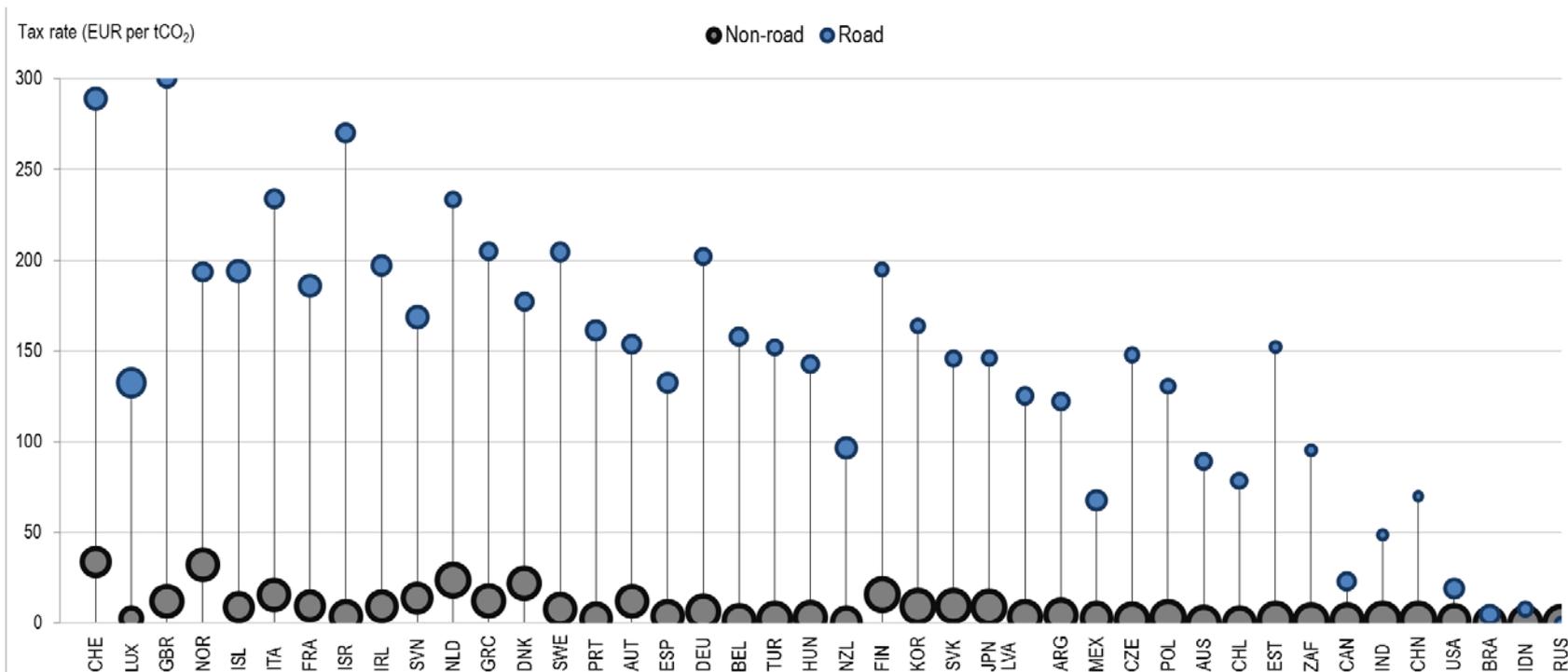


Carbon pricing – a diagnosis



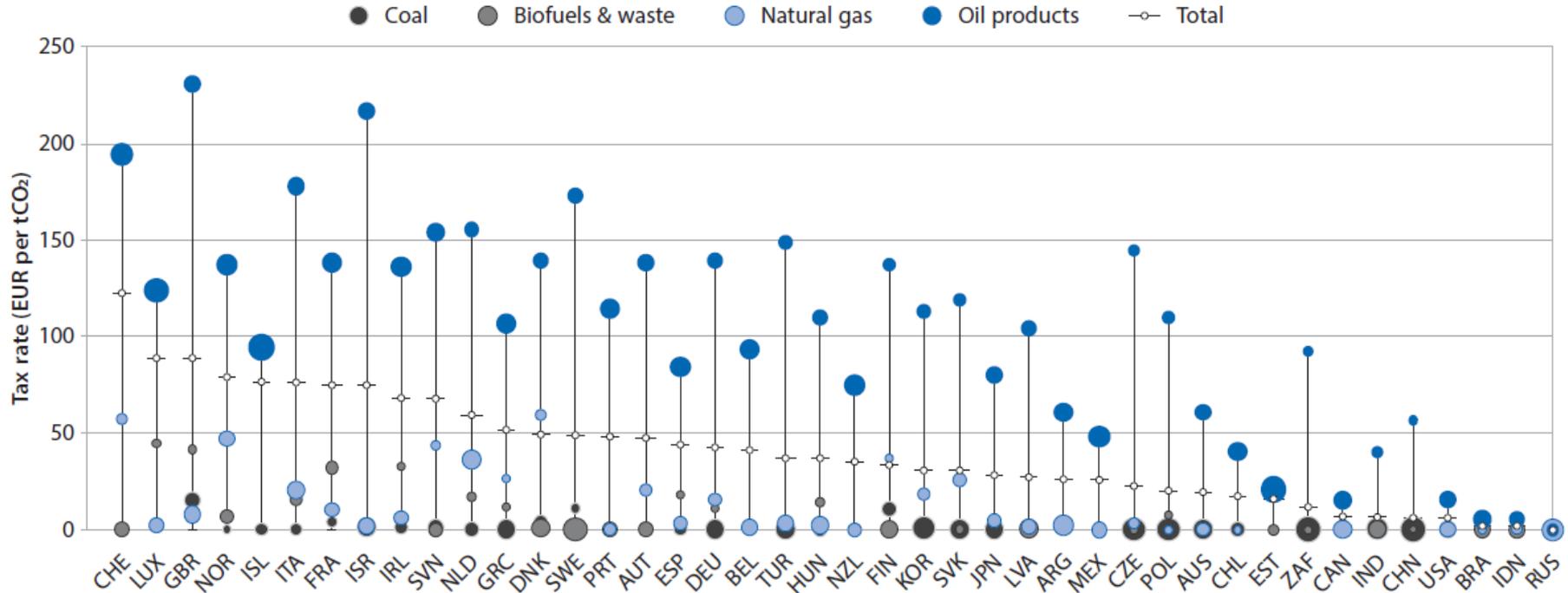


Diagnosis for 2015: Large inter-country differences, in and outside of road transport



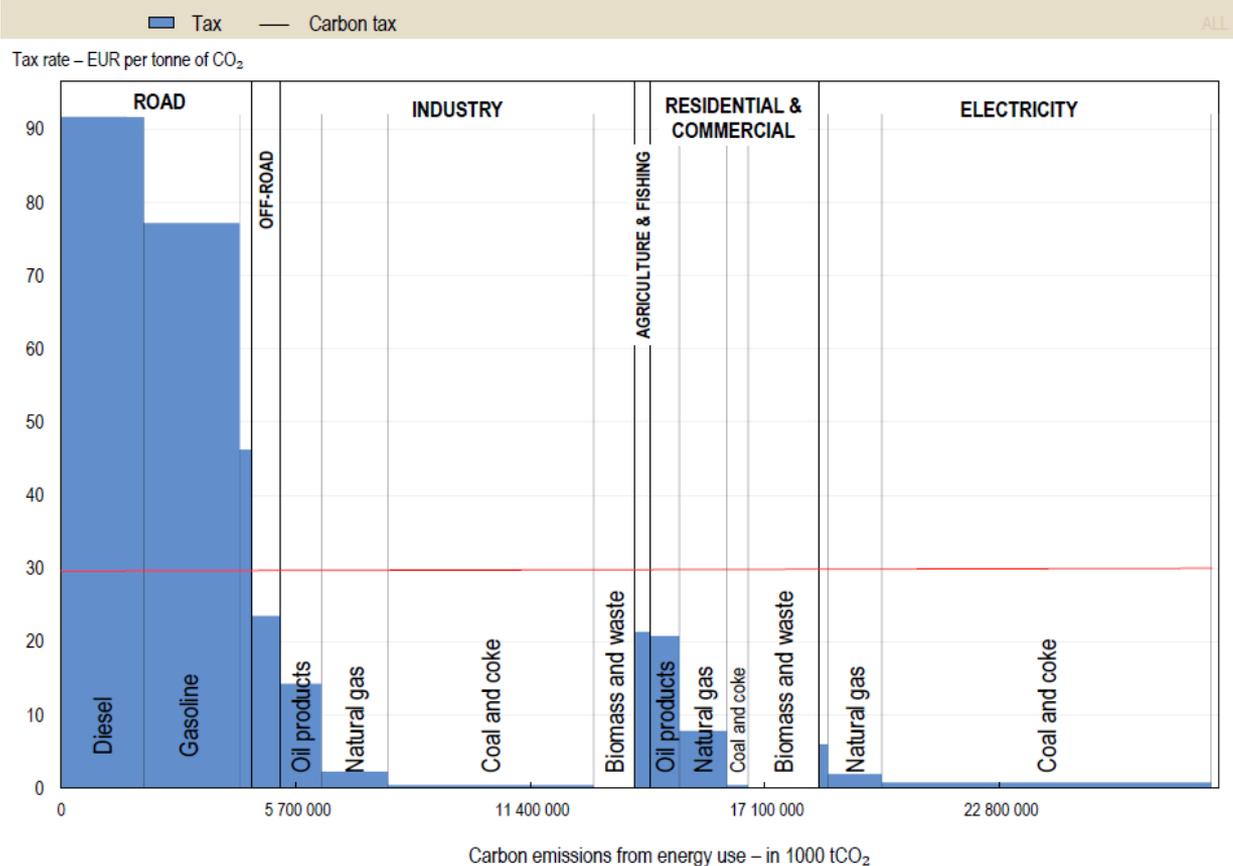


Diagnosis for 2015: Large differences between fuels (coal!)





Diagnosis for 2015: Large differences between sectors





Taxing Energy Use 2018 Highlights

Key findings for 2015

Fuel tax reforms in some large economies increased the share of emissions taxed above climate costs in road transport

Some countries are removing lower tax rates on diesel compared to gasoline

Despite some encouraging initiatives on a country-level ...

...progress towards more consistent application of the 'polluter-pays' principle remains slow





Using the revenues from carbon pricing



Tax policy for the low-carbon transition

Revenue raising, distributional impacts and competitiveness → weak environmental effectiveness

It does not have to be that way. An environmentally much more effective energy tax profile that respects the three “constraints” is within reach.

Embedding carbon pricing in broader tax and fiscal policy reform is the key to creating synergies: focus on “revenue use”.



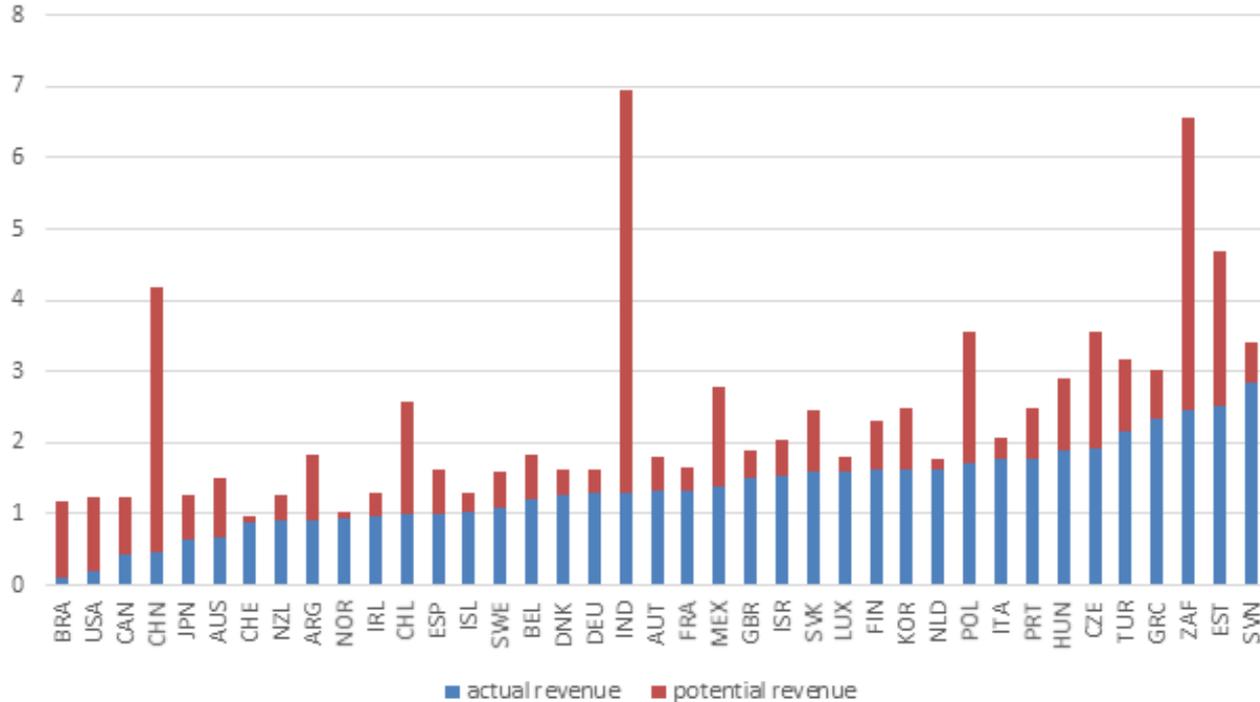
Constraints on the use of revenue - preliminary

	Generated Revenues (EUR million)	Constrained revenues		Unconstrained revenues (%)	Constrained revenue use in detail					
		Legal earmarking	Political commitment		Tax policy changes	Inter-governmental transfers	Transport-related funding	Green and energy-related spending	Compensation to energy users	Other
Excise taxes on fuels ¹	419 107	36	2	62	1 (4)	6 (9)	25 (15)	2 (12)	0.004 (2)	2 (7)
Carbon taxes	14 236	43	22	35	52 (7)	0	0	3 (4)	2 (1)	4 (1)
ETS permit auctions ²	6 905	78	8	14	0	0	19 (9)	45 (55)	22 (6)	1 (3)



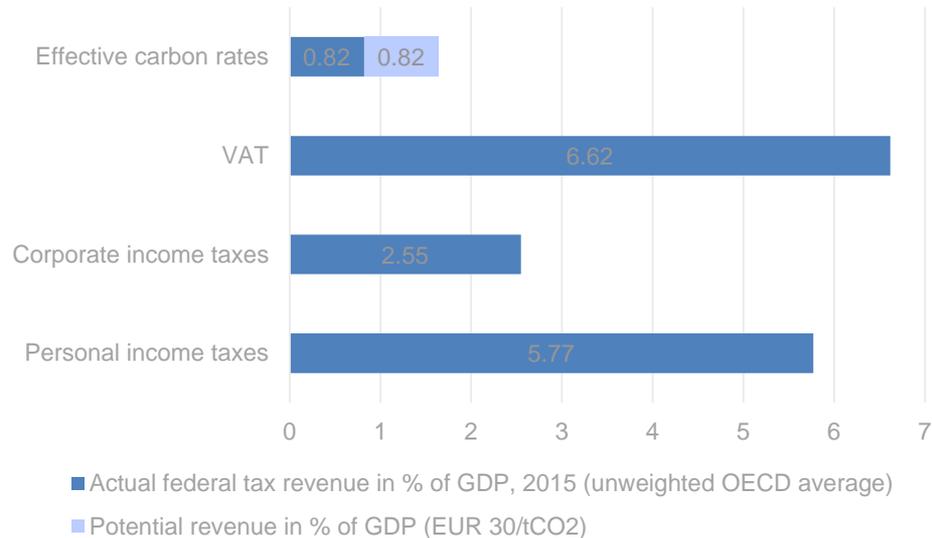


Revenue potential from EUR 30 rate, % of GDP - preliminary





Revenue potential from EUR 30 rate, % of GDP - preliminary





Tax policy for the low-carbon transition

Often more than 2% of GDP worth of revenue. Decisions on how to use it will determine the economic case for carbon pricing as well as its political viability.

Cutting other taxes, reducing debt, increasing spending, increasing specific forms of spending,...: context-dependent, but also dependent on amount of revenue raised. A matter of tax policy, not (first) climate policy.

Avoid implicit revenue use through reduced rates or narrow base. This reduces environmental effectiveness and slows down the transition to a low carbon economy (long-run competitiveness).



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