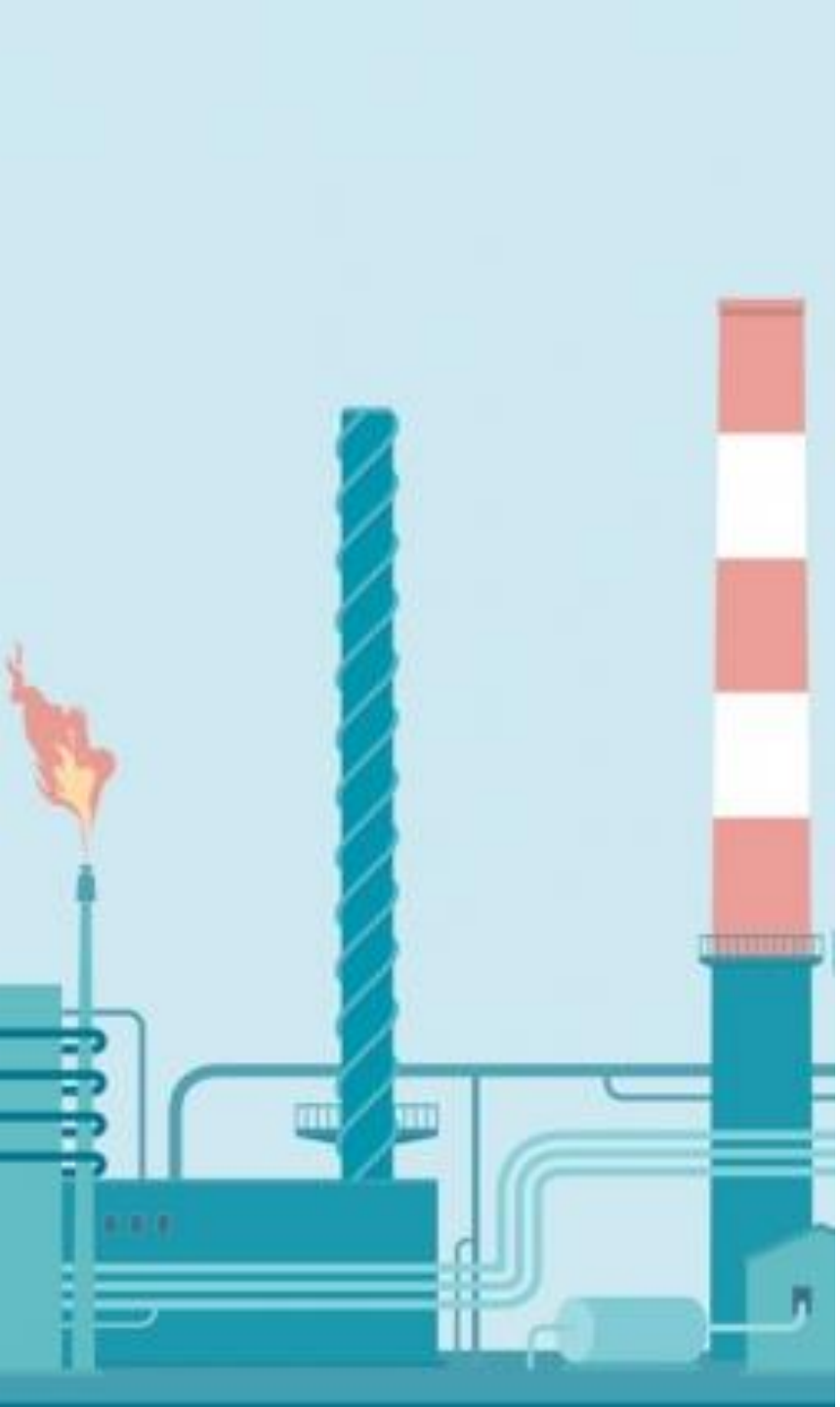

Ministerio de
Hacienda
Gobierno de Chile



Meeting of the Sherpas

Session 1: Moving towards a positive price on carbon

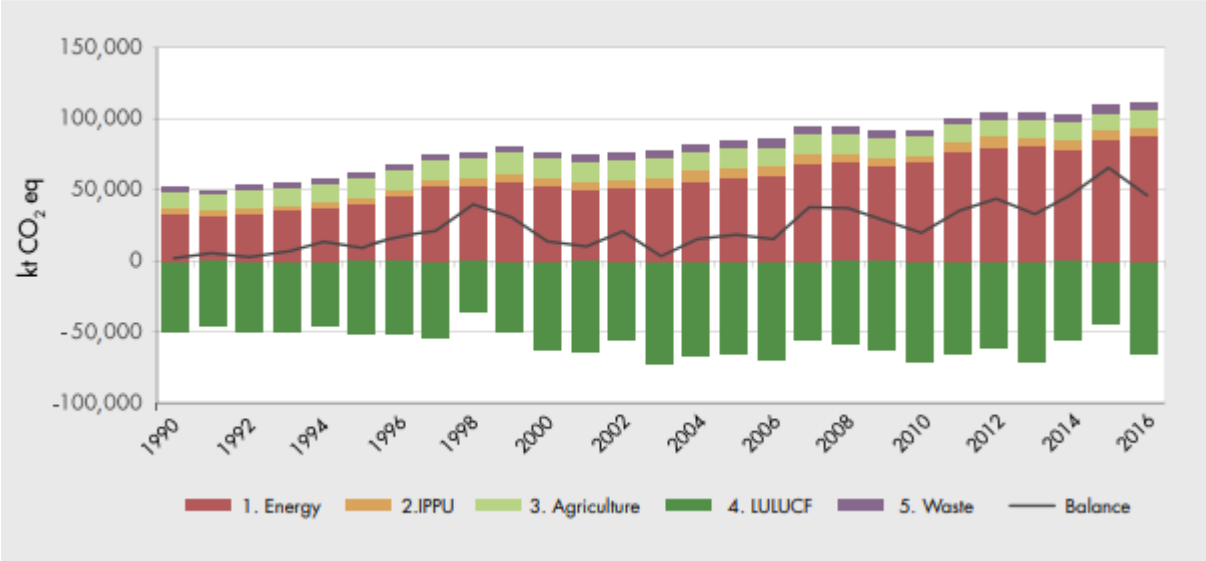
CARBON TAX: CHILE'S EXPERIENCE

Chile

Background

- GHG Inventory 2016: total emissions of 111.7 million tons CO_2eq (0.3% of world emissions).
- Increase GHG emissions since 1990: 114.7%
- Net emissions: 46.2 million tons CO_2eq
- Exposed to 7 of the 9 vulnerability criteria defined by the UNFCCC.
- Diverse geography leaves us exposed to different climate change impacts.
- Problems with local pollutants.

2016 Greenhouse Gas Inventory



Green taxes

Legal framework

In September 2014 Chile passed a tax reform bill that included three types of "green" taxes:

- **A tax on CO_2 emissions from stationary sources.**
- A tax on local pollutants (PM, SO_2 and NO_X) also on stationary sources.
- A tax on the first sale of new cars considering the expected NOx emissions over their lifetime.

These taxes went into force in 2017, and required detailed regulation which was developed mainly during 2016.

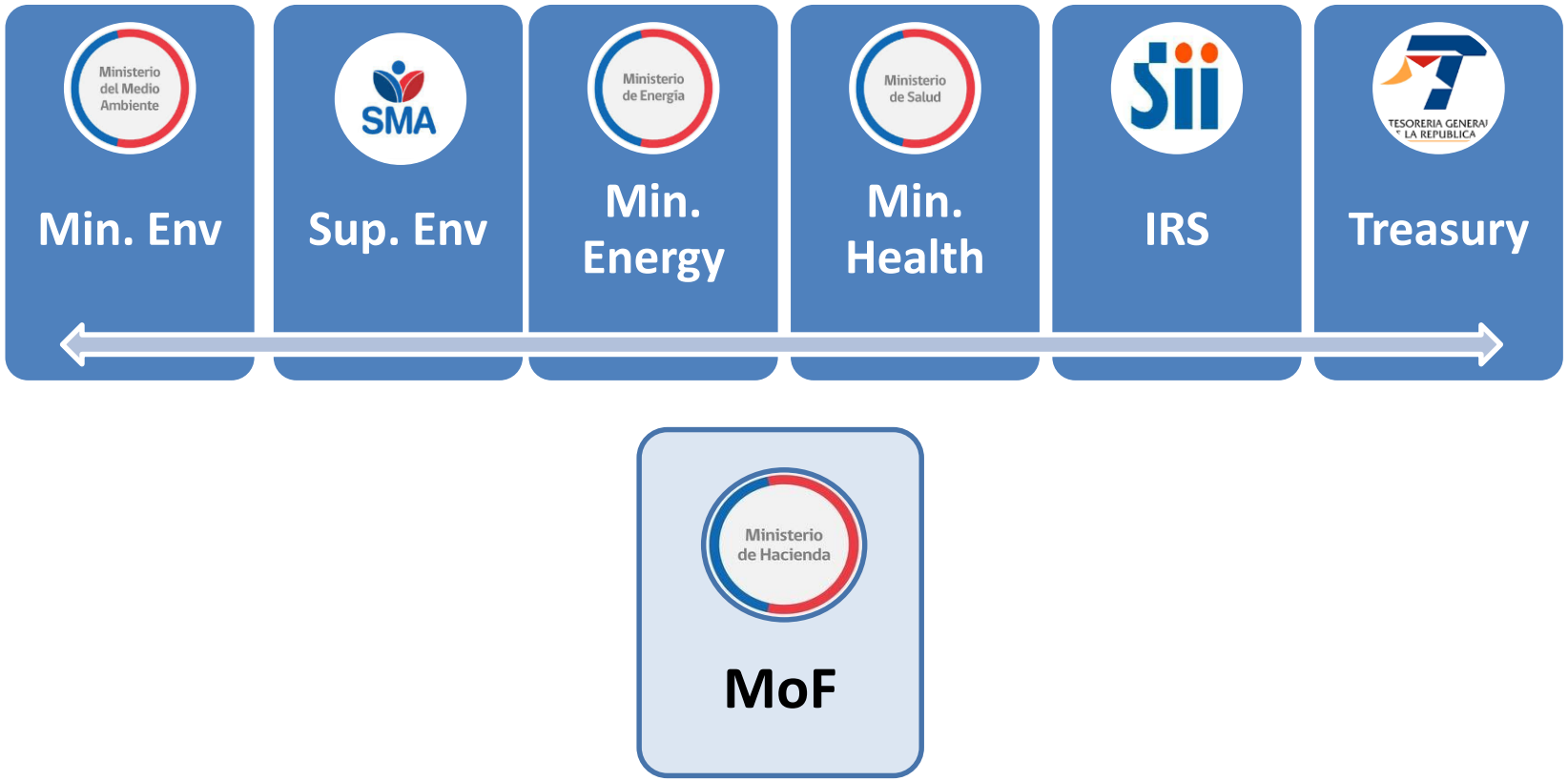
Carbon Tax

Main characteristics

- Tax was set at USD 5 per ton of CO_2 emitted, based on estimations for carbon price of the Ministry of Social Development (2014).
- Tax is levied on facilities with boilers and/or turbines that produce over 50 MWt of heat power. Threshold was set in order to target the electricity sector, which accounts for 27% of total national GHG emissions. Thermal plants fueled by biomass are exempt.
- Each owner of a boiler/turbine larger than 5 MWt is required to register with Ministry of the Environment. At the end of each year, a list of potential facilities subject to the tax is published.
- Taxpayers must send a report on its emissions every quarter. Standards for MRV are set by Superintendency of the Environment and were supported by the *Partnership for Market Readiness*.

Carbon Tax

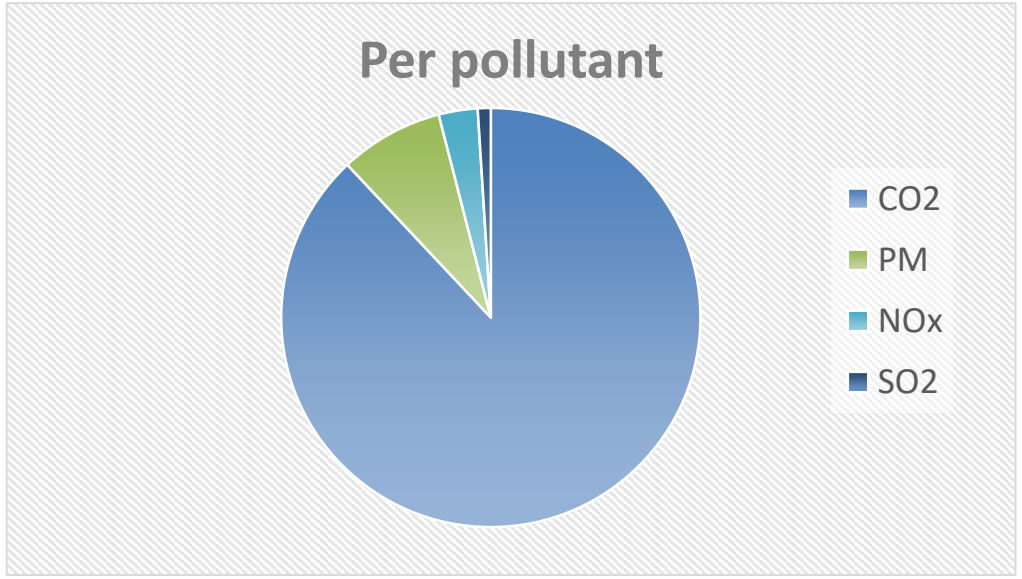
Roles of the different public entities

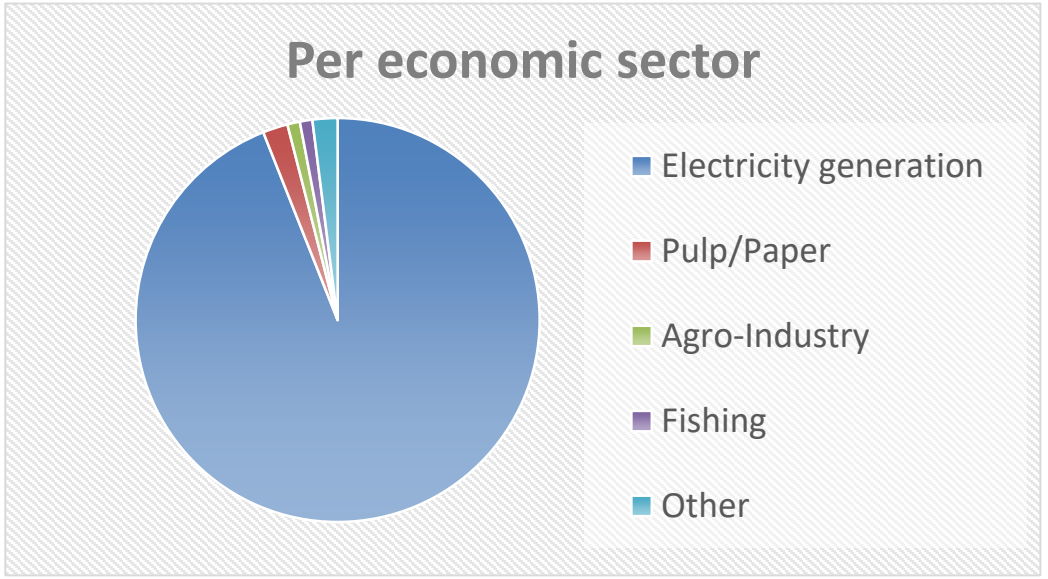


Carbon Tax

First year results

Total collection from stationary sources: 0.1% of GDP (in line with preliminary estimations)





Carbon Tax

Proposed modifications

- Modification of the taxable event: Tax will be levied on stationary sources exceeding an annual emission threshold of 25,000 tones of CO_2 or 100 tones of PM (instead of installed capacity).
- Carbon credits: the use of carbon offsets at national level will be allowed in order to compensate for part of CO_2 taxable emissions. Bylaw will stipulate details and procedures.
- Currently in discussion at Senate level.

Green taxes

Final remarks & lessons learned

- Implementation of green taxes involved great coordination among different public entities.
- Tax on PM, SO_2 and NO_x reveal the social cost of local pollution, establishing the "polluter pays" principle as an incentive to reduce it. We still face a lot of resistance coming particularly from the Agro-Industry sector.
- Current modification of the taxable event better align incentives for facilities to reduce their emissions.
- In the case of tax on CO_2, we acknowledge its low price when comparing to current national estimations for shadow price of carbon, but it was a price signal on the right direction.
- Inclusion of offsets enhances the impact of the tax on CO_2 emissions.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