

Principle 3 – Effective Carbon Pricing: Early survey results

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Responses to Principle 3 survey

- Respondees (Belgium, Colombia, Denmark, Finland, Germany, Iceland, Latvia, Luxembourg, Mexico, Norway, Paraguay, Sweden, Switzerland, The Netherlands, Uganda):

Thank you!

- Non-respondees (~35), including new countries:

Please fill out the survey

bit.ly/principle3survey

THE COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION

HELSINKI PRINCIPLES

We, as Finance Ministers from around the world:

Cognizant that climate change poses a significant threat to our economies, societies, and environments, including risks to economic growth and macroeconomic stability, and that there is an urgent need to accelerate action;

Recognizing that climate change is also an opportunity, and that taking action can generate substantial benefits our societies by stimulating technological innovation, improving human well-being, and accelerating economic growth;

Noting our unique position as Finance Ministers to help accelerate a just transition to a low-carbon and climate-resilient economy through macroeconomic and fiscal policy, public financial management and, where applicable, financial regulation;

Acknowledging that such policies and actions will support global collective action on climate change under the Paris Agreement;

Cognizant that Finance Ministers have a common purpose, and can benefit from a forum for sharing experiences and facilitating the adoption of best practices and policies for low-carbon and climate-resilient growth; and

Supported by technical assistance from development partners.

Hereby establish a Coalition of Finance Ministers to demonstrate our leadership in the response to climate change wherein we will operate within our national framework, competencies, and mandate to support the following principles:

1. **Align** our policies and practices with the Paris Agreement commitments;
2. **Share** our experience and expertise with each other in order to provide mutual encouragement and promote collective understanding of policies and practices for climate action;
3. **Work** towards measures that result in effective carbon pricing;
4. **Take** climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices;
5. **Mobilize** private sources of climate finance by facilitating investments and the development of a financial sector which supports climate mitigation and adaptation;
6. **Engage** actively in the domestic preparation and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement.

3. **Work** towards measures that result in effective carbon pricing;

Principle 2: Share our experience and expertise with each other in order to provide mutual encouragement and promote collective understanding of policies and practices for climate action.

'Policies and practices for climate action' refers to actions supporting climate change mitigation and adaptation and spurring investments. Sharing of experiences and expertise between Members could take place at regular ministerial or working-level meetings, bilateral or multilateral visits, exchanges of staff (secondments), and other ways to generate peer learning and collective understanding among Members. Members or groups of members could also take up the role of global or regional "Champions", hosting workshops and other peer-exchange mechanisms among finance ministries of other countries supported by development partners.

Principle 3: Work towards measures that result in effective carbon pricing.

'Carbon pricing' refers to measures which put a price on the emissions of carbon dioxide or other greenhouse gases. Such measures provide incentives for emitters to reduce emissions, through energy conservation, increases in energy efficiency, or innovation and dissemination of low-carbon technologies. Effective carbon pricing means that countries adopt measures to achieve carbon price levels that are sufficient to incentivize the emission reductions needed to meet their own emission reduction targets, subject to their national circumstances, and with a view to reaching carbon price levels consistent with the Paris Agreement's long-term objectives.

Such carbon pricing measures could include:

- Reducing or eliminating fossil fuel subsidies;
- Taxes and tax-like measures, in particular carbon taxes but also including fuel taxes, environmental duties, levies, and charges which are scaled in accordance with carbon emissions;
- Emissions trading systems (ETs) and similar permit-based or crediting mechanisms; and
- Regulatory policies which result in an implicit marginal price on carbon, such as tradeable performance standards.

Principle 4: Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices.

Taking climate change into account in policies and practices referred to here could, inter alia, include:

- 'Macroeconomic policy' - consideration of climate change targets, risks, vulnerabilities and policy objectives in economic forecasts, debt sustainability analyses, fiscal risk assessments and other macroeconomic policy instruments; tracking of tax expenditures on fossil fuels and tax incentives for the consumption and production of fossil fuels, feed-in tariffs, investments in low-carbon technologies, and other relevant incentive measures;

“Effective carbon pricing means that countries adopt measures to achieve carbon price levels that are sufficient to incentivize the emission reductions needed to meet their own emission reduction targets, subject to their national circumstances and with a view to reaching carbon price levels consistent with the Paris Agreement’s long-term objectives.”

Why a survey?

Carbon prices remain well-below 'effective' levels

- existing carbon prices: **<20%** CO2 coverage, mostly **<US\$15** per ton of CO2¹
- needed for PA: **100%** CO2 coverage, **\$40-80** by 2020, **\$50-100** by 2030²

Q. what's holding countries back from implementing effective carbon pricing?

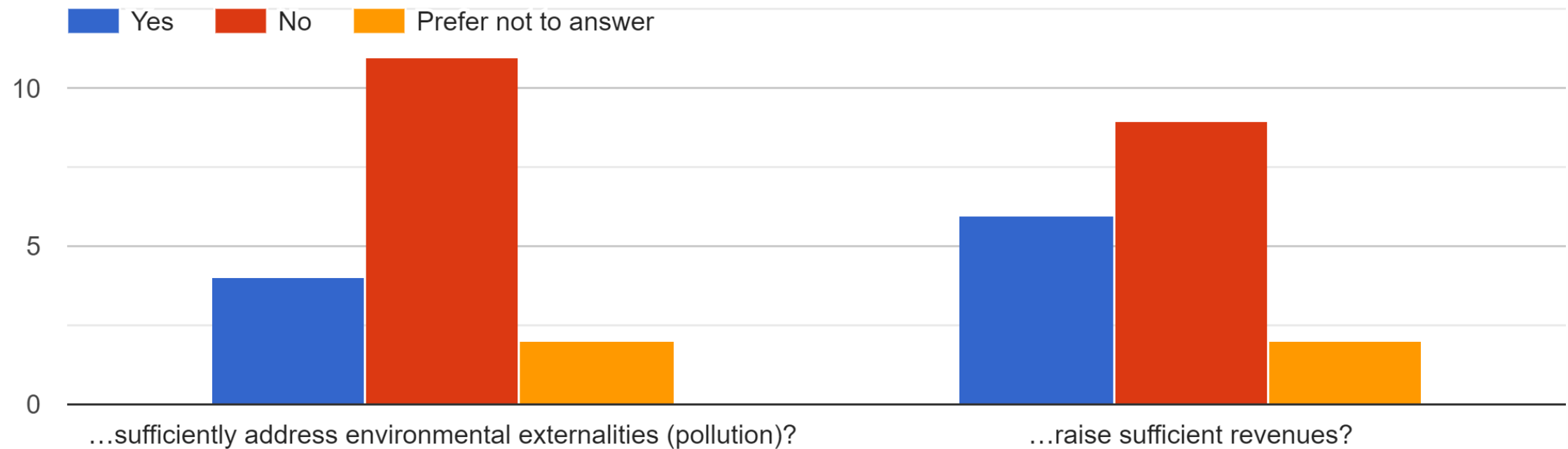
- Economic, societal, political economy, cultural/ideological, inter-departmental, international climate policy, technical, or other?

To help **inform our technical workstream on Principle 3**, we sought to find out:

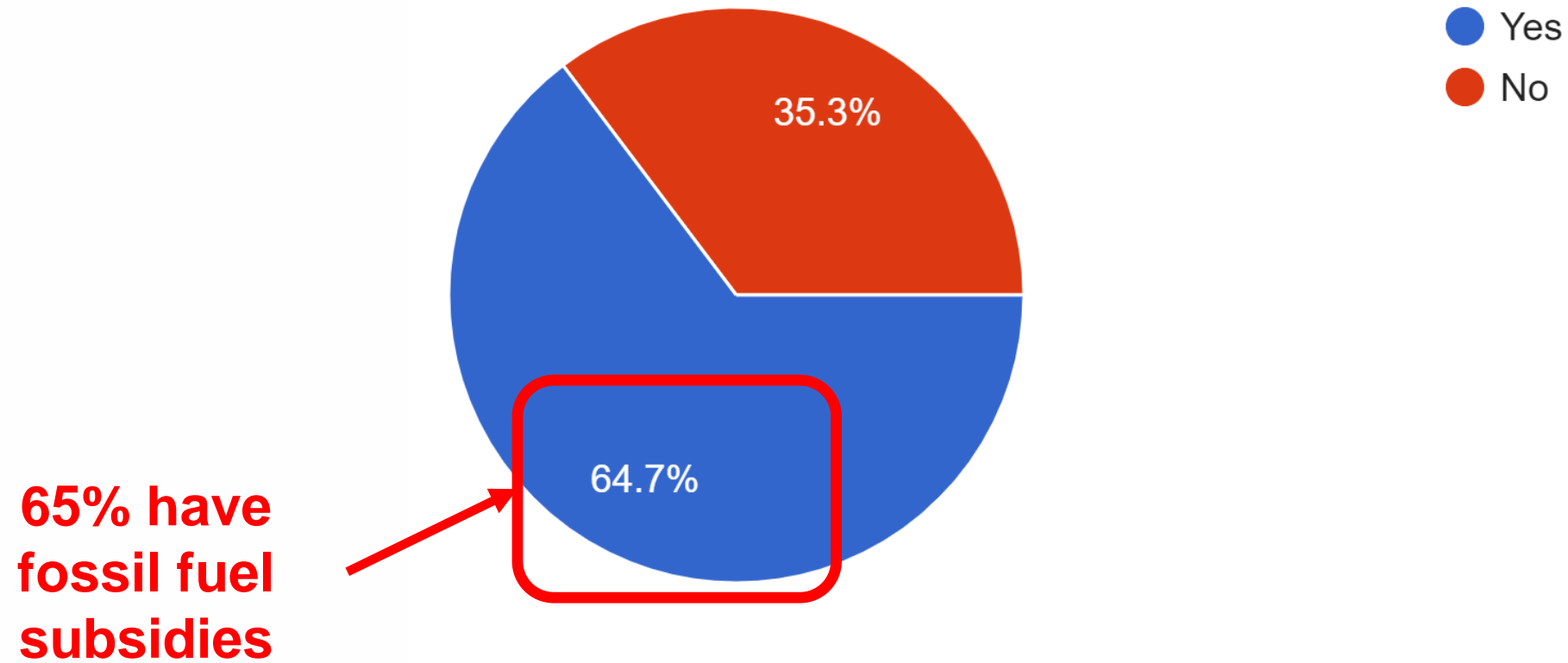
- What is the **current structure** of fossil fuel subsidies and/or carbon taxes?
- What is the **primary motivation** for reform?
- What are the main **obstacles** to achieving effective carbon pricing?

1. [State and Trends of Carbon Pricing, 2019](#), 2. [The High-Level Commission on Carbon Pricing, 2017](#)

Q. Are your country's environmental taxes high enough to...

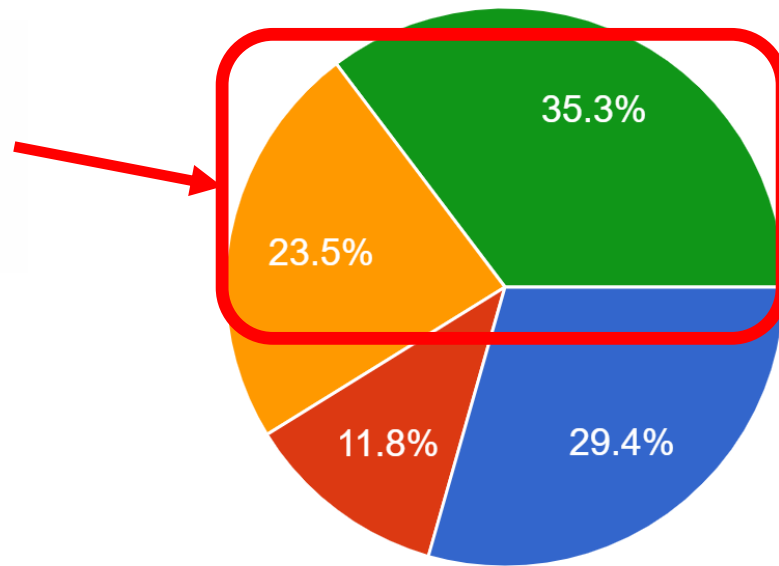


Q. Do you have fossil fuel subsidies?



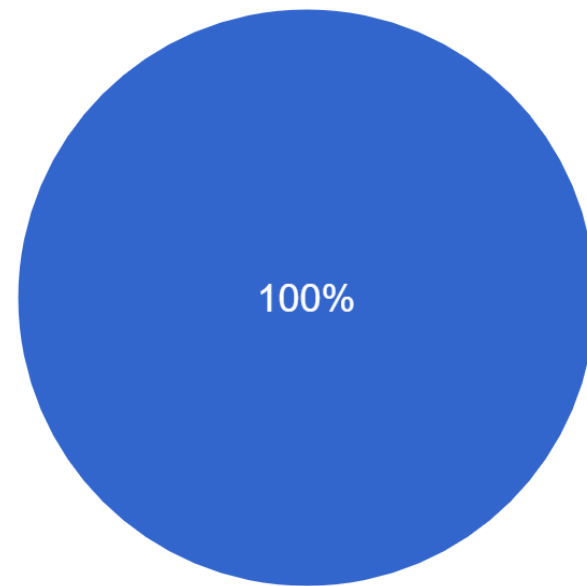
Q. Do you have a carbon tax (or charge)?

59% have a carbon tax/charge



- Not in place
- Under consideration
- Already operational
- Operational and willing to share experience

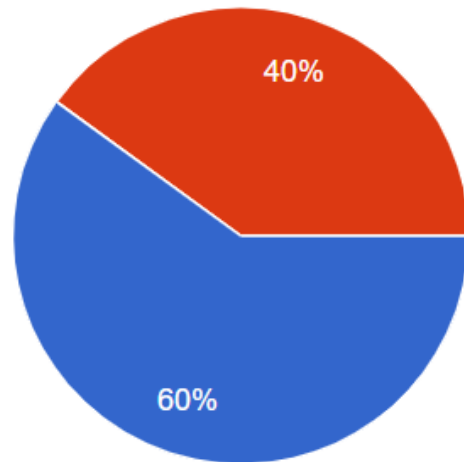
Reformers: Q. Was the carbon tax/charge deemed successful?



- YES
- NO
- Prefer not to say

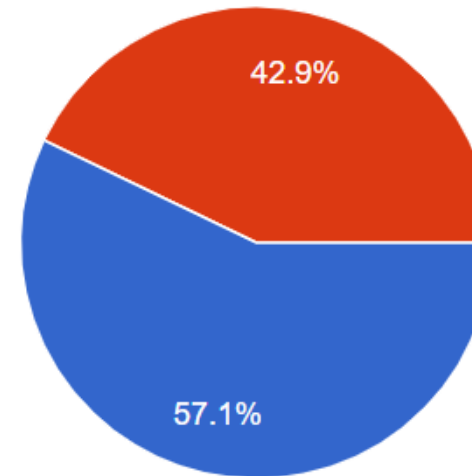
Non-reformers: Q. have you considered reforms?

Fossil fuel subsidies in place



● Yes
● No

No carbon tax in place

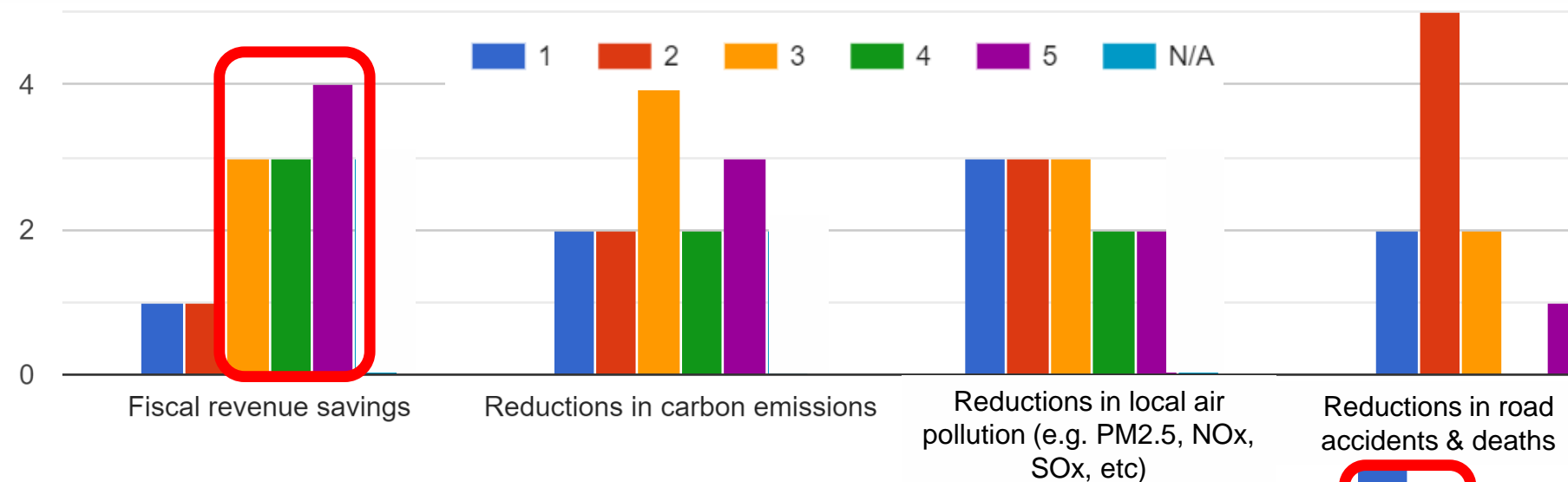


● Yes
● No

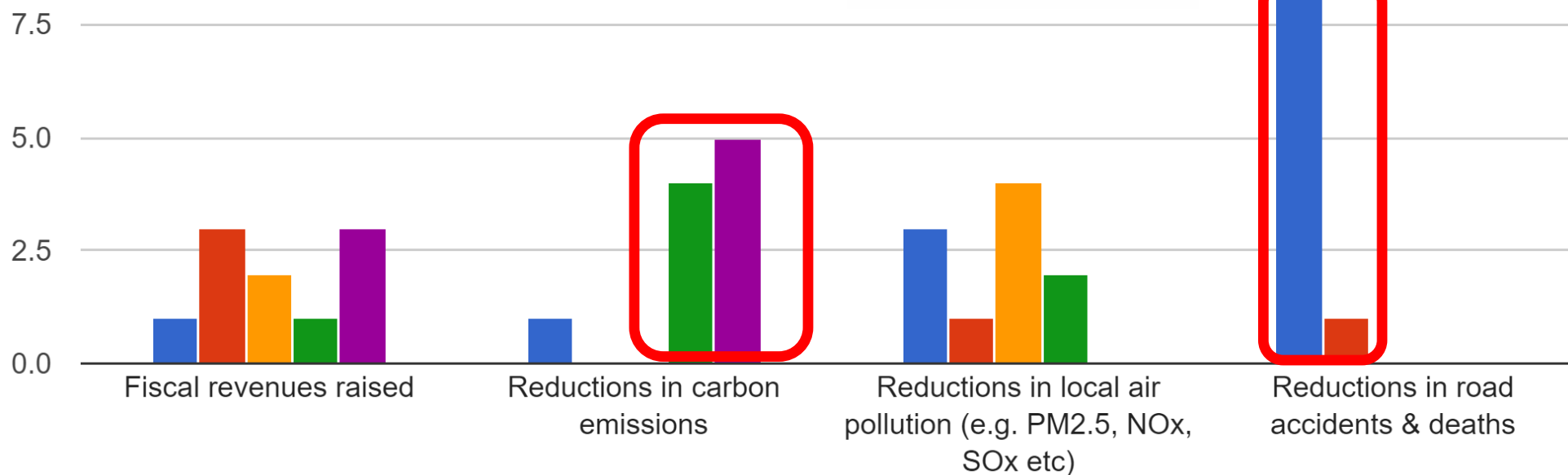
Q. Why did you consider reform?

Please state how important the following reasons that your country considered reforming fossil fuel subsidies or implemented a carbon tax/charge out of 5 (1 being not very important, 5 being very important)

**fossil fuel
subsidy
reform**



**carbon
taxes**

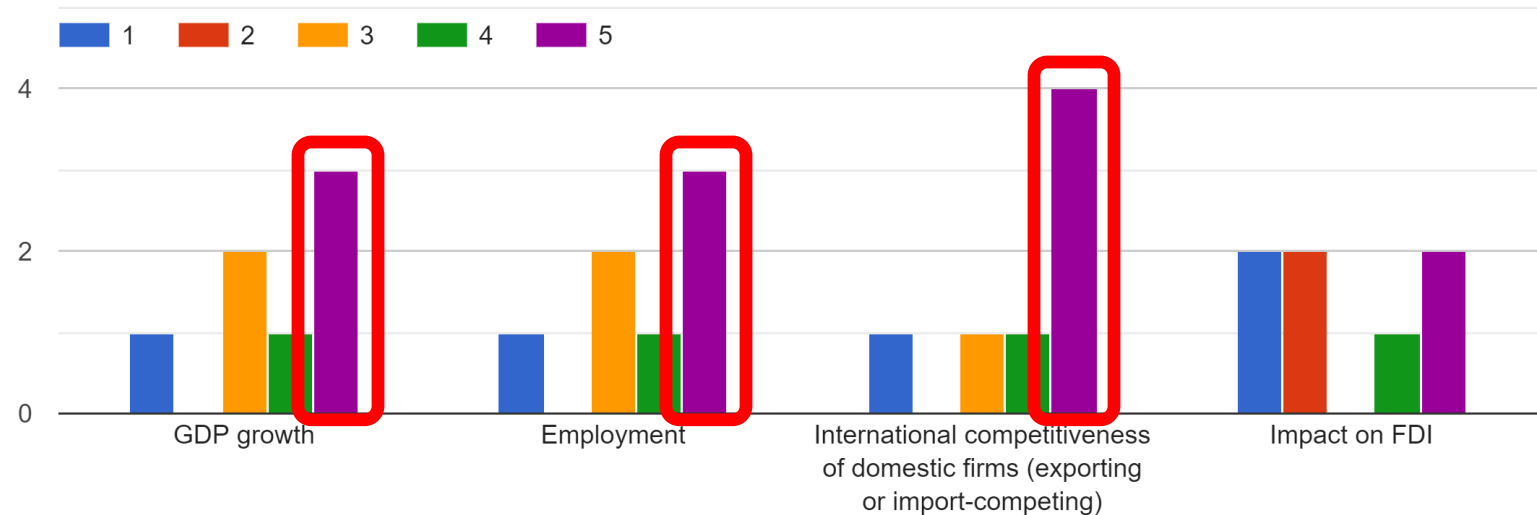
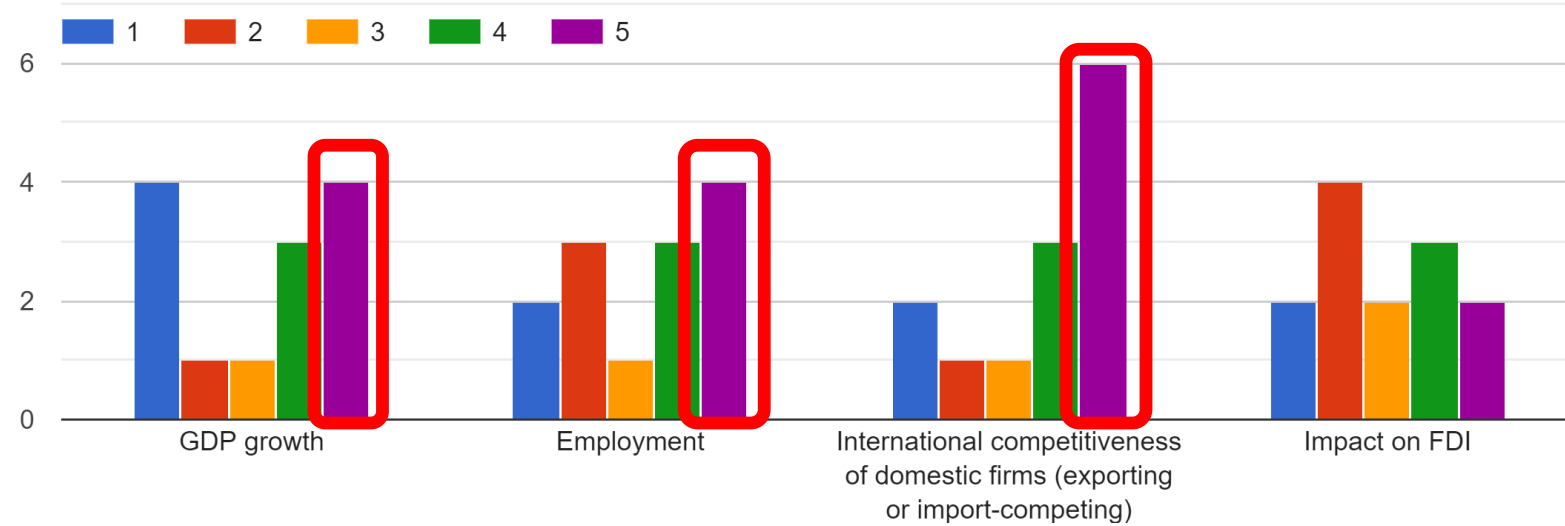


What are the economic obstacles?

**fossil fuel
subsidy reform**

carbon taxes

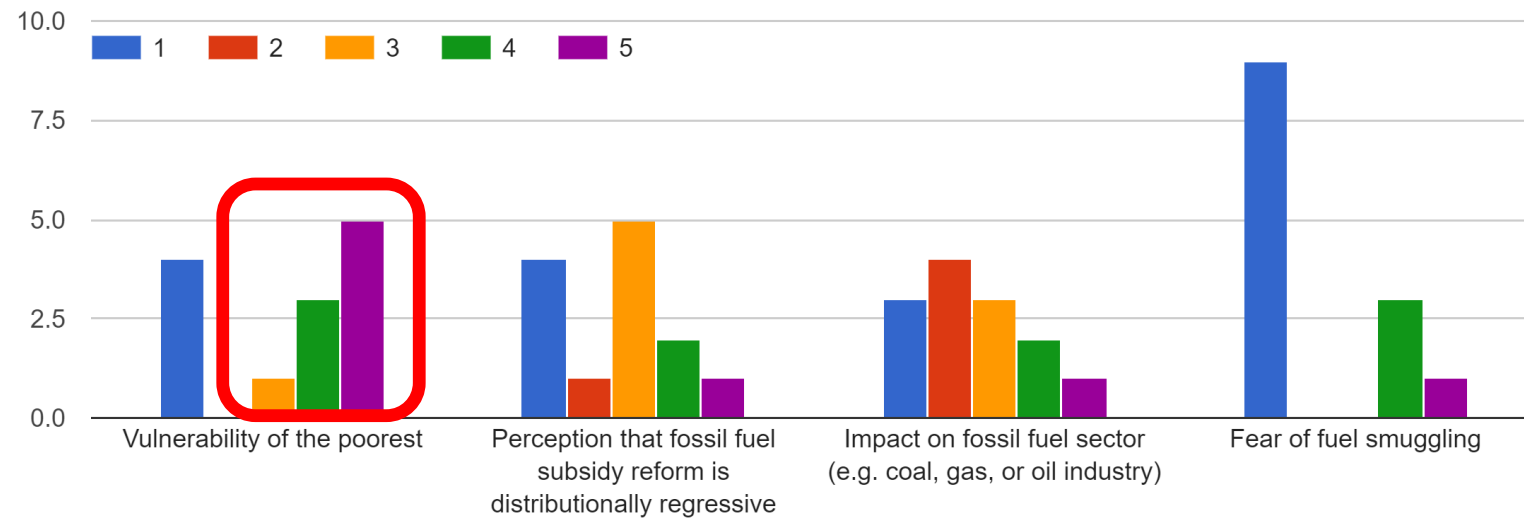
Concerns about potential macroeconomic impacts:



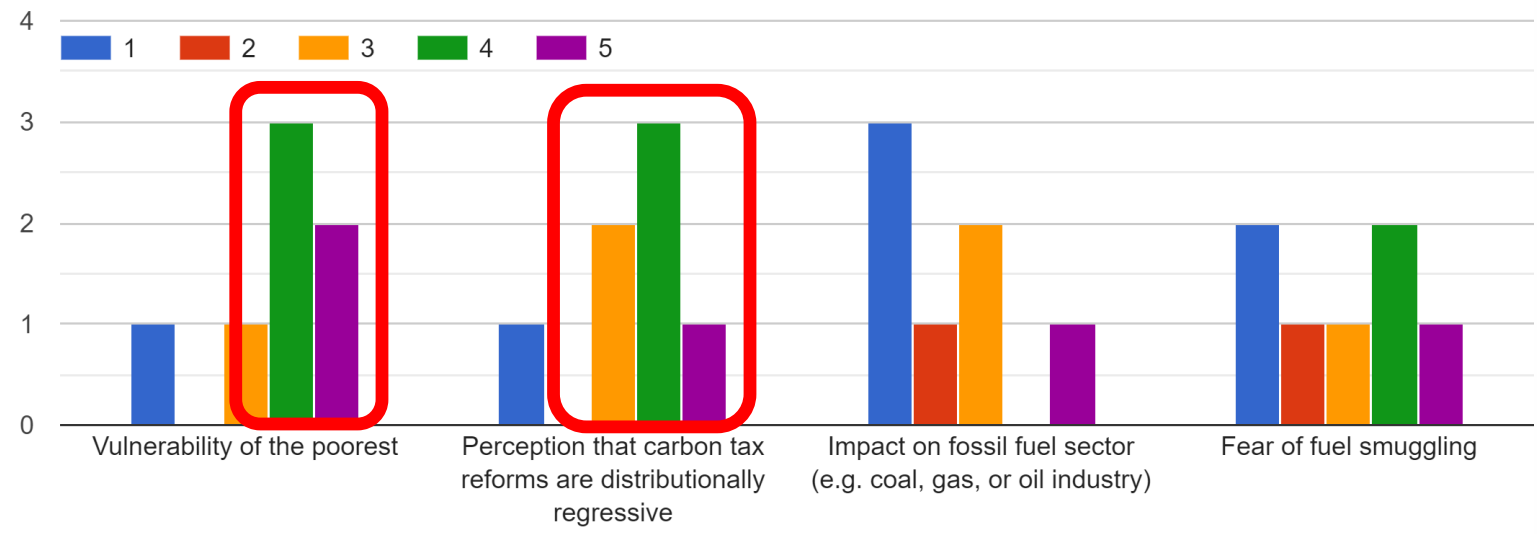
What are the societal obstacles?

fossil fuel subsidy reform

Concerns about societal affects:



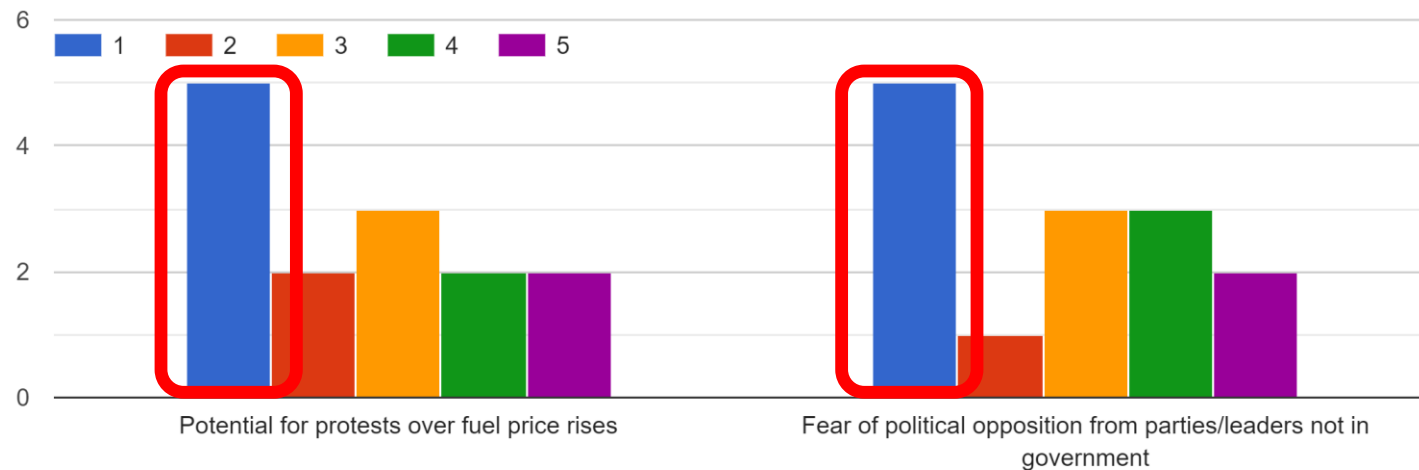
carbon taxes



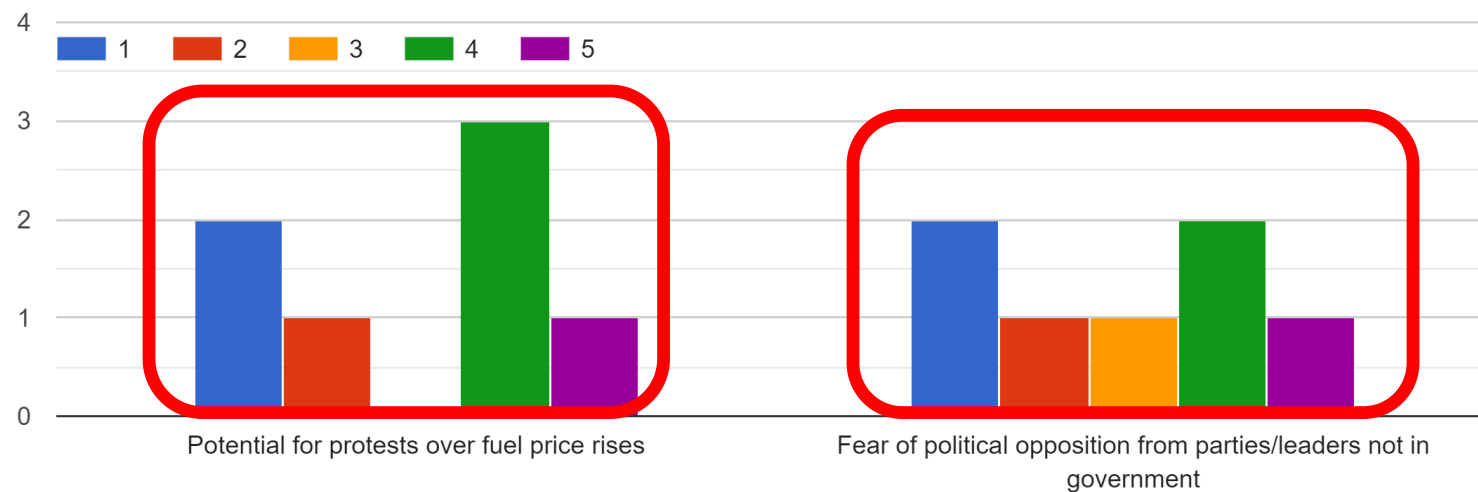
What are the political economy obstacles?

fossil fuel subsidy reform

Political economy concerns:



carbon taxes

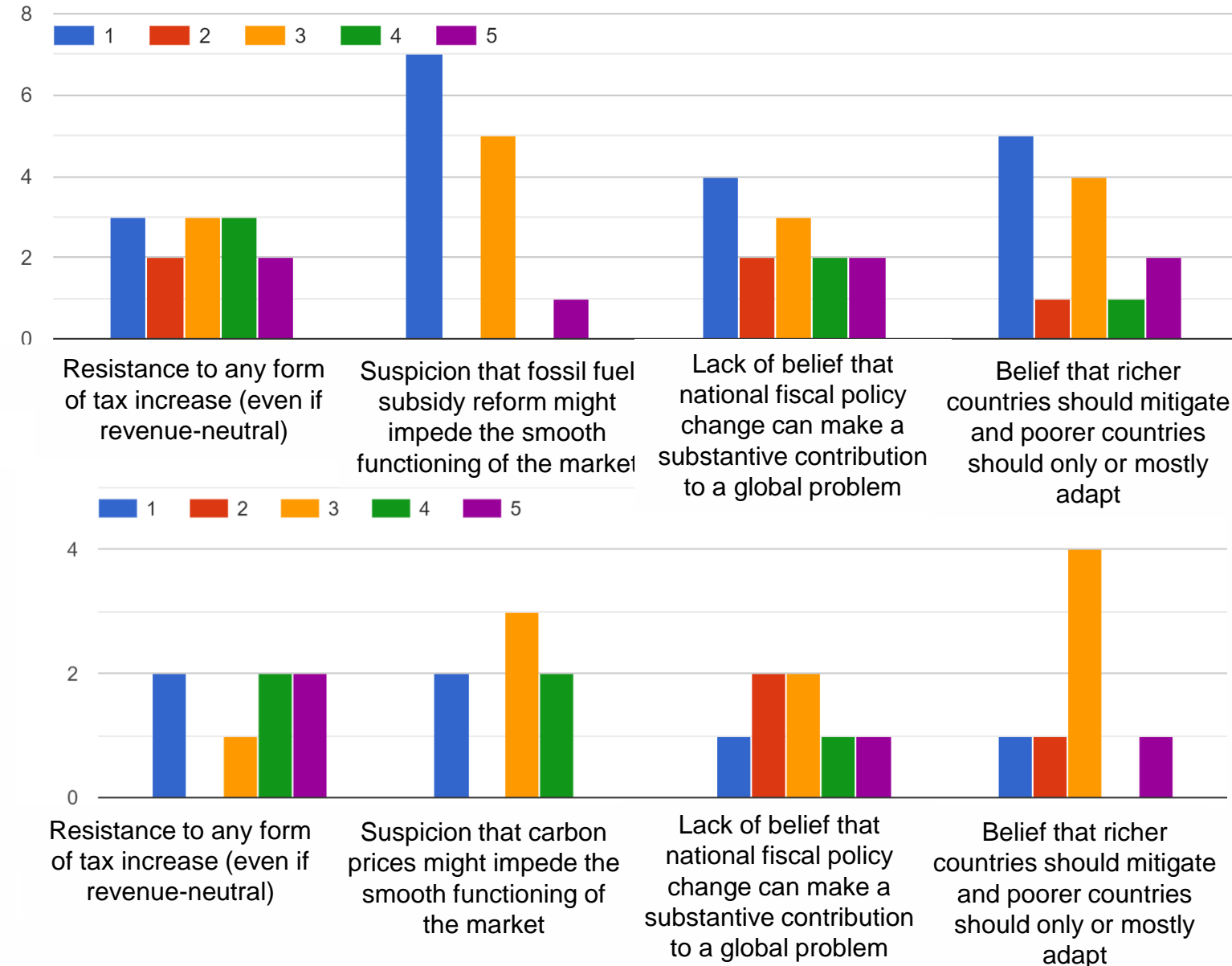


What are the cultural/ideological obstacles?

fossil fuel subsidy reform

carbon taxes

Cultural or ideological:

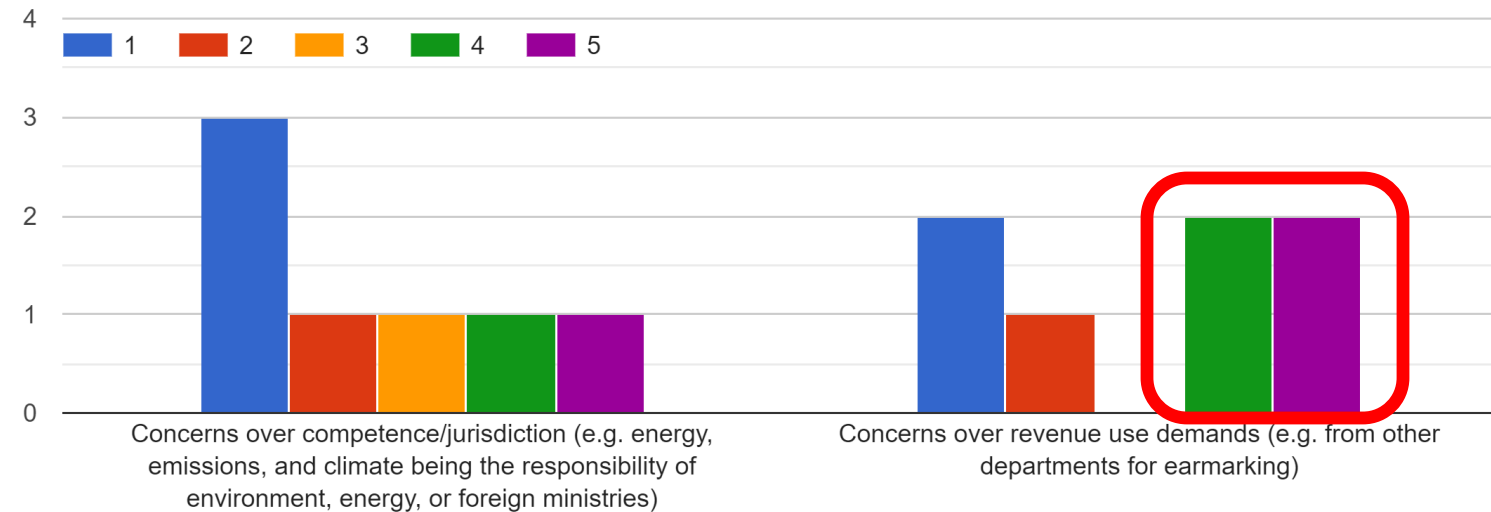
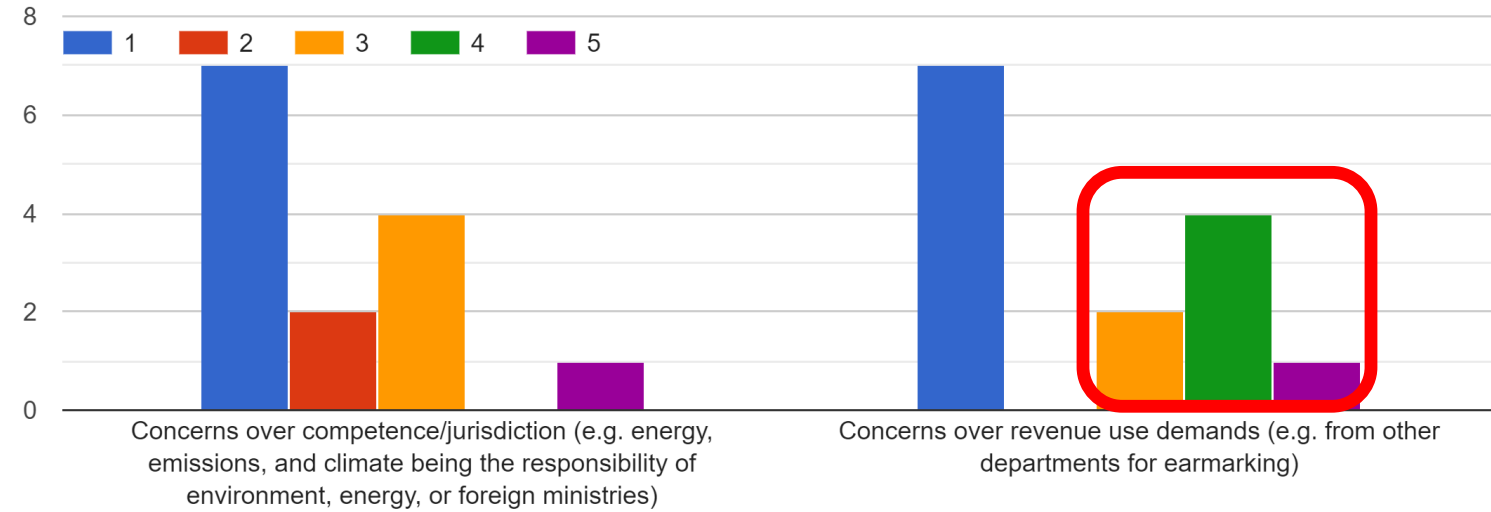


What are the departmental obstacles?

fossil fuel subsidy reform

carbon taxes

Inter-departmental issues:

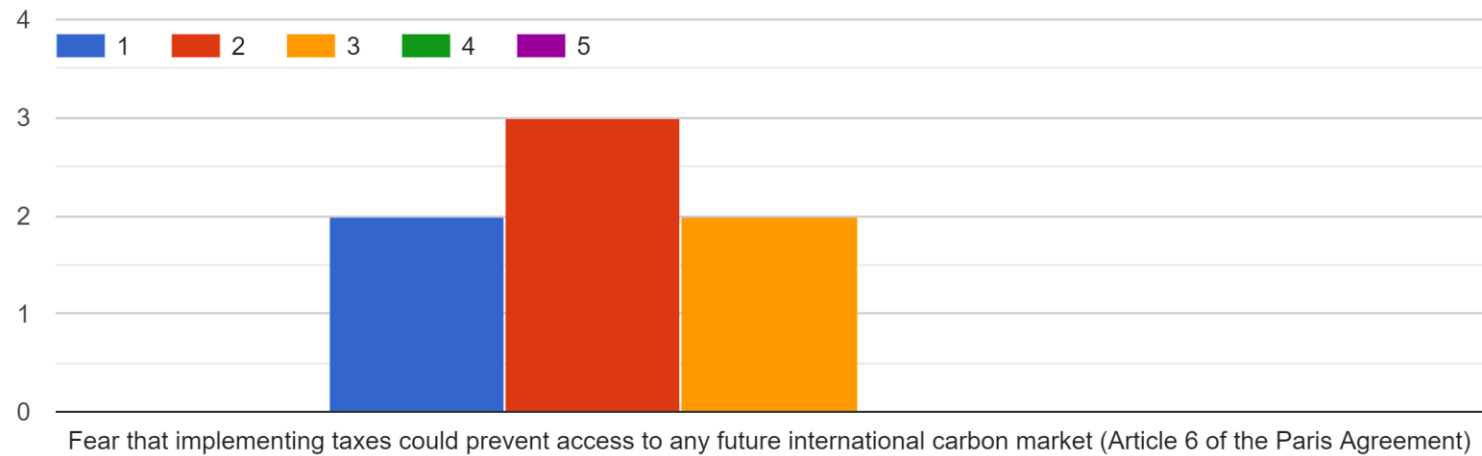
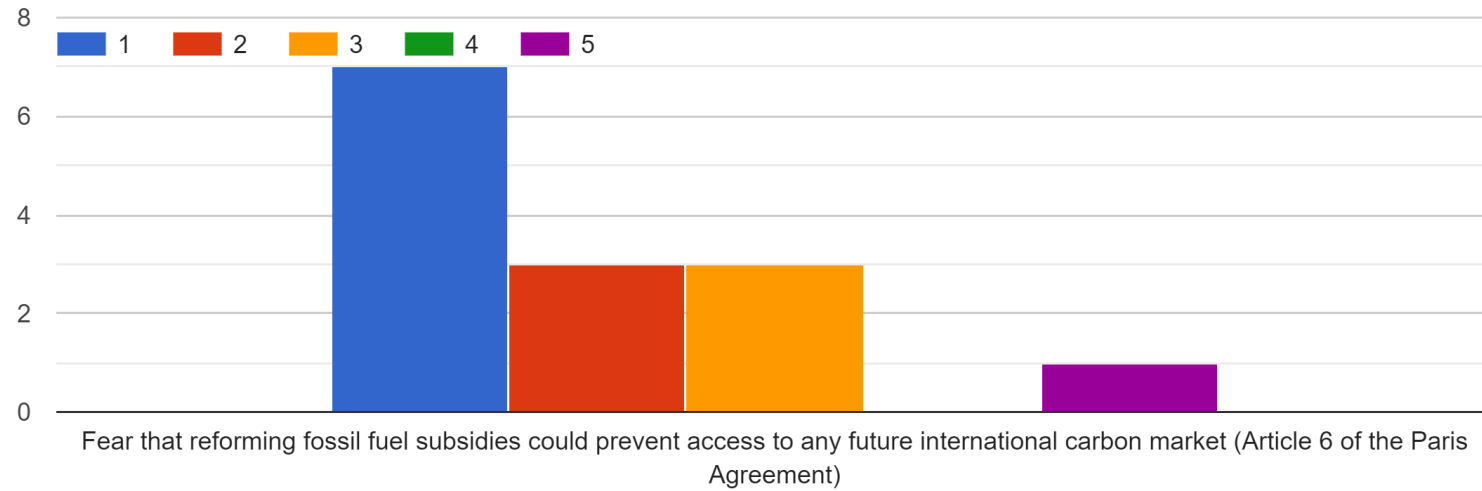


What are the international climate policy obstacles?

**fossil fuel
subsidy reform**

carbon taxes

Other obstacles:

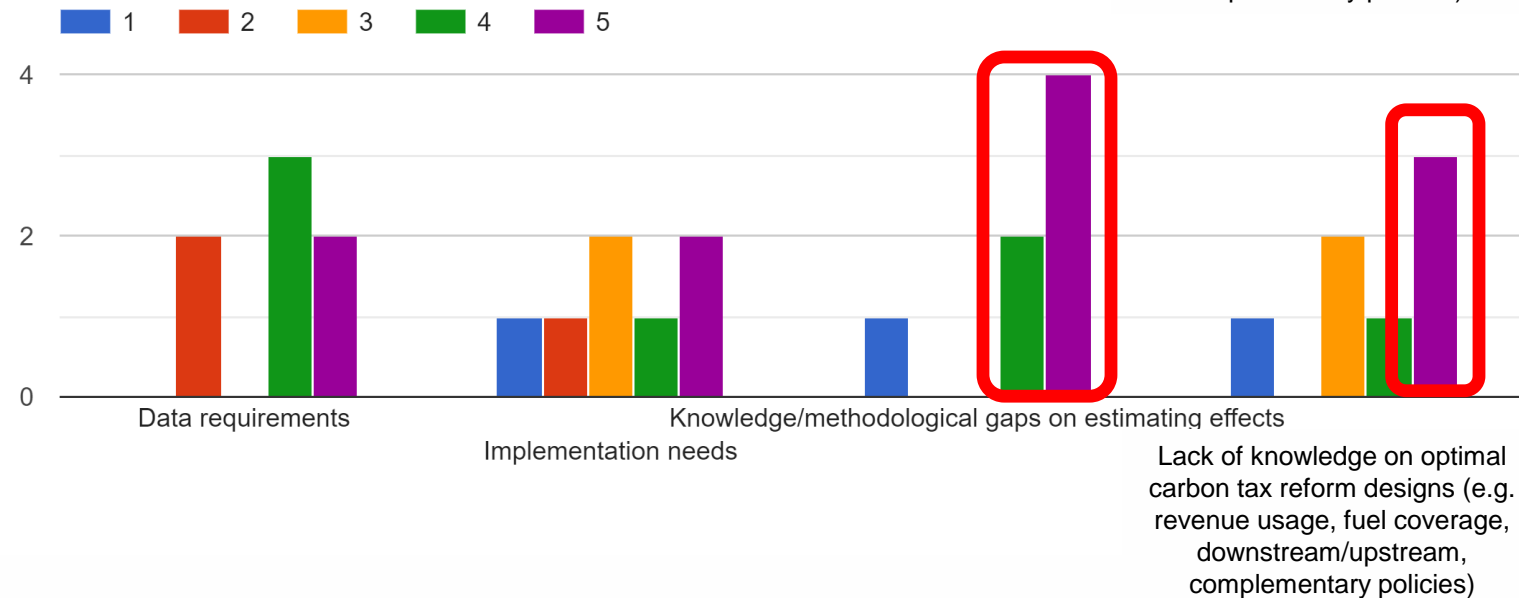
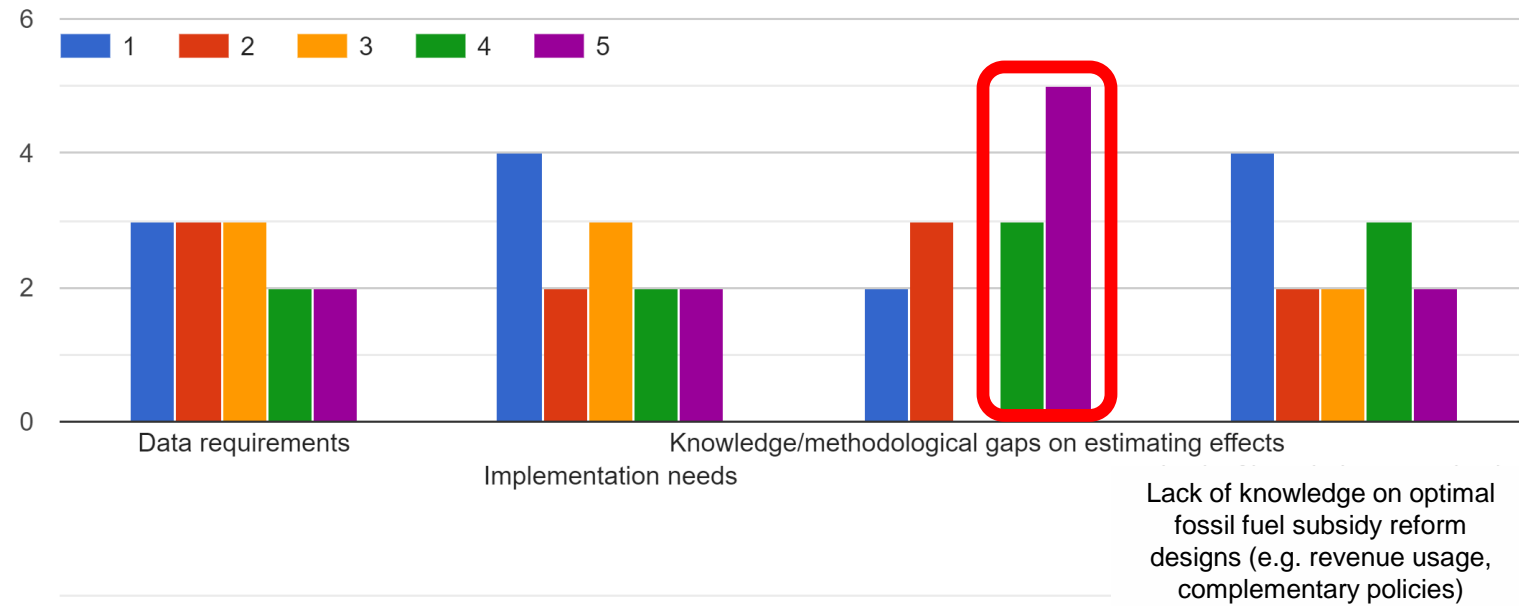


What are the technical obstacles?

fossil fuel subsidy reform

carbon taxes

Technical obstacles to implementation:



Summary

- *Caveat:*

more responses needed! – bit.ly/principle3survey

- There are numerous **differences** across Members:
 - varying existing fiscal **systems** (fossil fuel subsidies and carbon taxes)
 - varying **attitudes** towards reform, including ideological priors (on taxes, market functioning, environmental effectiveness, and equity)
 - variable **concern** with potential for protests and political opposition, as well as effects on the fossil fuel sector and fuel smuggling
 - variable consideration of the possible **development co-benefits** of reforms (e.g. improvements in health due to reduced local air pollution and reduced road accidents)

Summary

- ... but also **similarities** across Members:
 - agreement environmental taxes are **too low** (revenues & environmental effectiveness)
 - inter-departmental issues not important (albeit some concerns with **earmarking**)
 - **fiscal revenues** most important for fossil fuel subsidy reform
 - **CO2 reduction** more important for carbon taxes
- **concerns over macro effects** of fossil fuel subsidy reform and carbon taxes, especially competitiveness, GDP, and employment, but not FDI
- **vulnerability** of the poorest and distributional effects important
- **large methodological/knowledge gaps** on estimating effects and designing optimal reform packages

Thank You!

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What is the Carbon Pricing Assessment Tool (CPAT)?

- a **spreadsheet-based** tool
- being **developed by the World Bank and IMF jointly**
- aimed at **country economists in finance ministries and IFIs**
- allows **rapid estimation of effects of carbon pricing reforms** on a variety of metrics of interest:
 - ▶ **macroeconomic** – employment, fiscal revenues, tax evasion
 - ▶ **energy & emissions** – energy consumption, local pollutants (PM2.5, NOx, SO2), global pollutants (CO2), distributional effects (across quintiles and urban vs. rural), oil & gas sector profits
 - ▶ **development co-benefits** – reductions in mortality and morbidity due to air pollution and road accidents, traffic congestion, and reductions in the shadow economy
- can **help policymakers design & compare carbon pricing reforms**, helping them achieve their climate mitigation goals (Paris Agreement NDCs) and development objectives (SDGs) jointly