Making Paris Happen - The role of fiscal policies, Green Fiscal Policy Network Partner Event at Green Week 2016

Panellists at the event from left to right: Guillaume Sainteny (Agro ParisTech); Steven Stone (UNEP), Michael Grubb (University College London) and Mary Veronica Tovšak Pleterski (European Commission)

31 May 2016, Brussels, Belgium - Experts from the European Commission, international institutions, national governments, civil society and academia, gathered at a Green Week 2016 Partner Event to explore how fiscal policies can support implementation of the Paris Climate Agreement. The event on “Making Paris Happen: The role of fiscal policies for the low-carbon, inclusive green economy” was organised by the Green Fiscal Policy Network (a partnership between UNEP, the IMF and GIZ) in cooperation with Green Budget Germany/FÖS. The Green Fiscal Policy Network and this event are supported by the International Climate Initiative (IKI) of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).

The event was opened by Steven Stone (Chief of the Economics and Trade Branch of UNEP’s Division of Technology, Industry and Economics), who highlighted the adoption of the Paris Climate Agreement as a real game changer and the need to now turn to the important question of ‘how to make Paris happen?’. Mr Stone noted the growing recognition of the role of fiscal policies in supporting climate action, with almost 90 countries including some form of carbon pricing or other fiscal policies in their Intended Nationally Determined Contributions (INDCs). However, only around 12 per cent of annual global GHG emissions are formally priced and there remains scope for further action on fiscal reform and carbon pricing.
In a keynote speech, Hans Eichel (Former Finance Minister, Germany 1999-2005) emphasized the critical role of finance for meeting the Paris commitments, the need to mobilize all sources of financing and step-up action by governments, the private sector and other actors. He argued that fiscal policies such as carbon pricing and fossil fuel subsidy reform provide a cost-effective approach to addressing climate change by mobilising revenues, shifting incentives for investment and consumption, and catalysing innovation in clean technologies. Mr Eichel stressed that we currently have a once in a lifetime opportunity to introduce carbon pricing and other fiscal reforms which we cannot afford to miss.

The keynote speech was followed by a high-level panel discussion on experiences with fiscal reforms and what still needs to be done to meet the Paris targets. Panellists included Mary Veronica Tovšak Pleterski (Director for European and International Carbon Markets, DG Climate Action European Commission), Michael Grubb (Professor of International Energy and Climate Change Policy, University College London), Ian Parry (Principal Environmental Fiscal Policy Expert, Fiscal Affairs Department, IMF), and Guillaume Sainteny (Professor, Agro ParisTech).

Discussions examined current approaches to carbon pricing at the EU and national level. Panellists highlighted the importance of the EU Emissions Trading System (ETS) in delivering the EU’s climate objectives and the pioneering role of the EU in carbon markets. Discussions also turned to the challenges the EU ETS currently faces relating to low, unstable prices, limited incentives for low-carbon investment, and the role of the Market Stability Reserve (MSR) mechanism. At the national level, carbon taxes and carbon price floors adopted in countries such as France and the UK were discussed. Panellists agreed that carbon pricing does not have to mean higher taxes, but rather smarter, more efficient taxes. It was also noted that while carbon pricing plays a critical role in mitigating GHG emissions, it is one element of the policy mix and other instruments are needed to meet the Paris targets including robust legislation on transport, energy efficiency and buildings among others.

There has been a diversity of approaches to carbon pricing which has led to varying carbon price levels between countries and regions. In this regard, some panellists highlighted the benefits of a more harmonised international carbon price, while others argued that a global carbon price is not feasible or desirable (given differing levels of development, welfare impacts etc.), and that efforts should instead focus on how to handle these differences.

Panellists highlighted the revenue generating potential of carbon pricing mechanisms which could be raising well above 1 per cent of GDP in many countries by 2030 according to preliminary IMF estimates. Such revenues can be used for different purposes, for example to cut broader taxes or to contribute to climate finance commitments and delivery of the SDGs. It was noted that the European Commission is committed to delivering SDG13 on climate action and supports low-carbon activities both within and outside Europe, for example through the EU budget and the European Fund for Strategic Investments.

Nonetheless, the need to scale-up climate financing in the wake of Paris was emphasised by the panellists, as was the importance of ensuring that climate finance is not merely a reallocation of existing official development assistance (ODA). Innovative proposals to mobilise additional climate finance discussed included the introduction of charges on international aviation and maritime fuels, linking countries donations to the Green Climate Fund to national emissions performance, earmarking a fixed proportion of revenues raised from carbon pricing instruments in advanced countries for climate finance commitments, and using carbon pricing in developing countries to catalyse, and efficiently allocate, private sector climate finance. The importance of effective spending of climate finance, for example through rules and principles under the Green Climate Fund, was also noted.

The need for fossil fuel subsidy reform was another issue emphasised by panellists, which is not specifically reflected in the Paris Climate Agreement. Despite reform efforts in some
countries, significant consumer and producer subsidies remain in both developing and
developed countries. Fossil fuel subsidies are not coherent with efforts to introduce carbon
pricing or transition to a low-carbon economy and their reform should be encouraged, for
example by linking the provision of climate financing with countries efforts to reduce fossil fuel
subsidies or revisions to EU State Aid Guidelines, among others. It was noted that current low
oil prices provide a particularly favourable context in which to reform fossil fuel subsidies and
introduce carbon pricing mechanisms.

Some of the political challenges to fiscal reform and carbon pricing were also discussed.
In some cases, efforts on fiscal reform have been hindered by a lack of action by other
countries or concerns about the unilateral introduction of measures, particularly in relation to
impacts on the competitiveness of energy-intensive industries. Options to address such
concerns include for example an international carbon price floor arrangement among high
emitters, targeted exemptions, extending carbon pricing to the materials consumption chain
and to consumers of carbon-intensive goods. In certain cases, action by some countries can
support efforts in others. For example, the recent French announcement to introduce a carbon
price floor in the electricity sector has helped maintain the UK carbon price floor in the face of
domestic pressures for its abolition. It was noted that the dynamics of national carbon price
floors could help build momentum and encourage more ambitious actions, including at the EU
level.

On the issue of ratcheting up the EU's ambitions to meet the Paris targets, it was noted
that the five-year review process of the INDCs provides an opportunity for the EU to review
and revise its targets. Some panellists suggested it may be possible to revisit the EU's 2020
climate targets now that an international agreement is in place which commits other
industrialised countries to comparable emission reductions. It was noted that any proposed
changes to the EU's climate ambition would need to be underpinned by detailed analysis of
impacts for all Member States and agreed together with the European Council and Parliament.

Panellists agreed that it is a particularly opportune time to act on climate change. Countries
should take advantage of the positive impetus from Paris, heightened attention on climate
change, and favourable conditions such as the slump in oil prices and continuing fiscal
pressures, to consider adopting more ambitious fiscal policies and other instruments as they
start to review and update their INDCs.

Concluding key messages (in tweets) by each panellist included:

@IanParry: Carbon pricing should be the centre piece of mitigation
@GuillaumeSainteny: There is still a lot of hard work to do
@MichaelGrubb: Many companies are asking for carbon pricing – give it to them
@MaryVeronicaTovšakPleterski: Carbon pricing is an enabler

Additional reading

Issue Note on Climate Change and Fiscal Policy
Briefing Note on Fiscal Policies and SDGs
Policy brief on Fossil Fuel Subsidies and Green Economy

Links

Further information on the event
Further information on the Green Fiscal Policy Network
Further information on Green Budget Germany