How parties are utilizing fiscal instruments and market mechanisms to meet the Paris Agreement

Philip Gass
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Achieving Low-Carbon Development in NDCs:

How Countries are utilizing Fiscal Instruments to meet the Paris Agreement

• In December 2015, IISD, in collaboration with GIZ, developed the report *Fiscal Instruments in INDCs: How countries are looking to fiscal policies to support INDC implementation*. The purpose was to provide a snapshot of how countries were going to use fiscal instruments such as market mechanisms, taxation, and subsidy reform as part of their NDCs.

• This review includes an expanded consideration of how fiscal instruments and market mechanisms can support implementation of countries’ NDCs.

• All current 176 NDCs in the NDC Registry (as of September 2018). Looking for domestic instruments and references to international market mechanisms. Domestic instruments include subsidies, carbon pricing, FFSR, and other tax reforms and other instruments.
## Examples of references in NDCs

<table>
<thead>
<tr>
<th>Party</th>
<th>NDC Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Malaysia (feed-in-tariff, carbon crediting)</strong></td>
<td>“Three significant financial tools were introduced to promote sustainability measures....the introduction of a <a href="#">feed-in-tariff (FiT) mechanism</a> in conjunction with the Renewable Energy Policy and Action Plan...providing <a href="#">fiscal incentives and funding for green technology investments</a> and <a href="#">promoting projects eligible for carbon credits</a>” (Government of Malaysia, 2016)</td>
</tr>
<tr>
<td><strong>Morocco (FFSR)</strong></td>
<td>“A good example of a fiscal reform is Morocco’s <a href="#">reduction of public subsidies to electricity and different petroleum products, such as industrial fuels and gasoline</a>” (Government of Morocco, 2016)</td>
</tr>
<tr>
<td><strong>Chile (Carbon Price)</strong></td>
<td>“In the case of global contaminants, <strong>a US$5 tax is set per ton of CO2</strong>. In addition, a tax on new cars was imposed” (Gobierno de Chile, 2017)</td>
</tr>
<tr>
<td><strong>Sri Lanka (Tax reform)</strong></td>
<td>“The NDCs of the industrial sector include...Introduce and promote <a href="#">tax structures to promote the sustainable technologies</a>” (Ministry of Mahawelo Development and Environment, 2016)</td>
</tr>
<tr>
<td><strong>Antigua and Barbuda (Reformed CDM)</strong></td>
<td>“Antigua and Barbuda acknowledges the potential for a <a href="#">renewed and reformed Clean Development Mechanism</a> to fulfill this role through its existing structure.” (Government of Antigua and Barbuda, 2015)</td>
</tr>
<tr>
<td><strong>Indonesia (Results based payment)</strong></td>
<td>“Considering significant progress of REDD+ readiness and transition at the national and sub national level in the country, Indonesia’s REDD+ should be ready for <a href="#">result-based payment</a>” (Republic of Indonesia, 2016)</td>
</tr>
</tbody>
</table>
Number and types of Mechanisms in NDCs

References to Fiscal & Market Mechanisms

- Yes: 88%
- No: 12%

Types of References in NDCs (domestic vs international)

- Domestic
- International
- D & I
- Nothing
References to Domestic Mechanisms

* Other includes non-energy subsidies, other financing mechanisms, investments, and other fiscal measures.
# Examples in the Transport Sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados, Republic of Korea, Saint Lucia, St. Vincent and the Grenadines</td>
<td>Tax incentives to encourage low carbon/electric vehicle adoption</td>
</tr>
<tr>
<td>Chile, Saint Kitts and Nevis, Thailand</td>
<td>Tax on cars with high CO2 emissions.</td>
</tr>
<tr>
<td>Dominica</td>
<td>Environmental tax on imported vehicles</td>
</tr>
<tr>
<td>Grenada, India, United Arab Emirates</td>
<td>Reform of fuel pricing policy including reform of transport fuel subsidies and implementation of fuel taxes.</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Fiscal incentives for public and private transportation</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>Setting aside the valued added tax charged for fuel</td>
</tr>
</tbody>
</table>
Draft Conclusions

Nearly 90% of NDCs contain a positive reference to use of domestic fiscal instruments, or international markets while nearly 50% contain reference to domestic fiscal instruments.

- In some cases, the references to fiscal instruments in NDCs are largely aspirational, while in others their implementation is critical to achieving mitigation contributions.

- With only 50% of NDCs referencing domestic instruments, there is significant room for growth going forward if best practices can be more widely shared.
Draft Recommendations

More effort on quantification, capacity building and knowledge sharing

• More effort must be invested in efforts to assess and quantify how domestic fiscal instruments can contribute to GHG mitigation objectives and mobilise revenues for climate finance and other national priorities.

• As fiscal instruments become more common, it will also be important to understand their role as part of the wider, comprehensive policy package needed to deliver countries’ NDCs. More detail from countries on how they plan to implement instruments would be beneficial given current vagueness in many current references.

• Further investment in policy assessment, capacity building, knowledge sharing and engagement with countries on the effective design and implementation of fiscal instruments would be beneficial. This can build on existing channels and networks including the GFPN, GGKP, PMR, CPLC, and others.
Questions?

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References to International Market Mechanisms

IMM References in NDCs

- EU ETS: 27%
- CDM References: 19%
- General/Other: 54%

Positive vs. Negative references to IMM in NDCs

- Total NDCs
- Positive references to IMM
- Not intending to Use IMM