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Carbon Pricing in Latin America

Comisión Económica para América Latina y el Caribe (CEPAL)

Reunión de expertos sobre Instrumentos económicos para la internalización de costos ambientales

Santiago, Chile

27 March 2019

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Agenda

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- Introduction
- Emissions Trading Schemes
- Carbon Taxation
- Debate

International Environmental Agreements

- United Nations Framework Convention on Climate Change
- Kyoto Protocol
- Paris Agreement
- **2030 Agenda – Development Resource Mobilization**

Momentum for Change
2030 Agenda – tax fairness

Momentum for Change
2030 Agenda – tax fairness

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- Although there is a specific SDG for climate change, at least 9 others are related to the topic

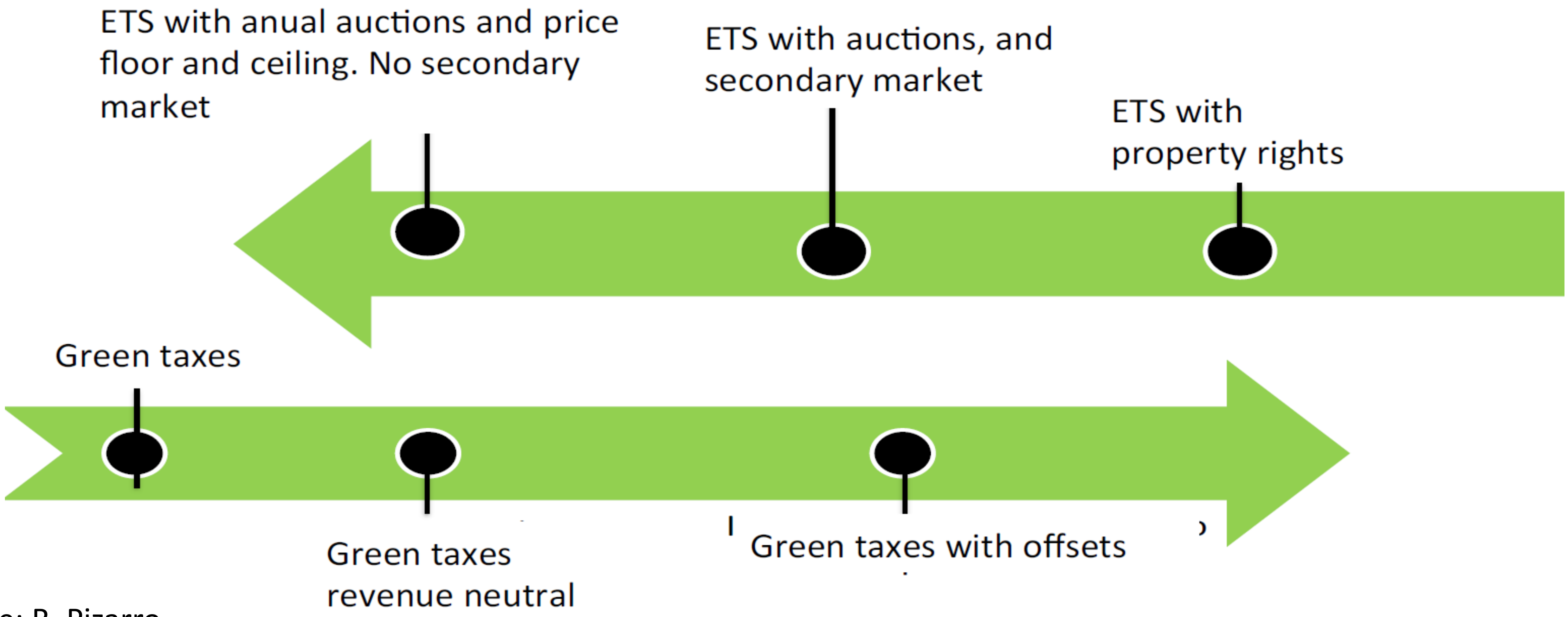
- Environmental taxation will play a crucial role in raising the revenues needed to meet the Sustainable Development goal.

- Although carbon pricing has historically been an instrument employed only by developed countries, developing countries are catching up!

Most popular carbon pricing mechanisms across the world (emphasis on developing countries)

- Nordic countries (Sweden, Norway, Finland, and Denmark)
- British Columbia – carbon tax (now a Canadian approach)
- South Africa - carbon tax
- California – ETS
- Chile – Carbon tax and other mitigation measures
- Colombia – carbon tax
- China - ETS

Comparison between Carbon Pricing Systems



Fonte: R. Pizarro

The Policy Instrument: ETS

- ETS can be more complex, and costly to implement: Requires prior knowledge of sectoral and business emissions:
  - China has been running pilot projects to assess emissions for over five years

- Perhaps politically easier to implement (not a tax!):
  - Consider the communication strategy in Australia, California: ETS or tax?

The Policy Instrument: ETS

- May allow a the development of a new business market for industries (trading in permits)
- Scope is limited to industries with high energy intensity *i.e.* cement, iron, energy generation
- Price can be linked up to other ETS Markets:
  - Could lead to coordination and uniformity in carbon pricing
- But can fail to achieve a high enough price or carbon:
  - EU ETS

The Policy Instrument: Carbon Tax

- The Legal conceptual approach matters
- An environmental tax or an environmentally related tax?
- Know your objective!
- A tax aiming at producing an environmental benefit should have both a purpose and an effect.
- Revenue raising taxes can be levied on any item of indirect environmental relevance, even if it does not lead to a direct result.

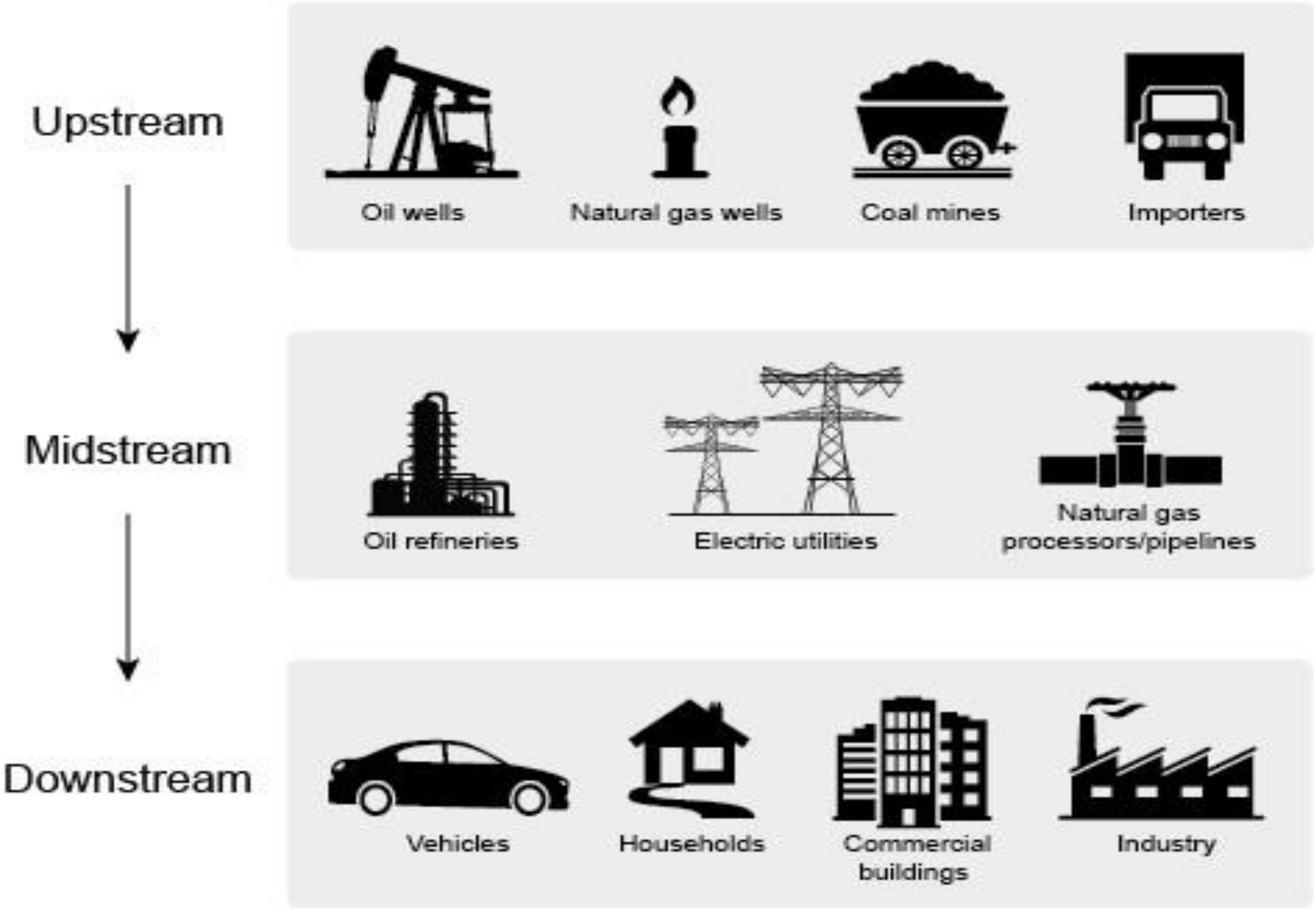
Policy Issues: Legal Design

- Excise tax
- Specific tax (price on a ton of carbon)
- Upstream/downstream
- On an item of pollution (carbon easiest proxy)
- Inflict change in consumer behaviour
- Earmarking (?) - Revenue destination
    - fund/public project: Develop new technologies; develop renewables; reform the energy grid

Policy Issues: Legal Design:
At which level to tax?

- Upstream/downstream
  - The lower the incidence of the tax, the higher the concern with Monitoring, Review and Verification (MRV)
  - Consider tax administration implications/ cost of oversight and training

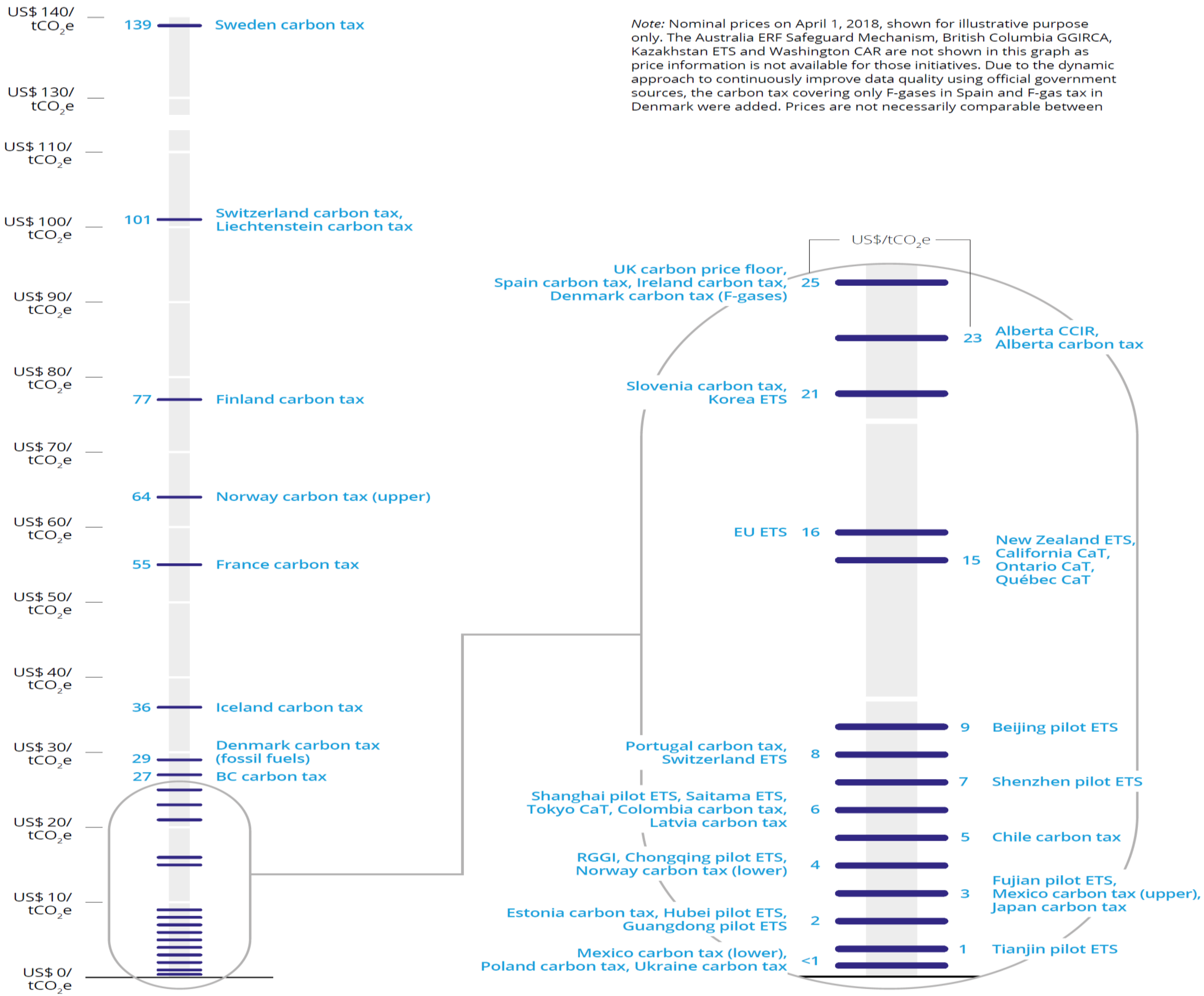
Policy Issues: Legal Design:
At which level to tax?



Policy Issues: Legal Design:
Carbon pricing

- Initial price should be commensurate with country’s level of economic development
  - Consider level of economic development; industry constraints; FDI
- Increasing tax rate over time
- Predictability in price increases
- Publicity in policy-making – juridical certainty
- Successful tax = reduction in revenue collection ability

Note: Nominal prices on April 1, 2018, shown for illustrative purpose only. The Australia ERF Safeguard Mechanism, British Columbia GGIRCA, Kazakhstan ETS and Washington CAR are not shown in this graph as price information is not available for those initiatives. Due to the dynamic approach to continuously improve data quality using official government sources, the carbon tax covering only F-gases in Spain and F-gas tax in Denmark were added. Prices are not necessarily comparable between



Policy Issues: Legal Design: **Competition**

- WTO rules:
  - Border Tax Adjustments – protect against loss in competitiveness
  - Principle of non-discrimination between foreign and domestic like-products.
  - Tax/pricing allowed provided there is parity in treatment
  - Small groups of higher environmental standards
  - Coordination with other Latam countries?
- Unlikely for there to be loss in FDI: resources are geographically delimitated.

Carbon Pricing in the Americas

Jurisdiction	Item subject to tax	Point of taxation	Offset/ Compensation	Emissions Trading	Linked to other jurisdiction
Argentina	Fuel (CO_2)	Upstream	No	No	No
Colombia	Fuel (CO_2)	Upstream	Yes	No	No
Chile	Fuel (CO_2)	Midstream and downstream	No	No	No
Mexico	Fuel (CO_2)	Upstream	Yes	No	No
British Columbia	Fuel (GHG)	Upstream	No	No	No
California	Emissions (GHG)	Mixed	Yes	Yes	Yes
Quebec	Emissions (GHG)	Mixed	Yes	Yes	Yes

Fonte: R. Pizarro

Questions for Discussion

- What do you think would be the most suitable instrument under your tax system?
- What could be the objectives of a potential environmental/carbon tax?
- Which government departments would need to be involved in the decision making process?
- How to compensate for potential regressiveness in the system? (compensate poor and women for the increase in prices)
- Are emissions the only concern? Other issues include health, pollution particles, etc.

Thank you!

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