

Carbon revenue use – General framework and 2020 update

Reforming the ETS: what to make of revenues? | Online discussion

Sébastien Postic, I4CE

Simple economics?



Not so simple...

- Less distortionary than most existing taxes (e.g. labour and profits)
- Levied on a small number of large businesses and can piggyback off existing systems :
 - low administrative costs, easy to collect, hard to evade

Yet

Tax interaction

Carbon leakage

Double dividend

Regressivity

Implicit prices

Price corridors

Solution aversion



A. Pigou



W. Nordhaus



J. Tirole



J. Stiglitz



N. Stern



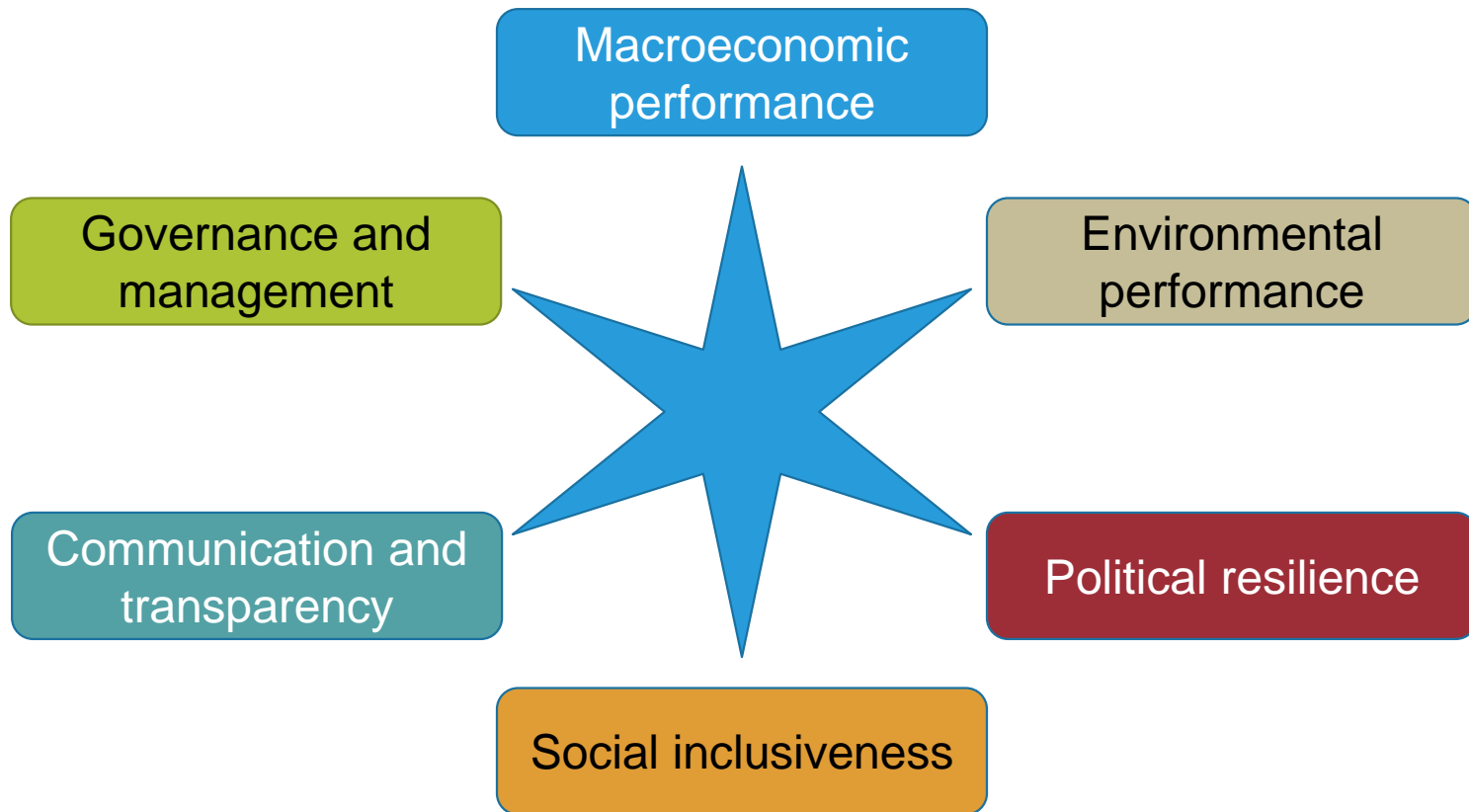
L. Goulder

... and NOT only economics!

Macroeconomic
performance

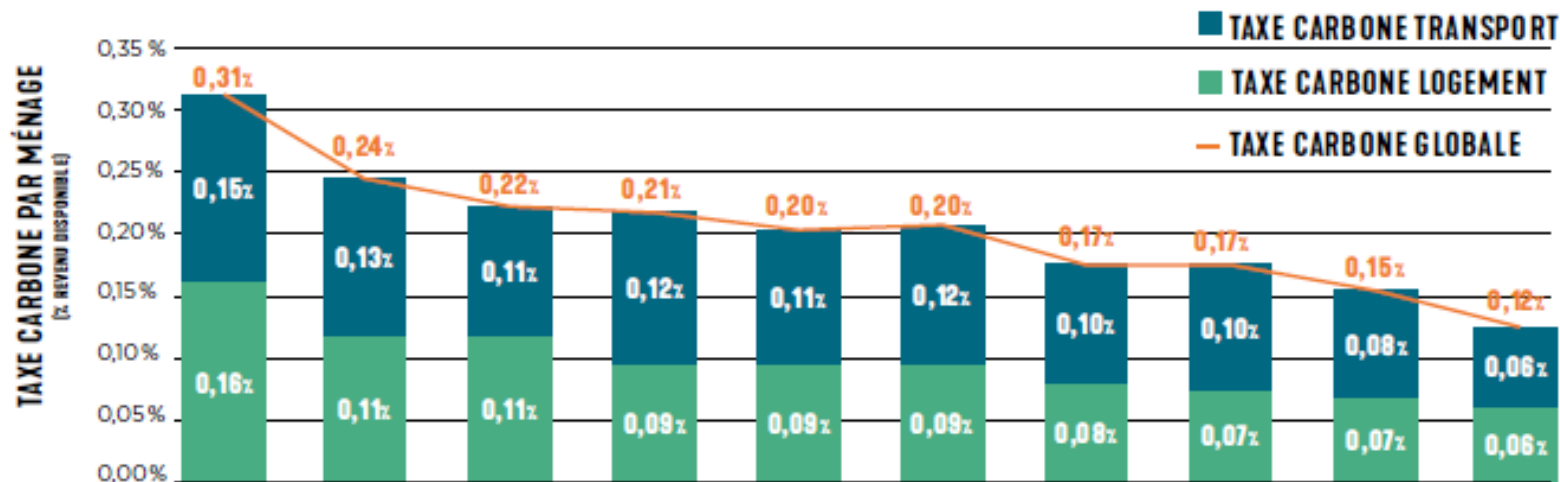


... and NOT only economics!



France: rate trajectory stopped

Carbon tax impact on a household's budget, by decile (RAC-France, 2018)



(Lons-le-Saunier, 2019)

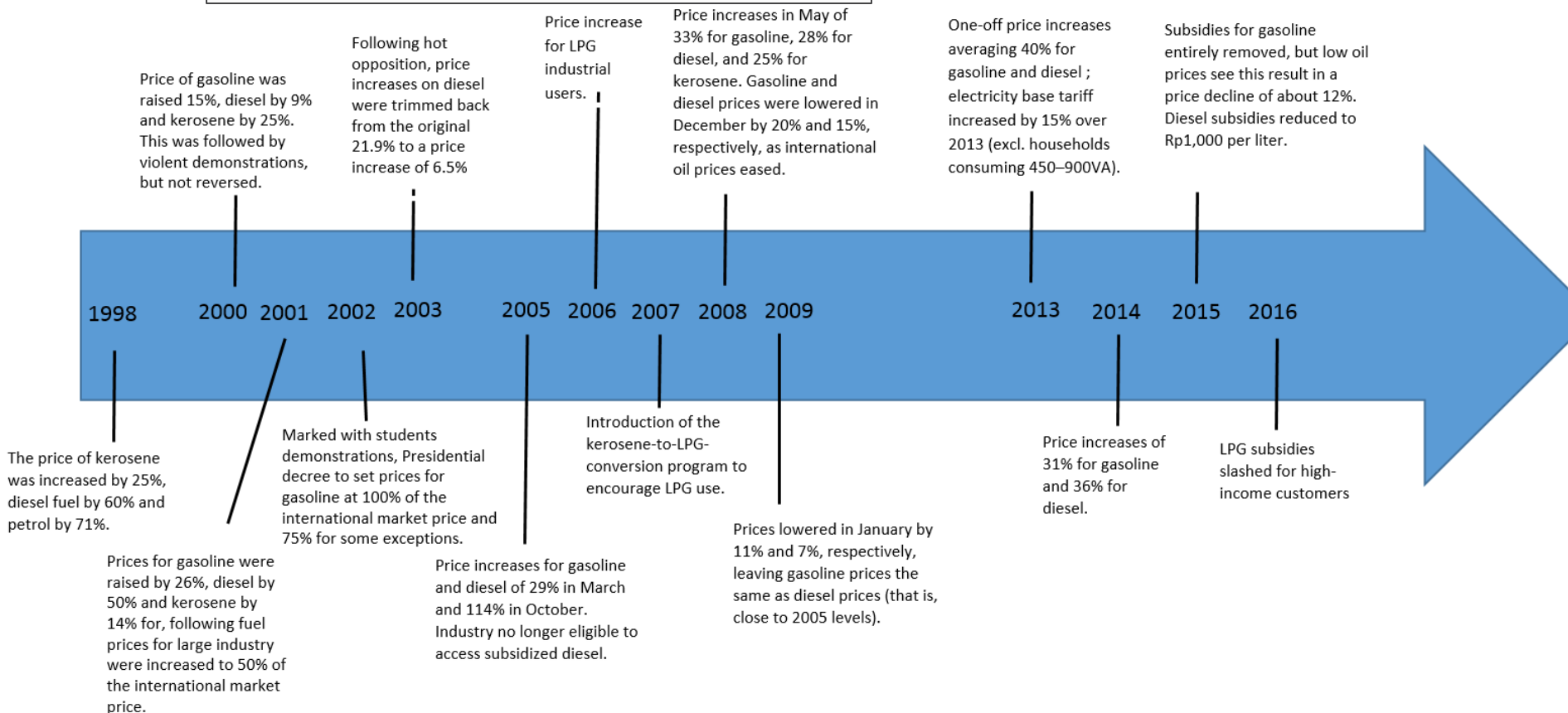


(Climate March Bordeaux, 2019)



(Youtube, 2018)

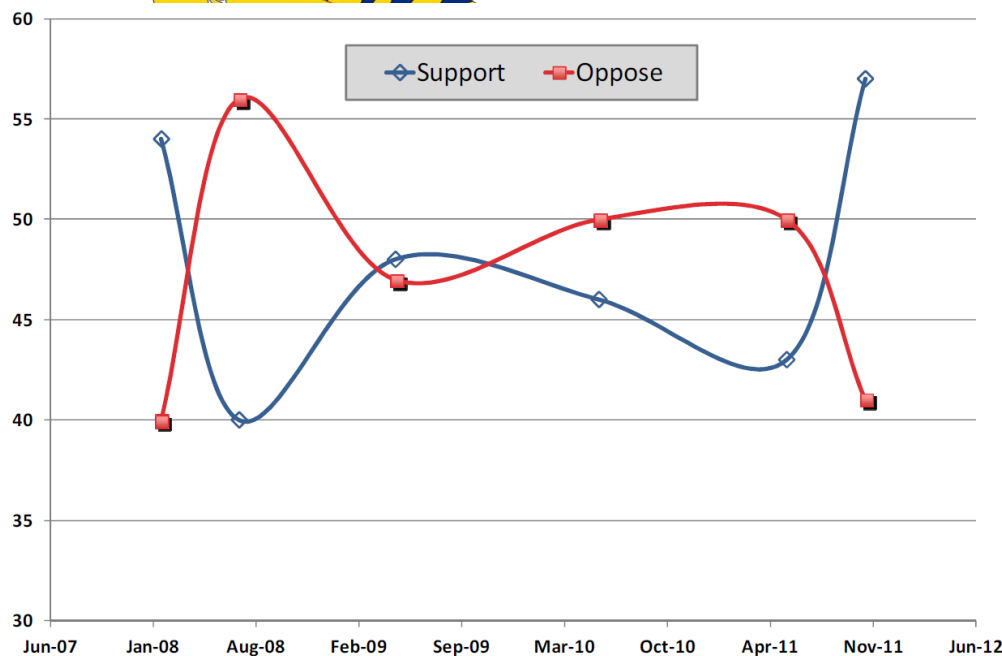
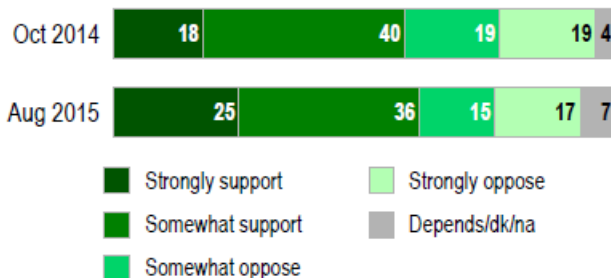
Indonesia: 20 years reforming subsidies



Australia: Tax repeal



British Columbia: electoral battle



THE VANCOUVER SUN

LEADING NEWS | VANCOUVER.SUN.COM

VANCOUVER 2010
OFFICIAL SUPPLIER

FRIDAY, APRIL 19, 2011 FINAL EDITION

B.C. ELECTION

NDP promises to axe unpopular carbon tax

Party leader Carole James releases platform as provincial election campaign gears up

BY JONATHAN FOWLIE
VANCOUVER SUN

VICTORIA — The New Democratic Party will cut almost \$2 billion in taxes over the next three years by immediately scrapping Premier Gordon Campbell's carbon tax, party leader Carole James said Thursday.

"What we've done in putting a platform together is to provide support for British Columbians during these difficult times — both business and individuals — by getting rid of the gas tax," James said as she released her party's platform for the May 12

provincial election.

"I think it fits with the changing times," she said. While James's objections to the carbon tax have previously been that it is unfair and ineffective, her party's election platform casts it as a way to stimulate the economy.

"We are living in unprecedented times, compared to other years in British Columbia and across the globe, and I think that calls for new approaches," said James. She said cutting the carbon tax will cost \$1.8 billion over three years and will give an average family of four an extra \$158 per year.

CONTINUED ON A4

Learning from history...

Canada passed a carbon tax that will give most Canadians more money

By rebating the revenue to households, disposable income rises, which can be a boon for the Canadian economy



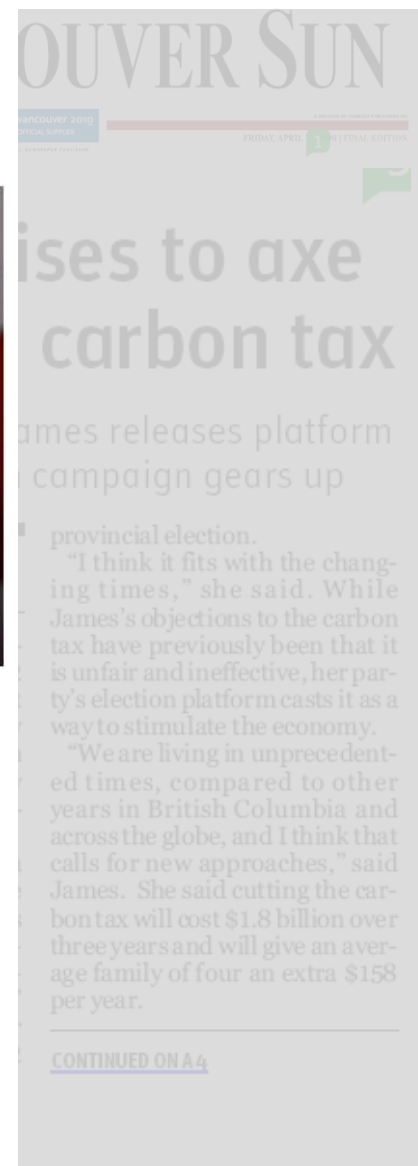
▲ Prime Minister Justin Trudeau answers a question on Parliament Hill in Ottawa on Thursday, Oct. 25, 2018.
Photograph: Canadian Press/REX/Shutterstock

Last week, Prime Minister Justin Trudeau announced that under **the Greenhouse Gas Pollution Pricing Act**, Canada will implement a revenue-neutral carbon tax starting in 2019, fulfilling **a campaign pledge he made in 2015**.

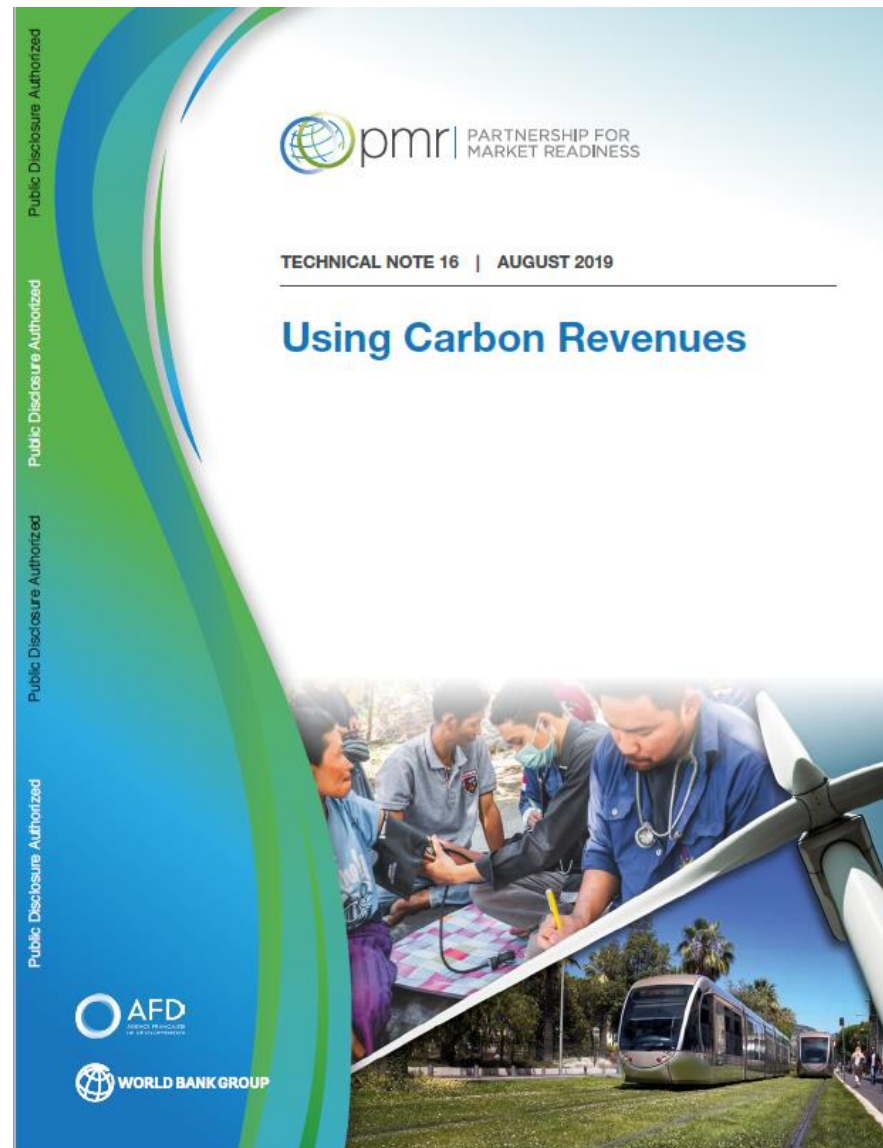


Justin Trudeau ✓
@JustinTrudeau

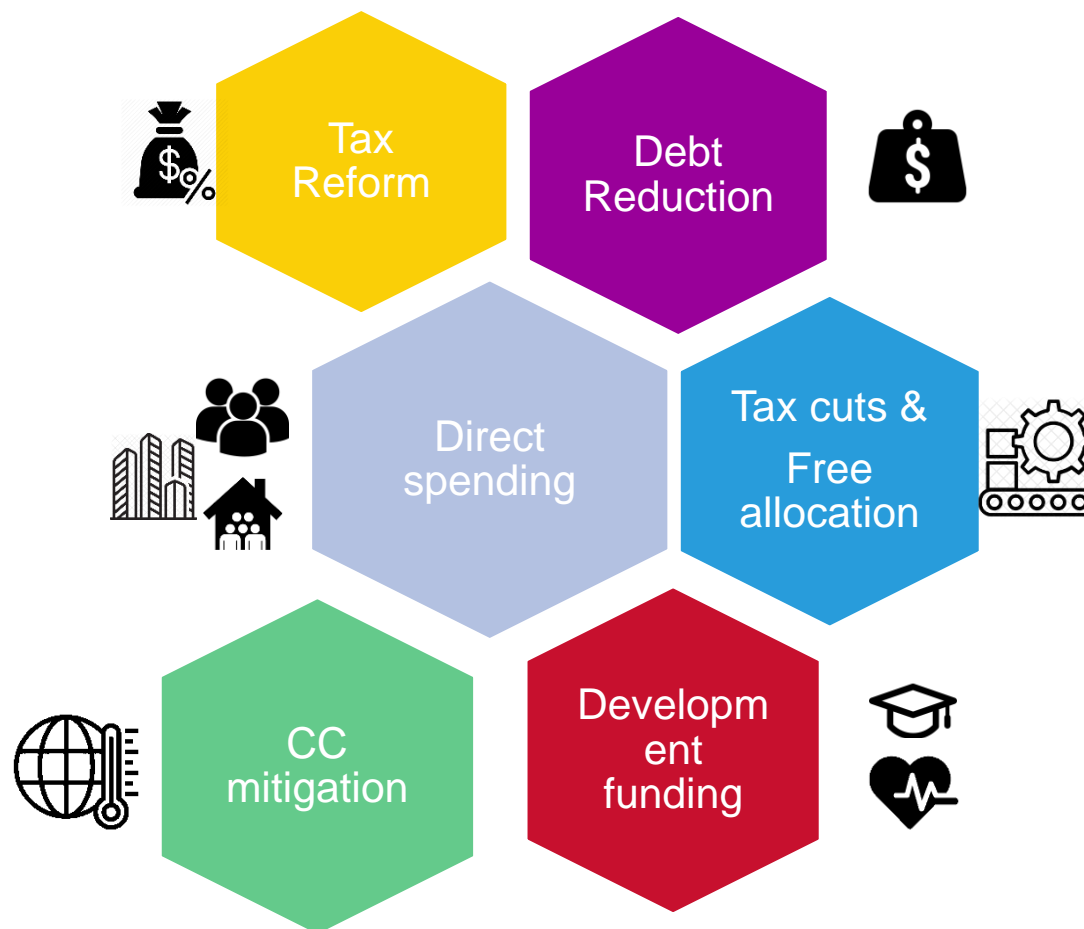
Starting next spring, it'll no longer be free to pollute in Canada. We're putting a price on pollution in provinces that don't yet have a plan to fight climate change. More on our plan to cut pollution, grow the economy & create jobs: bit.ly/2ytTPfR
#EnvironmentEconomy



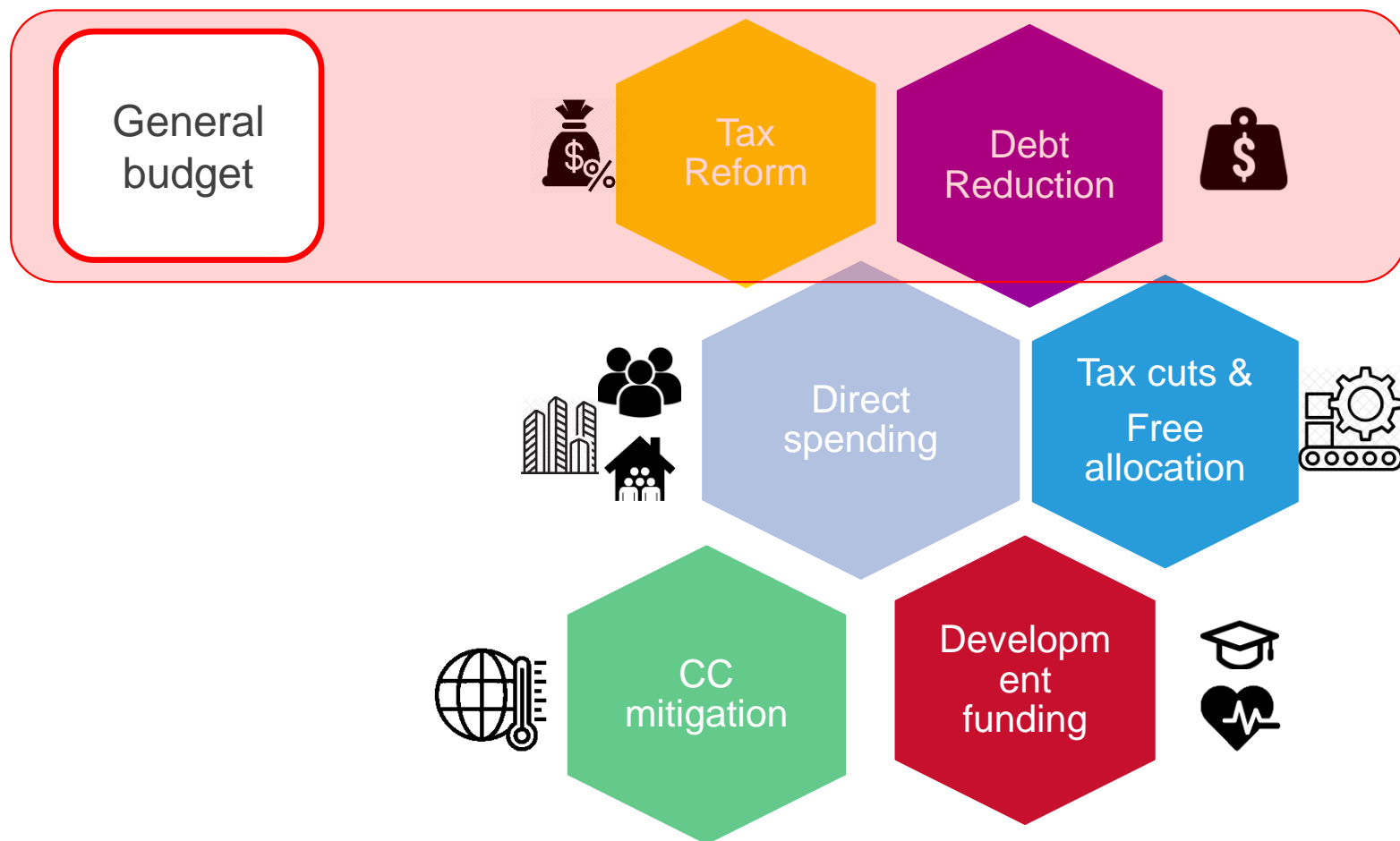
An AFD-World Bank report on revenue use



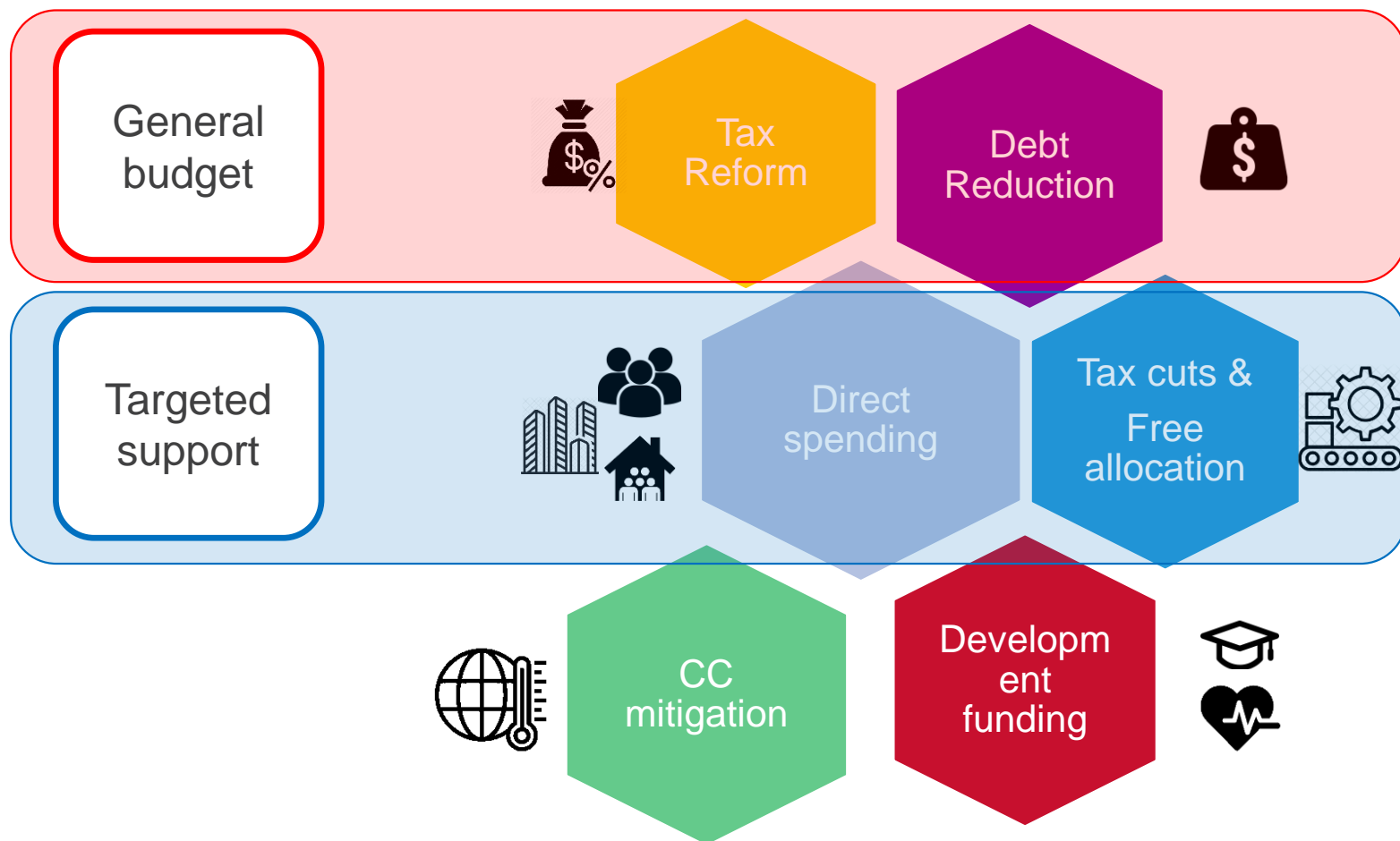
6 destinations for revenue use



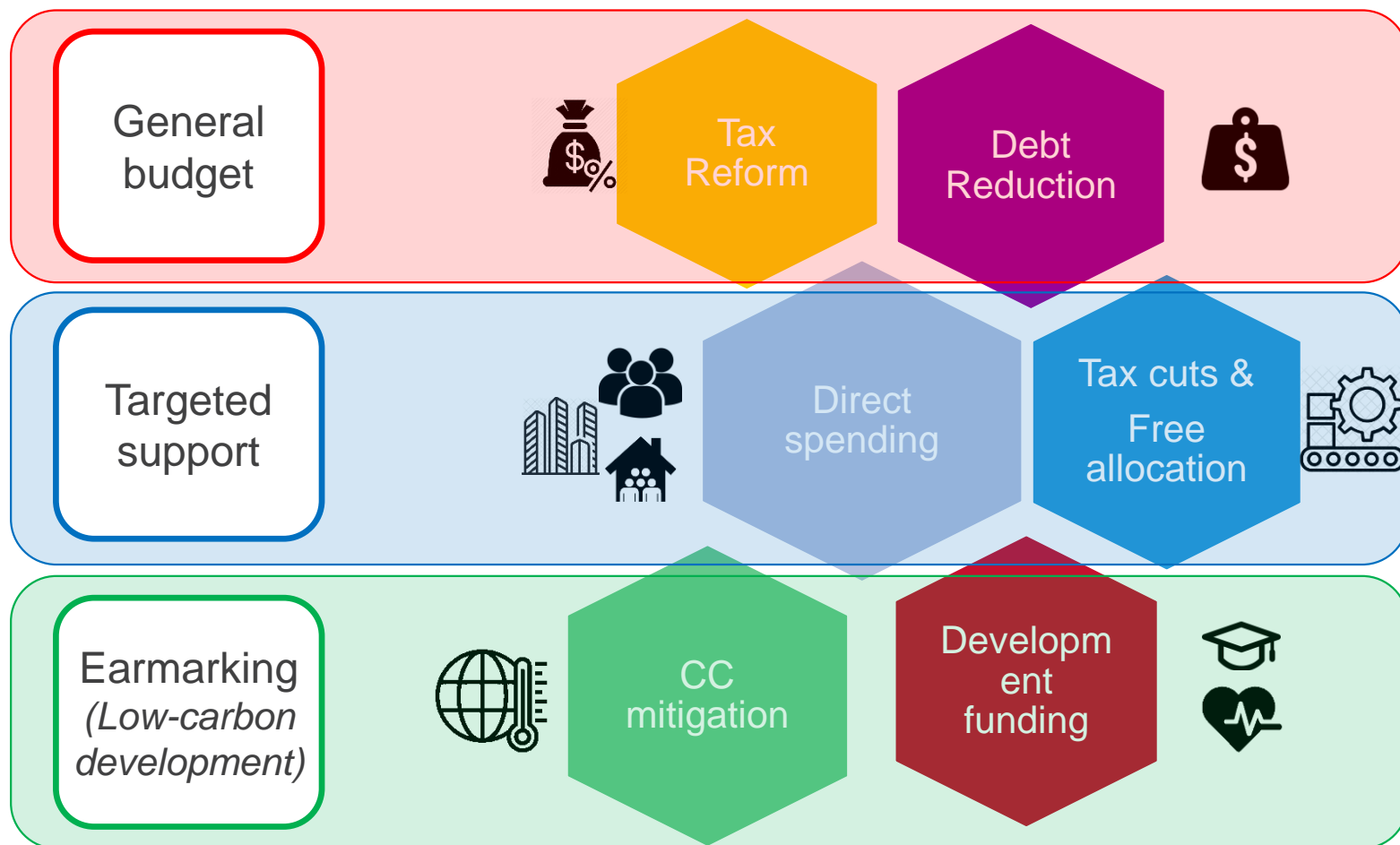
6 destinations for revenue use



6 destinations for revenue use



6 destinations for revenue use



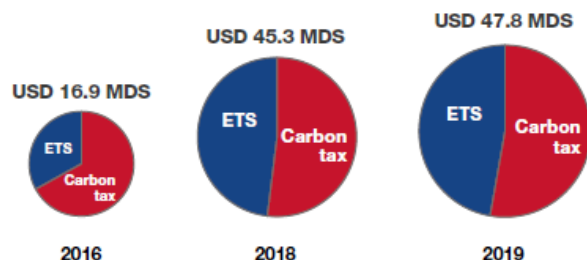
1 Share of state revenues

- Carbon tax - Less than 1%
- Carbon tax - 1% to 2%
- Carbon tax - More than 2%
- ETS - Less than 1%
- ETS - 1% to 2%
- ETS - More than 2%

2 Revenue uses

- General budget allocation
- Tax exemptions
- Direct transfers
- Earmarking

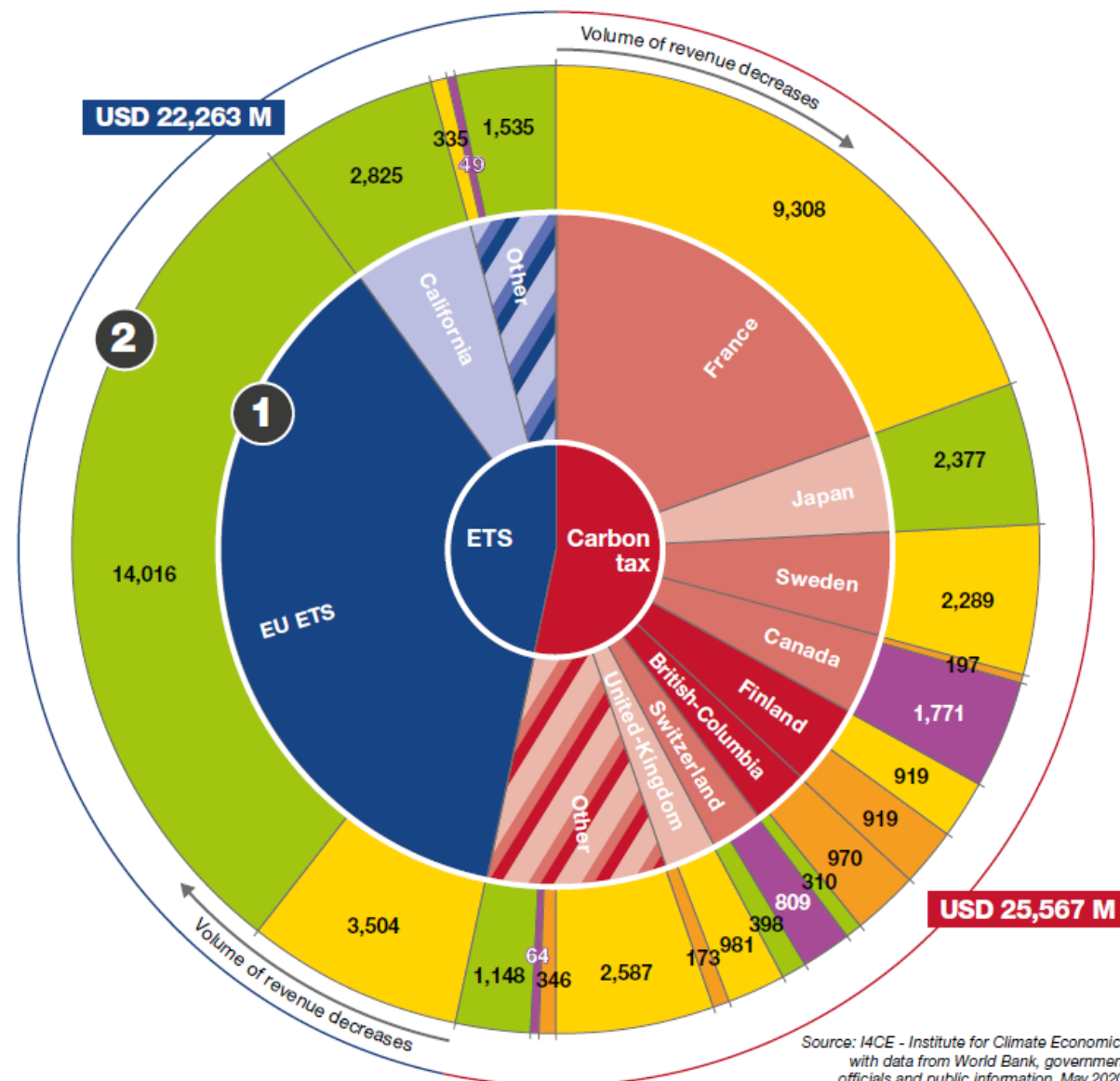
Revenue evolution 2016-2018-2019



Key takeaways

- 53% of carbon revenues are generated by carbon taxes amounting to USD 26 billion. ETS initiatives have generated more than USD 22 billion.
- In spite of Brexit, more than 67% of carbon revenues come from European Union member countries.

Note: Figures represented here are for calendar year 2019 or fiscal year 2019/2020. If no data was available, calendar year 2018 was taken into account.



Source: I4CE - Institute for Climate Economics with data from World Bank, government officials and public information, May 2020.

Success with various designs



Green earmarking

(USD 57 per capita)

ETS

85% (CO2)

2013



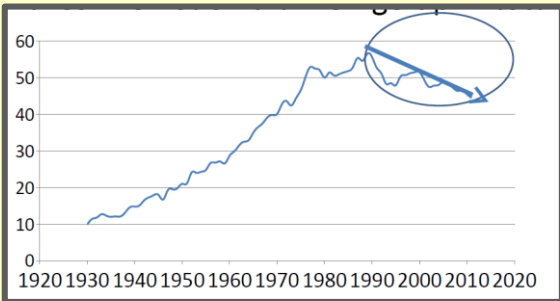
Tax reform

(USD 285 per capita)

Tax

40% (CO2)

1991



General Budget

(USD 110 per capita)

Tax

40% (CO2)

2010



Direct rebates

(USD 134 per capita)

Tax

36% (CO2)

2008



Fit the overall narrative



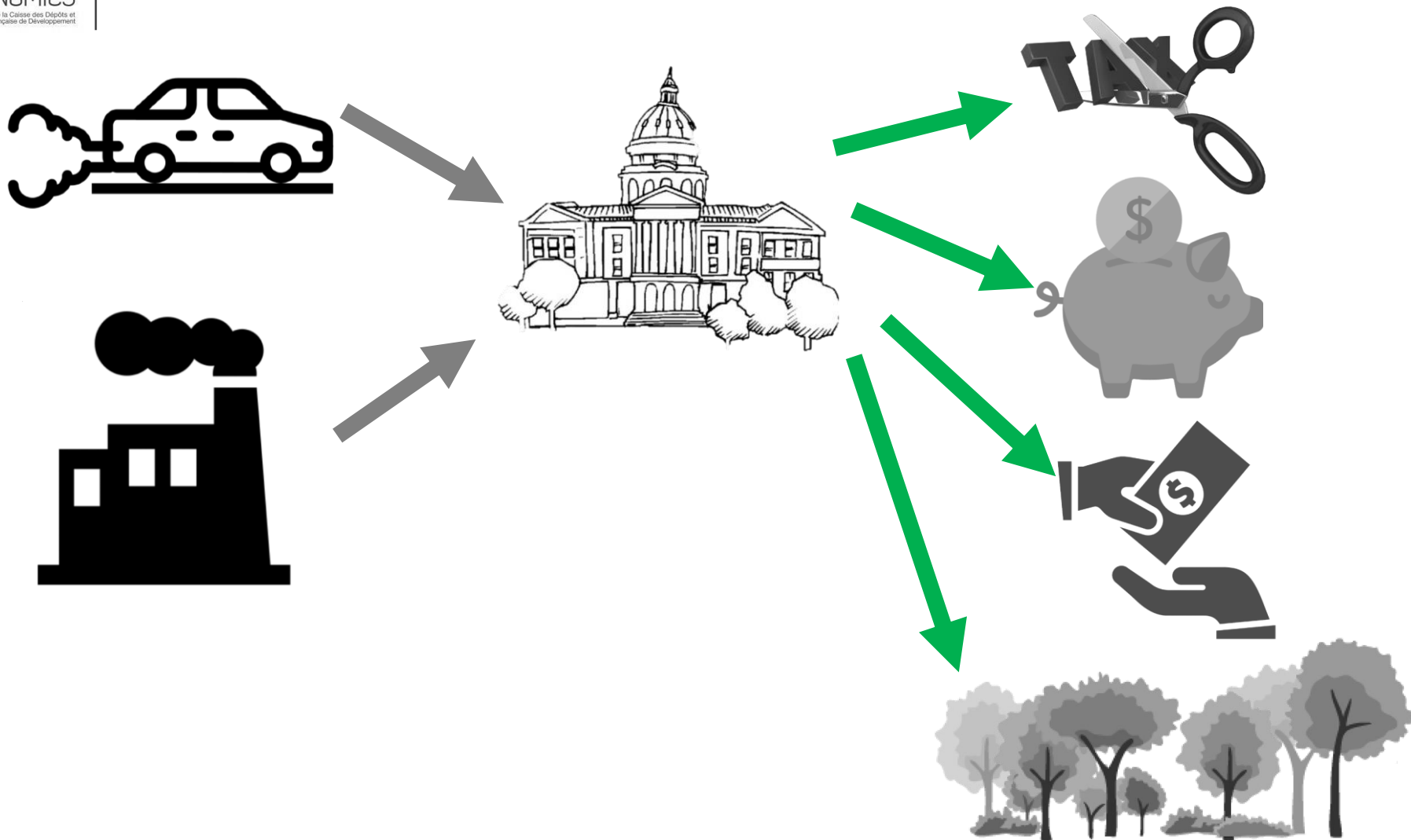
Europe's week: Green deal vs coronavirus recovery [COMMENTS](#)

By Stefan Grobe • last updated: 26/10/2020



(F. Timmermans, on Euronews, 26/10/2020)

While redirecting financial flows...



... strive for consensus on the whole picture



Poland rejects EU using emissions scheme to fund recovery

Move would unfairly penalise country heavily dependent on coal, says deputy PM



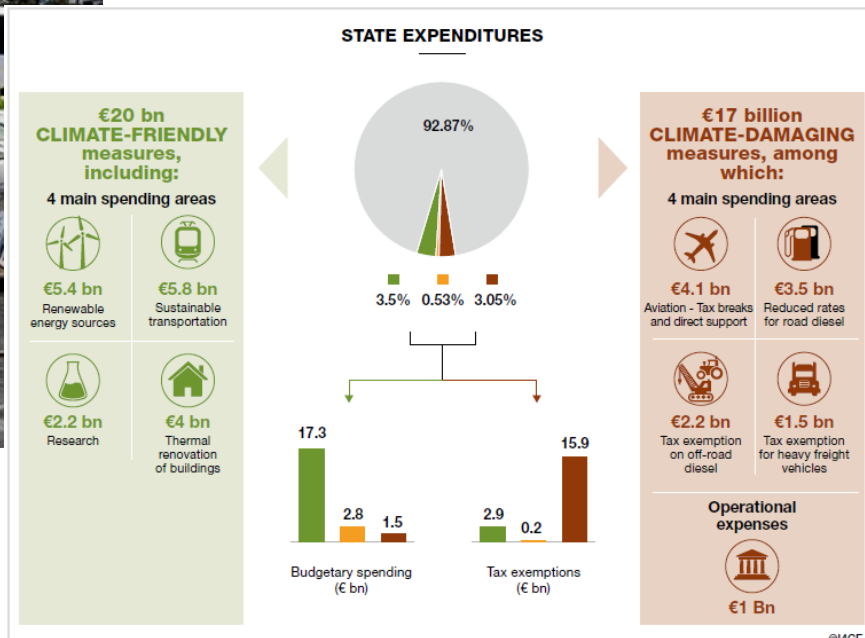
Poland deputy prime minister Jadwiga Emilewicz: "It was not our choice at the end of the 1960s to invest more and more heavily in coal" © Wojciech Olkuszniak/EPA

Transparency and visibility – An EU Climate budget assessment?

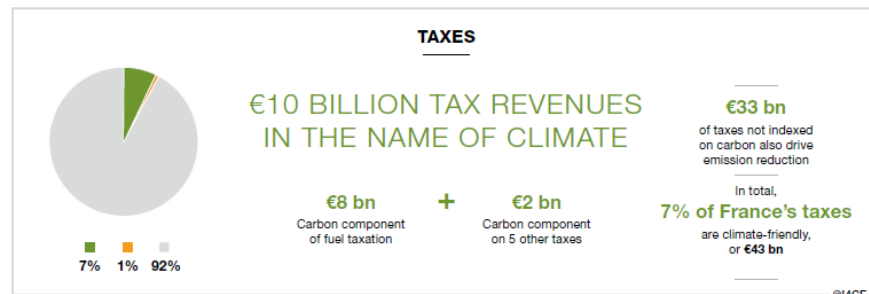


(Lasentinel.net, 2016)

(I4CE, 2020)

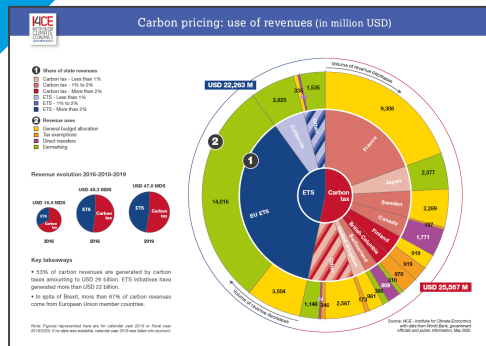


@I4CE

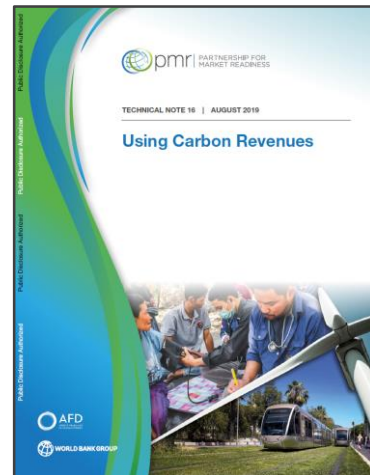


@I4CE

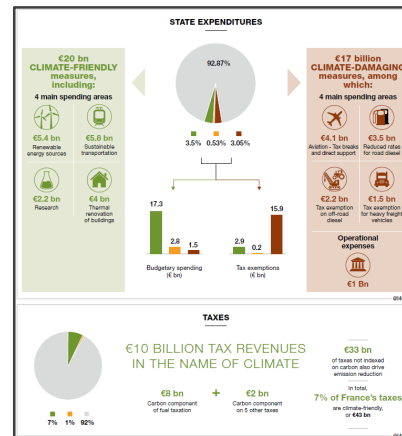
Thank you!



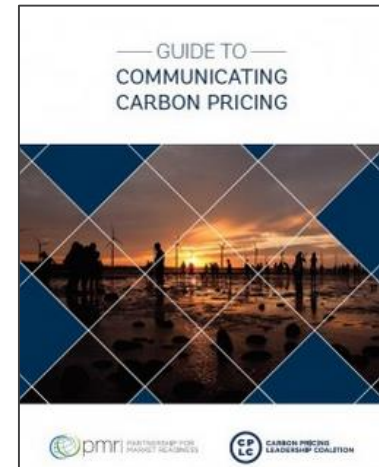
<https://www.i4ce.org/wp-content/uploads/2020/05/TarificationCarbone2020-VA.pdf>



<https://openknowledge.worldbank.org/handle/10986/32247>



<https://www.i4ce.org/download/a-first-360-degree-climate-assessment-of-frances-state-budget/>



<https://openknowledge.worldbank.org/handle/10986/30921>

sebastien.postic@i4ce.org