Effective carbon pricing post Covid-19

Strengthening Resilience through Taxes, Emissions Trading, and Fossil Fuel Subsidy Reform

Jonas Teusch, Economist, Centre for Tax Policy and Administration

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OECD
BETTER POLICIES FOR BETTER LIVES

Outline

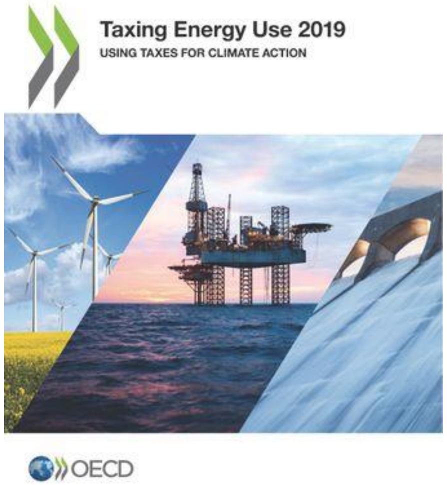
- Why price carbon?
- Where do we stand with carbon prices?
- Points for discussion: How to make progress in the current context?

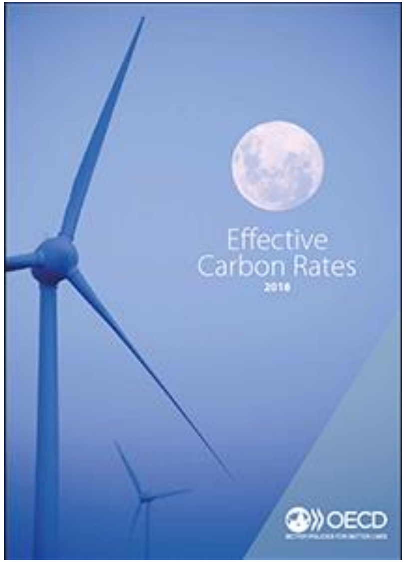
Why price carbon?

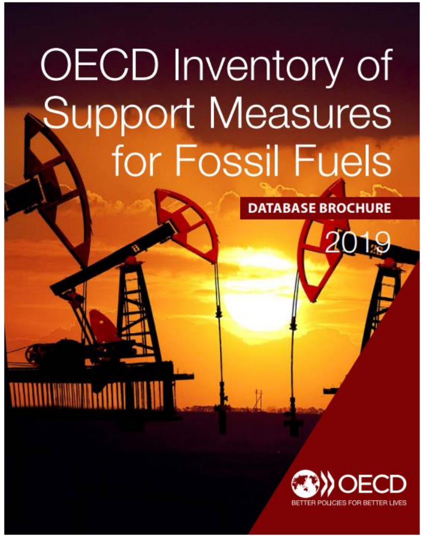
- Encourage consumers and producers to make cleaner choices

- Contribute to other goals of tax and fiscal policy (revenue, equity, affordability, competitiveness, etc.)

Where do we stand with carbon prices? OECD work

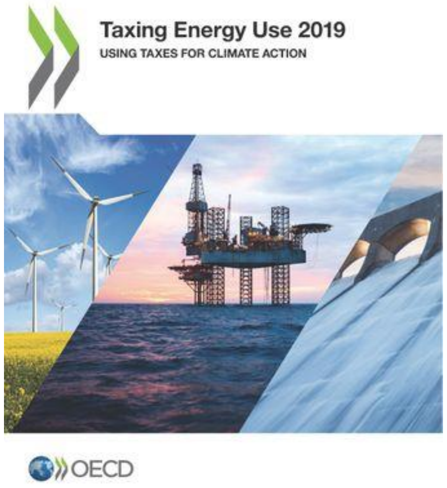






Energy tax systems provide too little incentive to move to cleaner energy

- Taxes on polluting fuels remain too low to reduce the risks and impacts of climate change & air pollution
- **Across 44 OECD and G20 economies, 70% of energy-related CO_2 emissions are not taxed at all**
- Increasing carbon prices first where they are currently lowest makes sense (coal, international aviation and shipping, etc).
- In some countries even revenue-neutral electricity tax reform could strengthen incentives to reduce emissions.



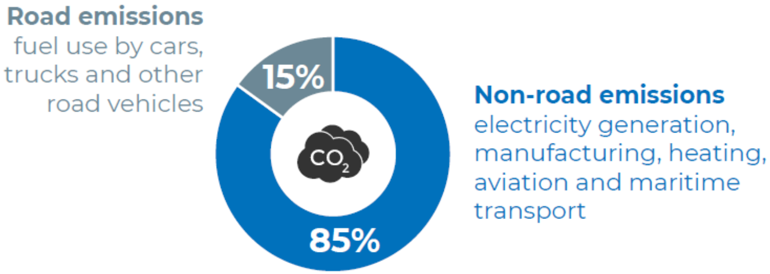
Overall, effective carbon taxes are too low to provide meaningful environmental price signals

	Average* fuel excise per tCO_2 in 2018	Average* explicit carbon tax per tCO_2 in 2018	**Average* effective carbon tax per tCO_2 in 2018**
Coal and other solid fossil fuels	0.61	0.13	**0.73**
Fuel oil	3.50	0.46	**3.96**
Diesel	70.65	3.11	**73.76**
Kerosene	4.27	0.34	**4.61**
Gasoline	84.34	1.50	**85.83**
LPG	10.23	0.89	**11.12**
Natural gas	4.08	1.19	**5.26**

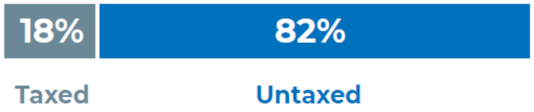
* Emission-weighted average across all 44 countries and int'l aviation & maritime

Outside road transport, the bulk of carbon emissions are unpriced

85% of energy-related CO_2 emissions take place **outside the road sector**.

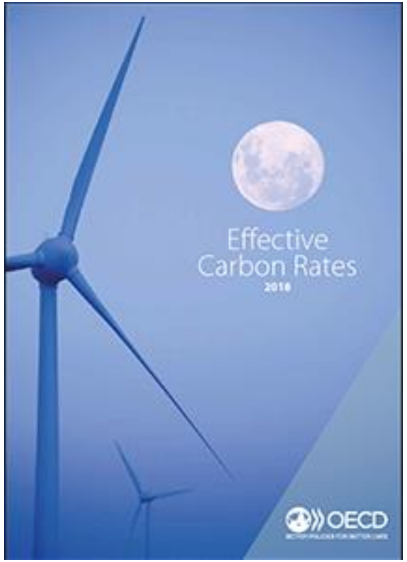


But **taxes only cover 18% of non-road emissions**, leaving a tax of zero for the remaining 82%.



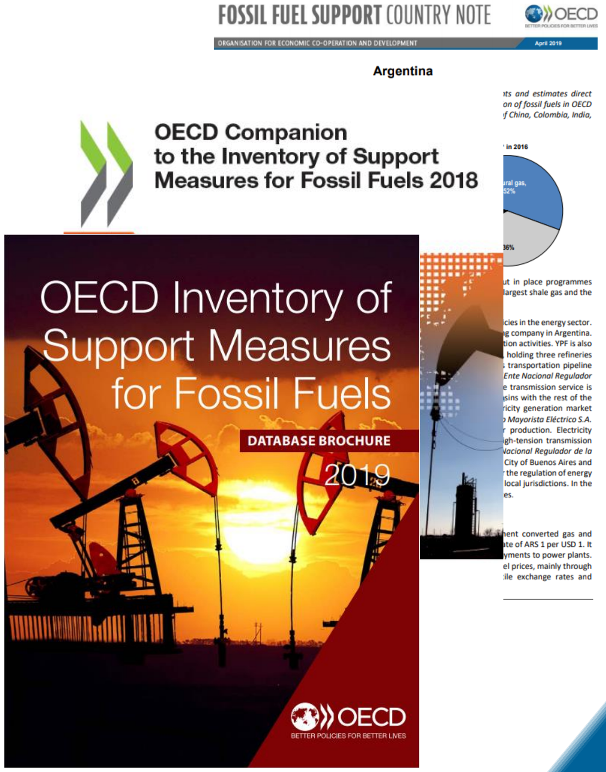
Broadening the scope to emissions trading systems does not change the overall conclusion

- Taxing fuels is not the only way to price carbon
- Jurisdictions can use taxes to price carbon, or they can introduce emissions trading systems (e.g., EU ETS, California & Quebec,…)
- **Taking taxes and emissions trading systems together, only 10% of emissions are priced at EUR 30/tCO_2 or more.**



Government support for fossil fuels can sometimes imply that carbon prices are effectively negative

- The OECD provides regular updates of the **Inventory of Support Measure for Fossil Fuels**, its corresponding **country notes** and the **Companion report**.
- The **2019 Inventory** covers **44 countries** (36 OECD countries and 8 selected economies). It includes close to **1 200 individual government policies** that support the production and consumption of fossil fuels.
- In 2017, **OECD and selected economies** transferred **USD 140 billion** to the consumers and producers of fossil fuels. At the global level, the combined **IEA-OECD** estimate stands at **USD 340 billion**.



Current context: Tax policy in times of Covid-19

Report at the request of the G20 Presidency: **Tax and fiscal policy in response to the Coronavirus crisis**, 15 April 2020

- Immediate concern: use tax and fiscal policy to shore up business liquidity, support household income and keep workers in the labour market
- Next concern: continue to provide household and business support taking into account rising solvency risk as containment and indirect economic effects persist
- Then move to stimulus for a strong and swift recovery – such stimulus could be geared towards broader objectives, including environmental objectives (climate, biodiversity) and resilience of the economy. **Can build in conditionality – not all economic activity equally valuable in the long run**
- **Ultimately, implement broad tax reform** – the policy focus is not now on restoring public finances, but the debate should start – carbon prices could be part of balanced burden sharing

Points for discussion: How to use carbon prices to unlock low-carbon investments for a green recovery

Strong carbon price signals can channel investments into assets that are aligned with countries’ long-term priorities, but:

- How to time carbon price reforms in the current context?
- How to best address distributional and affordability concerns?
- How to credibly commit to increasing carbon prices gradually over time?
- Is there a need for new tools to address medium-term carbon leakage and competitiveness issues?
- Do we need specific pricing instruments for harder-to-abate sectors?