

I4CE

INSTITUTE FOR
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Carbon revenues: Transforming carbon costs into low-carbon opportunities

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Side-Event « Carbon Pricing Unlocked »
World Bank, Ecofys, I4CE
EU Pavillon | COP22

There is always an incentive to explore new territories

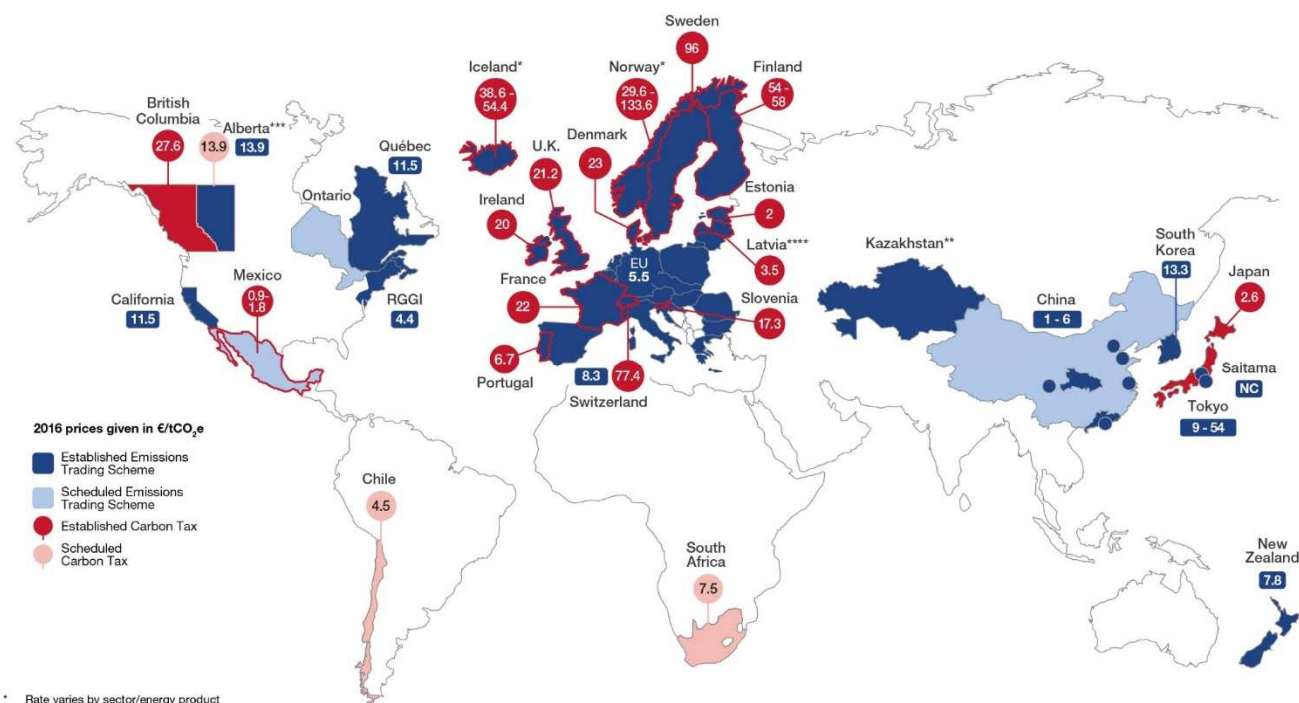


**WHAT'S
ABOUT
CARBON
REVENUES?**

A growing implementation for carbon pricing policies around the world: for which use of carbon revenues?

- The World Bank estimates that in 2015 alone: \$26 billion in government revenues has been generated through carbon pricing initiatives

Map of explicit carbon prices around the world



* Rate varies by sector/energy product
 ** ETS suspended until 2018
 *** The 2015 Specified Gas Emitters Regulation (SGER) price is the fee paid into the Climate Change and Emissions Management Fund, set at €10.9/tCO₂e. The Carbon Competitiveness Regulation (CCR) will replace the SGER in 2018, at which point, an economy-wide carbon price of €21.8/tCO₂e will be set
 **** Latvia has two taxes on carbon emissions: a Natural Resource Tax and a Tax on cars and motor vehicles
 Note: All prices are nominal values. ETS prices have been calculated as an average of prices between 1 January and 30 June 2016. Prices were calculated using exchange rates provided by XE.com on 8 July 2016.

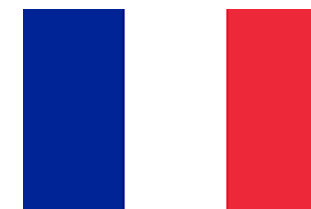
Source: I4CE - Institute for Climate Economics, September 2016

Carbon revenues: an important consideration for policy makers

- Growing revenues generated from carbon taxes, levies, and ETS and their potential uses can incentivize governments to implement policies that put a price on carbon.
- Carbon revenues can impact the economic effectiveness of public policies through :
 1. **Optimizing the taxation system** (reduction of taxes and reform);
 2. **Social redistribution** (low-income households, job assistance)
 3. **Public finance management** (debt/deficit);



**British Columbia has adopted
revenue-neutral carbon tax**



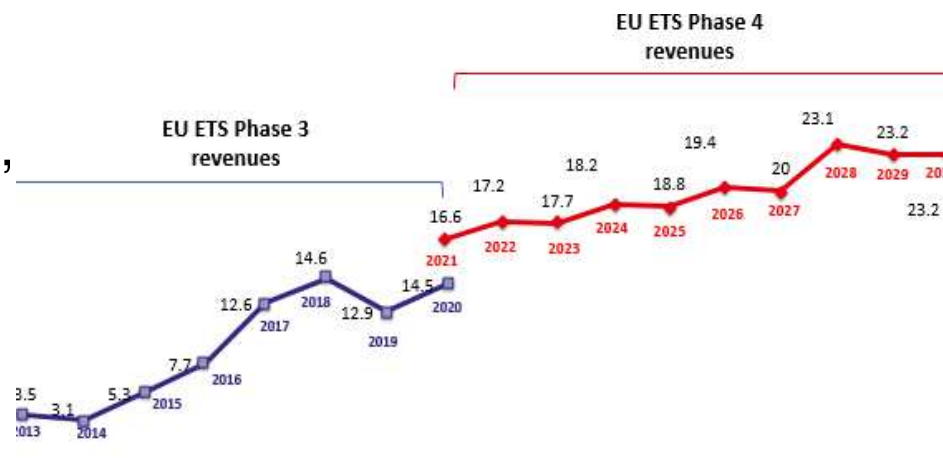
**France use carbon revenues to
reduce labour taxes**

Carbon revenues: a new important consideration for funding low-carbon transition

4. Carbon revenues can be used to accelerate the low-carbon transition by “Earmarking” revenues for low-carbon initiatives, projects and infrastructure development.

- Using carbon revenues effectively can help governments capitalize on benefits and co-benefits of climate action.
- Carbon revenue spending plans can help improve the political acceptability of policies that price carbon their introduction or increase.

2015-2030 Forecast of EU Member States' Auction Revenues



Source: I4CE, 2015

For example, the European Union could raise over €230 billion between 2015 and 2030 from the EU ETS – a sum equivalent to the additional energy sector investments required to move from an EU New Policies scenario to a 2°C scenario.

Carbon revenues can be used according national priorities

- There is **no one unique approach to carbon revenue spending**, their use are based on national priorities and political decisions.

Summary Table: Pros and Cons of Common Options for Revenue Use

Approach	Opportunities	Challenges
Using Revenues to Reduce Other Taxes	<ul style="list-style-type: none"> Improve efficiency of tax system burden to improve public support Promote economic activity 	<ul style="list-style-type: none"> Preferential treatment of certain groups Ensuring efficacy of carbon price
Directing Revenues to Households	<ul style="list-style-type: none"> Address household fairness Enhance public support 	<ul style="list-style-type: none"> Potentially missed productivity opportunities
Transitional Support for Industry	<ul style="list-style-type: none"> Drive economic growth Reduce industry opposition 	<ul style="list-style-type: none"> Ensuring efficacy of carbon price Picking winners and vested interests
Public Debt and Deficit Reduction	<ul style="list-style-type: none"> Long-term economic benefits Intergenerational affordability 	<ul style="list-style-type: none"> Limited public appeal
Using Revenues for General Spending	<ul style="list-style-type: none"> Increased resource availability Economic support 	<ul style="list-style-type: none"> Lack of clear returns
Funding for Climate Investments	<ul style="list-style-type: none"> Funding prioritization Corrective potential Thematic coherence and public support 	<ul style="list-style-type: none"> Market distortions Negative perception of increased public spending Risk of inefficiency Inadequate level of expenditures Picking winners

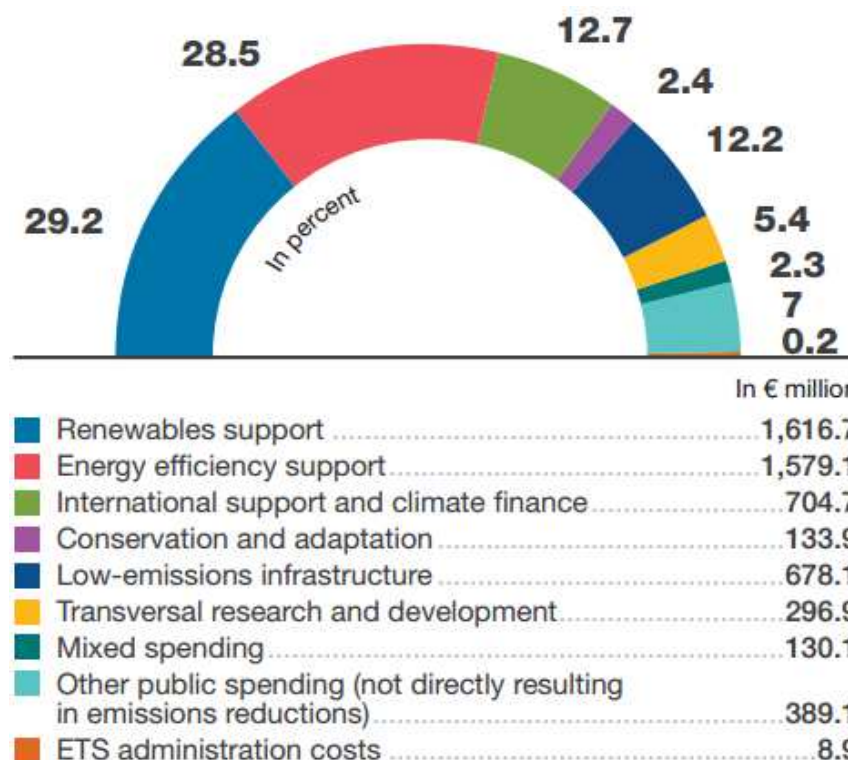
Source: World Bank CPLC Brief issue, 2016

Transforming carbon costs to low-carbon opportunities: funding the transition

Carbon revenues can be used to fulfill a wide range of objectives:

- Funding low carbon development
- Providing financial support to ease adverse impacts resulting from implementing carbon pricing policies
- Developing public infrastructure
- Fulfilling international climate finance commitments
- Increasing economic activity

EU ETS Member States



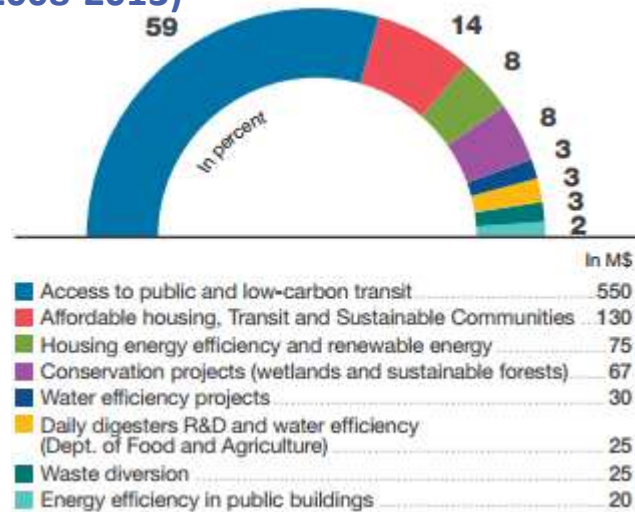
Source: I4CE, 2015

Transforming carbon costs to low-carbon opportunities: funding the transition

Common trends in North America:

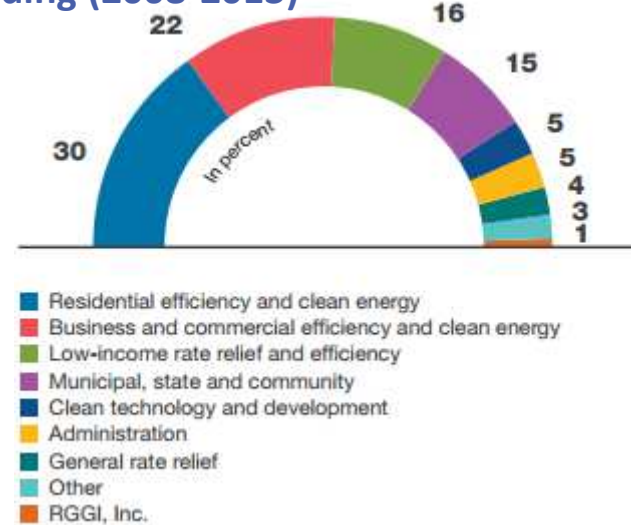
- Spending guidelines focus on long-term growth as well as GHG reductions (*special attention to highest emitting sectors*)
- Guidelines for minimum investments towards certain actions (*Focus especially on reserving funds for disadvantaged communities*)
- Focus on large-scale infrastructure growth e.g. low-carbon transport
- Public reporting on decision making motivations, governance and assessment of projects
- Use of standardized metrics to measure performance

California Cap-and Trade revenue spending (2008-2013)



Source: I4CE – Institute for Climate Economics, 2015 and California Air Resources Board, 2015

RGGI Member States Cap-and Trade revenue spending (2008-2013)



Source: Investment of RGGI Proceeds Through 2013, 2015

Recommendations: a well-positioned decision-making and governing framework

Regardless of where the revenues are spent, a well-positioned decision-making and governing framework is required to ensure that revenue spending is in accordance with set objectives:

1. Plan revenue spending;
2. Engage in public consultation with stakeholders;
3. Establish Monitoring-Reporting-Verification systems;
4. Set checkpoints to revise the revenue spending plan;
5. Develop safeguards to compensate beneficiaries in case of revenue shortfall;
6. Regularly communicate progress to the public;
7. Identify ways to maximize the utility of these revenues (leverage effect on private finance);

Conclusion | Carbon revenue recycling : a driving force for the development of carbon policies and the low-carbon transition

- **Revenue recycling is trending:** there is a greater incentive for governments to adopt policies that put a price on carbon
- **The potential of these revenues can be leveraged to:**
 1. **Enhance the political acceptability of carbon pricing policies**
 2. **Raise economic and environmental gains** by supporting low carbon investments, reducing distortionary taxes, addressing competitiveness concerns, or driving government spending on public priorities.
- **Revenue recycling success requires a well-positioned decision-making and governing framework.**



Questions ?

Further reading ...

Recycling carbon revenues: transforming costs into opportunities

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Emilie ALBEROLA, Phd*

May 2016

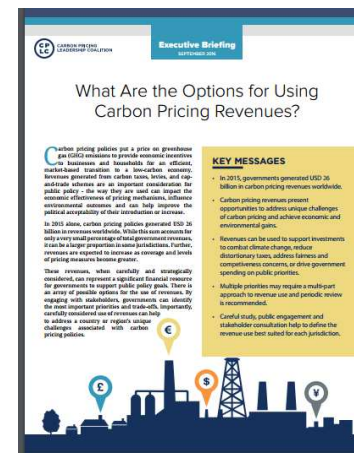
www.i4ce.org



What are the options for using carbon pricing revenues?

*CPLC Executive briefing
September 2016*

www.pubdocs.worldbank.org



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