Use of Carbon Revenues: From Environmental Issues to Economic Benefits

A central element to stakeholder’s engagement

Effective carbon pricing communication | Frankfurt, 21st May 2018
US$32bn in 2017: growing fast, getting big

1. Year of implementation
   - Carbon tax since 2013
   - Carbon tax between 2008 and 2013
   - Carbon tax before 2007
   - Emissions Trading Scheme since 2013
   - Emissions Trading Scheme between 2008 and 2013
   - Emissions Trading Scheme before 2007

2. Revenue uses
   - Earmarking
   - General budget allocation
   - Tax exemptions
   - Direct transfers

Source: 4CE - Institute for Climate Economics with data from World Bank, government officials and public information, April 2018
## Options for revenue use: multidimensional assessment

### TAXONOMY OF OPTIONS

<table>
<thead>
<tr>
<th>CRITERIA OF EFFECTIVENESS</th>
<th>Macroeconomic performance</th>
<th>Environmental performance</th>
<th>Governance and management</th>
<th>Communication and transparency</th>
<th>Social inclusiveness</th>
<th>Political resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. General budget</strong></td>
<td>![Money Icon]</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
<td>![Red Icon]</td>
<td>![Yellow Icon]</td>
<td>![Green Icon]</td>
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<tr>
<td>No targeted transfers</td>
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<td><strong>2. Direct transfers</strong></td>
<td>![Target Icon]</td>
<td>![Red Icon]</td>
<td>![Red Icon]</td>
<td>![Green Icon]</td>
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<td>Targeted beneficiaries (households, companies, etc..)</td>
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<td><strong>3. Green earmarking</strong></td>
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<tr>
<td>Investments in energy transition (RES, EE, etc..)</td>
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<td><strong>4. Tax cuts</strong></td>
<td>![Scissors Icon]</td>
<td>![Green Icon]</td>
<td>![Red Icon]</td>
<td>![Red Icon]</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
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<td>Reduction in taxes (corporate, private, labour, etc..)</td>
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<td><strong>5. Social programs</strong></td>
<td>![People Icon]</td>
<td>![Green Icon]</td>
<td>![Red Icon]</td>
<td>![Red Icon]</td>
<td>![Green Icon]</td>
<td>![Green Icon]</td>
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<tr>
<td>Support to disadvantaged households, health programs</td>
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<tr>
<td><strong>6. Infrastructures and development earmarking</strong></td>
<td>![Bus Icon]</td>
<td>![Green Icon]</td>
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<tr>
<td>Investments in e.g. public transportation (buses, trains)</td>
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*Source: World Bank, I4CE and AFD, 2018*
Il s'agit d'une réforme considérable qui porte en germe une refonte de tout notre système fiscal.

La contribution climat énergie ne sera acceptable que si elle a pour objet exclusif de prévenir contre le changement climatique et qu'elle crée de l'emploi.

Tout viol de ces deux règles mettrait en danger le consensus national nécessaire à sa mise en œuvre.

We are working on a considerable measure, bearing the seeds of a sweeping reform of our whole fiscal system.

The Climate and Energy Contribution will be acceptable only if its ultimate and only goal is to protect us from climate change, and it creates jobs.

Failing any of these two rules would jeopardize the national consensus that is vital to its implementation.

Michel Rocard, former French Prime Minister, Chair of the Expert’s Roundtable on the Climate-Energy Contribution
Carbon revenues: a means of collaboration

• Strengthening the appropriation of the pricing scheme by all stakeholders…

… to facilitate the alignment of interests and move towards widespread climate awareness
Carbon revenues: a need for communication

- Build trust in **efficiency & equity of government action**
- Highlight climate and **non-climate benefits**
  - Link benefits to the pricing scheme

According to options, carbon revenues can...

...bring multiple benefits (environmental, economic, social, etc.)

...and can be used to strengthen public acceptance of carbon pricing if the chosen option allows to deal with...

- Economic efficiency
- Equity for stakeholders
- Reporting and communication

To increase climate ambition and mainstream climate in public finance

Multiplicator effect on benefits of carbon pricing policies

Source: World Bank, I4CE and AFD, 2018
Taking stock of revenue experiences worldwide

Emissions 2015: 1.5 MMtCO$_2$e  
Pricing scheme: ETS  
Coverage: 85%  
Start year: 2012  
Revenues 2017: USD 2bn

Emissions 2016: 332 MtCO$_2$e  
Pricing scheme: Carbon tax  
Coverage: 35%  
Start year: 2014  
Revenues 2017: USD 6.4bn

Emissions 2016: 643 MtCO$_2$e  
Pricing scheme: FFS reform  
Coverage: XXX%  
Start year: 2010  
Revenues: USD 3-6bn
Taking stock of revenue experiences worldwide
Designing an adapted framework: the INCOME principles

**Starting Phase**
- **Incorporate revenues upfront**
  - Discuss revenue use when designing the carbon pricing policies
  - Identify potential unintended impacts
- **National Priorities first**
  - Define policy objectives/targets and national circumstances
  - Identify stakeholder groups’ interests

**Design Phase**
- **Consultations and inclusive governance**
  - Define a transparent governance process
  - Ensure the involvement of Finance and Environment Ministries and potentially other specialised institutions
  - Mobilize the private sector and social stakeholders to prevent risks of unpopularity
- **Organize the revenue spending framework**
  - Compare spending options and determine the most appropriated option(s) according to national objectives and circumstances
  - Define compensating measures if necessary to mitigate negative redistribution effects

**Reporting and improvement phase**
- **Measure & report on revenue use**
  - Define effectiveness indicators for carbon revenues use
  - Monitor and report on a transparent and regular basis
  - Communicate widely on the role of revenue within the pricing scheme
- **Enhance revenue use**
  - Perform regular reviews and stock takes
  - Adapt revenue use to the long-term ambition

Source: World Bank, I4CE and AFD, 2018
Thank you for your attention

Questions?

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