



# **Committee of Experts on International Cooperation in Tax Matters**

Twenty First Session, 20-29 October 2020

## ***Subcommittee on Environmental Taxation Issues***

***27 October 2020, 8-9.30am EST***

# Outline of presentation

## Update on the Handbook on carbon taxation

1. Coordinator's Update
2. Chapter 2 + Annex 1 (CRP 45) – For discussion and approval
3. Chapter 4 (CRP 44) – For discussion and approval
4. Chapter 5 (CRP 46) – For discussion
5. Chapter XX (CRP 43) – For discussion
6. Chapter 6 (CRP 47) – For discussion

# Coordinator's update

- Outline of the Handbook:
  - Chapter 1 – Introduction (it will be just an overview of the content of each chapter). For discussion and approval at the 22<sup>nd</sup> Session
  - Chapter 2 – Carbon Taxation: An introduction for policymakers. For discussion and approval at the 21<sup>st</sup> Session
  - Chapter 3 (comprises 3 Subchapters) – Designing a Carbon Tax. Approved during the 20<sup>th</sup> Session
  - Chapter 4 – From design to administration: Practical application of a Carbon Tax. For discussion and approval at the 21<sup>st</sup> session
  - Chapter 5 – Revenue Use. For discussion at the 21<sup>st</sup> session; and for discussion and approval at the 22<sup>nd</sup> session
  - Chapter 6 – Interactions with other rules and instruments. For discussion at the 21<sup>st</sup> session; and for discussion and approval at the 22<sup>nd</sup> session
  - Chapter 7 – Country Experiences. Withdrawn by the Subcommittee, instead references to other publications will be made

# Coordinator's update

- Other aspects:
  - Chapter xx on Public Acceptability. Drafted by three academics, based on the Committee's guidance during 20<sup>th</sup> session; the draft was not discussed by the Subcommittee, but the content was agreed. Placement in book will be discussed. Presented for discussion at the 21<sup>st</sup> session; and for discussion and approval at the 22<sup>nd</sup> session
  - Written comments sent by the UN International Maritime Organization (IMO) on Section 5.5.2 (International Maritime Transport) of Chapter 3 on the work carried by IMO aiming at reducing carbon emissions: Proposal to include the comments in order to reflect the most updated and precise information on the work of IMO, and to submit Section 5.5.2 for approval under written procedure.
  - COVID-19 considerations will be in foreword by FSDO Director/ Committee's Secretary
  - Glossary will be included as part of the editorial work

# CRP 45: Chapter 2: Carbon taxation: an introduction for policymakers

## and Annex 1: Carbon Taxation in the context of the UN

- **Working group:** Elena Belletti (coordinator), Tatiana Falcão, Alvaro de Juan, Olivier Munyaneza, Rodrigo Pizarro
- **Status of CRP 45:**
  - Previously presented at 20<sup>th</sup> Session for discussion
  - Updated with feedback received from Committee and further discussion within Subcommittee
  - Now presenting at 21<sup>st</sup> Session for discussion and approval
- **Content:**

Chapter 2 is an introductory overview of key concepts and policy options further developed throughout the Handbook. It also includes discussion of high-level concepts (e.g. goals of carbon taxation)

Annex 1 contextualizes carbon tax in UN efforts (e.g. Paris Agreement, SDGs etc.).

# Chapter 2 and Annex 1 (CRP 45)

## [FOR DISCUSSION AND APPROVAL]

- **Intended audience:**
  - Primarily policymakers (but drafted for a broader range of potential users)
- **Aims:**
  - Support policymakers in making an informed decision when considering the introduction of a carbon tax
  - Comparing the carbon tax with other carbon pricing instruments

# Chapter 2 and Annex 1 (CRP 45)

## [FOR DISCUSSION AND APPROVAL]

### Structure of Chapter 2:

#### 2.1. The Environmental Problem: Carbon emissions

- 2.1.1. Carbon emissions: a global policy problem
- 2.1.2. Countries' commitments to lower greenhouse gas emissions

#### 2.2. Carbon pricing

- 2.2.1. Carbon Tax
- 2.2.2. Carbon pricing and cost efficiency
- 2.2.3. Social cost of carbon emissions and the role of markets

#### 2.3. Motives for the introduction of a carbon tax

- 2.3.1. Fighting climate change by reducing carbon emissions
- 2.3.2. Generation of budgetary sources
- 2.3.3. Promotion of investment in new technology

#### 2.4. Policy considerations in the introduction of a carbon tax

- 2.4.1. Certainty and predictability of the price of carbon
- 2.4.2. Administration of the carbon tax
- 2.4.3. Potential distributional implications and need for corrective measures
- 2.4.4. Safeguarding the competitiveness of domestic industries

#### 2.5. Conclusions

# Chapter 2 and Annex 1 (CRP 45)

## [FOR DISCUSSION AND APPROVAL]

### Structure of Annex 1:

- A1.1. The United Nations Framework Convention on Climate Change
- A1.2. The Kyoto Protocol and Emission Trading Systems (ETS)
- A1.3. The Paris Agreement
- A1.4. The Broader United Nation Agenda: The Sustainable Development Goals



# Chapter 2 and Annex 1 (CRP 45) [FOR DISCUSSION AND APPROVAL]

## Main changes since 20<sup>th</sup> Session:

1. Revision of the chapter's flow, including:
  - More detailed referencing of Ch. 2.1 on the environmental overview;
  - Merging/shortening of Ch. 2.4 and 2.5 on goals and policy considerations;
  - Revision/inclusion of three text boxes
2. More detailed and balanced discussion of alternative carbon pricing mechanisms, including cap-and-trade and carbon offsets.

## Questions for the Committee:

- Was a satisfying balance achieved?
- Is the detail/complexity level appropriate for a chapter intended primarily for policymakers?

## Chapter 4 (CRP 44)

### From design to administration: practical application of a carbon tax [FOR DISCUSSION AND APPROVAL]

- **Working group:** Amparo Grau (coordinator), Susanne Åkerfeldt, Rodrigo Pizarro
- **Status of CRP 44:**
  - Previously presented at 20<sup>th</sup> Session for discussion
  - Updated with feedback received from Committee and further discussion within Subcommittee
  - Now presenting at 21<sup>st</sup> Session for discussion and approval
- **Content:**

Chapter 4 describes different procedures and steps necessary to implement a carbon tax, following its design. It reviews common aspects for the administration of a carbon tax and details specific actions to each approach.

# Chapter 4 (CRP 44)

## [FOR DISCUSSION AND APPROVAL]

### Structure of Chapter 4:

4.1 Check list for carbon tax administration

4.2 Introduction

4.2.1 Viewpoint and structure

4.2.2 Main issues in tax administration

4.3 Topics to address in the administration of a carbon tax

4.3.1 Institutions and their responsibilities

4.3.2 Core elements for good administration. Specific issues in the application of a Fuel or Emissions approach

4.3.3 Considerations regarding detailed administrative regulations to manage the carbon tax

4.3.4 Ex-post evaluation of a carbon tax

4.4. Final remarks

# Chapter 4 (CRP 44)

## [FOR DISCUSSION AND APPROVAL]

### **Main changes since 20<sup>th</sup> Session:**

1. Improved readability
2. Inclusion of additional examples

# Chapter 5 (CRP 46) - Revenue use

## [FOR DISCUSSION]

- **Working group:** Eike Meyer (coordinator), Elena Belletti, Kurt Van Dender
- **Status of CRP 45:**
  - Presenting at 21<sup>st</sup> Session for discussion (first reading)
  - View to finalize and submit for approval at 22<sup>nd</sup> Session
- **Content:**

Chapter 5 is intended to provide a guide to everyone involved in the implementation of a carbon tax, from policymakers to technical levels, to understand the complexities related to the use of revenues from carbon taxation, and what are issues to be further investigated in their specific national framework.
- **Views from the Committee are sought in particular on:**
  - Overall structure of the chapter
  - Section 5.3 (Destinations of revenue use and considerations for designing policy packages).

# Chapter 5 (CRP 46)

## [FOR DISCUSSION]

### Structure of Chapter 5:

5.1. Introduction

5.2. Carbon tax revenue in perspective

5.2.1. Current carbon tax revenue

5.2.2. Potential carbon tax revenue

5.3. Destinations of revenue use and considerations for designing policy packages

5.3.1. Compensation for affected industries

5.3.2. Compensation for low-income households

5.3.3. Environmental spending

5.3.4. Tax shifts

5.3.5. Communication of revenue use

5.4. Conclusions

# Chapter XX (CRP 43)

## Public acceptability of a carbon tax: conceptual model and policy implications [FOR DISCUSSION]

- **Status of CRP 43:**
  - At 20<sup>th</sup> Session, the Committee discussed the need for a piece on acceptability of a carbon tax
  - After careful discussion within the Subcommittee it was decided that the piece on acceptability of a carbon tax should be an independent, self-standing chapter of the Handbook
  - Chapter XX was prepared by three academics (Sverker C. Jagers, Niklas Haring and Simon Matti), based on a presentation given at the Subcommittee meeting in February 2020.
  - Placement of chapter in Handbook TBD
  - Presenting at 21<sup>st</sup> Session for discussion (first reading)
  - View to finalize and submit for approval at 22<sup>nd</sup> Session

# Chapter XX (CRP 43) [FOR DISCUSSION]

- **Content of Chapter XX:**

The Chapter covers public acceptability considerations in the introduction of a carbon tax. It makes the argument that, when introducing a carbon tax, policymakers should take into account how to achieve public acceptability, and not just how to achieve the best technical design; failure to do so may result in the inability to effectively implement the instrument and, in the worst cases, it can generate negative perception and mistrust of environmental instruments as a whole.
- **Views from the Committee are sought in particular on:**
  - Whether the chapter should include a Section on real-world examples;
  - Whether Committee members would be interested in contributing to this section.



# Chapter XX (CRP 43)

## [FOR DISCUSSION]

### Structure of Chapter XX:

#### XX.1. Introduction

- XX.1.1. Designing a feasible carbon tax
- XX.1.2. The importance of acceptance/acceptability
- XX.1.3. Aim
- XX.1.4. Specifications and limitations

#### XX.2. Explaining attitudes towards carbon taxes and other pro-environmental policy instruments

- XX.2.1. Factors on the individual level
- XX.2.2. Inter-relational factors
- XX.2.3. Factors tied to the policy measure
- XX.2.4. Contextual factors

#### XX.3. Policy Implications

- XX.3.1. How to generate public acceptability
- XX.3.2. Examples of potential policy-mixes/packages
- XX.3.3. Measuring acceptance in due time

#### XX.4. Real world examples [*Potential section*]

# Chapter 6 (CRP 47)

## Interaction with other rules and instruments

### [FOR DISCUSSION]

- **Working group:** Anna Theeuwes (coordinator), Tatiana Falcao, Amparo Grau, Alvaro de Juan, Greg Leshchuk, Gabriela Mundaca
- **Status of CRP 47:**
  - Presented at previous sessions in outline form
  - Presenting at 21<sup>st</sup> Session for discussion (first reading of draft)
  - View to finalize and submit for approval at 22<sup>nd</sup> Session
- **Content of Chapter 6:**

Chapter 6 aims to address the interaction between a carbon tax and a range of other instruments that (implicitly or explicitly) put a price on carbon, or conversely that reduce the cost of products that contain carbon, including (i) other carbon pricing instruments (both explicit, such as emission trading schemes, and implicit, such as emissions standards); (ii) other taxes, in particular energy taxes (excises and consumption taxes); and (iii) instruments that reduce the price of carbon, such as subsidies. The Chapter assesses those interactions by using a goal-oriented approach.

# Chapter 6 (CRP 47)

## [FOR DISCUSSION]

### Structure of Chapter 6 and questions to the Committee

#### 6.1 Carbon tax: to be considered in context

6.1.1. In scope: carbon tax to carbon taxation

6.1.2. Assessing the interaction

#### Does the Committee agree with the scope of Section 6.1.1?

- The Chapter covers the interaction between a carbon tax and:
  - other carbon pricing mechanisms (e.g. emissions trading systems);
  - other mechanisms taxing carbon or fuels (e.g. fuel levies); and
  - instruments reducing the price on carbon (e.g. fossil fuel subsidies).
- The Chapter does not cover:
  - administrative issues (covered in Chapter 4);
  - interaction with other policy drivers of an economic and social nature, e.g. competitiveness; distributional equity; carbon leakage; etc. (covered, to some extent, in Chapters 2, 3C, and 5);
  - interaction between the carbon tax and other incentives to support research, development and innovation (because of the complexity of the subject).

# Chapter 6 (CRP 47)

## [FOR DISCUSSION]

### Structure of Chapter 6 and questions to the Committee

#### 6.1 Carbon tax: to be considered in context [cont'd]

6.1.1. In scope: carbon tax to carbon taxation

6.1.2. Assessing the interaction

- Does the Committee agree with the approach used in section 6.1.2?

The Chapter currently assesses, for each instrument, what are the potential consequences of introducing a carbon tax with different approaches:

- without taking into consideration the existing policy framework;
- to supplement existing instruments;
- to complement existing instruments; or
- to establish a hybrid form of carbon pricing (e.g. additional to an ETS).

An alternative approach could be to classify the policy interaction as complementary, overlapping and countervailing.

# Chapter 6 (CRP 47)

## [FOR DISCUSSION]

### Structure of Chapter 6 and questions to the Committee

- 6.2. Interaction with other carbon pricing policy instruments
  - 6.2.1. Explicit carbon pricing schemes
  - 6.2.2. Interaction between main explicit pricing schemes
    - 6.2.2.1. Main similarities and differences between ETS and carbon tax
    - 6.2.2.2. Assessing interaction
  - 6.2.3. Implicit carbon pricing schemes
    - 6.2.3.1. Implicit carbon pricing schemes and interaction with explicit pricing schemes
    - 6.2.3.2. Assessing interaction
- Does the Committee agree with the level of detail in Sections 6.2.1-6.2.2? i.e. the discussion of the main characteristics of an ETS, and its advantages/disadvantages as compared to a carbon tax

# Chapter 6 (CRP 47)

## [FOR DISCUSSION]

### Structure of Chapter 6 and questions to the Committee

#### 6.3 Interaction with other taxes

##### 6.3.1. Energy tax, excises and consumption taxation

###### 6.3.1.1. Taxation of energy

###### 6.3.1.2. Assessing interaction

- Does the Committee agree with the scope of Section 6.3?

The Section currently discusses the interaction between a carbon tax and energy taxes (on the production or consumption of fuels or energy). Should the Subcommittee consider the interaction with any additional taxes, besides energy taxes?

# Chapter 6 (CRP 47)

## [FOR DISCUSSION]

### Structure of Chapter 6 and questions to the Committee

#### 6.4 Instruments reducing price on carbon, subsidies and incentive policy

##### 6.4.1. Fossil fuel subsidies

6.4.1.1. Outlining and quantifying fossil fuel subsidies

6.4.1.2. Main interaction with carbon tax

6.4.1.3 Impact on government finances

6.4.1.4 Political concerns around fossil fuel consumption subsidy reform

6.4.1.5 Political economy around fossil fuel subsidy reform

6.4.1.6. Assessing interactions

#### Should Section 6.4 also include the following:

- a. Views on whether a fossil subsidies reform is needed prior (or in conjunction to) introducing a carbon tax, to avoid negative interactions; or whether a carbon tax can be introduced first, and subsidies phased out more gradually;
- b. Discussion about the concrete policy and implementation aspects that developing countries might want to consider, when introducing a carbon tax in conjunction with a more fundamental reform of fossil subsidies.

# Thank you

For questions and additional information,

please contact:

[taxcommittee@un.org](mailto:taxcommittee@un.org)

[belletti@un.org](mailto:belletti@un.org)