Assessing the role and impact of a carbon price

The CIACA Experience

Virtual Workshop – PMI Global Forum

21 May 2023
The CIACA project

- Supports the consideration and adoption of carbon pricing by jurisdictions – for achieving NDCs
  - Support in the form of consultation and capacity workshop and funded studies
- Supported countries include: Panama, Dominican Republic, Trinidad and Tobago, Senegal, Ghana, Nigeria, Kenya and Pakistan
- Support delivered through the six UNFCCC Regional Collaboration Centres
Choice of a carbon pricing solution

Jurisdictions use carbon pricing as cost effective way to implement their NDCs.

International context
The carbon pricing approach may need to consider global developments at the international level.

Domestic circumstances / context
The carbon pricing approach needs to fit in the specific domestic context.

National priorities / objectives
Carbon pricing delivers substantial benefits in terms of sustainable development.

Co-Benefits
Carbon pricing delivers substantial benefits in terms of sustainable development.
A rich environment

Carbon pricing operates in a broad domestic context

- **Mitigation context**: NDC(s); LT-LEDS; intention to participate in Article 6; Other mitigation plans/actions; other mitigation instruments; transparency obligations - BTR; etc.

- **Socio-economic context**: Development plans; Social environment; Economic environment; Vulnerable stakeholders; etc.

- **Fiscal environment**

- **Status-quo of various sectors**
The CIACA Approach:

**Global**
- **Theory**
  - General principles of carbon pricing
    - The instruments
    - Features which can be customized
  - International experience on carbon pricing
    - Examples and results
    - Lessons learned

**National**
- **Analysis**
  - Domestic context
    - Social & economic
    - Institutional and legal framework
    - Energy and GHG
    - Relevant policies

**Practice**
- Options and recommendations for host countries
Carbon revenues

Foregoing revenue

- Use of offsets
- Rebates for affected stakeholders
- ETS: free allowances
- Carbon tax: tax free threshold
- Rebates on energy bill

Raising revenue

- Compensations to impacted stakeholders
- Cutting other taxes
- Direct compensations (e.g. per capita)
- Support to low-income households
- Debt & deficit reduction

Increase in spending

- Other spending:
  - Adaptation
  - Mitigation
  - Environment (misc.)

- Socio-economic development:
  - Education
  - Infrastructure
  - Social programmes
  - Etc.

General budget

- Building acceptance
- Further climate & environmental outcomes

Impact reduction & response
## Achieving national priorities

<table>
<thead>
<tr>
<th>Objective / priority</th>
<th>Solution</th>
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<tr>
<td>Trigger investments</td>
<td>Revenues from carbon pricing to give loan guarantees for investors (e.g. in sustainable energy projects)</td>
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<td>Limit trade exposure from pricing carbon</td>
<td>Provide large discounts and compensations to entities covered (e.g. free allowances under ETS)</td>
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<td>Reduce poverty</td>
<td>Focus reinvestments in job creation</td>
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<td>Increase energy access</td>
<td>Reuse income to fund/support sustainable decentralized energy access</td>
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<td>Increase income equality</td>
<td>Redistribute the proceeds on a per capita basis</td>
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<td>Improve business climate/competitiveness</td>
<td>Use revenues to cut taxes which hinder wealth creation (income tax / capital gain tax)</td>
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<tr>
<td>Ensure adaptation</td>
<td>Investments in adaptation measures</td>
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<tr>
<td>Increase energy independence</td>
<td>Reinvest in measures which reduce energy imports</td>
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Challenges

- Need for clarity on what is to be achieved with the carbon pricing approach
  - Raising revenues for purposes (which ones?) / reducing deficits
  - Mitigation action (NDC, LT-LEDS, mobilization of specific sectors, fostering low carbon development, etc.)
  - Increasing competitiveness or reducing income disparities
  - Unleashing SD co-benefits (energy independence, lowered pollution, attracting investments in low-carbon technologies, benefits to local communities, etc.)

- Different priorities by different ministries and different stakeholder groups:
  - Calls for coordination and consultations
Challenges

Need for clarity on what is to be avoided (or not)

- Type and extent of impacts
  - (competitiveness, regressive impact, etc.)
- National vs. international focus
  - e.g. exclusive domestic achievement vs. international focus
Assessing the impact

Different dimensions

- Economic impact (micro-economic / macro-economic)
  - May require some modelling effort
- Fiscal impact
- Perception: political feasibility / communication
  - May require studies related to perception to develop communication plans
- Environmental impact (mitigation impact / co-benefits)
  - May require assessment – especially for carbon taxes
Customization of carbon pricing

- Income generating
  - Revenue neutral

- Progressive impact
  - Economic growth

- Strength of price signal
  - Limited economic impact

- GHG Coverage
  - Simplicity

- Strong initial impact
  - Acceptance
Thank you!