

A circular graphic with a green top half and grey bottom half, containing icons for industry, nature, and energy. The top half shows a factory, a dam, wind turbines, a sun, and a river. The bottom half shows a city, a person, and a tree. The text "Just Transition in Carbon Pricing" is overlaid in the center.

# Just Transition in Carbon Pricing

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# What is Just Transition?

# What is Just Transition?



A Paris-aligned decarbonization strategy necessitates a transformational change in the way society, economies, and governance function.

As the world mobilizes to push for climate action, countries must consider the **negative effects** these actions may have on their populations, with risks of **eliminating jobs and perpetuating inequalities and poverty.**



# What is Just Transition?



a just  
transition



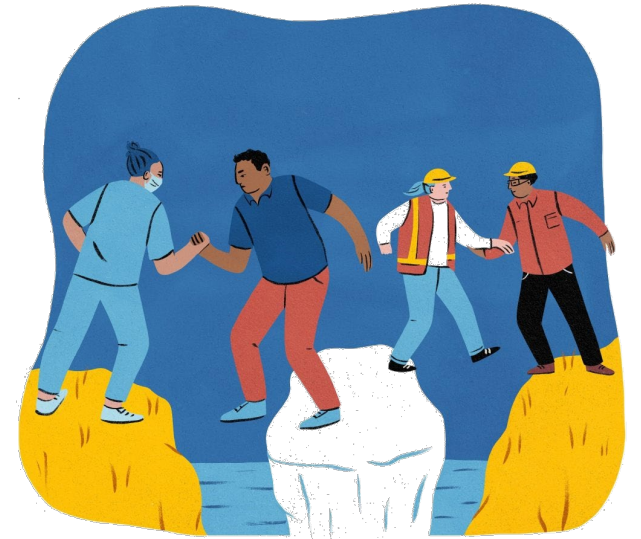
Incorporating just transition into climate action can also present opportunities to effect **systemic change** in countries, with overarching reforms in **social protection, education, and health**, among others.



# What is Just Transition?



a just  
transition



**Just transition** must be incorporated into the implementation of climate actions to ensure not only that **all relevant stakeholders** can benefit equitably, and potential negative **impacts are managed** but also that **public satisfaction gives way to further climate action.**

# Just Transition Recognized Internationally

- The **Paris Agreement** calls upon Parties to take into account “the imperatives of a just transition of the workforce and the creation of decent work and quality jobs, in accordance with nationally defined development priorities.”
- The **Silesia Declaration** of 2018, signed by over fifty countries, recognizes that “the consideration of the social aspect of the transition towards a low-carbon economy is crucial for gaining social approval for the changes taking place.”
- The **Glasgow Climate Pact**, signed at COP26, "recognizes the need to ensure just transitions that promote sustainable development and eradication of poverty and the creation of decent work and quality jobs.”
- The **Just Transition Declaration**, also signed at COP26, aims to support workers, communities, and regions through the negative impacts of the low-carbon transition and promote social dialogue between affected groups while also creating economic strategies and decent jobs.

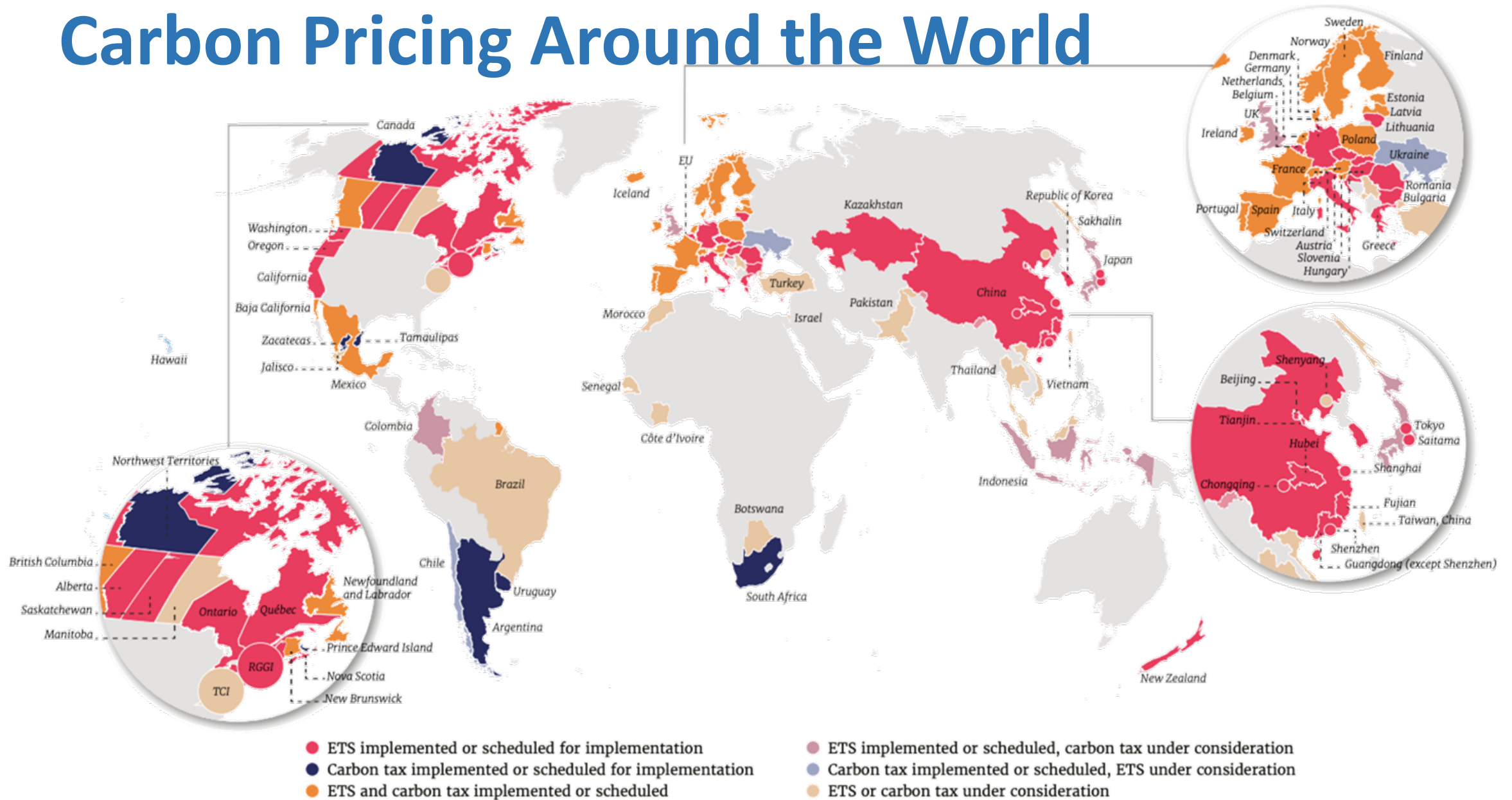
# Carbon Pricing



LIVESTOCK MANAGEMENT  
FOSSIL FUEL PHASEOUT  
ELECTRIC VEHICLES  
LAND USE CHANGE  
SOLAR ENERGY  
**CARBON PRICING**  
WIND ENERGY  
WASTE-TO-ENERGY  
ENERGY EFFICIENCY  
HYDROELECTRIC ENERGY



# Carbon Pricing Around the World

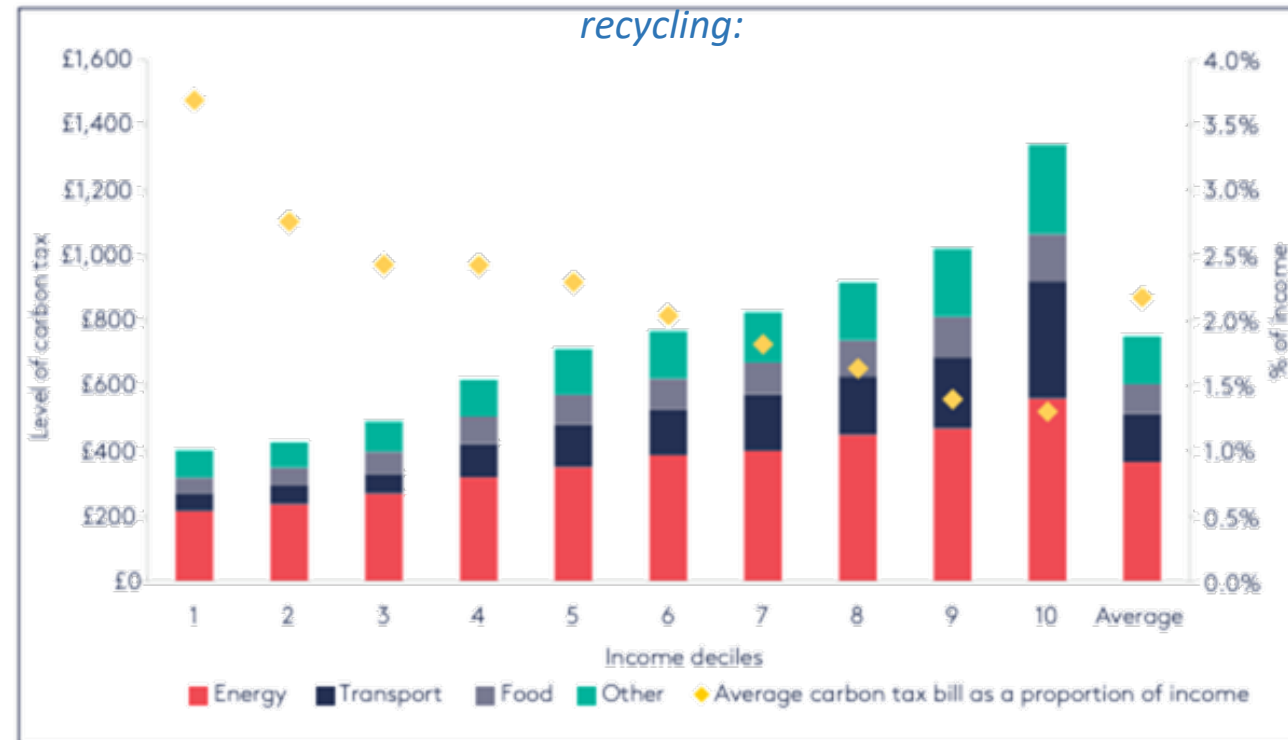




# Just Transition in Carbon Pricing

- While CPIs have positive environmental and health outcomes, they can also have negative socio-economic impacts.
- Carbon pricing tends to be regressive, representing a larger percentage of the incomes of poorer households.
- Through a just transition, the negative socio-economic impacts of carbon pricing implementation can be identified and managed.

*Total carbon tax impact for each income decile in the UK for a scenario where a carbon tax of £50/tCO<sub>2</sub> in 2020 rises to £75/tCO<sub>2</sub> in 2030 without any revenue recycling:*



Source: [Grantham Research Institute on Climate Change and the Environment](#), 2020

# Just Transition to Increase Public Buy-In

- Because the incorporation of just transition into carbon pricing aims to minimize negative impacts on people's lives, a just transition can also **garner public support and public buy-in** to ensure the longevity of carbon pricing, thereby facilitating the country's efforts to mitigate its GHG emissions and transition towards a low-carbon economy.
- The **visibility** of government actions mitigating the negative impacts of carbon pricing is important.

# Just Transition to Increase Public Buy-In

- Failure to win public support can lead to **social unrest**, such as what has been observed in many countries following energy price hikes:
  - The yellow vest protests in France that started in 2018 were partially triggered by rising crude oil and fuel prices. The protests, which lasted almost four years, involved hundreds of thousands taking to the streets, violent clashes, and riot police firing rubber bullets and tear gas at protesters.
  - Ecuador's removal of its consumer subsidies on fossil fuels in 2019 led to huge riots that forced the government to flee the capital and reinstate the subsidies 12 days later.
  - Earlier this year, in Kazakhstan, the removal of price caps on LPG led to violent protests in Almaty, which then led to the government restoring vehicle fuel price caps for six months.



# Potential Impacts of Carbon Pricing

## POSITIVE

Reduction of carbon emissions, pushing countries closer to their Paris Agreement goals

The simultaneous push for renewable energy in regulated entities can give way to more sustainable and long-lasting industries.

Emergence of new innovative industries can create jobs and opportunities for the people.

Improved air quality, contributing to populations' overall well-being

## NEGATIVE

Expenses of individual households go up as the prices of energy and other fossil fuel-intensive products and services go up.

Regulated entities may cope with increased prices by laying off employees, leading to job loss for many people.

If many companies within an industry are unable to adapt, the industry may lose its competitiveness.

Overall, the country's accounts will be affected, as imports increase and exports decrease.

**What are the potential impacts of carbon pricing?**



# Potential Impacts of Carbon Pricing

- Types of distributional impacts:

## Vertical Impacts

Differences in the impacts of carbon pricing on households **with different incomes**

As mentioned earlier, **carbon pricing effects represent a larger percentage of lower-income households** compared to higher-income households

## Horizontal Impacts

Differences in the impacts of carbon pricing on households with **similar incomes but different consumption patterns**

CO<sub>2</sub>-intensity can vary within income groups depending on a variety of factors, including:

- **Housing capital** – some have more energy-efficient houses
- **Transport capital** – includes reliance on private vehicles and access to public transport
- **Geography** – some populations may have higher heating demands due to where they live

# Policy Changes to Address Negative Impacts

## NEGATIVE

Expenses of individual households go up as the prices of energy and other fossil fuel-intensive products and services go up.

Regulated entities may cope with increased prices by laying off employees, leading to job loss for many people.

If many companies within an industry are unable to adapt, the industry may lose its competitiveness.

Overall, the country's accounts will be affected, as imports increase and exports decrease.

**Possible strategies that can create an enabling environment for the overall just transition of the country's economy should be considered.**

## POSSIBLE STRATEGY

Revenue recycling. Energy efficiency programs to help reduce the expenses of households; building adequate public transportation infrastructure

Reskilling and retraining programs for workers in vulnerable sectors to prepare them for emerging industries

Creating an enabling environment for private investments in renewable energy to continue supporting the energy needs of the industry

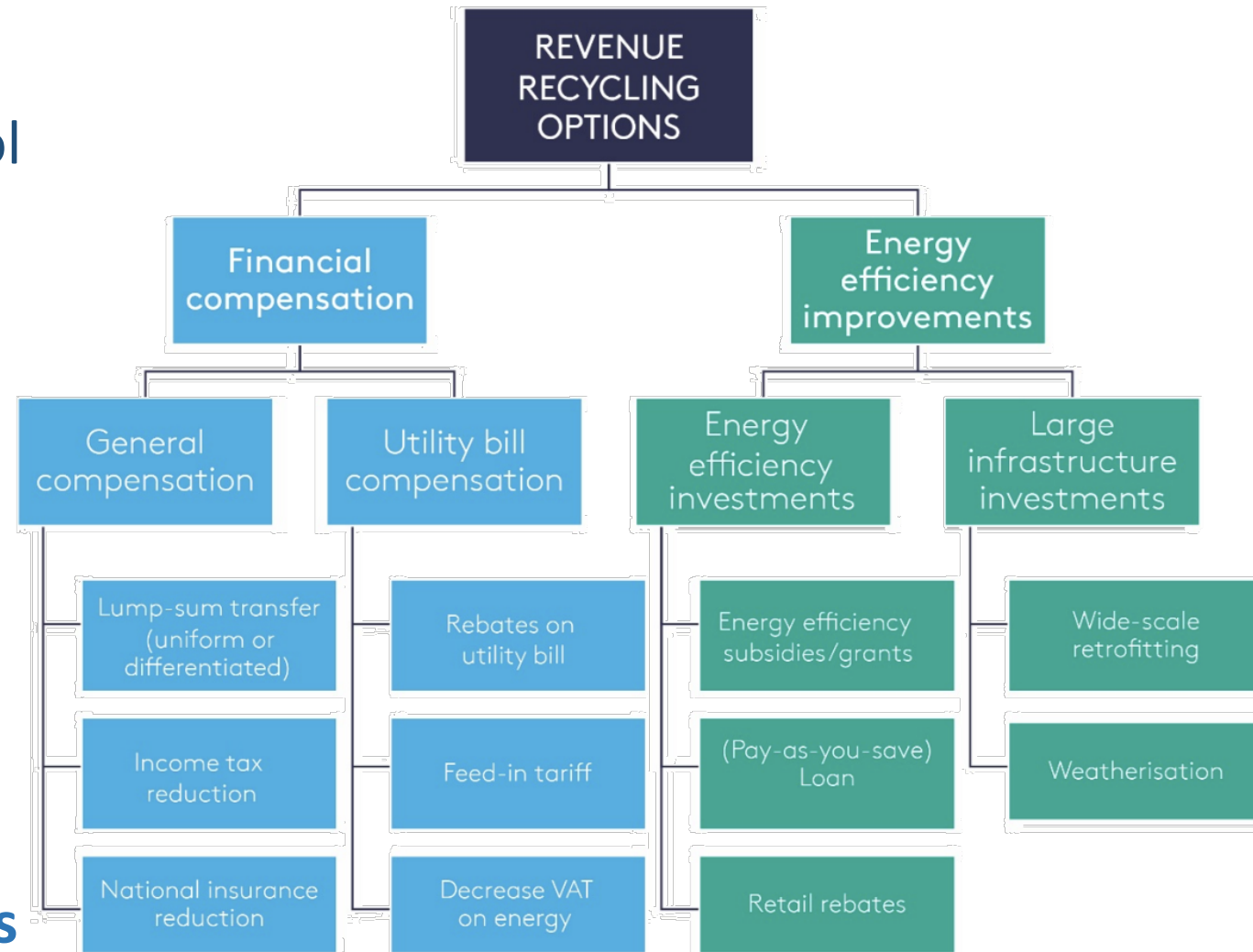
Economic diversification to provide new avenues for the continued growth and development of the country's economy

# Policy Changes to Address Negative Impacts

- A robust **regulatory and institutional framework** needs to be designed to create an enabling environment for a just transition of carbon pricing.
- The design of these frameworks should be supported by
  - Involvement of all relevant stakeholders from **the early planning stages**.
  - Identification of and consultation with **vulnerable stakeholder groups with 'protected' characteristics**.
  - **Tripartite groups'** representation and involvement.
  - Design appropriate **civil society** participatory and information processes.
  - Identification of specific activities to **facilitate and support the just transition process**
  - Socio-economic impacts assessment and modeling.
  - Assessment of **capacity and resource requirements** to undertake relevant actions.
  - Building on existing support mechanisms in national policies.
  - Development and inclusion of appropriate **results indicators**

# Revenue Recycling

- **Revenue recycling** is a useful tool for a just transition by offsetting the disproportionate negative impact on low-income households
- Through revenue recycling, revenues collected from carbon pricing instruments, e.g., carbon tax or allowance auctions in an ETS, can be invested in programs helping low-income households.

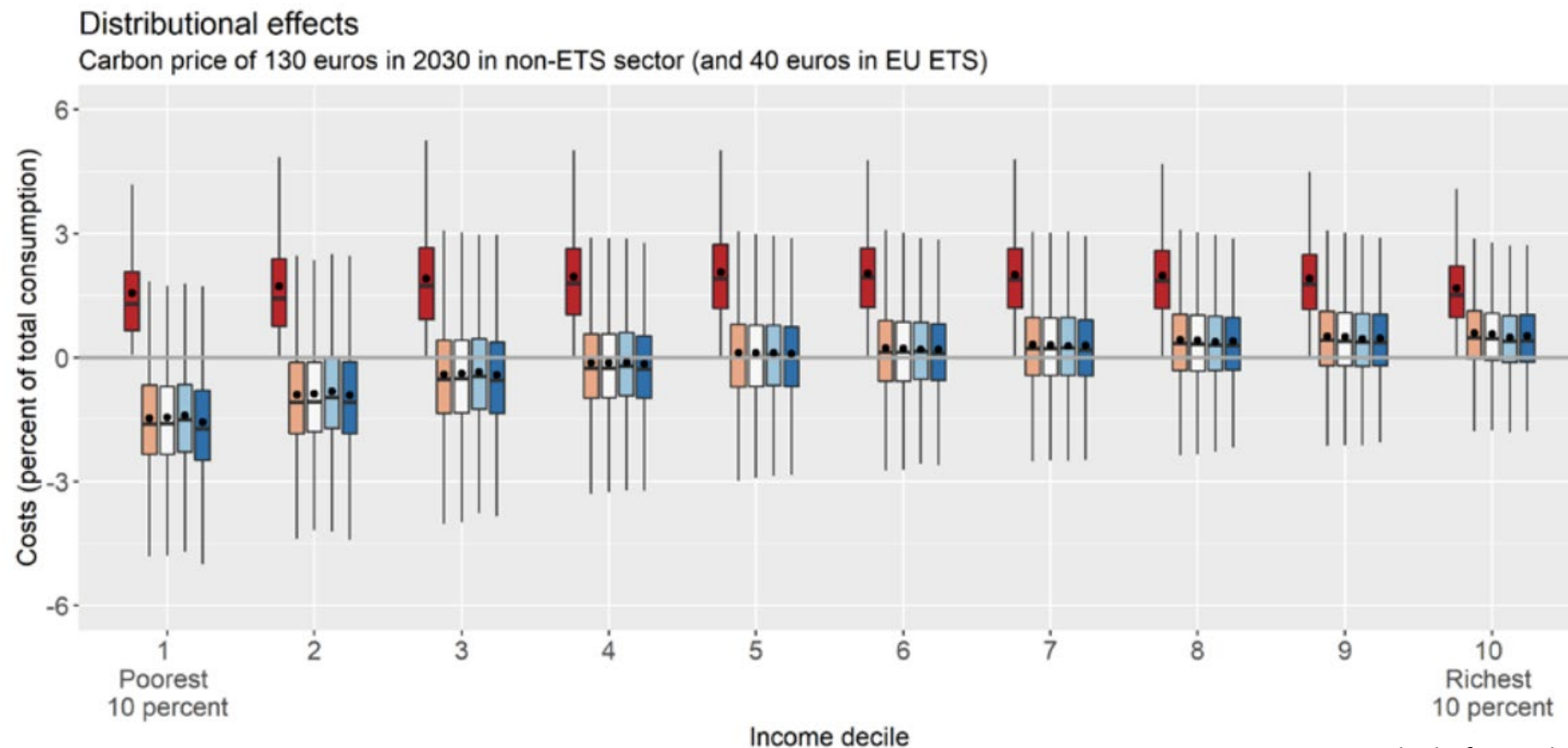


Source: [Grantham Research Institute on Climate Change and the Environment](#), 2020



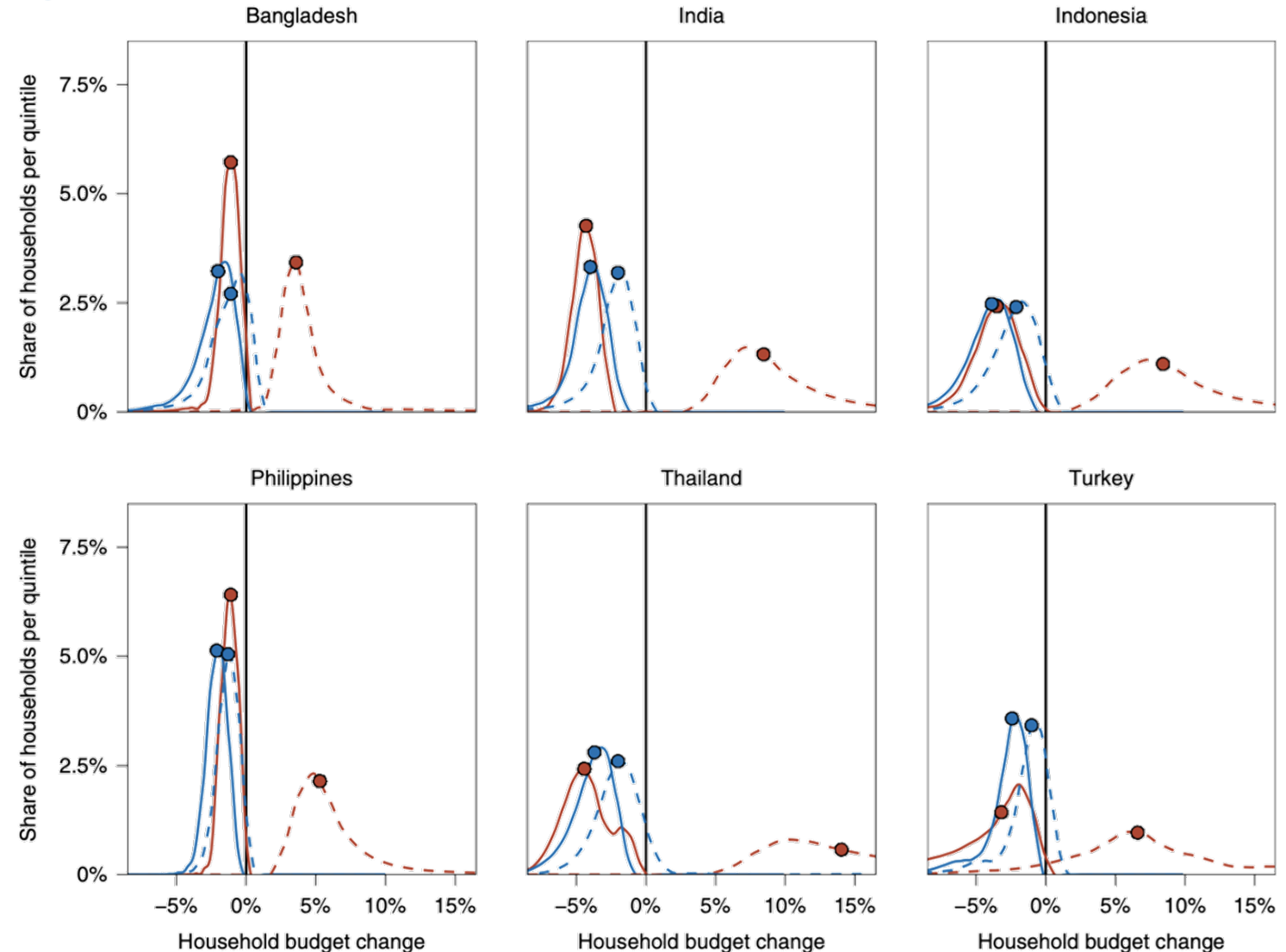
# Revenue Recycling Modeled

- GERMANY. No matter how revenue recycling was carried out (orange, white, light blue, and dark blue bars), **the costs for each income decile was reduced** compared to the no revenue recycling scenario (red bar).



# Revenue Recycling Modeled

- DEVELOPING ASIA. Revenue recycling modeled in several developing countries in Asia increased the household budget for the lowest household expenditure quintile (dashed red) compared to no revenue recycling (solid red).



# Revenue Recycling Examples

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<b>CALIFORNIA</b> cap-and-trade	<b>USD 3 billion</b>	annual revenues in 2018
	at least <b>35%</b>	of cap-and-trade auction revenues must be invested in climate change-related projects that benefit disadvantaged and low-income communities
	<b>60%</b>	earmarked for transportation, affordable housing, and sustainable community programs

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<b>EUROPEAN UNION</b> cap-and-trade	<b>USD 14 billion</b>	annual revenues in 2019
	<b>80%</b>	earmarked to member states' climate change-related projects
	<b>20%</b>	allocated to member states' general budget

The EU's 'REPowerEU' program to reduce the region's reliance on Russian fossil fuels will involve using funds from auction allowances finance gas and oil infrastructure.

# Types of Revenue Recycling

- **Direct lump-sum payments**
  - Revenues earned from carbon pricing are either distributed equally to all households or targeted towards lower-income households
- **POSITIVE**
  - Can be strongly progressive
  - Can be highly visible
- **NEGATIVE**
  - Potentially expensive and tricky to administer
  - No double climate dividend

## SWITZERLAND

carbon tax

revenues

USD 1.1 billion in 2017

- 67%** returned through direct transfers for households and businesses
- 33%** earmarked for climate change-related projects
- Revenues earmarked for green spending are used to reduce energy use in the building sector
- Those directed to businesses fund reductions in social security payments for the Old-Age Insurance System.
- A small percentages goes to the country's Technology Fund



# Revenue Recycling

- **Lowering other taxes**
  - Taxes—such as income taxes—are reduced to ease the expenses of communities all over the country
  - **POSITIVE**
    - Increase efficiency of the tax system
  - **NEGATIVE**
    - Only benefits taxpayers
    - Can be regressive

## BRITISH COLUMBIA

carbon tax

revenues

USD 932 million (FY 2017/18)

used to reduce existing taxes, with some revenues allocated to green initiatives

**100%**

starting in 2018

- Disadvantaged communities were supported through specific measures, such as a reduction in the income tax rates for the poorest households and specific tax credits targeting rural and climate-vulnerable homeowners.
- Taxes were also lowered for businesses: the provincial corporate income tax rate was reduced, including for small businesses, and the threshold over which companies are required to pay the corporate income tax rate was increased.

# Revenue Recycling

- **Subsidies and transfers**

- Revenues are used to introduce subsidies towards clean energy or to support cash transfer and other social protection programs

- **POSITIVE**

- Increasing social transfers easy to administer and directly compensates price increases
- Subsidies for clean energy and to promote low-carbon substitutes

- **NEGATIVE**

- Only reaches transfer recipients

## INDONESIA

subsidy reforms

revenues

USD 62 billion over 2012–2017

The 2005, 2008, and 2013 fuel subsidy reforms in Indonesia included temporary cash transfer programs to smooth the transition for low-income households

**25%**

of Indonesia's savings from its universal cash transfer program in 2005 directed towards poor and near-poor households

**15 million**

number of beneficiaries supported by a cash transfer program in 2013 for students from low-income households

- Savings from the reform have allowed the government to implement a mix of social protection policies covering health insurance, food subsidies, and infrastructures.

# Conclusion

- **Carbon pricing** is becoming a widely-accepted measure for countries to reduce their carbon emissions.
- However, carbon pricing tends to be **regressive, affecting lower-income households disproportionately.**
- A **just transition** for households, workers, industries, and the country will be necessary.
- **Integration of provisions in policies and revenue recycling** will be crucial in pushing for a just transition





**Thank you!**