

# Colombia's experience developing its carbon pricing policy



Ministry of Environment and  
Sustainable Development - Colombia



# Policy Framework on climate change



**National Policy on Climate Change:** incorporates climate change management into public and private decisions to advance on a path of development and promotion of the transition towards a competitive and sustainable economy, and low-carbon development. **The policy defined strategic lines (territorial and sectoral) and instrumental lines for managing climate change considering the low carbon development.** The instrumental lines include Financing and Economic Instruments.

**Climate Change Law (Law 1931 of 2018):** establishes specific instruments for managing climate change and their impacts in territories (population and ecosystems); considers the Climate Change Management Plans (sectoral and territorial), National Council on Climate Change and other instruments such as the National Program of Tradable Emission Quotas (Colombian Emission Trading System -ETS); gives the Ministry of Environment the legal mandate to regulate the ETS.

**Green Growth Policy:** promotes by 2030 the increase in productivity and economic competitiveness of the country, while ensuring the sustainable use of natural capital and social inclusion, in a way that is compatible with the climate.

**NDC:** It has three components: i) adaptation to climate change, ii) Greenhouse Gases (GHG) mitigation, and iii) Means of Implementation. Means of Implementation establish the conditions and create a favorable environment for the actions required to fulfill the commitments. Means of Implementation component has 4 working areas, one of which corresponds to Financing and Economic Instruments, in which the **Colombian ETS has been included**.

**Long Term Climate Strategy (E2050):** In 2050, the country will be carbon neutral and resilient to the climate, prioritizing human well-being, with a circular economy, carbon-neutrality, competitiveness, regions and sectors with broad capacities to adapt to climate change, achieved through transformations that promote social inclusion, food security and strengthening governance.



# Carbon Pricing Instruments in place

## Carbon Tax

- Economic instrument to encourage GHG mitigation.
- Created as a “green tax” through a Structural Tax Reform (Law 1819 of 2016).
- Aims to discourage the use of fossil fuels and encourage technological improvements for their efficient use.

- The Law establishes an exemption mechanism (the tax does not have to be paid by those who are certified to be carbon neutral in accordance with specific regulations issued by the Ministry of Environment and Sustainable Development). Decree 926 of 2017.
- The application to the exemption can be achieved by obtaining compensations (offsets) that "neutralize" the emissions associated with fuel consumption..

- ✓ **The carbon tax and its exemption mechanism have contributed to the GHG mitigation targets (through both carbon pricing and market instruments simultaneously).**
- ✓ **Colombia has also gained experience on design and operation of this kind of carbon pricing instruments.**



# Exemption Mechanism

**Carbon tax**

- Tax on the carbon content of liquid fossil fuels (oil and natural gas). Some fuels are not included.
- Taxable events within the national territory: sales, withdrawals (subtractions) or imports of fuel

**Taxable event**

**Tax responsible**  
(producers and importers)

**Passive subject – Tax payers**  
(those who acquires fossil fuels from the producer or importer)

Fossil fuels Value Chain

**User - final consumer**

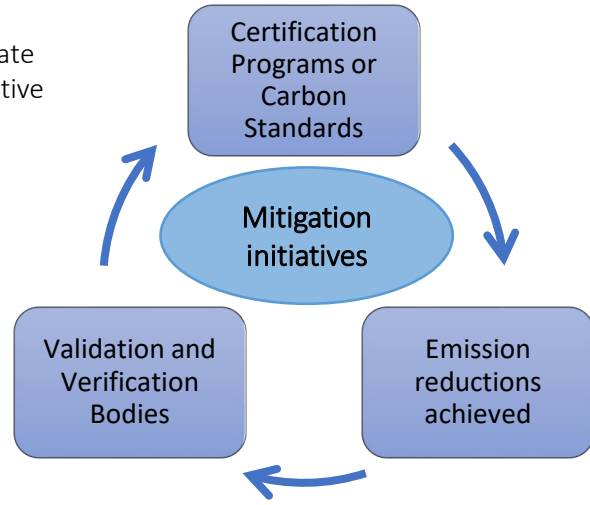
**Exemption mechanism**

Tax that will not to be caused by those “passive subjects” that certify carbon neutrality according to the Ministry of Environment regulation.

- Check fuel quantities and neutralization
- Review serials certifications (cancellation) in favor of the Passive Subject
- Check documentation for carbon neutrality
- Accounting records and keep supports

- Prepare or obtain documentation for carbon neutrality request
- Agree and negotiate with eligible initiative holders

- Prepare documentation for carbon neutrality request.
- Agree and negotiate with eligible mitigation initiative holders.
- Awards the certificates in favor of the Passive Subject



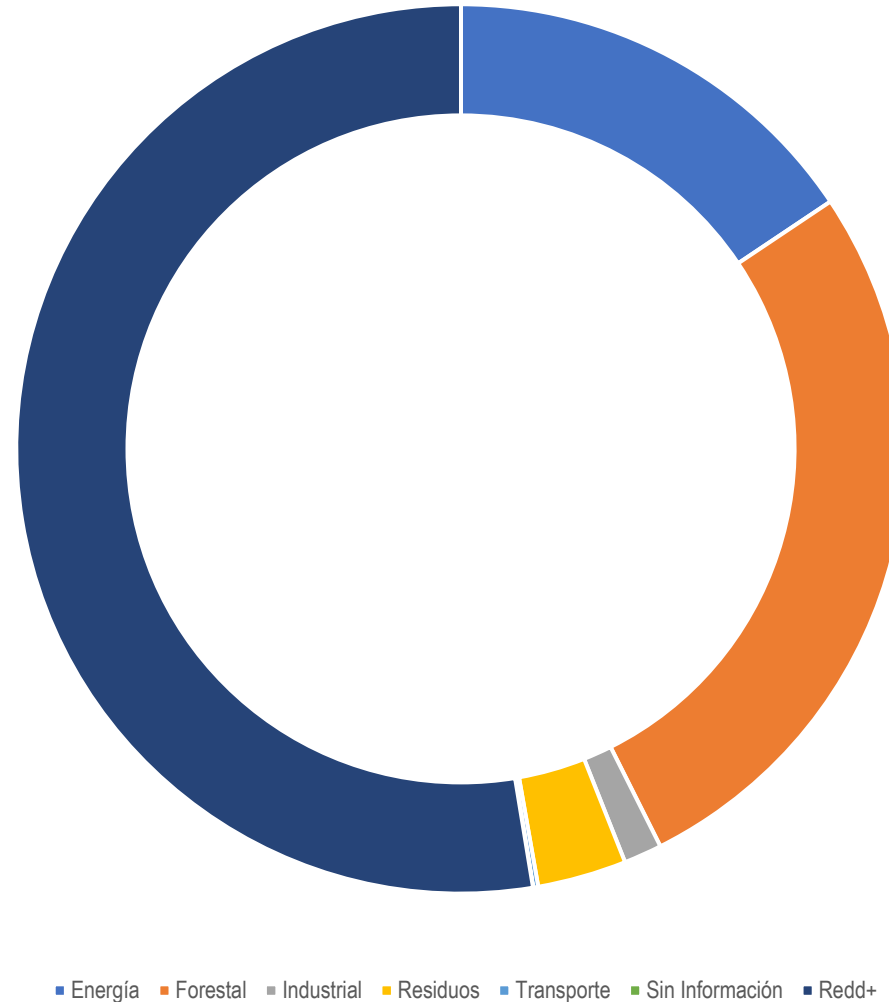


# Results from carbon pricing instruments

## 4,5 years of carbon neutrality mechanism

- 1 Approximately 5.396 requests for carbon neutrality
- 2 Approximately 68,11 million Tonnes CO<sub>2</sub>e cancelled (Dec 2021)
- 3 123 mitigation initiatives  
Sectors: Forestry, Energy, Industry, Waste, Transport. (79% forestry and REDD)
- 4 Approximately 681.000 million pesos worth in transactions in the Colombian voluntary market transactions

tCO<sub>2</sub>eq Canceladas por Sector de Iniciativas colombianas



## 5 years of carbon tax

- 1 Inter-institutional working group: Tax authority-Tax responsible-Environmental authority
- 2 Capacity building: feasibility for tax inspection programme
- 3 1,73 billion pesos paid for the carbón tax



# Instruments Results

Mobilize additional financial flows for climate change management and boost investments towards clean technologies

Encourage private actors to reduce the intensity of their emissions through projects with local and regional environmental co-benefits.

These instruments cover three dimensions of impacts in climate change mitigation:

- Reduction of emissions due to the price signal, which is estimated to lead to a reduction in direct consumption of taxed fuels
- Dynamization in the voluntary market through the use of private investments to neutralize emissions in the exemption mechanism, through which mitigation is generated in various sectors
- Resources that could be used for the implementation of mitigation according to the specific distribution of the tax revenues.



# Carbon Pricing Instruments in the future

## National Emissions Trading System

(Law 1931 of 2018)



### Year 2021

- Socialization and adjustment of design proposal.
- General regulation of the System

### Year 2022

- Readiness for needed institutional architecture
- Preparation for mandatory GHG Reporting Program

### Year 2023

- Specific regulation of the System
- Readiness for technological and information infrastructure

### Year 2024

- Piloting the ETS

### Year 2025

- Fully operation of the ETS



## We have learned that it is relevant:

- Encourage means or platform that allows carrying out carbon market transactions.
- Seek to eliminate information asymmetries between market players seeking to eliminate limited access to data.
- Strengthen the knowledge of the actors on the mitigation projects, the generation of offsets and on the exemption mechanism.
- Strengthen the methods, procedures and tools for emissions accounting and for registering mitigation results.
- Complement market instruments with other appropriately designed policies to comprehensively address GHG mitigation.





## We have learned that it is relevant:

From the perspective of the design of the emissions trading system, it is important to mention the following:

- Regulated agents are key within the emissions trading system since they will be responsible not only for reporting their GHG emissions periodically, but they will also have to make their own strategic decisions associated with their own mitigation
- The entities in charge of the administration and operation of the system are also key since they are responsible for providing guidance to the system from its design, and subsequently providing confidence during its operation. They are also in charge of leading and coordinating the necessary aspects to have adequate institutional capacities and for regulated agents and other actors to acquire and strengthen the knowledge associated with the operation of an ETS. They are also in charge of leading the communication tasks associated with the design and operation of the ETS.



# Medium-term challenges on carbon price instruments

1. Monitor how the incentives generated by carbon price instruments affect the transformation of production and consumption within the economy, improvements in productivity and efficiency.
2. In addition to carbon price policies, complementary policies are required that encourage technological innovation, research, and decarbonization of the economy in the long term.
3. Maintain the coordination of carbon price policies, in such a way that they will not generate distortions between the instruments.
4. Consumers with a higher level of awareness regarding the consumption of goods and services that are environmentally sustainable are also required.
5. There are challenges in terms of how to communicate carbon price instruments.
6. Strengthen the existing public entities to deal effectively with the new institutional activities related to the regulation and operation of an ETS.
7. The institutional architecture is a key requirement for the proper functioning of the ETS and must be considered from its design.



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# Direction of Climate Change and Risk Management

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