

The Role of Carbon Taxes in the Fiscal System



Ian Parry

Fiscal Affairs Department, IMF

States General of the Green Economy 2015

Rimini, November 3-4, 2015



- 2015 is a pivotal year for climate change
 - 150 countries have made mitigation pledges for COP 21
- Fund message
 - Pricing energy right is crucial
 - Carbon taxation is an effective way to do it
 - Revenues allow a reduction in other taxes
- Plan of talk
 - Case for carbon taxes
 - Moving policy forward



Case for Carbon Taxes

Carbon Taxes vs. Other Instruments

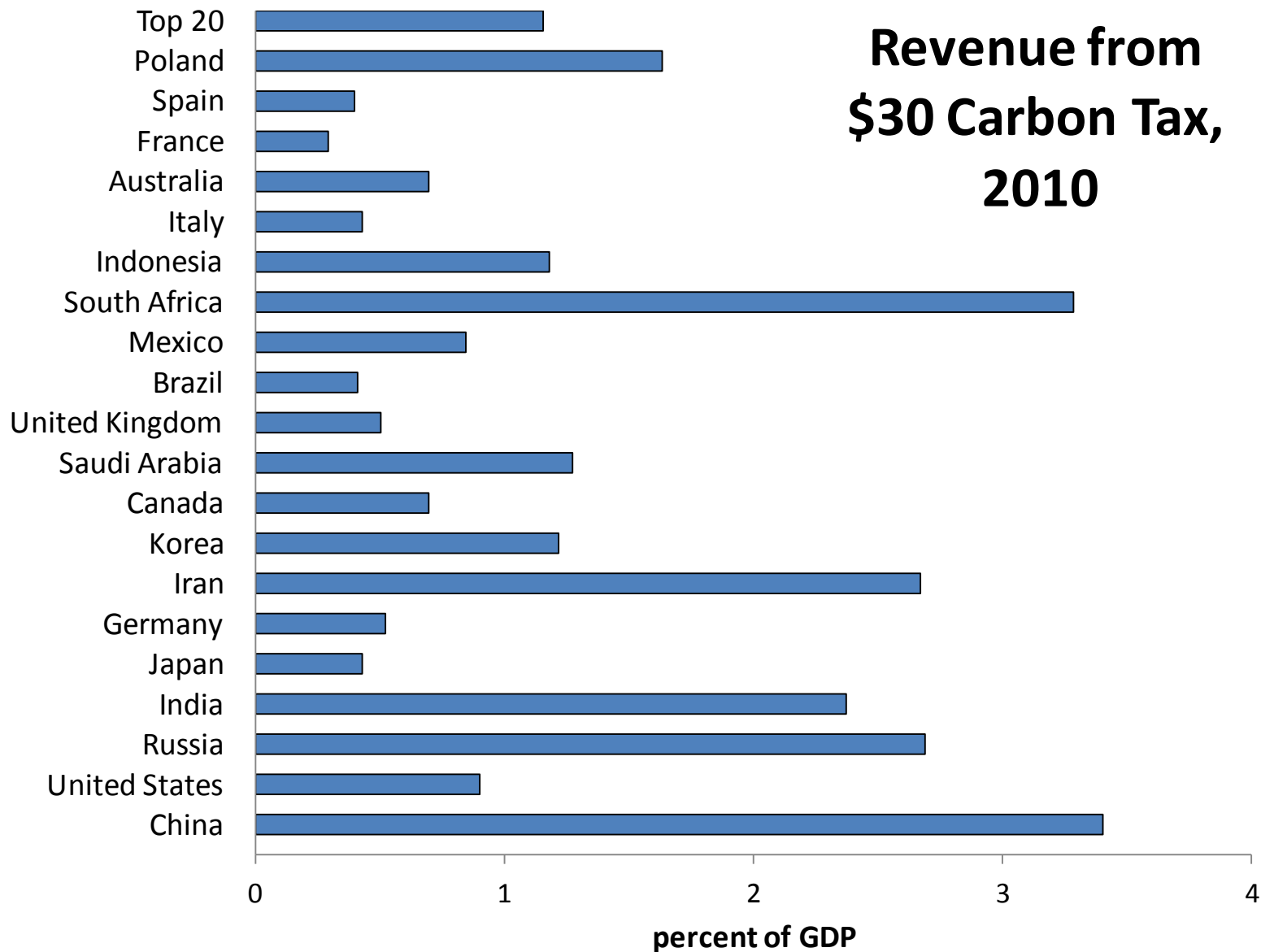


- Carbon pricing is effective
- Regulatory approaches (e.g., energy efficiency, renewables)
 - Less effective
 - More complex and costly
 - Do not raise revenue
- Emissions trading systems
 - Should look like taxes (allowance auctions, price stability)
 - Be accompanied by taxes for uncovered emissions

Carbon Taxes Raise Substantial Revenues



Revenue from \$30 Carbon Tax, 2010





- Carbon taxes extend road fuel excises
 - These are straightforward to administer

- Fiscal and administrative benefits greater for developing countries



Moving Forward

We are Just Starting the Process

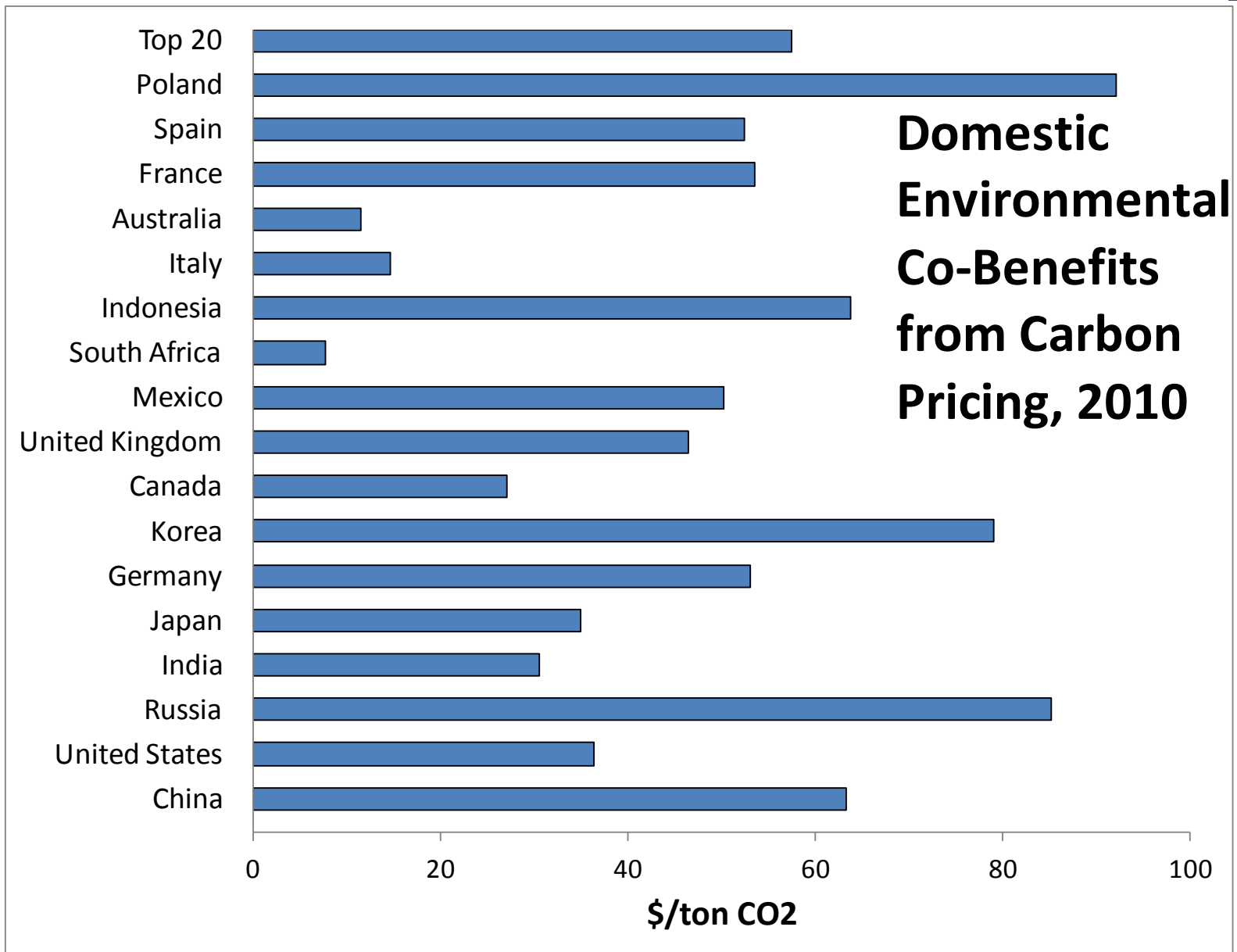


- 12 percent of global emissions priced
- Most prices are too low, < \$10 per ton
- Transition to greater coverage and higher prices



- Low-income households but
 - Under-pricing energy is inefficient (90 percent of benefits leak to higher income)
 - Targeted measures more effective
 - Look at incidence of whole policy package
- Energy-intensive, trade-sensitive firms, but
 - Resources need to move from unprofitable activities
 - Transitory assistance (e.g., worker retraining)
 - Less concern if international coordination

International: Free Rider Problem Overstated?





- Carbon price floor among large emitters
 - Provides some protection against competitiveness
 - Allows individual countries to set higher prices
 - Precedents include VAT/excises in EU
 - Practicalities should be manageable



- Finance ministries have key role
 - Promoting carbon taxes
 - Administration
 - Revenue use