



CARBON TAX GUIDE: A HANDBOOK FOR POLICY MAKERS

Paul Keenlyside
Climate Focus

Carbon Pricing: Latest Developments on
carbon taxes
Zurich, Switzerland
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Purpose of handbook

A practical tool for policy makers to determine:

- 1. Whether a carbon tax is the right instrument to achieve their policy aims...**
 - 2. ...and how to design and implement a carbon tax.**
- Primary target audience is policy makers in PMR Participant countries.
 - Broader relevance to other jurisdictions, experts and civil society groups.
 - Presented in three parts.
 - Publication expected second half 2016.

1. Understanding carbon taxes

- Key concepts
- National context

2. Designing carbon taxes

- Tax base
- Tax rate
- Carbon leakage
- Use of revenues
- Use of offsets
- Engage stakeholders
- Oversight and compliance

3. Evaluating outcomes

- Evaluating policy outcomes

Key principles

- **Country-driven approach:** the right design options will depend on national context and priorities.
- **Agnostic approach:** options assessment and how-to tool – not promoting one approach over others.
- **Methodology:** desk research, interviews, questionnaire and case studies.
- Companion piece to ETS Handbook, consistent where possible.

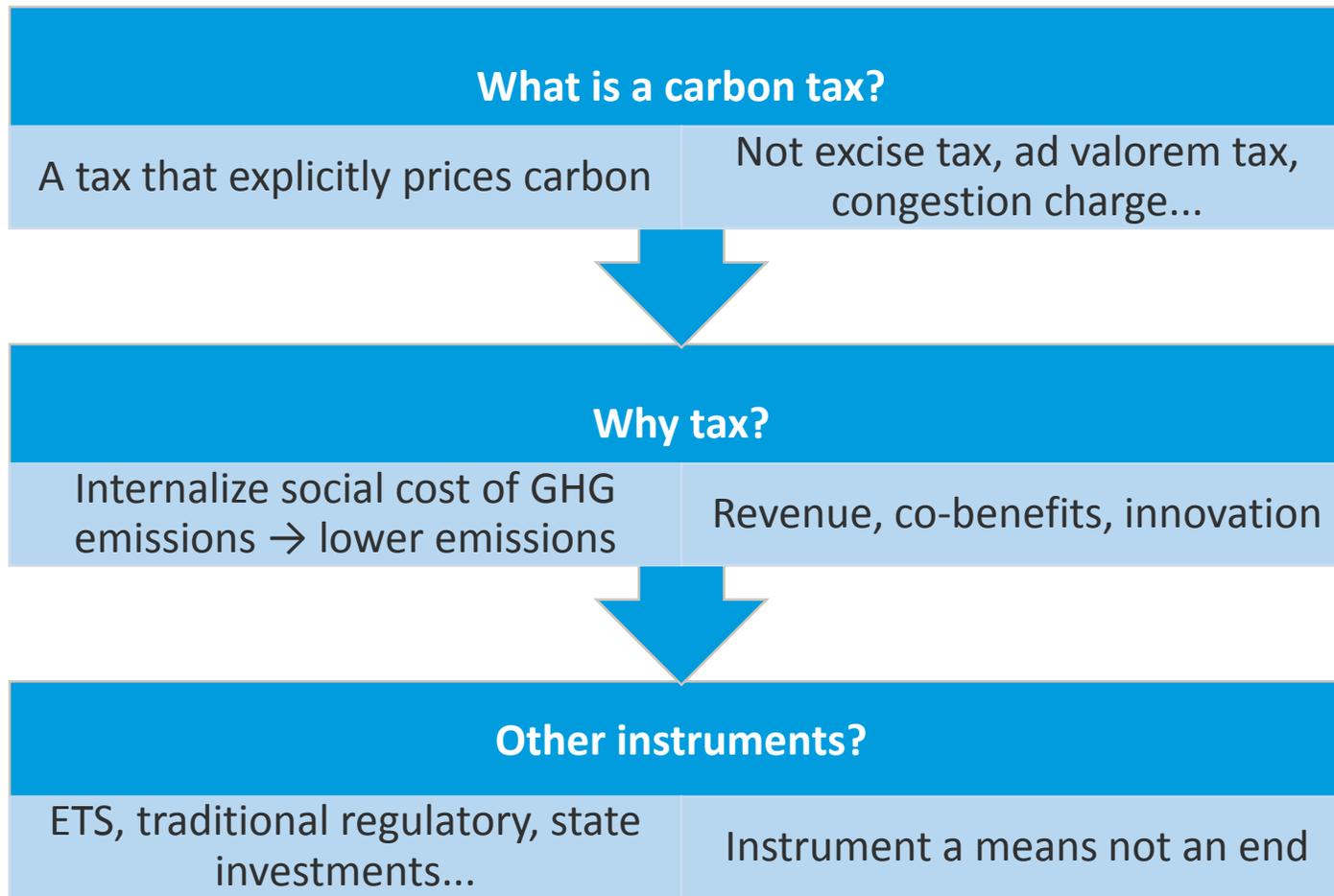
Discussion questions

- Is anything missing from this outline?
- What are the key concerns of policy makers, and where should focus of this guide fall?
- Are there key experiences with carbon taxes to date, positive or negative, that this guide should foreground?
- How best to ensure this guide is used by policy makers, and not just another report?

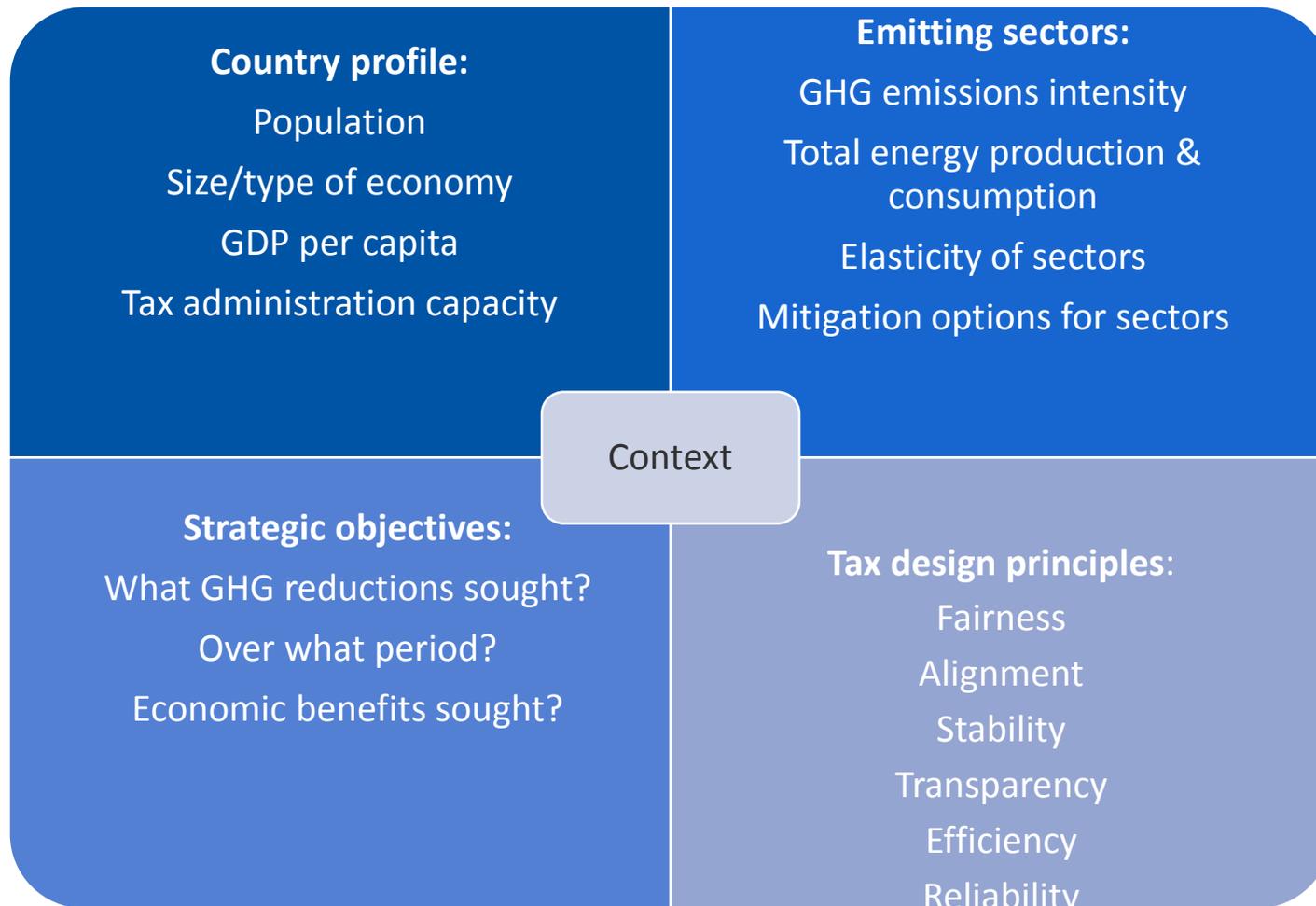
1. Understanding carbon taxes



1.1 Key concepts



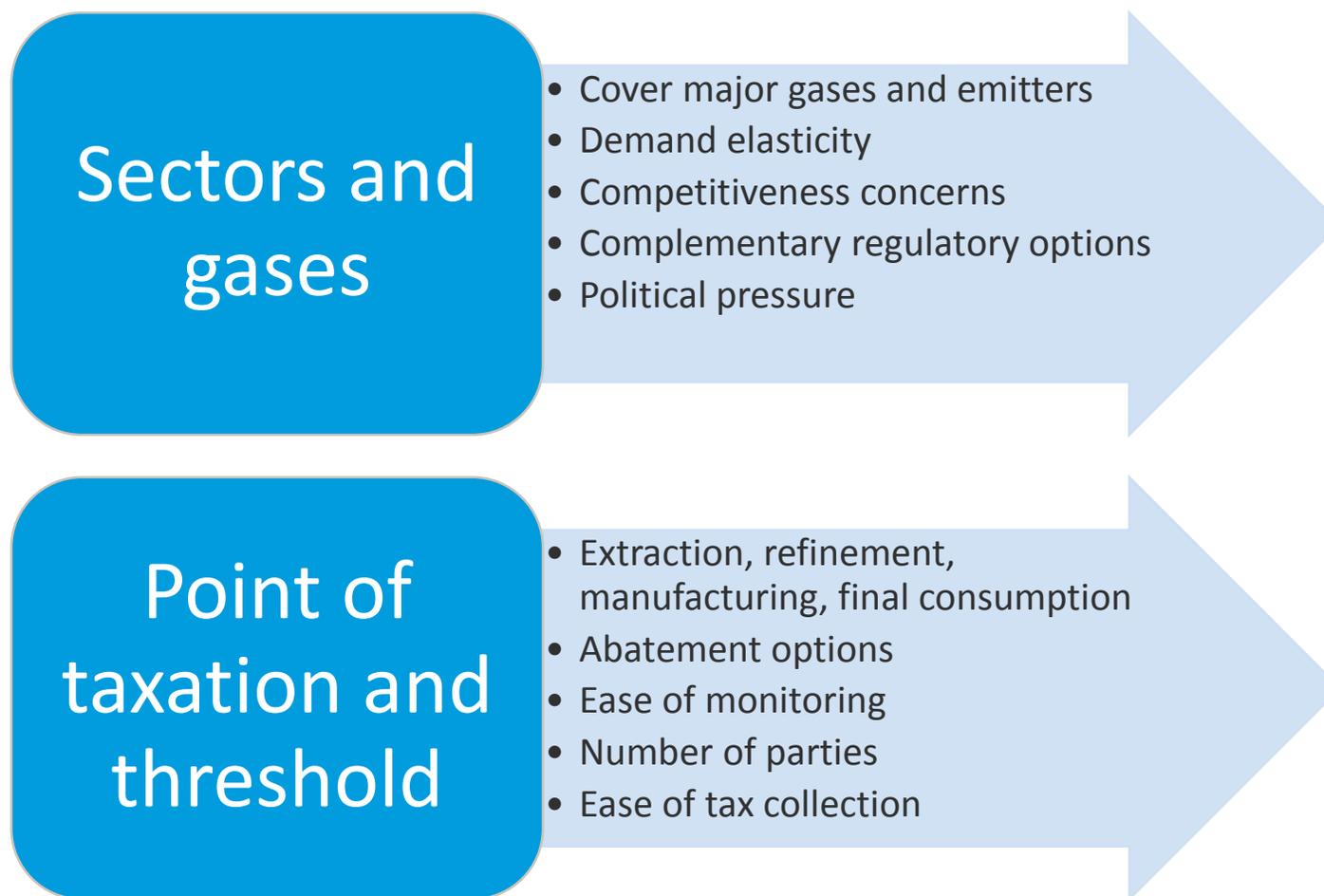
1.2 National context



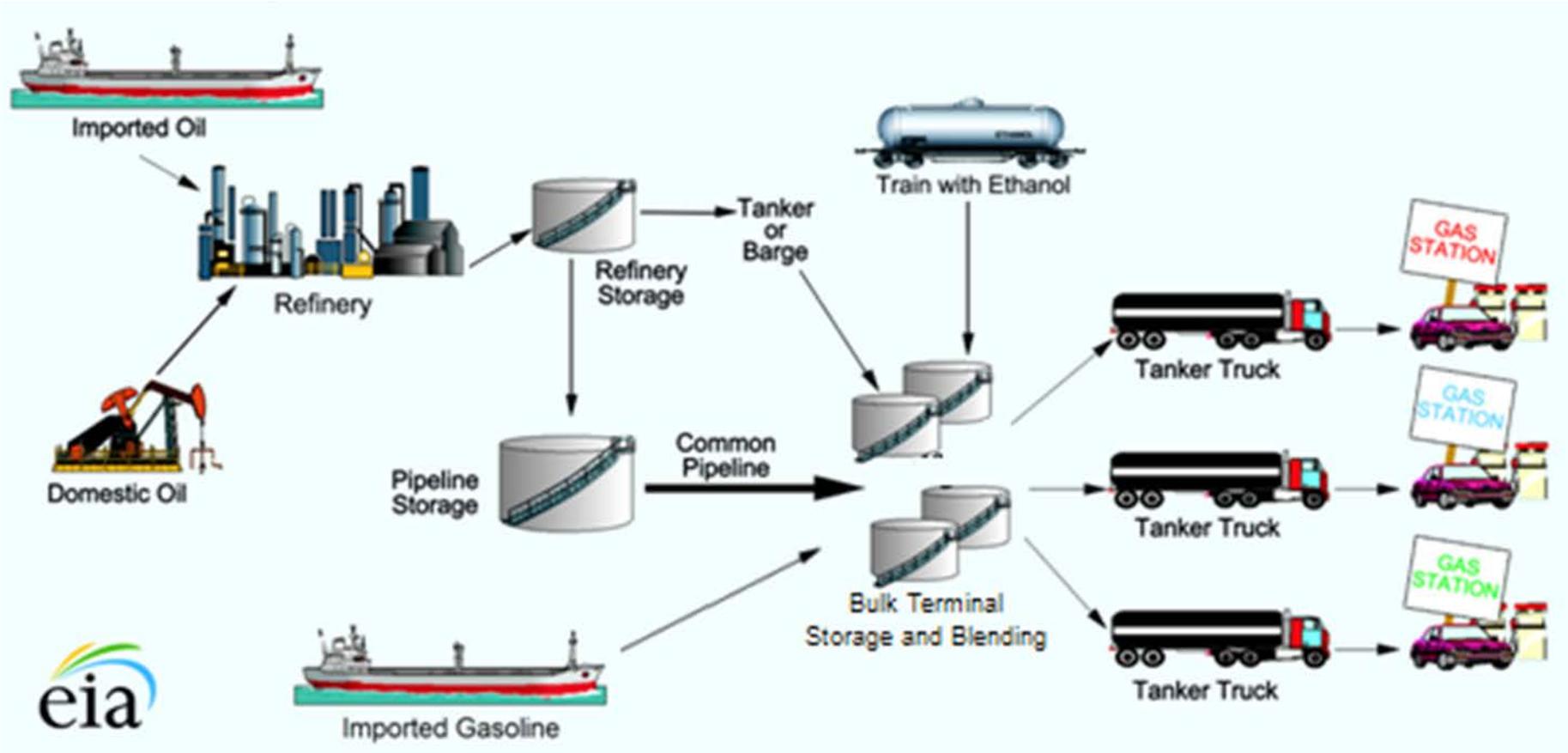
2. Designing carbon taxes



2.1 Define the tax base



Example: Gasoline supply chain



Source: US Energy Information Administration

2.2 Determine the tax rate

Key considerations:

- Social cost of carbon
- Level of ambition
- Relative balance of goals (GHG mitigation, co-benefits, revenue)
- Avoid counterproductive/regressive impacts
- Baseline setting

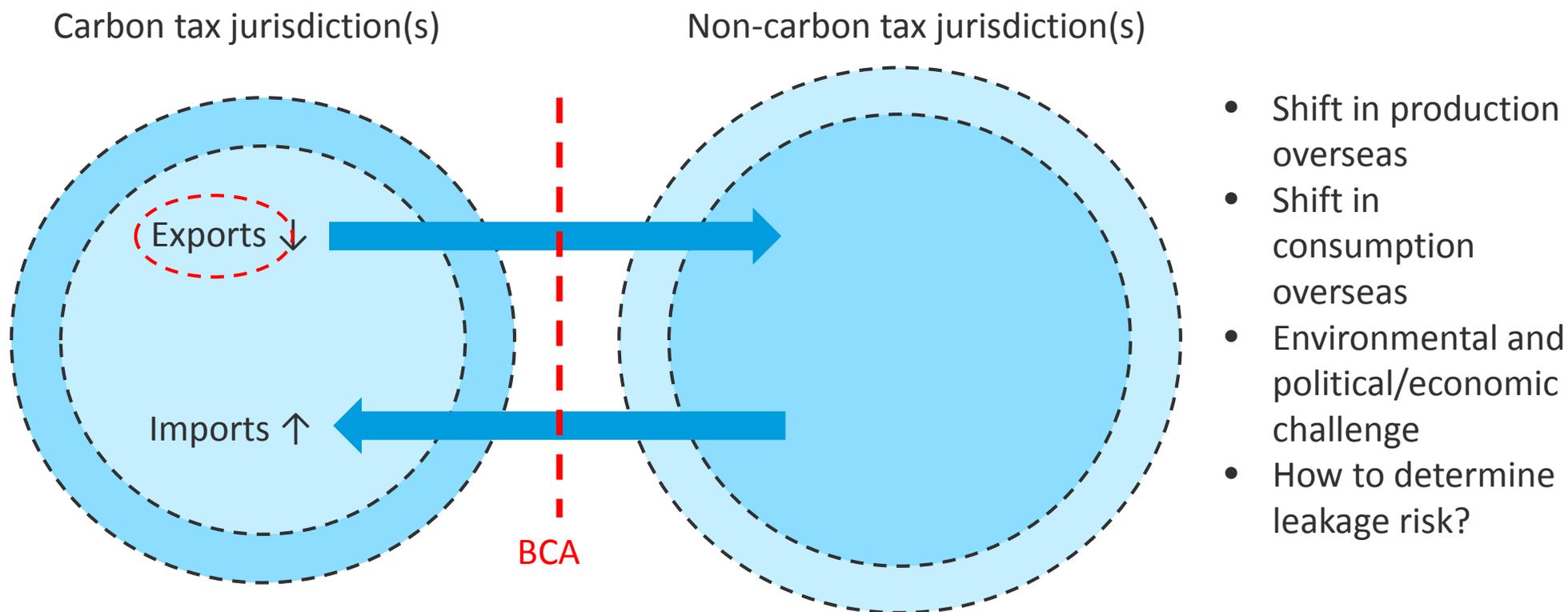
Dynamics of tax rate:

- Incremental increases
- Periodic review of rate and rate structure: environmental and economic impacts
- Ad hoc changes may present challenges

Practical tools:

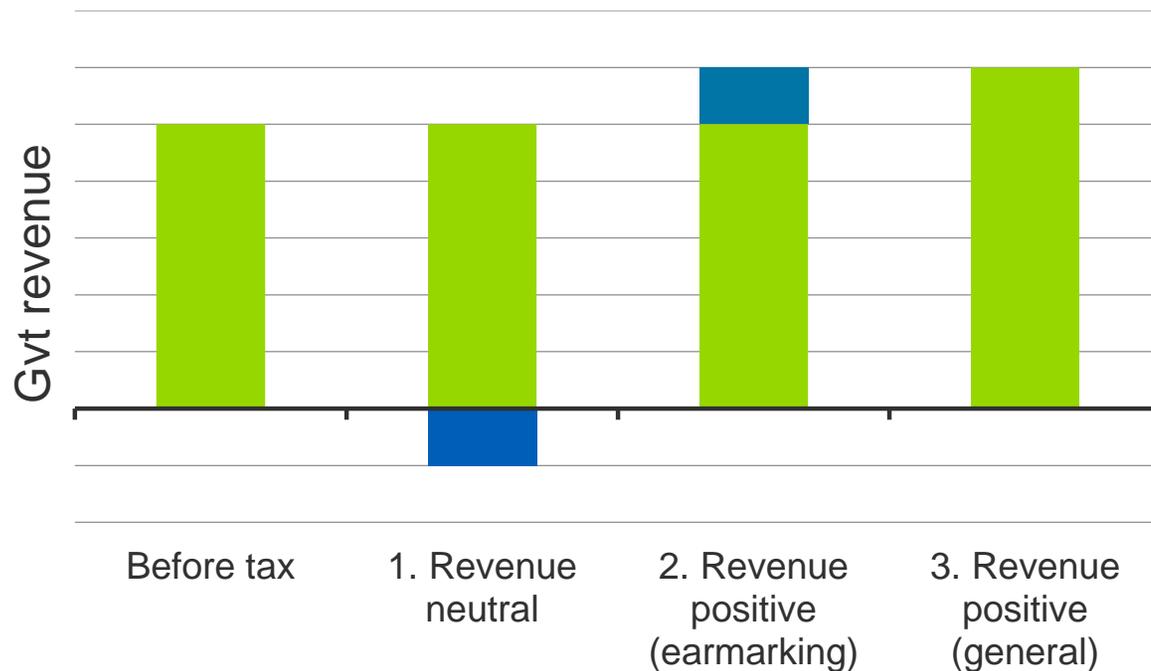
- Benchmarking tax rates
- Utilizing tax models

2.3 Carbon leakage and loss of competitiveness



Exemption/ rebates; Border carbon tax adjustment; Support programs; Reciprocity
GATT/WTO challenge to BCA? Domestic/international legal challenges to subsidies?

2.4 Determine use of revenues

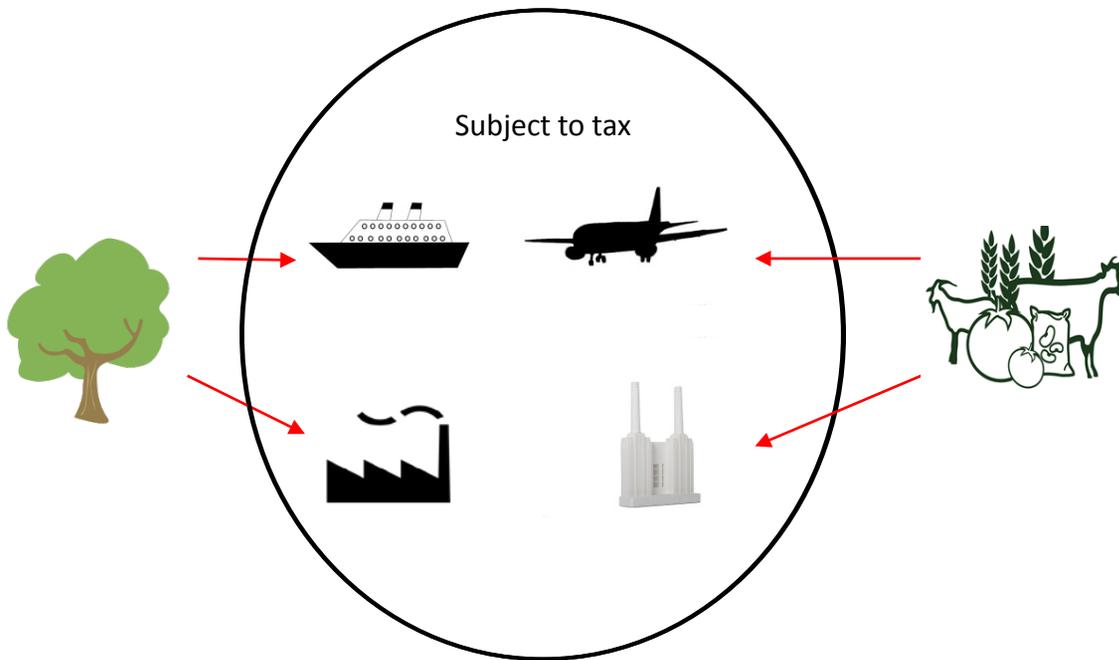


1. Household rebates/corporation tax cuts for affected sectors...
2. Social and environmental spending/household grants/industry assistance...
3. General budget spending

Questions:

- How to counter regressive impacts?
- Efficiency v. political expediency?

2.5 The use of offsets



Benefits:

- Cost containment
- Acceptability
- Develop offset 'industry'
- Possible international linking
- Emission reductions in non-covered sectors

Drawbacks:

- Environmental integrity risk
- Fraud risk
- Transaction costs
- Administrative burden

Program design

- Which standards to use?
- Quantitative limits on offset use
- Governance and registry infrastructure

2.6 Engage stakeholders

- **Stakeholders can include:** public bodies, taxed entities, indirectly affected entities, civil society, academics and other researchers, the media, the general public.

Objectives	Engagement strategy	Media strategy
<ul style="list-style-type: none">• Legal requirements• Understanding and expertise• Credibility and trust• Acceptance and support	<ul style="list-style-type: none">• Inform• Consult• Involve• Collaborate• Empower	<ul style="list-style-type: none">• Tailored messages• Simple messages• Counterarguments• Coordination

- **Key challenge:** how to achieve balance between taking inputs into account, and avoiding disproportionate influence of any single stakeholder.

2.7 Ensure oversight and compliance

MRV of performance

- Environment or energy department
- Complexity and arrangements vary between sectors

Tax administration

- Existing tax collection structures
- Capacity to investigate and enforce noncompliance

Offset administration

- Verification and issuance of offsets
- Oversight of transactions/registry

- **Categories of noncompliance include:** misreporting of emissions, tax evasion, smuggling, failure to comply with enforcement measures
- **Penalty options include:** name and shame, make good requirements, fines and injunctions, criminal charges

3. Evaluating outcomes



3.1 Evaluating policy outcomes

	Summary
Establishing Key Performance Indicators	Choose KPI's relevant to policy goals <ul style="list-style-type: none">- Emission reductions- Revenue raising- Impacts of revenue use- Technological innovation and deployment
Review Processes and Feedback Loops	<ul style="list-style-type: none">- Assign responsibility to a specific agency- Schedule periodic and timely reviews- Consider separating program evaluation from tax implementation- Consider value of external review
Mechanism for adjusting tax rate	<ul style="list-style-type: none">- Develop a mechanism for reviewing and adjusting tax rates- Recognize the need to balance adaptability with stability- Insulate the review process from political influence whenever possible
Ex-post evaluation challenges	<ul style="list-style-type: none">- Establishing a reference case/baseline is challenging, but necessary- Consider multiple baseline scenarios to enhance value of analysis

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Case studies

- Australia
- BC, Canada
- Chile
- Catalonia
- Costa Rica
- Denmark
- Finland
- France
- Iceland
- India
- Ireland
- Japan
- Mexico
- Netherlands
- Norway
- South Africa
- Sweden
- Switzerland
- UK
- Zimbabwe

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