Carbon Tax Developments in Chile

TECHNICAL MEETING ON CARBON TAX
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Long-awaited Tax Reform

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$8,200 MM$USD (3%GDP)

Government’s Program

Educational Reform

Companies

20% (2014) Gradual Increase 25% (2017)

People

40% (maximum personal income tax rate) Decrease 35% (2017)

Increase tax alcoholic and non-alcoholic (sugar) beverages

Products

Mobile Sources

TAX of US$5 / tCO2

Stationary Sources (>50MWt)

GREEN TAXES (CO2, local emissions and imported private diesel vehicles)
Green Taxes (Article 5)

Stationary sources

• An annual tax on emissions from boilers and turbines with a thermal input greater than or equal to 50 MWt (thermal megawatts).

• Two environmental externalities to be addressed:

  i) global damage regarding climate change: tax on carbon dioxide (CO$_2$) emissions;

  ii) local damage to health: tax on emissions of Particulate Matter (PM), nitrogen oxides (NOx) and sulphur dioxide (SO$_2$),
Green Taxes proposed amounts

Local damage to health: PM, Nox, SO₂

- Amount will be established in accordance with the valuation of such damage, on the basis of a floor value set in the law (i.e., 0.1$ USD per ton of local pollutant).
Mobile sources

• An additional tax (one-off) on the import of light vehicles, using diesel as fuel, in order to encourage the use of less polluting vehicles.

• The formula takes into account “urban performance”, as km/liter - has been estimated by the National Automobile Association to have an effect of approximately 18-30% of the price of the vehicle.
CO₂ and local pollutants preliminary findings for electricity sector

Ministry of Finance

Projection period: 2015-2023

Two scenarios:

S1: Normal hydrologic conditions (baseline)
S2: Increased water availability

Percentage of energy taxed:
Around 50% in both scenarios

Annual average revenues estimated at:
S1: 265 MM$USD
S2: 247 MM$USD

Highest revenue component, both S1/S2:
CO₂, averaging 83% of total revenues in 2017-2021

Impact on clients:
Residential consumers will feel a slight increase in rates gradually.
Larger consumers will probably have a more immediate effect, depending on their contracts
CO2 Tax: Inputs from analyses from other sources

MAPS (Mitigation Action Plans and Scenarios)

Catholic University of Chile (2014)

- The additional cost of energy would be close to 3%, which would translate into approximately 2% of the current cost of residential tariff.

Modelled different scenarios for the effect of a tax of US$10, 20 and 40 - results are pending.

3 million tons of CO₂ by 2020
(6% of total projected emissions of electricity generation)

6 million tons of CO₂ by 2030
(11% of total projected emissions...)

GHG reduction explained mainly by a replacement of coal-fired generation by wind and hydro:

*Introduction of the tax, even at a low initial rate, can already display behavioral changes towards a more sustainable energy generation.*
CO2 Tax: Analytical work needed

• Entry into force in 2017.

• Significant upstream policy analysis to understand the interaction (and impacts) of this carbon pricing instrument with existing policies and its alignment with economic growth and with mid- to long-term mitigation and development goals.

• Immediate analytical work:
  – Better understanding of how the carbon tax induces technological changes in the energy sector.
  – Interaction of carbon tax with existing policies and regulations (i.e., thermoelectric power plant emission norm).
  – Impacts on competitiveness, on end users.
  – Potential tax rises and their impacts in the whole economy.
  – Complementary/facilitative measures (especially looking at cap & trade and offsets)
Status of discussion at Congress

May ´14:

Lower House approved the initiative in all respects and now it is discussed in the Senate’s Finance Committee.

Some issues that might arise during this discussion include: separating debate on CO₂ tax from that on local pollutants, exclusion of plants based on biomass, adjustments over time, compensations/offsets recognized for the calculation of the tax base, form of monitoring, etc.
Thanks for your attention.