Framework for evaluating carbon pricing policies

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## Four Broad Categories of Policy Objectives

<table>
<thead>
<tr>
<th>Economic</th>
<th>Distributional/Fairness</th>
<th>Environmental</th>
<th>Institutional/political feasibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether the policy achieves the environmental goal at the lowest cost, taking transaction, information, and enforcement costs into account</td>
<td>Whether the policy is distributionally fair, considering the impacts on different groups</td>
<td>Environmental impacts considered</td>
<td>Whether the policy is politically feasible, considering institutional limitations</td>
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</tbody>
</table>
### OECD 2004 Framework for evaluating ETSs


<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic efficiency</td>
<td>• Economic optimality&lt;br&gt;• Cost effectiveness&lt;br&gt;• Market efficiency</td>
</tr>
<tr>
<td>Environmental effectiveness</td>
<td>• Certainty of aggregate cap&lt;br&gt;• Monitoring accuracy&lt;br&gt;• Compliance and enforcement&lt;br&gt;• Local or temporal impacts</td>
</tr>
<tr>
<td>Soft effects</td>
<td>• Data accuracy&lt;br&gt;• Bureaucratic culture</td>
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<tr>
<td>Dynamic effects</td>
<td>• Rate of innovation&lt;br&gt;• Direction of innovation</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>• Start-up costs&lt;br&gt;• Running costs</td>
</tr>
<tr>
<td>Social impacts</td>
<td>• Distributional impact&lt;br&gt;• Participation</td>
</tr>
</tbody>
</table>
FASTER

Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity
Carbon Pricing Leadership Coalition

20+ governments
90+ business and civil society leaders

Collect the evidence base

CPLC Activities

Mobilize business support

Increased ambition and action on carbon pricing

Convene leadership dialogues

Carbon Pricing Leadership Panel

LEADERS UNITE IN CALLING FOR A PRICE ON CARBON

Angela Merkel - Chancellor Of Germany
Jerry Brown - Governor Of California
Enrique Peña Nieto, President Of Mexico
Eduardo Peix, Rio De Janeiro Mayor

Anne Stausboell, CEO Of CapiPers
Gerard Mestrallet, CEO Of ENGIE
Anand Mahindra, Chairman And Managing Director Of Mahindra Group Of India
Piet Geertsma, CEO Of Royal DSM
Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity
Fair carbon pricing policies...

✓ Reflect Polluter Pays Principle to level the playing field between firms

✓ Distribute costs and benefits equitably

- Manage potential risk of adverse competitiveness impacts and carbon leakage
- Avoid disproportionate burdens on vulnerable groups without undermining incentives to reduce emission-intensive activities,
  - Adjustment to other taxes (e.g. on low income earners)
  - Targeted fiscal transfers
  - Energy efficiency and public transport for the poor
  - Exempting poor and vulnerable households (but eliminates incentives to use energy wisely and encourages cheating)
Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity

The FASTER Principles for Successful Carbon Pricing: An approach based on initial experience
Aligned carbon pricing policies…

- Coexist with **complementary policies** to reinforce price signals
  - Removal of institutional barriers (e.g. lack of information)
  - Research and development of new technologies
  - Infrastructure investments (e.g. public transport, land use)
  - Access to finance

- Reform **counter-productive policies**
  - E.g. fossil fuel subsidies

- Manage interactions with **overlapping policies**
  - Emissions standards
  - Renewable support systems
  - Energy Efficiency

- Facilitates policy coherence across policy areas (environmental, social, economic, fiscal, etc.)
Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity
Stable and Predictable CP policies...

- Predictable policy framework gives strong investment signal;
- Flexibility needed to adjust to unpredictable events;
- Mechanisms to strike a balance between flexible policy that adapts to new information and the need for policy consistency and predictability (e.g. linking/networking, market stability mechanisms, price corridors, banking/borrowing etc.);
- Transparent forward carbon tax schedule
- Flexibility mechanisms: rule-based rather than discretionary (reduce political risk);
Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity
Transparent carbon pricing policies...

- clear in design and implementation
- public dialogues with affected stakeholders
- Communicate rationale, objective, shared benefits
- Monitor and verify emissions credibly
Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity
Efficient and Cost-effective CP…

- Price level that corresponds to the social cost of emissions
- Reduce emissions at least cost by fostering flexibility and innovation
  - Wide coverage
  - Heterogeneity of emission sources
  - International cooperation
- Simplify administration
- Recycle revenues to enhance economic benefits
Fairness
Alignment of policies
Stability and Predictability
Transparency
Efficiency and Cost-effectiveness
Reliability and Environmental Integrity
Reliable and Environmentally effective CP…

- Ensure measurable reductions in harmful behavior

- Comprehensively cover emissions sources, fuels, sectors and gases

- Deliver multiple benefits, including local environmental and health benefits

- The choice and design of pricing instrument matter for environmental outcomes (prices vs. quantities)
Trade-offs need to be managed

Trade

Efficiency

Efficiency

Environmental integrity

offs

Fairness, transparency

Environmental integrity

Fairness
The FASTER Principles for Successful Carbon Pricing: An approach based on initial experience