

# 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

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graph TD; A[Carbon Tax] --> B["• 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."]; A --> C["• The Law establishes a non-causation 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 Non-causation can be achieved by obtaining compensations (offsets) that 'neutralize' the emissions associated with fuel consumption.."]; C --> D["✓ The carbon tax and its non-causation mechanism have contributed to the GHG mitigation targets (through both carbon pricing and market instruments simultaneously).  
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- ✓ **The carbon tax and its non-causation 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.**



# Carbon Neutrality 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**

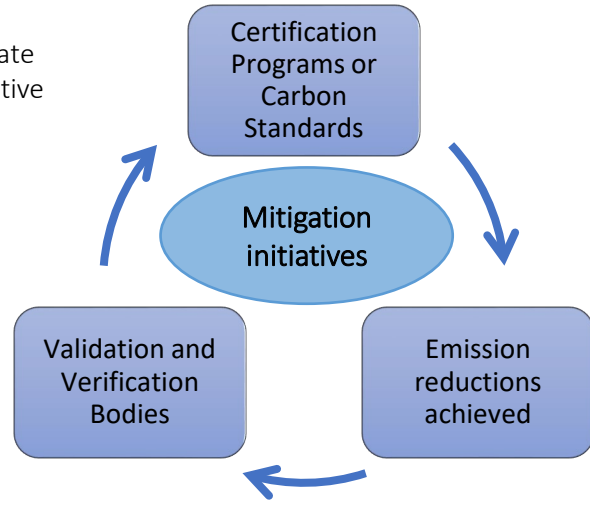
**Carbon neutrality mechanism**

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



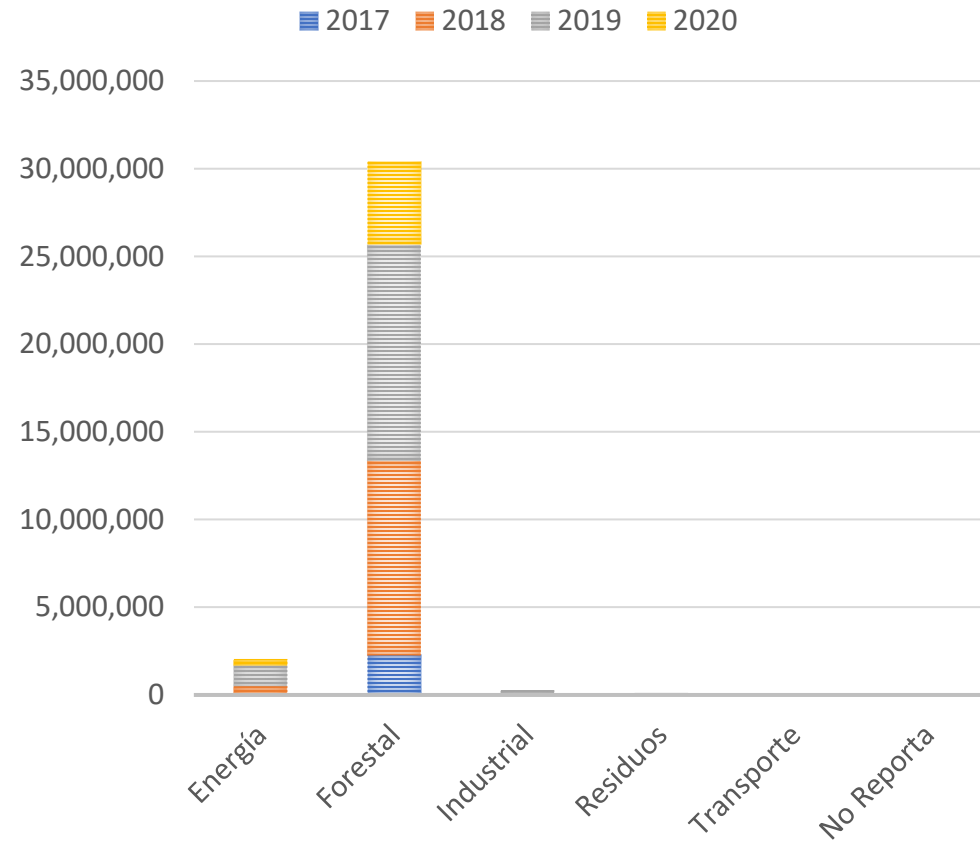


# Carbon Neutrality Mechanism Results

3.5 years of carbon neutrality mechanism

- More than 3.523 applications to Non Causation Mechanism (carbon neutrality).
- Approximately 42,8 million tCO<sub>2</sub>e cancelled (offsets); 84 % from domestic initiatives
- 108 mitigation initiatives in sectors like Forestry, Energy, Industry, Waste and Transport.
- Development of services associated to voluntary carbon markets (within the national territory): carbon standards, local VVB and registry platforms.

### tonCO<sub>2</sub>e –carbon neutrality



4 years of carbon tax

- Inter-institutional working group: Tax authority-Tax responsible-Environmental authority
- Capacity building: Feasibility for tax inspection program
- Institutional strengthening: Creation of a local carbon association



# 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



# PMR contribution for carbon pricing analysis

**Comprehensive inputs to  
the design of the  
Colombian ETS.**

- PMR helped to resolve questions around the fundamentals of an emissions trading system, its components, design options, operation, and the interaction with existing government policies.
- Technical design options and recommendations for the ETS include: scope with respect to sectors and gases, options for emissions cap, the annual GHG emissions threshold to become an ETS participant, the technical and regulatory conditions for auditing and verifying annual emissions of regulated facilities, the allocation of emissions allowances, recommendations for price stability, use of offsets and temporary flexibility to facilitate compliance with the emissions limits, options for a potential sanctions regime, recommendations on institutional arrangements for the operation of the market instrument.

**Stakeholder engagement,  
capacity building, and  
communications strategy  
for the ETS**

- Specific recommendations with respect to effectively involve stakeholders at all levels inside and outside of the government in the analysis and decision-making necessary for the design and implementation of the ETS.
- Training sessions and market simulations were carried out to various stakeholder groups that have a role to play in the public and private decision-making processes.



El ambiente  
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# Direction of Climate Change and Risk Management

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