Use of Carbon Revenues: From Environmental Issues to Economic Benefits

A central element to stakeholder’s engagement
US$32bn: carbon revenues in 2017

**Year of implementation**
- Carbon tax since 2013
- Carbon tax between 2008 and 2013
- Carbon tax before 2007
- Emissions Trading Scheme since 2013
- Emissions Trading Scheme between 2008 and 2013
- Emissions Trading Scheme before 2007

**Revenue uses**
- Earmarking
- General budget allocation
- Tax exemptions
- Direct transfers

Source: I4CE - Institute for Climate Economics with data from World Bank, government officials and public information, April 2018
# 6 non-exclusive options for using carbon revenues

**TAXONOMY OF OPTIONS**

<table>
<thead>
<tr>
<th>CRITERIA OF EFFECTIVENESS</th>
<th>Macroeconomic performance</th>
<th>Environmental performance</th>
<th>Governance and management</th>
<th>Communication and transparency</th>
<th>Social inclusiveness</th>
<th>Political resilience</th>
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</thead>
<tbody>
<tr>
<td>No targeted transfers</td>
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<td><strong>2. Direct transfers</strong></td>
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<td>Targeted beneficiaries</td>
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<td>(households, companies, etc..)</td>
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<td>Investments in energy transition (RES, EE, etc..)</td>
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<td>Reduction in taxes</td>
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<td>(corporate, private, labour, etc..)</td>
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<td><strong>5. Social programs</strong></td>
<td>![People Icon]</td>
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<td>Support to disadvantaged households, health programs</td>
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<td>Investments in electric public transportation (buses, trains)</td>
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</tbody>
</table>

Source: World Bank, I4CE and AFD, 2018
Designing a carbon revenues use framework: The INCOME principles

**Starting Phase**
- **Incorporated revenues upfront**
  - Discuss revenue use when designing the carbon pricing policies
  - Define its potential impacts at long term.
- **National Priorities focused**
  - Define policy objectives/targets and national circumstances
  - Identify stakeholder groups’ interests

**Design Phase**
- **Consultations and inclusiveness governance**
  - Define a transparent governance process
  - Ensure the involvement of Finance and Environment Ministries and potentially other specialised institutions
  - Mobilize the private sector and social stakeholders to prevent risks of unpopularity
- **Organize the revenues use framework**
  - Compare spending options and determine the most appropriated option(s) according to national objectives and circumstances
  - Define compensating measures if necessary to mitigate negative redistribution effects

**Review, report and progress phase**
- **Measure & report on revenue use**
  - Define indicators of effectiveness related to carbon revenues use
  - Monitor and report on a transparent and regular basis
  - Communicate widely on the role of revenue within the pricing scheme
- **Enhance revenue use**
  - Perform regular reviews and stock takes
  - Adapt revenue use to the long-term ambition

Source: World Bank, I4CE and AFD, 2018
Carbon revenues: a means of collaboration

- Strengthening the appropriation of the pricing scheme by all stakeholders…

… to facilitate the alignment of interests and move towards widespread climate awareness

Improving collaboration among State actors

Improving collaboration between State and non-State actors

General budget recycling

Infrastructure & Dvpt

Social programs

Tax cuts

Direct transfers

Green earmarking
Carbon revenues: a need for communication

- Build trust in Efficiency & Equity
- Display climate and non-climate benefits
  - Link them to the scheme

According to options, carbon revenues can...

...bring multiple benefits (environmental, economic, social, etc..)

...and can be used to strengthen public acceptance of carbon pricing if the chosen option allows to deal with...

- Economic efficiency
- Equity for stakeholders
- Reporting and communication

To increase climate ambition and mainstream climate in public finance

Source: World Bank, I4CE and AFD, 2018
Taking stock of revenue experiences worldwide (1)
Taking stock of revenue experiences worldwide (2)

**California**
- Emissions 2015: 1.5 MMtCO₂ₑ
- Pricing scheme: ETS
- Coverage: 85%
- Start year: 2012
- Revenues 2017: USD 2bn

**France**
- Emissions 2016: 332 MtCO₂ₑ
- Pricing scheme: Carbon tax
- Coverage: 35%
- Start year: 2014
- Revenues 2017: USD 6.4bn

**Iran**
- Emissions 2016: 643 MtCO₂ₑ
- Pricing scheme: FFS reform
- Coverage: XXX%
- Start year: 2010
- Revenues: USD 3-6bn
Thank you for your attention

Questions?