Carbon taxes – how green are they already?

An overview of state and trends

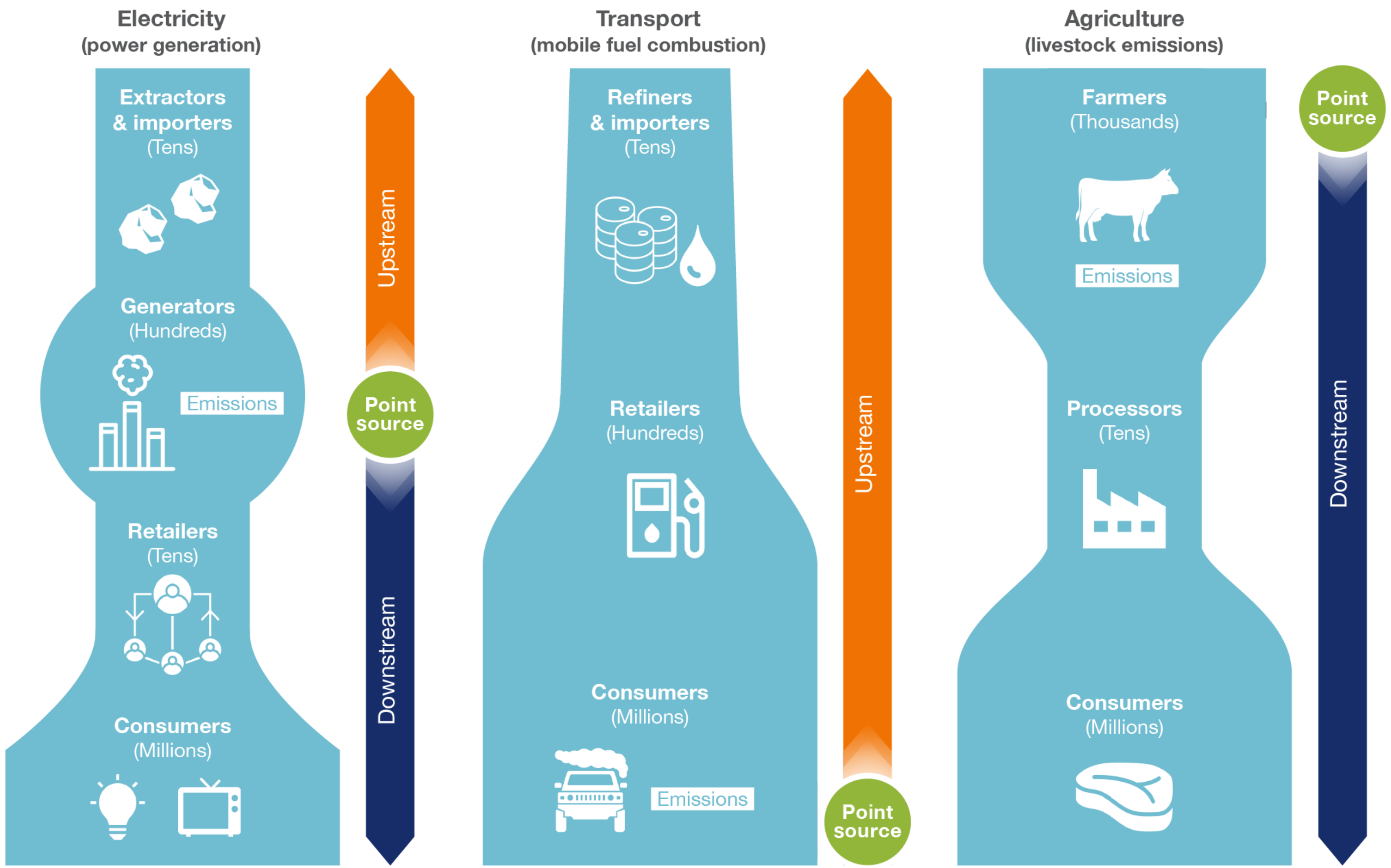
WORLD BANK GROUP
Climate Change

OVERVIEW: WHAT IS CARBON PRICING?

- ***Explicit*** price on GHG emissions (e.g., from combusting fossil fuels).
- ***Polluters pay*** — internalizes social costs.
- Price signal passed through the supply chain — encourages low-emissions choices and investments.
  - Businesses aim to reduce carbon costs
  - Consumers shift toward lower-emissions products due to their relative cost advantage.

Focus is on Carbon Tax and Emissions Trading Systems

Applying a carbon price



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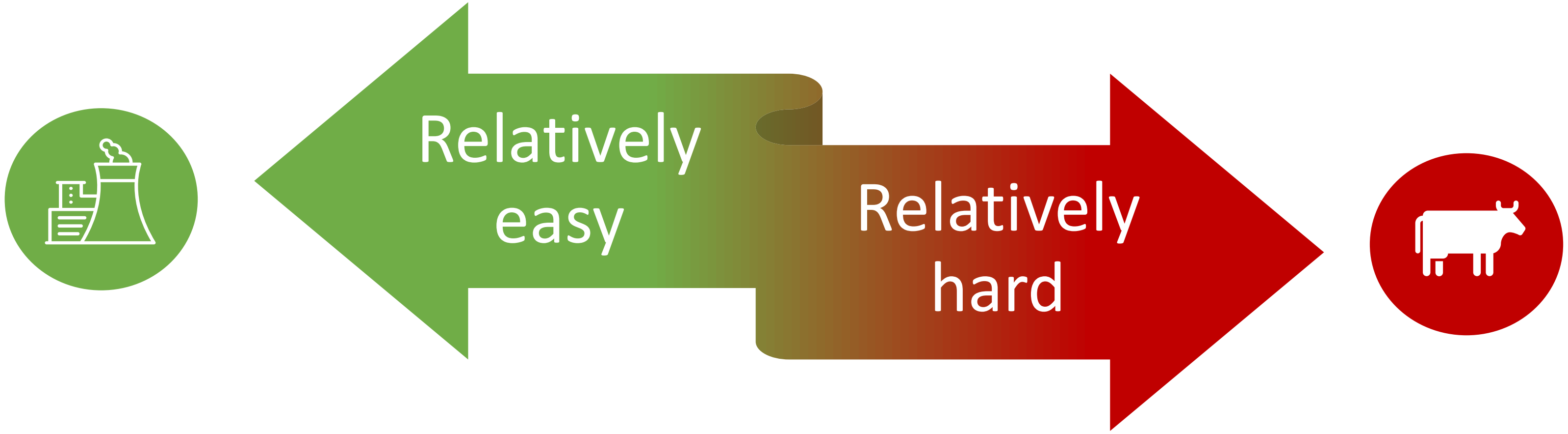
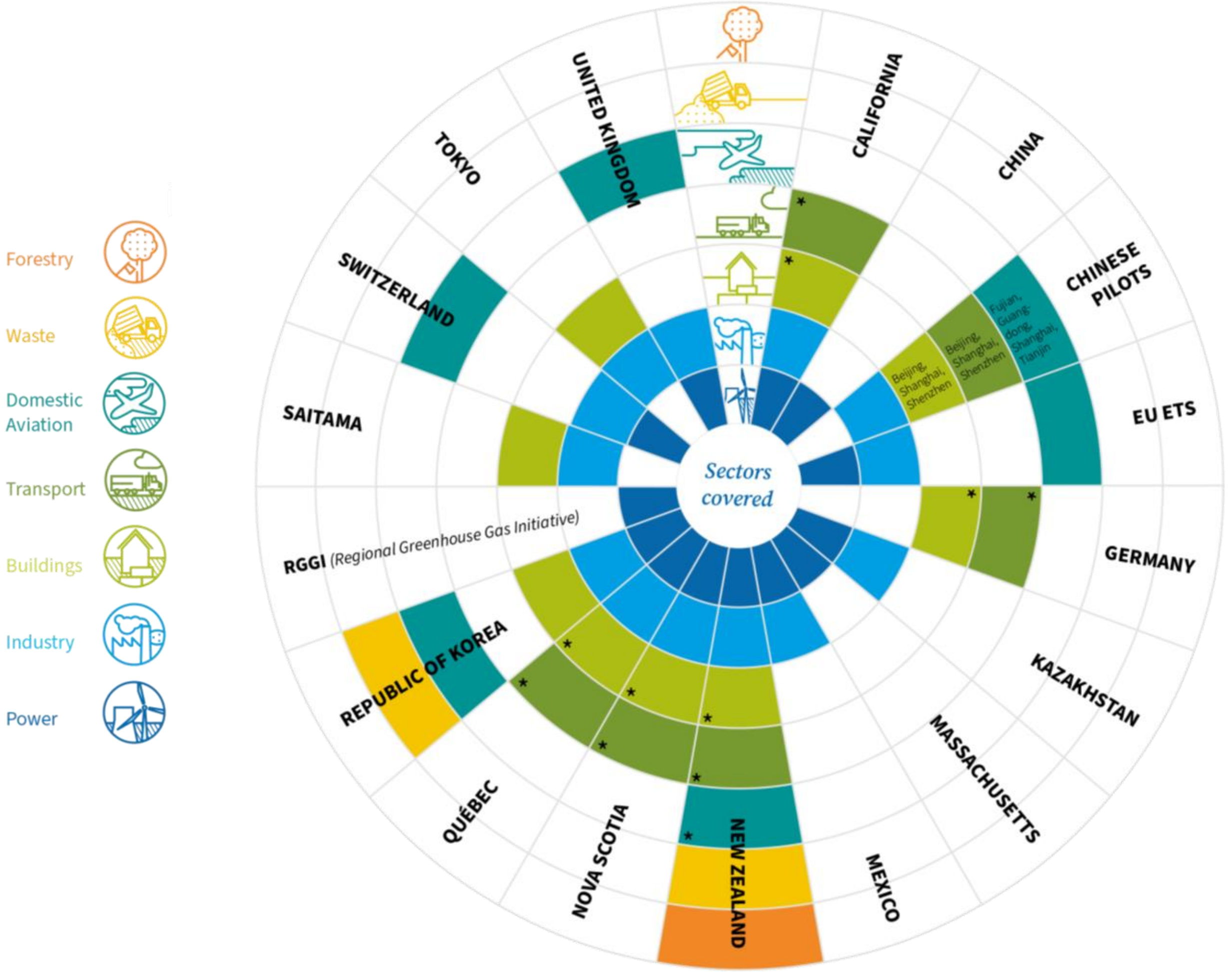
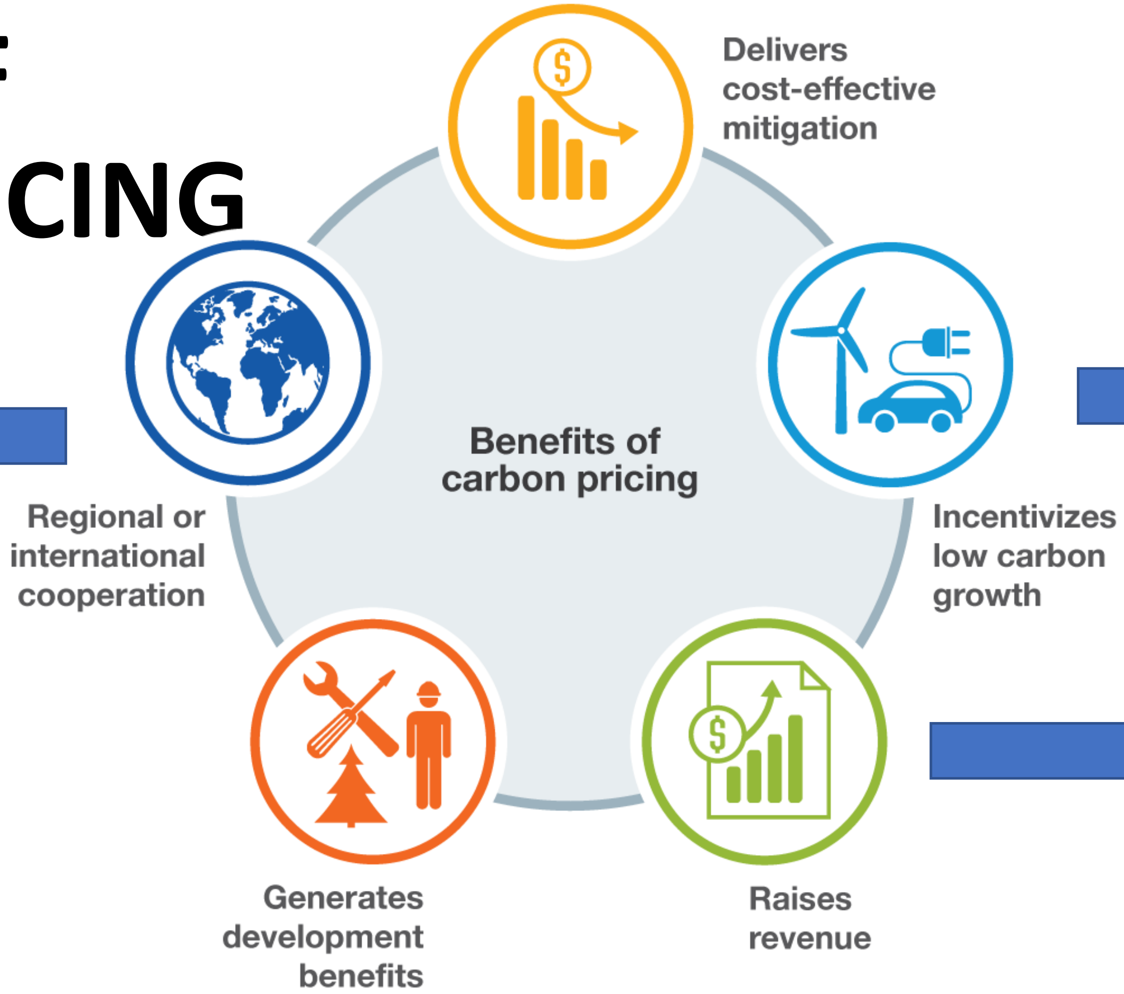




BENEFITS OF CARBON PRICING

Financial incentive to invest in "green" technologies and continuous improvement, driving innovation and avoiding stranded assets.



For example, political cooperation or alignment. Relevant for non-EU European countries

Increasingly attractive to governments.

For example, improved air quality, "green" jobs, and energy security

Carbon pricing as a revenue raiser

Efficient: Broadens tax base, minimizes distortions, can capture the informal sector, and more difficult to evade than direct taxes.

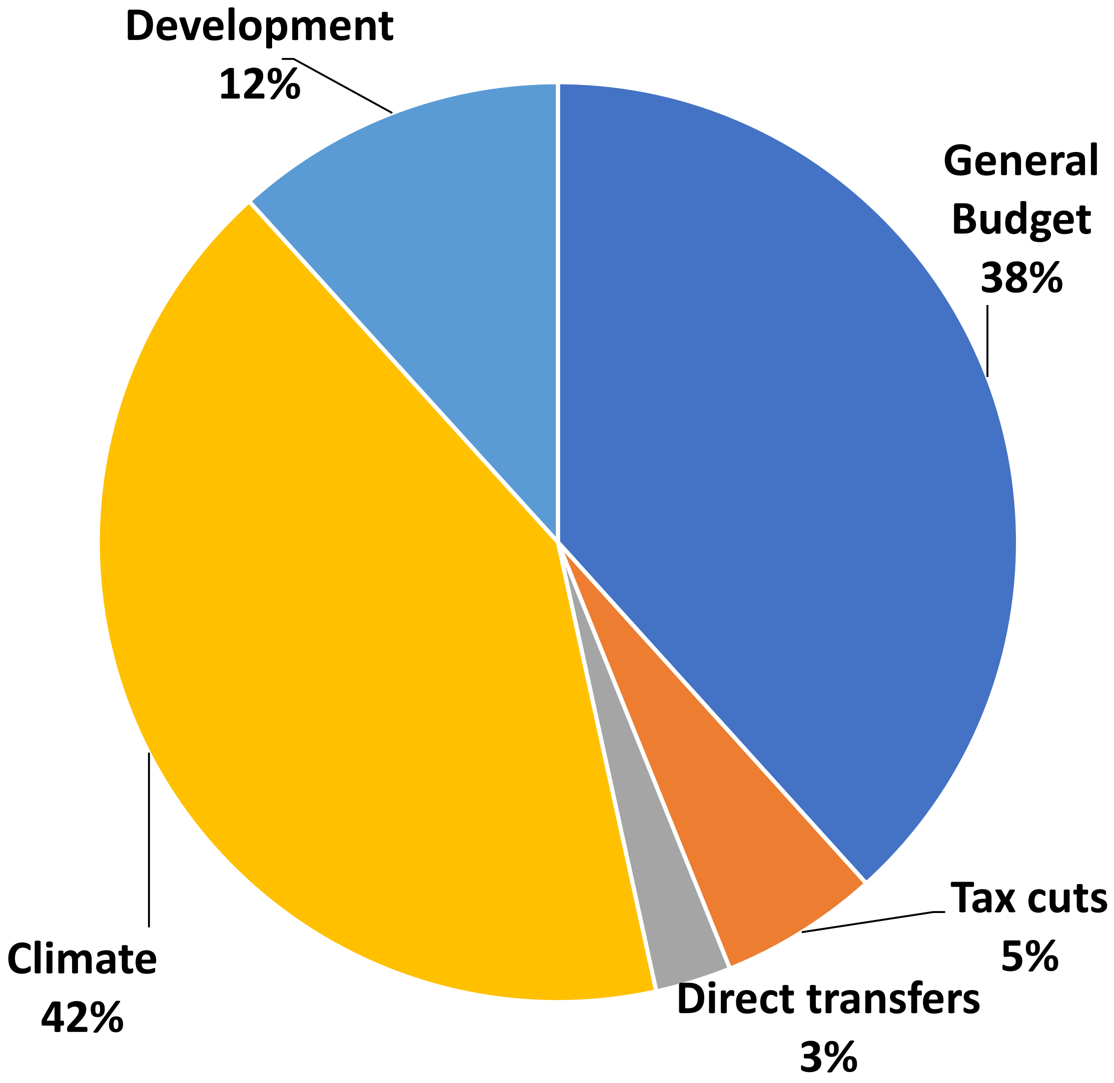
Potential uses: Tax reform, climate mitigation, carbon leakage prevention, assist households, or debt reduction.

Specified use: Defined purpose (e.g., earmarking, hypothecation) vs general revenue.

Carbon revenue is growing:

- Over $45 billion from carbon pricing in 2019.
- Growth from higher prices and expanded coverage.
- Just over half of revenue from taxes.

Carbon revenue uses (2017-18)



World Bank's "Using carbon revenue" (2019)

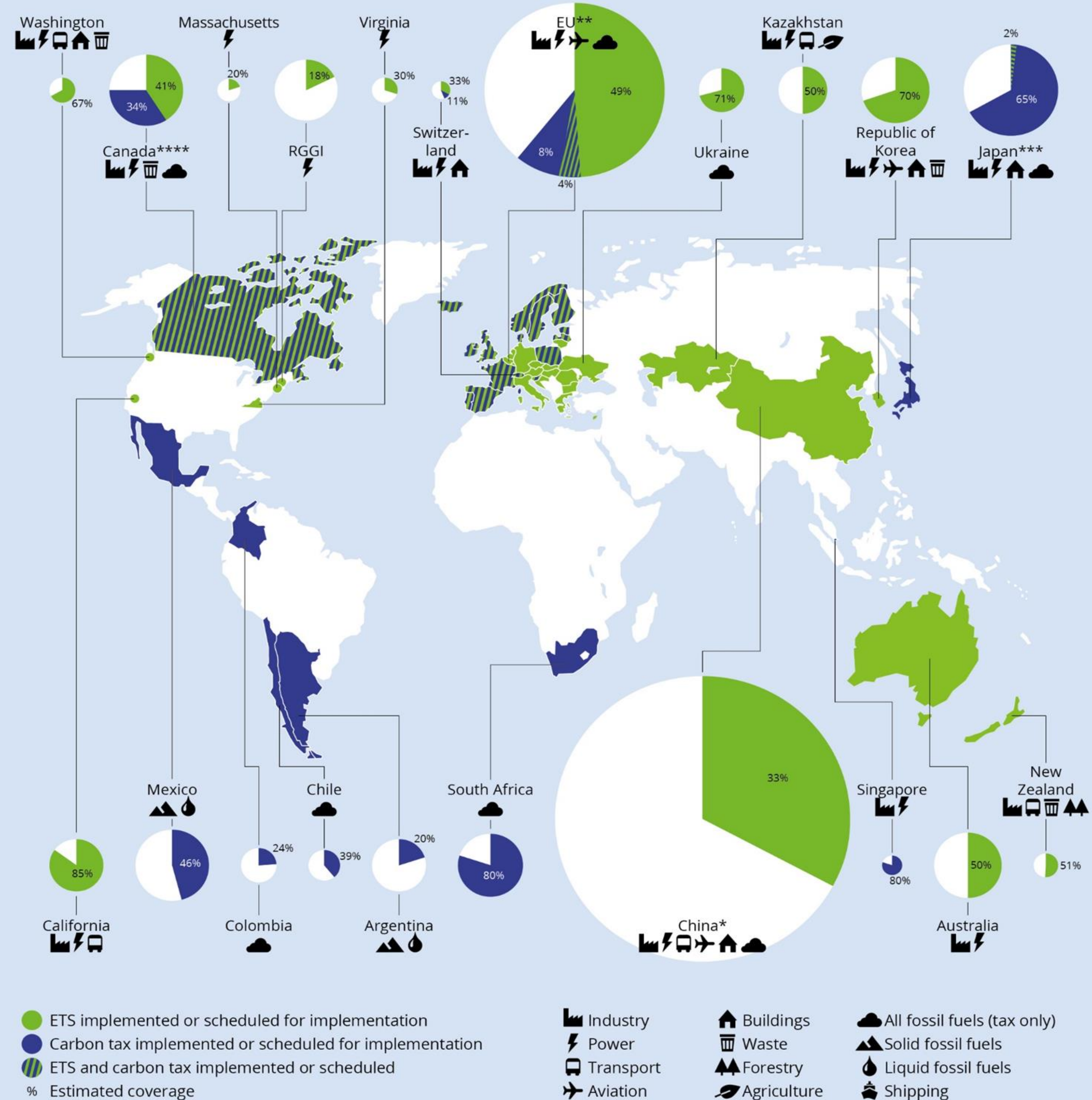
Where is carbon pricing applied?

61 carbon pricing initiatives in operation or scheduled as of 1 April 2020. This includes **30 carbon taxes**.

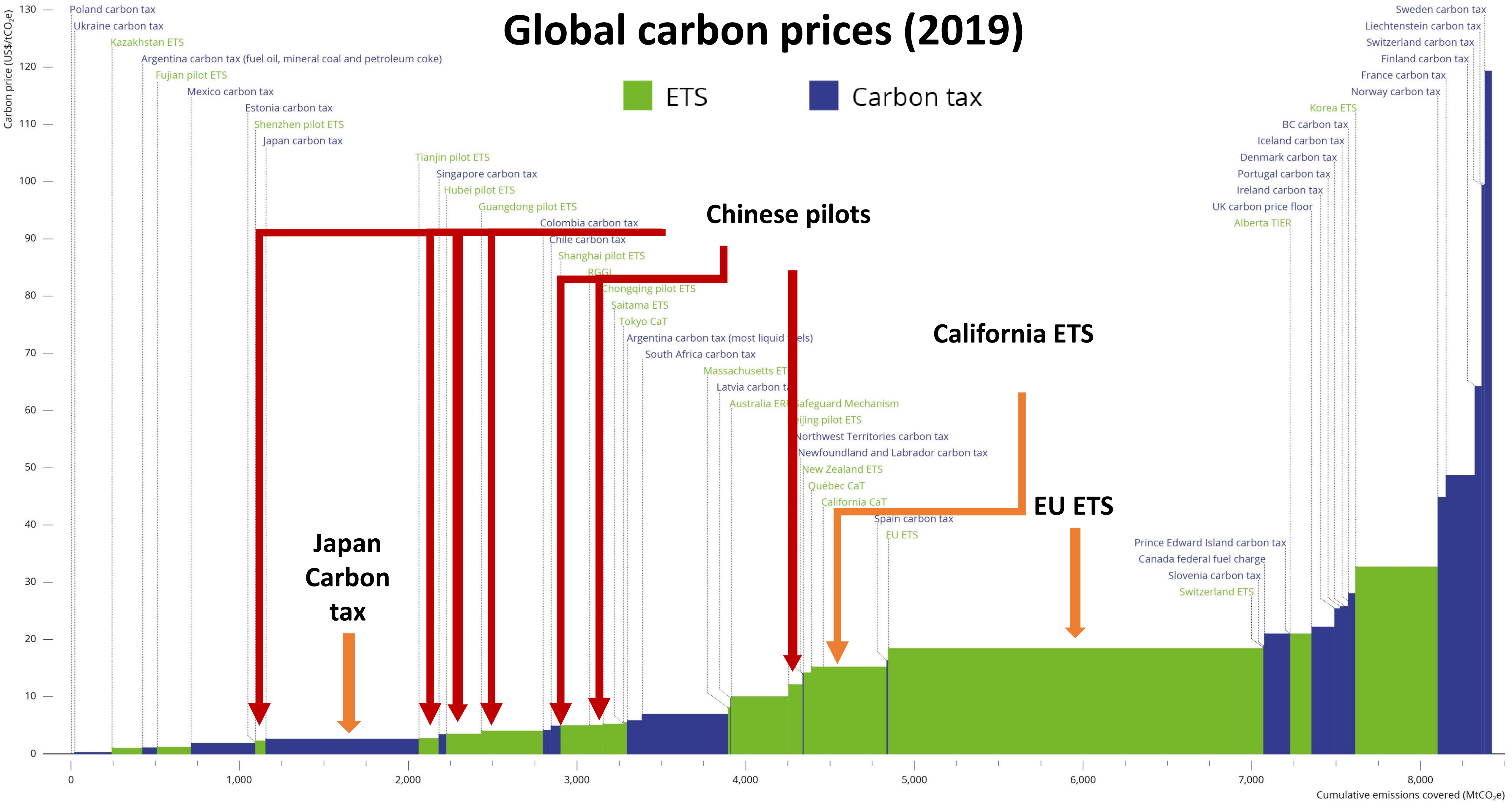
Singapore and South Africa introduced carbon taxes in 2019, the first for a country in Asia and Africa, respectively.

Three subnational carbon taxes in Canada also came online

Iceland, Norway and **Chile** expanded coverage of their carbon taxes.



Global carbon prices (2019)



Drivers for carbon pricing

Managing climate risks: Physical and Transition (e.g., Carbon Border Adjustments)

Sustainable recovery: Green jobs; Green investment economic resilience; Increased revenue

Mitigation ambition: Paris NDC; net zero

Energy security: Promotion of domestic renewables over imported fossil fuels