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Carbon Pricing in LAC: An overview

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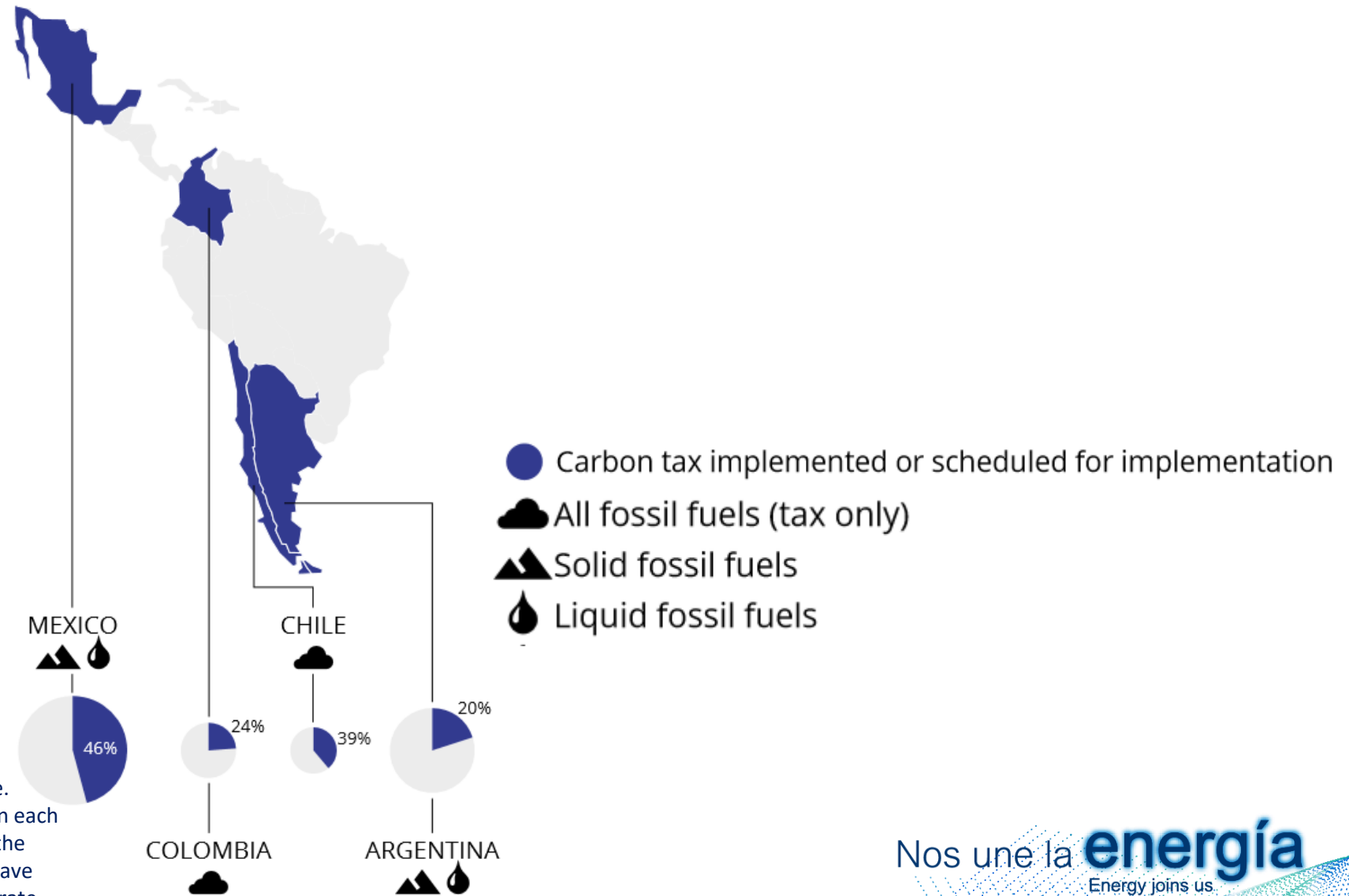
Summary map of carbon pricing initiatives in LAC implemented, scheduled for implementation and under consideration (ETS and carbon tax)



Source: State and Trends of Carbon Pricing 2019, World Bank, June.

Note: Carbon pricing initiatives are considered “scheduled for implementation” once they have been formally adopted through legislation and have an official, planned start date. Carbon pricing initiatives are considered “under consideration” if the government has announced its intention to work towards the implementation of a carbon pricing initiative and this has been formally confirmed by official government sources. The carbon pricing initiatives have been classified in ETSs and carbon taxes according to how they operate technically.

Sectoral coverage and GHG emissions covered by carbon pricing initiatives implemented or scheduled for implementation



Source: State and Trends of Carbon Pricing 2019, World Bank, June.

Note: The size of the circles reflects the volume of GHG emissions in each jurisdiction. Symbols show the sectors and/or fuels covered under the respective carbon pricing initiatives. The carbon pricing initiatives have been classified in ETSs and carbon taxes according to how they operate technically.

- The government of Argentina implemented a carbon tax on January 1, 2018 for most liquid fuels, replacing previous fuel taxes.
- The full rate of this tax was based on the local currency equivalent of US\$10/tCO₂e on January 1, 2018 and varies quarterly according to the consumer price index.
- Due to the depreciation of the Argentine peso in 2018, the equivalent carbon tax rate is US\$6/tCO₂e from April 1, 2019.
- The revenue is designated to multiple beneficiaries, including the National Housing Fund, the Transport Infrastructure Trust, and the social security system, among others.
- For fuel oil, mineral coal, and petroleum coke, the tax rate became operational from the beginning of 2019, at 10 percent of the full tax rate, and will increase annually by 10 percentage points to reach 100 percent in 2028.
- 100 percent of this revenue is distributed according to the Federal Revenue Distribution System.
- The carbon tax was estimated to cover about 20 percent of the country's GHG emissions and raise approximately ARS8.5 billion (US\$300 million) in revenue in 2018.
- Tax exemptions apply to international aviation and shipping, export of covered fuels, the biofuel content of liquid fuels and the use of fossil fuels as raw materials in chemical processes.

Source: Argentinian Ministry of Justice and Human Rights, Tax on Liquid Combustibles and Natural Gas, accessed March 5, 2018, <http://servicios.infoleg.gob.ar/infolegInternet/anexos/0-4999/365/texact.htm>.

- On July 27, 2018, Colombia adopted its climate bill, which enables the government to establish an ETS.
- The ETS needs to be compatible with Colombia's national GHG emission reduction targets and would provide more certainty in achieving these targets in addition to its existing carbon tax.
- The climate law also specifies that allowance distribution under an ETS should primarily take place through auctions with revenues directed towards the National Environment Fund.
- To avoid double taxation, the climate bill allows payments under the existing carbon tax to be recognized as an approach for emitters to meet their compliance obligations under a potential future ETS.

Source: Congress of Colombia, Guidelines for the Management of Climate Change, July 27, 2018,
<http://es.presidencia.gov.co/normativa/normativa/LEY%201931%20DEL%2027%20DE%20JULIO%20DE%202018.pdf>

- On October 19, 2018, the Mexican government released the draft regulation for establishing a pilot ETS for public consultation.
- In December 2018, a new administration took office and decided to review the draft to strengthen capacities in the government and start a series of consultations among civil society and government.
- The start of the pilot is planned for 2020 and would last two years in addition to one year for transition to the next phase.
- The pilot ETS intends to cover the power, oil and gas, and industrial sectors. Entities with annual emissions greater than 100 ktCO₂e during 2016 – 2018, or in any year from the launch of the pilot, will be covered under the pilot ETS.
- The draft regulation follows the adopted amendments to the General Law on Climate Change by the Mexican Senate in April 2018, which included a mandate for the government to establish an ETS to incentivize cost-effective emission reductions measures while maintaining the competitiveness of its industry in the international market.
- The ETS would be part of a suite of measures—including its existing carbon tax—to enable Mexico to reach its NDC targets. The government continues to work on the development of rules and guidelines for the pilot phase, with the final draft due to be published in 2019.

Source: Ministry of Environment and Natural Resources of Mexico, Mexico's Actions to Establish a Carbon Market, accessed March 6, 2018, <https://www.gob.mx/semarnat/articulos/acciones-de-mexico-para-establecer-un-mercado-de-carbono?idiom=es>.

Official Journal of the Mexican Federation, General Rules for the Optional Payment of the Special Tax on Production and Services to Fossil Fuels through the Delivery of Carbon Credits, accessed March 14, 2018, http://dof.gob.mx/nota_detalle.php?codigo=5508098&fecha=18/12/2017.

1. In 2018 and 2019, the number of carbon pricing initiatives increased but we are still very far from where we need to be to meet the Paris Agreement objectives.
2. Carbon pricing is increasingly recognized as an essential instrument to cost-effectively deliver the transition to low-carbon societies.
3. At a recent World Bank Group Spring Meetings, Finance Ministers from more than 20 countries endorsed the “*Helsinki Principles*”, which promote national climate action mainly through fiscal policy and the use of public finance.
4. Of the 185 Parties that have submitted their NDCs to the Paris Agreement, 96 (the 55% of global GHG emissions) stated that they are planning or considering the use of carbon pricing as a tool to meet their commitments. That is an increase of eight Parties from last year.
5. Considering policies that put an implicit price on carbon can also help action on carbon pricing. Various policies can be seen as putting an implicit price on carbon, such as fuel taxes and removal of fossil fuel subsidies. Accounting for these policies in the debate on carbon pricing can play an important role in pushing forward the carbon pricing agenda.
6. Broadening the debate on explicit carbon pricing to carbon prices implicitly imposed via other policies can help policymakers and analysts obtain a more comprehensive and transparent view of the price applied to GHG emissions.
7. International cooperation through carbon pricing can play an important role in reducing the cost of implementing mitigation actions and increasing resource mobilization by crowding in public and private capital.
8. Piloting activities initiated in several regions can play an important role in demonstrating opportunities and challenges based on practical experience, building capacity, and enhancing international cooperation.



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Thank you very much

Alfonso Blanco
Executive Secretary

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A decorative graphic in the bottom right corner consisting of a grid of blue and green dots that forms a wave-like shape, extending from the bottom right towards the center.