CARBON TAX IN COLOMBIA

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Content

Description of the carbon tax

Assessment of the tax
Carbon tax since 2016 (Law 1819).


**Taxable event**: the sale of any of these fuels within Colombian territory

**Producers and importers** are responsible for collecting the tax

**24% of emissions** are covered.

**Offsetting mechanism** - OTC carbon market, Projects in Colombia.

The tax is earmarked, among others, to environmental issues.

<table>
<thead>
<tr>
<th>Fossil Fuel</th>
<th>Unit</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas</td>
<td>m³</td>
<td>US$ 0,0107</td>
</tr>
<tr>
<td>Liquefied petroleum gas</td>
<td>Galón</td>
<td>US$ 0,0347</td>
</tr>
<tr>
<td>Gasoline</td>
<td>Galón</td>
<td>US$ 0,0493</td>
</tr>
<tr>
<td>Kerosene &amp; Jet Fuel</td>
<td>Galón</td>
<td>US$ 0,0540</td>
</tr>
<tr>
<td>ACPM (diesel fuel)</td>
<td>Galón</td>
<td>US$ 0,0553</td>
</tr>
<tr>
<td>Fuel Oil</td>
<td>Galón</td>
<td>US$ 0,0647</td>
</tr>
</tbody>
</table>

Source: DNP, MADS, MHCP
Total investment associated to climate change 2000 – 2015

- **2017**: USD 159 millions
- **2018**: USD 98 millions
- **2019 (July)**: USD 95 millions

*Source: IDEAM 2017, 3rd Communication*
ASSESSMENT OF THE CARBON TAX

Lessons learned of the implementation of the carbon tax in Colombia (draft, Sabogal & Puerto).

- Certainty of emissions reduction.
- Cost-effectiveness (reach the objective at minimum global cost).
- Flexibility of choosing how to comply with the regulation.
- Political acceptance.
- Tax revenue generation.
- Administrative capacity of governments.
- Incentive for innovation in technologies.

Methodology based on Aiello et al, 2018.
FLEXIBILITY: NO CAUSATION MECHANISM

Final consumer
- Avianca
- LATAM Airlines
- Postobón
- Nacional de Chocolates

Pay the tax
- Terpel
- ExxonMobil
- Texaco

No causation request
- Responsible
  - ecopetrol

Projects
- Emission reductions
- Certification
- Emissions sequestration

Tax agency
- DIAN

Picture: Anthrotect Ltda
Flexibility: No Causation Mechanism

The carbon tax boosted national carbon markets through carbon neutrality certification.

Importance of validation and verification procedures as well as the construction of their baselines to avoid double counting and lack of credibility.

Mandate to create the National Registry of GHG Emission Reduction (Renare)-phase of testing and stabilization. Pending its entry into operation (was expected in November 2018).
Political Acceptance: Tax Reform (Law 1819/2016)

1. Reforma contra la evasión
2. Personas Jurídicas
3. Personas Naturales
4. Monotributo
5. IVA e impoconsumo
6. Reforma para la protección del medio ambiente
7. Reforma por la protección de la salud de los colombianos

Green taxes
Political Acceptability: Earmarking

COLOMBIA PEACE FUND

Importance of **clear communication** about how resources are used.

This has been a deficit:

*Impuesto nacional al carbono: ¿qué pasa con la plata?*
Deben ser usados en proyectos que impacten al mismo tiempo aspectos ambientales y de paz.

“Carbon tax: What is happening with the money? Resources should be channeled to projects with environmental and peace issues”

Source: Ministry of Environment
Next steps: Clean Economy and Sustainable Development Bill Proposal

“To promote better behaviours is also our function”
Minister of Finance – Alberto Carrasquilla.
Next steps: Clean Economy and Sustainable Development Bill Proposal

- The Ministry of Finance is working on proposals of **economic instruments that support green growth**
  - Carbon Tax Modification
  - Vehicle tax modification
  - Promotion of the circular economy
  - Promotion of agriculture and sustainable livestock (pesticides tax)
  - National Climate Fund -FONCLIMA
- **Innovation, competitiveness and higher productivity** with lower greenhouse gas emissions
- **Incentives for behavioral changes** that reduce environmental impact.
- **Sources of financing** for environmental management.

![Diagram]

1. **Carbon tax**
   - To increase the scope (coal)
   - Climate Change Fund (FonClima)
   - Increase tax collection
   - Improve specific destination

2. **Deforestation Control**
   - **Technological conversion**
   - **Promotion of Energy Efficiency**
   - Increase in productivity and competitiveness
   - Natural Capital preservation
Every environmental liability will eventually become a fiscal liability