

Carbon Tax in Ireland

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Conclusions 1

1. Taxes difficult to implement and unpopular:

Cause of political and strategic defeats:

Margaret Thatcher (Poll tax)

George Bush 1 ('Read my lips')

Bill Clinton (almost – first term)

The American revolution – the 'tea party'

Conclusions 2

Edmund Burke (*On American Taxation*)

To tax and to please, no more than to love and be wise, is not given to men.

Instead of a standing revenue, you will have a perpetual quarrel. (On Conciliation with America.)

But it can be done if:

- Political leadership
- intellectual support from economists and 'the establishment'.
- Effective administration
- Recycling of some revenues to address equity.
- Levels that do are not 'too high'
- Revenue needed by government

Sustaining tax cannot be taken for granted – Opposition promise to remove

A long and winding road..

2000

National Climate Change Strategy - framework for greenhouse gas taxation in place from 2002 with the revenue recycled to reduce direct taxes and labour taxes and to support energy-efficiency measures, R&D and information and education programmes

Strongly opposed by business lobby.

One step forward...

2002 Minister for Finance Charlie McCreevy –
budget speech

Ireland had international obligations under the
Kyoto Protocol to limit emissions of greenhouse
gases

‘Government asking relevant Departments
concerned to bring forward plans for a carbon
energy tax with a target date of the end of 2004
for its introduction’.

Two steps back...

2004: After an extensive public consultation process, the Government has concluded that **a carbon tax is not an appropriate policy option.**

Concluded that:

the environmental benefits would not justify the difficulties that would arise, particularly for households, from the introduction of such a tax.

we cannot ignore developments in the international oil market. The recent price increases reflect the ongoing supply and demand situation in the oil market. In this situation, the resultant increase in the real price of energy products will, in any event, give an enhanced incentive to energy conservation.”

Two steps forward...

2007: New government with Green Party as minority partner.

The *Programme for Government* commits Ireland to reducing its greenhouse gas emission by 3% annually over the lifetime of the Government, and phasing in appropriate fiscal instruments, including a carbon levy, on a revenue neutral basis over the lifetime of the Government.

Commission on Taxation

2009: Asked to advise on ‘measures to further lower carbon emissions and to phase in on a revenue neutral basis appropriate fiscal measures including a carbon levy over the lifetime of the Government’

Commission Recommendations

2009: 'A carbon tax on fossil fuels of €20 per ton CO₂ (to be linked to the international carbon market in subsequent years).

Coverage: Exemptions for participants in the EU emissions trading scheme and *possible* accommodation of businesses with special agreements to reduce their carbon footprint

Apply to fossil fuels consumed in Ireland

based on tonnes of carbon dioxide (CO₂) emitted by each fuel and it should be collected upstream, at the earliest point of supply.

Visible at the point of final consumption, to help ensure that behavioural change aspects are maximized and it is not seen as 'just another tax'.

Rate should match the price of carbon available under the EU emissions trading scheme (EU ETS)

Floor price of €20 per tonne.

Action

2010

Rate

A carbon tax at a rate of €15 per tonne of CO₂ was introduced.

Coverage and Date of Introduction

The tax applied to:

petrol and auto-diesel with effect from *midnight, 9 December 2009*;
from 1 May 2010 to Kerosene, Marked Gas Oil, Liquid Petroleum Gas (LPG), Fuel Oil and Natural Gas.

The application of the tax to coal and commercial peat is subject to a Commencement Order.

- The carbon charge was applied also to the rate for aviation gasoline, which is aligned to the petrol rate
- and the rates for heavy oil used for recreational flying and boating, which are aligned to the auto-diesel rate (Department of Finance, 2010).
- The charge is also applied to heavy oil and liquid petroleum gas that is used for horticultural production in a glasshouse, or for the cultivation of mushrooms.

Relief

There is relief provided for biofuel, and for biofuel that is mixed or blended with hydrocarbon oil where the biofuel accounts for more than 10 per cent of that mixture or blend.

Exclusions

Key exclusion is methane and nitrous oxides (about 30% of emissions), mainly associated with farming.

Carbon dioxide	46,480	68.13%
Methane	12,963	19.00%
Nitrous oxide	8,076	11.84%
F-gases (HFCs, PFCs, SF6)	701	1.03%
Total	68,220	100%

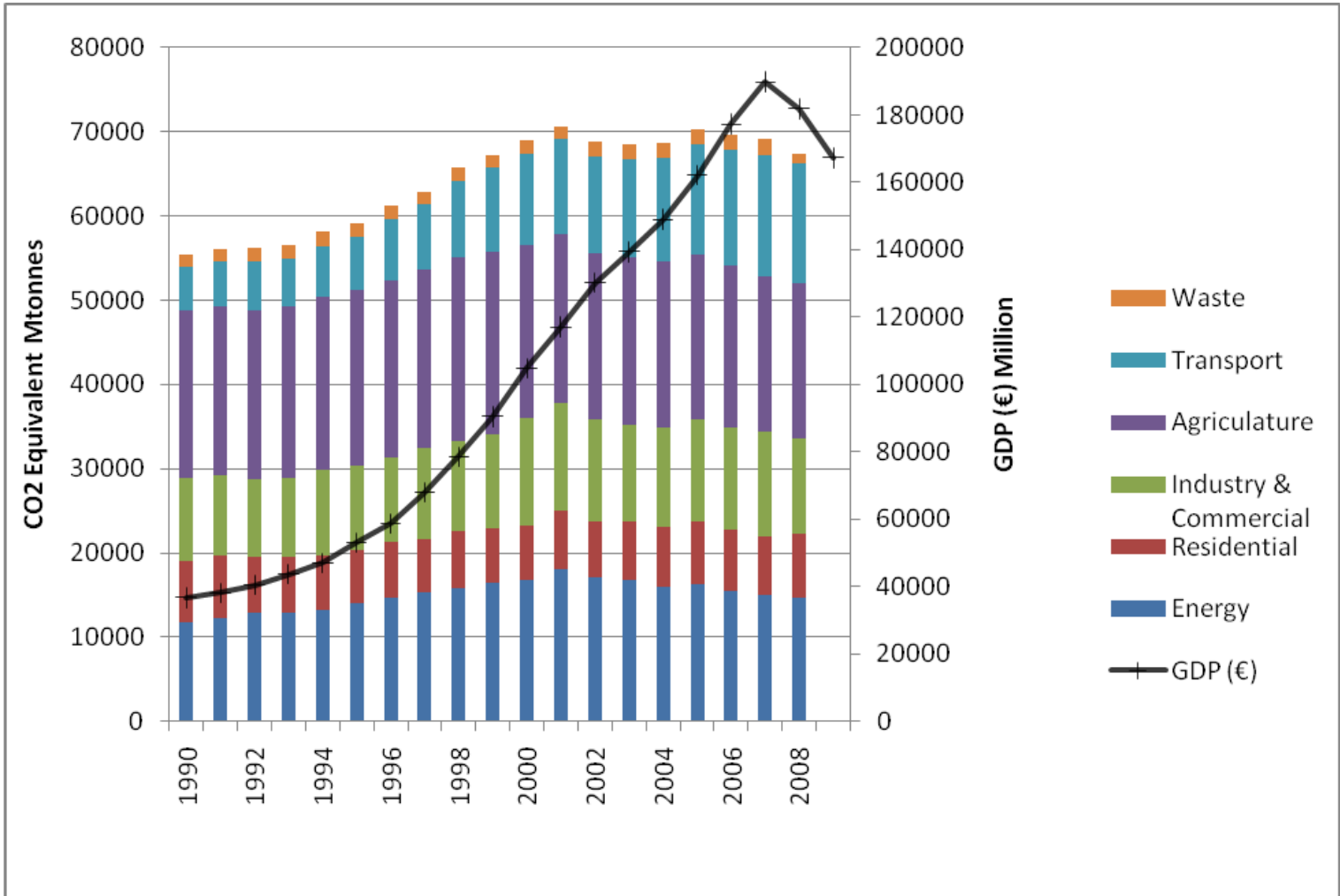
Drivers

Booming Economy

Associated with:

Big prospective overshoot on Kyoto obligations, especially pronounced for non trading sectors (farming, transport, residential (heat), light industry)

Green values – Minister for Environment studied in Germany during the green renaissance.



Impacts on Price

These are non trivial

Peat is especially sensitive – ‘local’ fuel,
economic base of the Prime Minister..

Fuel Type	Unit	Current Price €	Carbon tax @ €15 (incl.VAT)	% change in price	Revenue Yield in a Full Year (Incl. VAT) €M
Petrol	Litre	1.19	4.2 cents	3.5%	75
Auto-diesel	Litre	1.10	4.9 cents	4.4%	92
Kerosene	1,000 Litres	516	€13.14	8.4%	47
Marked Gas Oil	1,000 Litres	539	€16.87	8.7%	43
LPG	1,000 Litres	720	€27.97	3.9%	4
Fuel Oil	1,000 Litres	600	€2.15	8.7%	1
Natural Gas	13,750 kwh*	800	€17.86	6.0%	47
Peat Briquettes	Bale	3.85	39 cents	10.1%	6
Coal	40kg	16.20	€1.79	11.1%	15
Total Yield					330

Issues

Environmental effectiveness? – need to track performance against the counterfactual

Confounding effect of the Great Recession

Border leakage (land border with UK) – differences in currency and tax provisions

Symmetry with allowance price (EU ETS) – will it be sustained.

Holding onto the tax – abolition possible but unlikely

But pressure for exemptions....