Preface

Public pressure is mounting for action on climate change. Keeping climate change at bay in line with the goals of the Paris Agreement will require deep cuts in emissions. In the absence of decisive action, extreme weather events such as storms, floods, droughts and heat waves will become more frequent and severe, and rising sea levels will endanger coastal cities and entire island states. Against this background, it is disconcerting that energy-related CO_2 emissions reached an all time high in 2018.

While not in itself sufficient, taxing polluting fuels is an effective way to help curb emissions that harm the planet and human health. Well-designed systems of energy taxation encourage citizens and investors to favour clean over polluting energy sources. As a result, citizens and businesses will consume fewer carbon-intensive goods and services, and gradually transition to low or zero-carbon activities. Taxes on fuels equally discourage investments in carbon-intensive assets, such as coal-fired power stations, which reduces the risk of high adjustment costs in the future. Unlike most other climate policy instruments, energy and carbon taxes raise government revenues, which can be used to ease the low-carbon transition for vulnerable groups.

Raising the price of energy is a very effective way of reducing emissions but the impacts on households can be large. Some households may find that normal patterns of energy use become unaffordable. Many may find it difficult to cut energy consumption quickly, meaning that spending on other items falls. In general, care must be taken that energy price reform does not become unbearable. The OECD investigates the impacts of energy price reform, and finds that using a part of the revenues from higher energy taxes is often sufficient to ensure that energy affordability is maintained; broader revenue recycling strategies – e.g., revenue transfers, or income tax reductions – allow ensuring that decarbonisation efforts are equitable. The detailed stocktake of energy taxes in this report provides policy-makers with precise information to help identify the most effective and inclusive reform options.

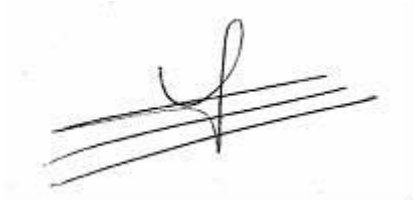
The OECD's *Taxing Energy Use 2019* shows that governments are not deploying energy and carbon taxes to their full potential. The report identifies avenues for policy reforms that will improve environment and climate outcomes while simultaneously boosting the performance of the fiscal system to promote equity, well-being, competitiveness, and efficient tax policy. The report presents new and original data on energy taxes and carbon taxes in OECD and G20 countries, and in international aviation and maritime transport. Tax rates and tax coverage are detailed by country, sector, energy source and tax type. The use of a common methodology ensures full comparability of tax rates and structures across countries. Summary indicators facilitate cross-country comparisons.

Taxes on polluting fuels remain too low to reduce the risks and impacts of climate change and air pollution. Seventy percent of energy-related CO_2 emissions are not taxed at all. While all countries tax road fuel, 85% of energy-related CO_2 emissions take place outside the road sector. Taxes only cover 18% of non-road emissions, leaving a tax of zero for the remaining 82%. Taxes on coal – which is behind half of non-road emissions – are zero or close to zero and lower than taxes on natural gas. For international flights and shipping fuel, taxes are zero. Only 3% of non-road emissions are taxed above EUR 30 per tonne of CO_2, a low-end estimate of the climate damage caused by a tonne of CO_2 emitted at present.

The revenue potential from carbon pricing is considerable: raising effective carbon taxes to EUR 30 per tonne of CO_2 for all energy-related emissions would generate around 1% of GDP worth of additional tax revenues across the 44 countries covered in *Taxing Energy Use*. Apart from providing countries with the means to manage the impacts of decarbonisation on vulnerable groups, revenues from carbon taxes create opportunities for broader fiscal reform. Reform options include modifying the tax mix to foster inclusive growth, e.g. through lowering income taxes or increasing investment in productivity-enhancing areas, such as education, health and infrastructure.

Taxes are not the only policy instruments that can effectively put a price on carbon. Emissions trading systems equally target CO_2 emissions from energy use and can be as effective and efficient as carbon taxes. Emissions trading systems are analysed in the OECD's *Effective Carbon Rates* report. Overall, carbon price signals remain insufficient even when considering the impact of emissions trading systems.

Tax policy can and should play a more important role in levelling the playing field for clean technologies. Better aligning energy taxes with the pollution profile of energy sources would help to reduce investment in carbon-intensive technologies and shift financial flows to greener alternatives. It is time for a comprehensive reform of energy tax systems.



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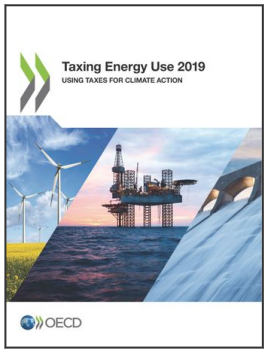

From:

Taxing Energy Use 2019

Using Taxes for Climate Action

Access the complete publication at:

https://doi.org/10.1787/058ca239-en

Please cite this chapter as:

OECD (2019), "Preface", in *Taxing Energy Use 2019: Using Taxes for Climate Action*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/5537236a-en

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