

CARBON TAX IN COLOMBIA

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Webinar: Sustainable Financing of
Protected Areas – Earmarking Fund from
Carbon Taxes, Colombia

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1. DESCRIPTION OF THE CARBON TAX



Carbon tax since 2016 (Law 1819).

Tax fee COL\$16.422 per ton of CO₂ – \$
USD 5,5 (2019).

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.



Tax value per fossil fuel

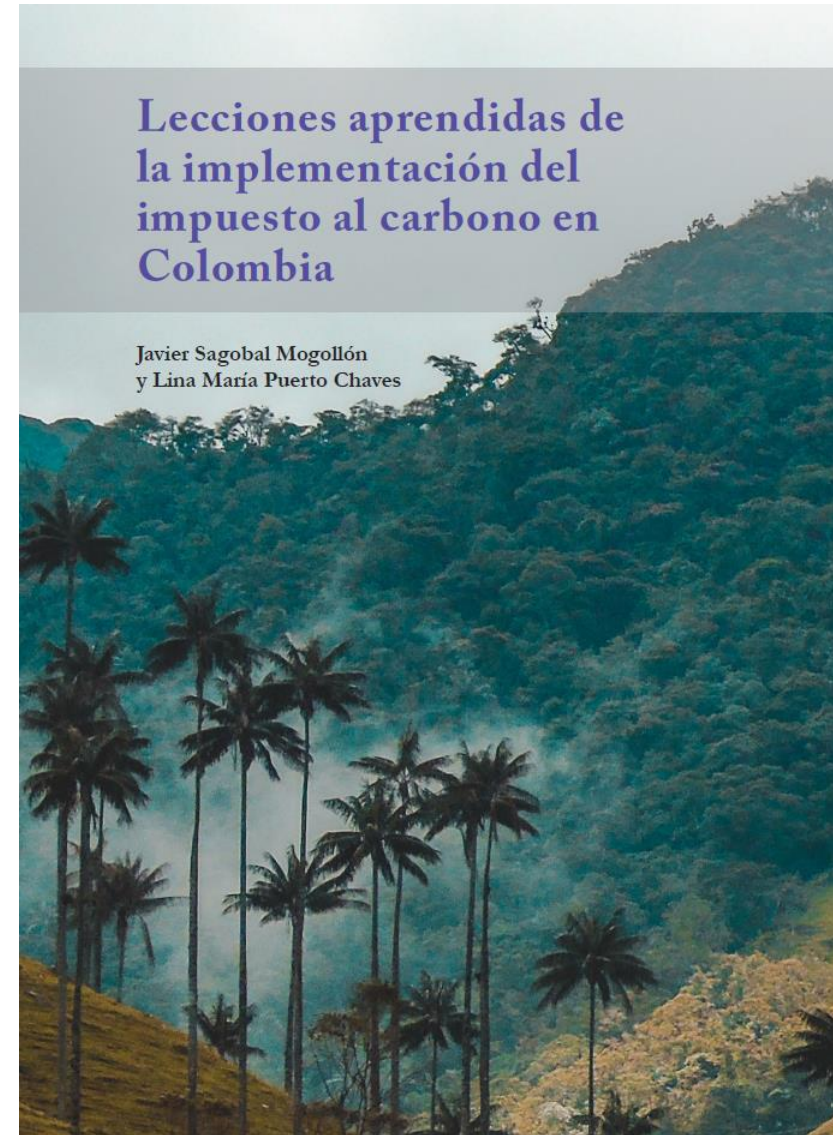
Fossil Fuel	Unit	Fee
Natural gas	m ³	US\$ 0,0107
Liquefied petroleum gas	Galón	US\$ 0,0347
Gasoline	Galón	US\$ 0,0493
Kerosene & Jet Fuel	Galón	US\$ 0,0540
ACPM (diesel fuel)	Galón	US\$ 0,0553
Fuel Oil	Galón	US\$ 0,0647

Source: DNP, MADS, MHCP

2. ASSESSMENT OF THE CARBON TAX

Lessons learned of the implementation of the carbon tax in Colombia (Sabogal & Puerto, 2019)

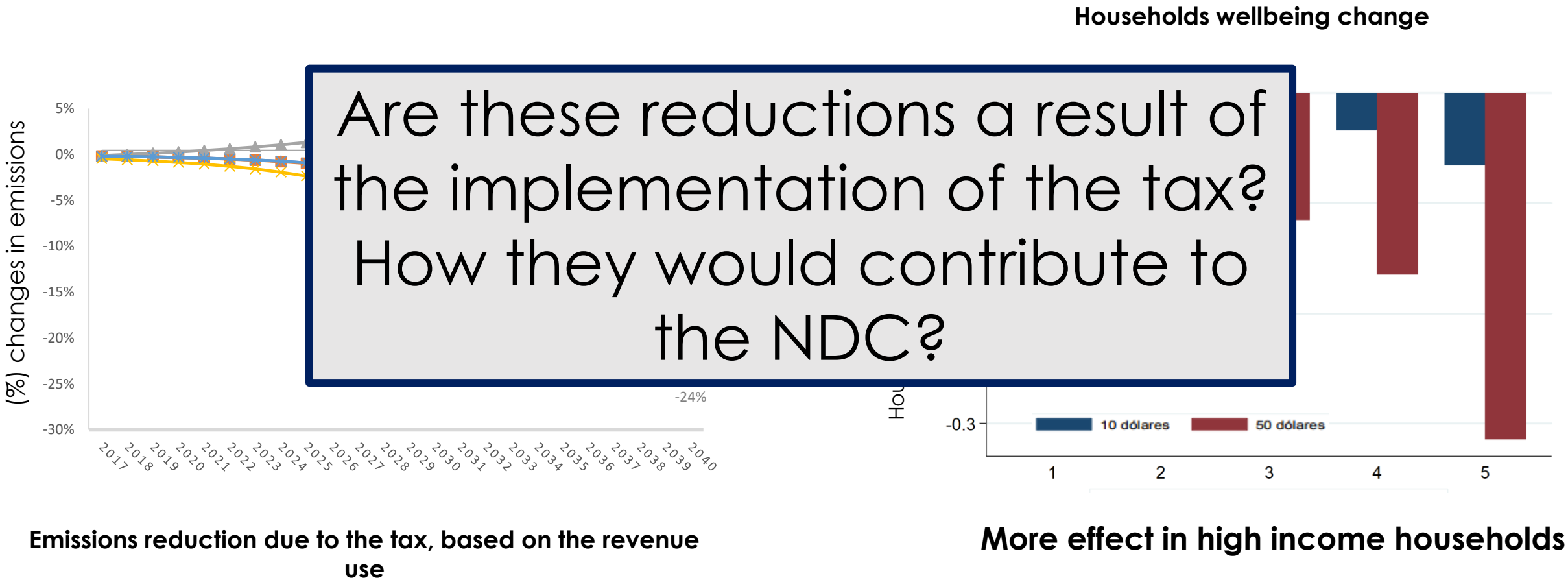
- A. Certainty of emissions reduction
- B. Cost-effectiveness (reach the objective at minimum global cost)
- C. Tax revenue generation
- D. Incentive for technology innovation
- E. Administrative capacity of governments
- F. Political acceptance: Earmarking
- G. Flexibility: No-causation mechanism



Methodology based on Aiello *et al*, 2018.

A. CERTAINTY OF EMISSIONS REDUCTION

Ex-ante: Due to the tax, Colombia would reduce 4,3 MT CO2 – without affecting the economy



Fuente:Alvarez-Espinosa, A., Ordoñez, A., Nieto, D., Wills, W., Romero, G., Calderón, S., . . . Delgado, R. (2015).

B. COST-EFFECTIVENESS (REACH THE OBJECTIVE AT MINIMUM GLOBAL COST)

- Simple mechanism, few actors involved: Easy to charge
- For companies: They can invest in projects with a cost of USD 5,5 per ton

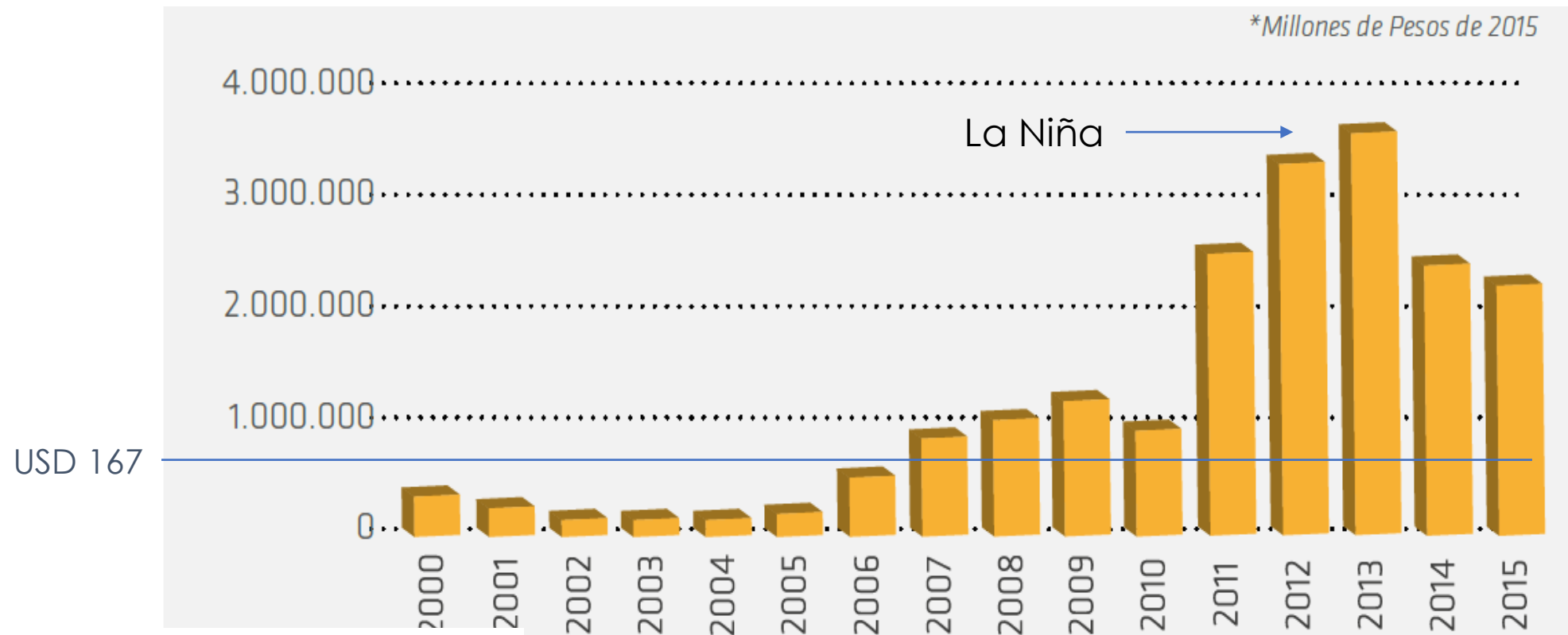
“... Another part has to do with focusing public resources on promoting what is clean. **It cannot be that we are giving subsidies to fuels and saying that fuel generates a tax because it pollutes**”, Deputy Minister of Finance, Juan Alberto Londoño

CARBON TAX REVENUE

2017 USD **159** millions
2018 USD **98** millions
2019 USD **128** millions
2020 (March) USD **29** millions

Total USD 414 millions

Total investment associated to climate change 2000 – 2015



D. INCENTIVE FOR TECHNOLOGY INNOVATION

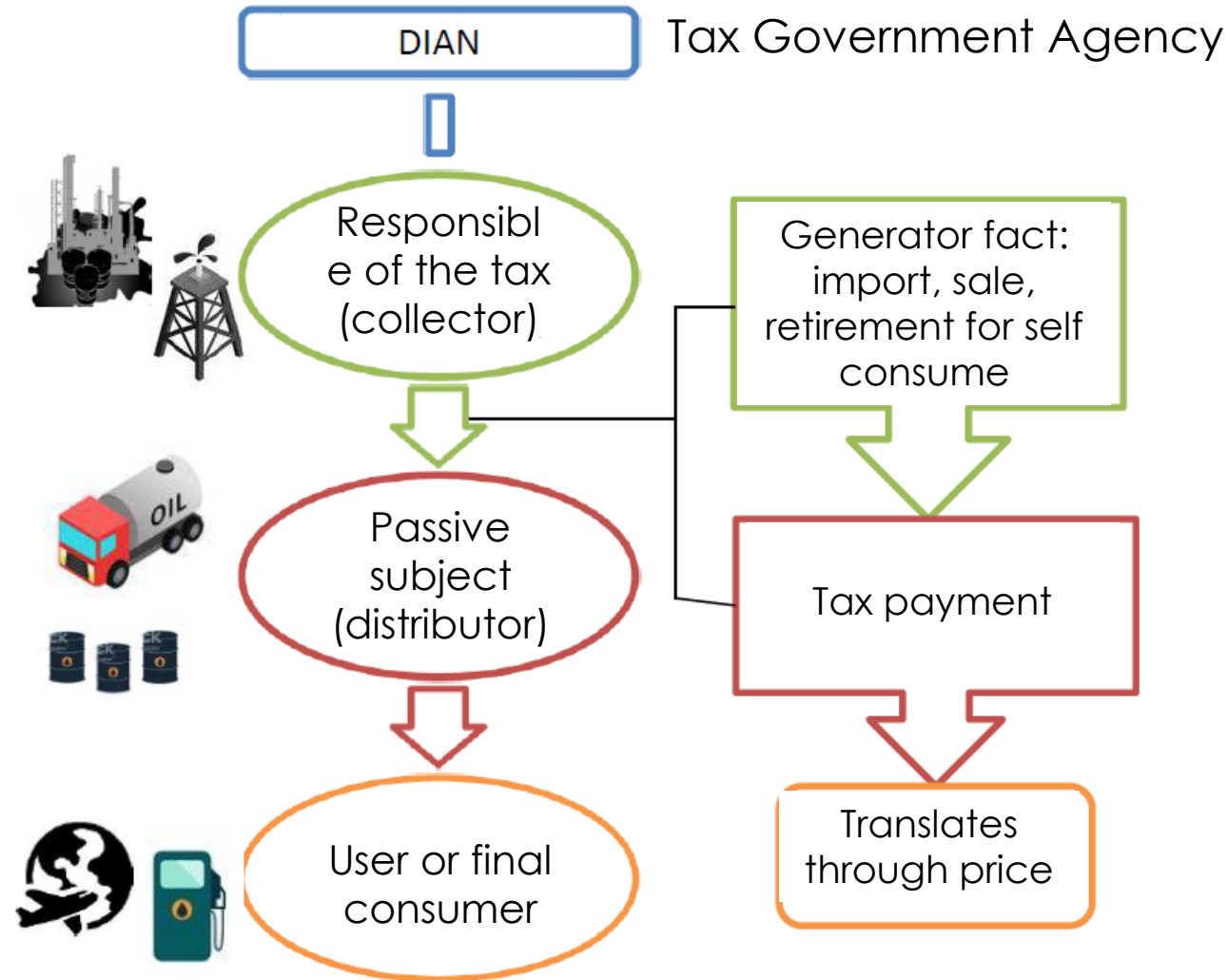
It is not conclusively observed that it has yet been motivated by the tax.

“Continuing **to exclude coal** from the carbon tax creates an incentive to increase its consumption in Colombia, since natural gas for industrial use is already taxed (CarbonTrust, EDF, IETA, 2018). Several proposals have circulated in the Legislature to include coal for domestic consumption within the taxable base of the carbon tax. Although this is only one of the edges of the decarbonisation of the economy, **it would send an unequivocal market signal towards the diversification of the country's energy matrix through the implementation of efficient and renewable energy technologies**”.

E. ADMINISTRATIVE CAPACITY OF GOVERNMENTS

The collection mechanism is simple and involves few actors, facilitating the administration of the tax

“The wholesale fuel distributor pays it to the producer or importer of the fuel, who in turn becomes the tax collector and the rest of the chain, that is, all users of taxed fuels pay it according to the commercial agreements established in the chain fuel distribution” (MADS, 2017).



F. POLITICAL ACCEPTANCE: TAX REFORM (LAW 1819/2016)

Would it have been feasible to create this type of tax in another space than a tax reform?

1 Reforma para la protección del medio ambiente

2 Reforma para la protección del medio ambiente

3 Reforma para la protección del medio ambiente

4 Reforma para la protección del medio ambiente

5 IVA e Impoconsumo

6 Reforma para la protección del medio ambiente

7 Reforma para la protección de la salud de los colombianos

VAT

Green taxes

Impuestos verdes

Impuesto al carbono



\$15.000

por tonelada de carbono emitidos por combustibles fósiles líquidos.

\$387 mil millones

se han recaudado a octubre de 2017

Se han incorporado al fondo Colombia en Paz para invertirlos en la protección de ecosistemas, entre otros.

4,3 millones

de toneladas* de CO₂ es la reducción esperada entre 2017 y 2030.

*Esta cantidad es el equivalente aproximado a las emisiones de todo el transporte en Bogotá en un año.

Carbono neutro



El impuesto al carbono no se cobra a las empresas que certifiquen ser carbono neutro, es decir, que compensan sus emisiones con proyectos de energías renovables, forestales, de ganadería sostenible, eficiencia energética en calderas, entre otros.

Compañías como Cemex, Latam Avianca y Petromil ya han comenzado procesos de compensación.

Se han solicitado exenciones por

4 millones

de toneladas de CO₂

Impuesto a las bolsas plásticas



Actualmente se cobran \$20 por cada bolsa, en cuatro años aumentará gradualmente a \$50 por bolsa.

30%

se redujo la utilización de bolsas plásticas entre enero y septiembre según Acoplásticos.



Incentivos verdes

Exención a la renta a energías renovables



15 años

de exención a la renta (a partir de enero de 2018) a quienes inviertan en la utilización de energías renovables no convencionales (biomasa, energía solar y eólica).

Fondo de Energías No Convencionales y Gestión Eficiente de la Energía (Fenoge).

\$34 mil millones
en inversión (2018)

- ✓ Soluciones de autogeneración en pequeña escala en estratos 1, 2, y 3.
- ✓ Mejora de eficiencia energética.



Incentivos para vehículos eléctricos

5% de IVA

para bicicletas eléctricas y sin motor (por debajo de \$ 1.500.000) y vehículos eléctricos e híbridos (19% de IVA en vehículos tradicionales).

0% aranceles

para vehículos eléctricos y 5% para híbridos (35% en vehículos tradicionales).

Exclusión del IVA en maquinaria y equipos



que reduzcan emisión de gases efecto invernadero.

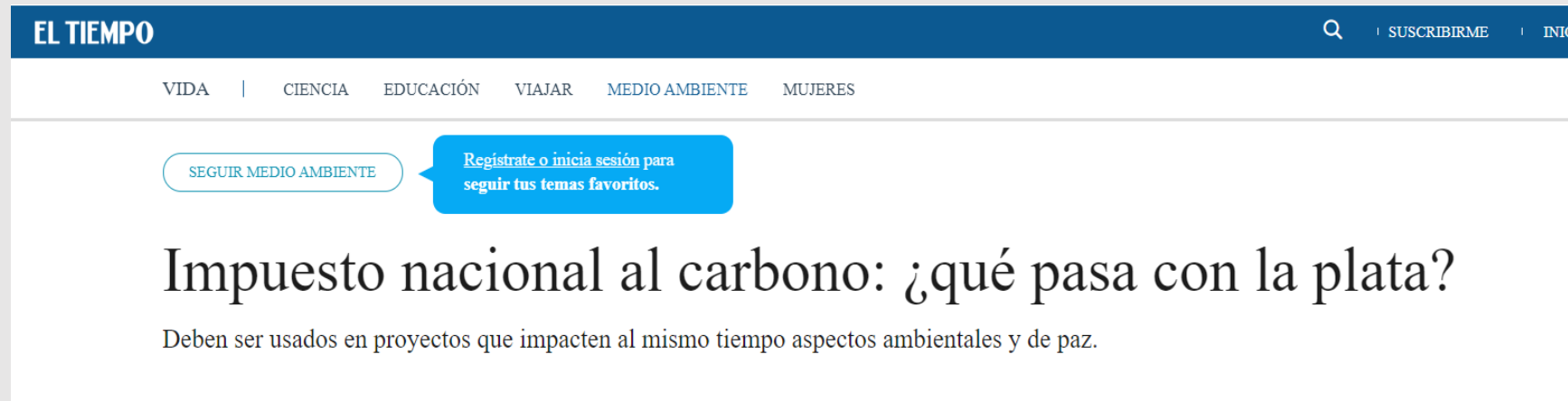
0% de IVA

Fuente: MinHacienda

E. POLITICAL ACCEPTANCE: EARMARKING

COLOMBIA PEACE FUND

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



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



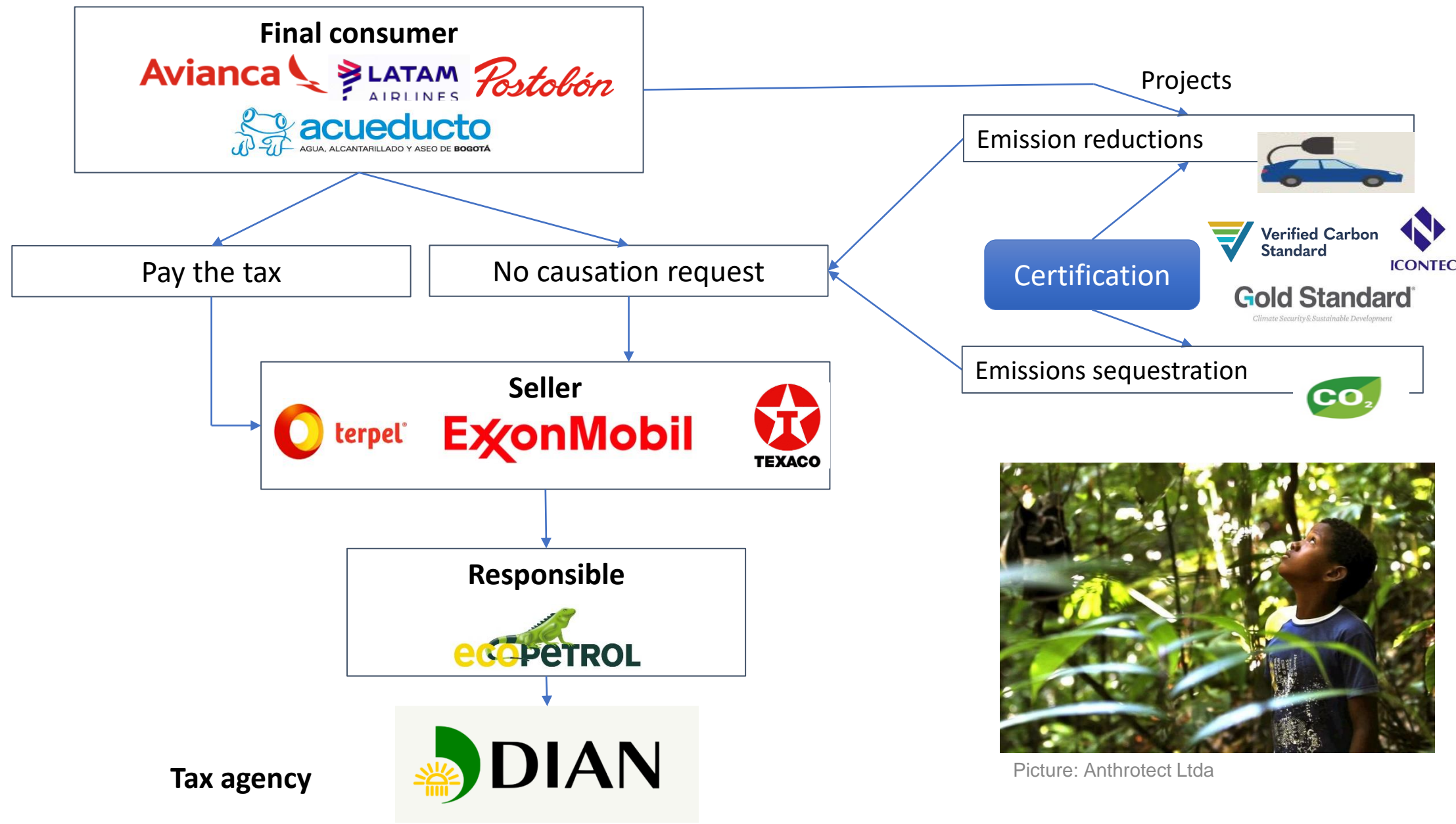
E. POLITICAL ACCEPTANCE: EARMIRKING TO PROTECTED AREAS

“They have asked me for an effort apart from what is already dedicated of the carbon tax to environmental activities that is 25 percent; **that if I could make an effort of 5 percent more dedicated exclusively to Herencia Colombia.** I was not going to say yes, but they were going to force me to say yes, that's a fact.

I told the President of WWF that I was going to consult the Minister of Finance, but **I reminded myself that I am still the President for three months and that I do not have to consult the Minister of Finance that decision I already made.**

And it is 5 percent in perpetuity, this is going to be every year until God gives us life and beyond” President Juan Manuel Santos at WWF Annual World Conference – Cartagena (May 7th 2018).

F. FLEXIBILITY: NO CAUSATION MECHANISM



Picture: AnthroTECT Ltda

F. FLEXIBILITY: NO CAUSATION MECHANISM

INCOME AND SAVINGS FOR THE WATER UTILITY COMPANY

GHG Emissions Reduction Projects	Certified emission reductions– Cers (1 CER = 1 Tco2e)				Incomes / Savings	
	Emitted	Available	Sold	Used*	Incomes for sale	Savings for use (Decree 926 of 2017)
1. Central Hidroeléctrica Santa Ana (No. 0275) 2005 - 2015	147.996	145.036	62.564	70.087	1.971.578.622	\$ 44.403.585
2. Centrales Hidroeléctricas de Suba y Usaquén (No. 9798) 2014 – 2015	12.094	11.852	9.111	2.741	\$ 91.926.080	
TOTAL	160.090	156.888	71.675	72.828	2.063.504.702	\$ 44.403.585

* They were used for the neutralization of the Carbon Footprint of the EAAB - ESP and non-causation of the carbon tax. Between 2017 and 2018, 2,856 CERs were used for non-causation of the Carbon tax and \$ 44,403,585 (USD 15.000) was saved.

F. 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 **development of baselines** to avoid double accounting 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).

5. LESSONS LEARNED

POLICY



Enabling environment (broader tax reform)

Create the opportunity and take it (President)

Can you find the way (Constitution)?

TIME



Do it and adjust

Try to be ready, don't lose momentum

PRICE



Sometimes, the price of the carbon is not the issue

Sends the message to stakeholders

FINANCE



Finance the main problem (peace) but adjust it

Design finance mechanisms

Gracias

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**Every environmental liability will eventually become a fiscal liability
(Ministry of Finance)**

