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

<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
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

Are these reductions a result of the implementation of the tax? How they would contribute to the NDC?

Emissions reduction due to the tax, based on the revenue use

More effect in high income households

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 investment associated to climate change 2000 – 2015

Total USD 414 millions

Source: IDEAM 2017, 3rd Communication
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.”
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).
Would it have been feasible to create this type of tax in another space than a tax reform?
Impuestos verdes

**Impuesto al carbono**

- **CO₂**
- **$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.

**Carbono neutro**

- **CO₂**

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 4,3 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.

**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).

**Exclusión del IVA en maquinaria y equipos que reduzcan emisión de gases de 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"

Source: Ministry of Environment
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

Final consumer

Pay the tax

No causation request

Projects

Emission reductions

Certification

Emissions sequestration

Seller

Terpel

ExxonMobil

Texaco

Responsible

Ecopetrol

Tax agency

Dian

Picture: Anthrotec Ltda
F. FLEXIBILITY: NO CAUSATION MECHANISM

INCOME AND SAVINGS FOR THE WATER UTILITY COMPANY

<table>
<thead>
<tr>
<th>GHG Emissions Reduction Projects</th>
<th>Certified emission reductions– Cers (1 CER = 1 Tco2e)</th>
<th>Incomes / Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Emitted</td>
<td>Available</td>
</tr>
<tr>
<td>1. Central Hidroeléctrica Santa Ana (No. 0275) 2005 - 2015</td>
<td>147.996</td>
<td>145.036</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>160.090</td>
<td>156.888</td>
</tr>
</tbody>
</table>

* 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)?

**PRICE**
- Sometimes, the price of the carbon is not the issue
- Sends the message to stakeholders

**TIME**
- Do it and adjust
- Try to be ready, don’t lose momentum

**FINANCE**
- Finance the main problem (peace) but adjust it
- Design finance mechanisms
Every environmental liability will eventually become a fiscal liability (Ministry of Finance)