



# Carbon taxes globally too low to address the climate crisis - OECD

*Governments do not deploy energy and carbon taxes to their full proposal, the latest “Taxing Energy Use” report by the Organization for Economic Co-operation and Development (OECD) finds, urging for higher pollution prices to effectively address the climate crisis.*

Pricing high-carbon activities is an effective tool for making polluters pay while encouraging them to switch to low-carbon activities and discouraging carbon-intensive investments. Moreover, it is an essential instrument to ensure reaching the Paris Agreement goals that countries have committed to.

However, while carbon pricing initiatives are spreading, the prices are generally too low to guarantee a positive impact on the environment.

According to the Taxing Energy Use 2019 report by OECD, only 18% of emissions outside the road sector across the globe are sufficiently taxed today. What stands in stark contrast with implementing effective climate action is that the average effective carbon tax across the 44 OECD countries is just about close to zero.

## **Aviation and shipping exemptions**

The report points out that emissions from international aviation and shipping are not taxed at all. Both sectors present a growing source of global greenhouse gas emissions and could account for almost 40% of global emissions by 2050 if they were to continue on the current highly unsustainable path.

The intra-EU/EEA flights are included under Europe’s carbon market (EU ETS) - although they receive about 50% of their pollution permits for free - but international flights are excluded under the so called “stop-the-clock” scheme. To ensure that the aviation sector does its share of climate action and that there is a level playing field with other transport modes, it is crucial to end its tax exemptions and free allocation. Furthermore, an important task for the new European Commission, the shipping sector must also be included in the EU ETS.

According to the report, in all OECD countries, indirect (implicit) carbon prices are determined by fuel excise taxes such as petrol, gas or kerosene taxes in the road sector. In other sectors, even if direct (explicit) carbon taxes play a more essential role, excise taxes still dominate.



Generally, 85% of energy-related CO<sub>2</sub> emissions come from somewhere else than transport. Given that taxes only cover 18% of these emissions, alarmingly a tax of zero is left for the remaining non-road emissions. Only Denmark, the Netherlands, Norway and Switzerland tax non-road emissions at more than EUR 30/tCO<sub>2</sub>. Including emissions trading schemes in the analysis would make the situation look better. But even where such schemes exist, permits are normally traded at less than EUR 30/tCO<sub>2</sub>, covering only a limited share of emissions.

### **Nordic countries in the lead on direct carbon taxes**

The report also acknowledges that a growing number of countries levy explicit carbon taxes, meaning taxes that are openly and directly collected by the government. Sweden has the highest standard carbon tax rate, followed by Switzerland, Finland and Norway. However, explicit carbon taxes differ across jurisdictions due to various reasons. For example, some countries operate emissions trading schemes and therefore exempt emissions that are already subject to emission trading from the explicit carbon tax.

Another issue distinguished by the OECD report is that electricity excise taxes often fail to favour cleaner power sources. Logically, the higher the price on fossil fuels, the greater the incentive to switch to clean energy sources. However, the report found that most electricity taxes are not differentiated by energy source, which means that more energy usage means higher electricity bills irrespective of the climate impact.

### **How to ensure effective pollution pricing?**

As the report also recognizes, taxes nowadays do not reflect the true cost of pollution upon society. Coal is the most damaging source of energy, yet it is the least taxed among all fuels.

So a step in the right direction would be to increase carbon prices first where they currently are lowest. The example of the UK sets a good practice of how carbon pricing can support the coal phase-out. UK's carbon tax of £18/tCO<sub>2</sub> on top of the EU ETS contributed to coal emissions going down by 60% in a single year.

Differential tax treatment such as putting a surcharge on the use of fossil fuels is another step to promote cleaner energy sources such as wind, hydro, and solar.

To ensure public support for these policies, they must be developed in a transparent and inclusive fashion. Climate-safe prices and a fair distribution of financial resources will drive climate action while ensuring a just transition of vulnerable communities.