

The challenges of implementing a carbon tax: the Irish experience

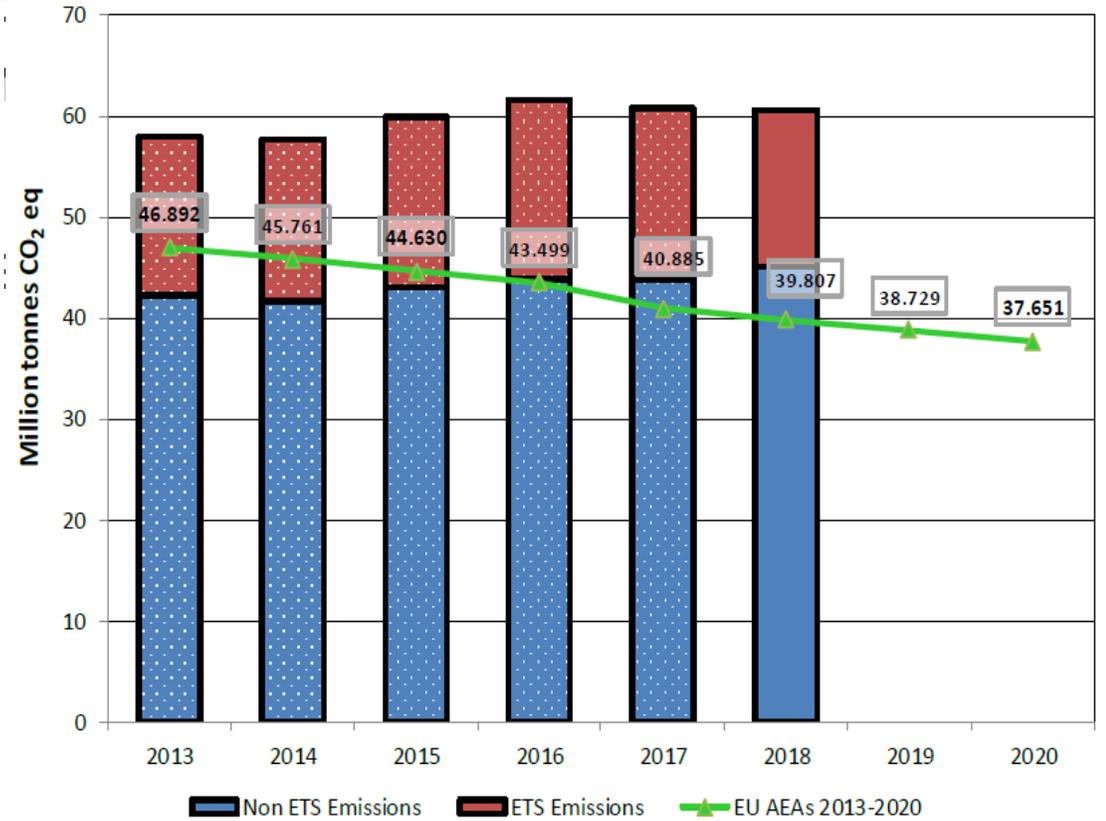
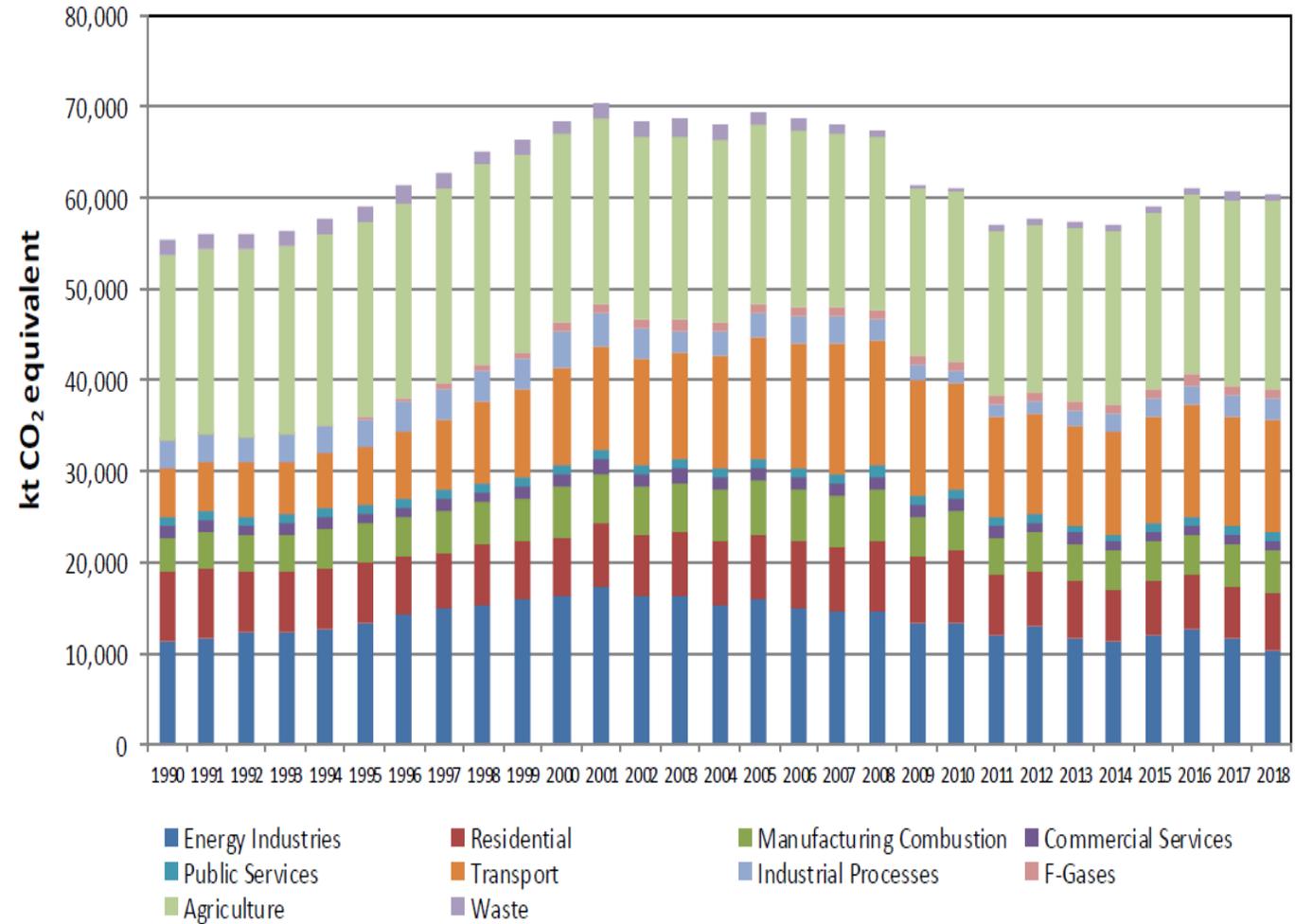
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Irish context



Source: EPA, 2019



Some history of the carbon tax in Ireland

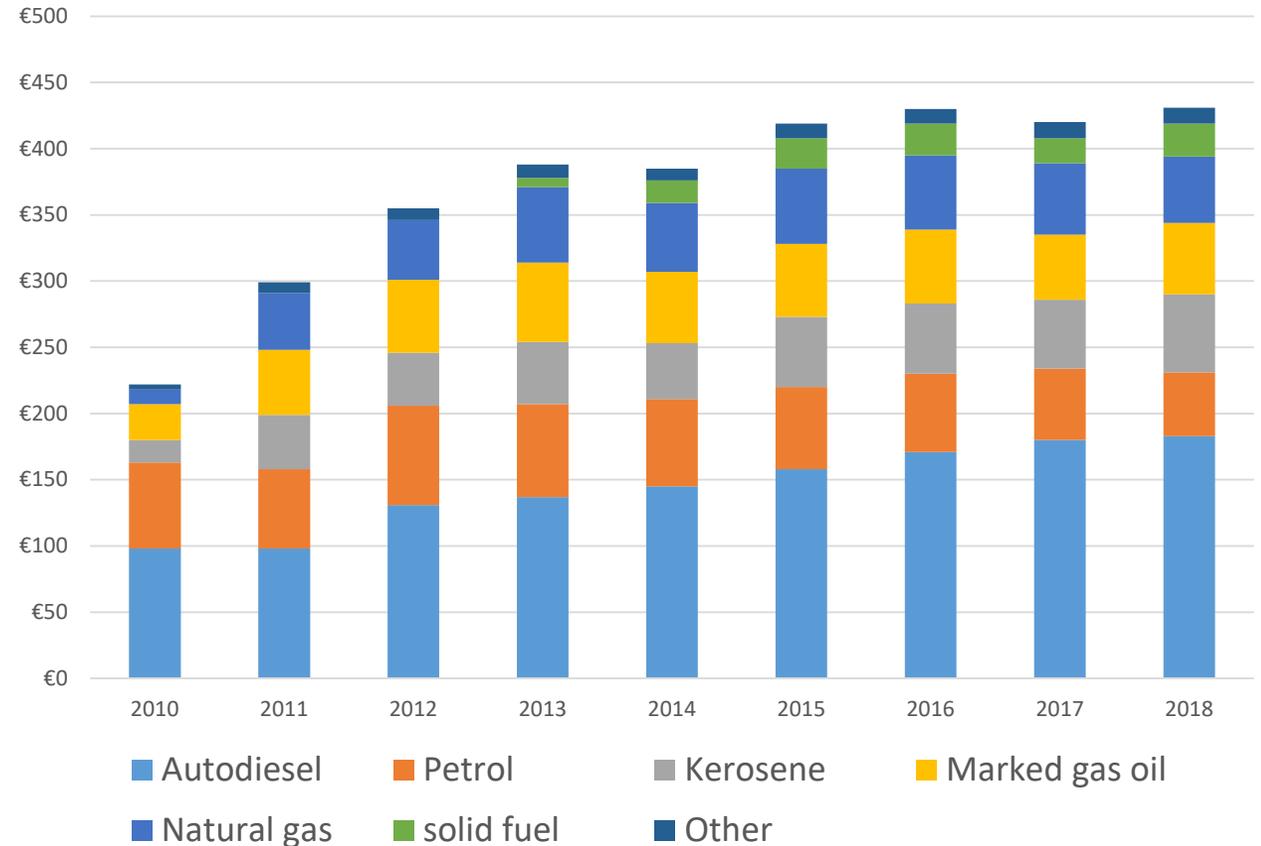
- First carbon tax attempt 2002-2003
 - Very strong lobby from business groups (Irish Business and Employers Confederation) and anti-poverty groups
 - Budget 2004 (in December 2003) announcement that would not introduce carbon taxes;
 - Analysis identified impediments to environmental fiscal reform in Ireland (Clinch and Dunne, 2006): mistrust in government; information asymmetries; the political system; structure of government; the macroeconomic environment; the impact on competitiveness; inequity between sectors; elasticity; terminology; inadequate marketing; and its impact on the most vulnerable, the fuel poor.
- Second attempt in 2009
 - Green Minister
 - Fiscal deficit
 - Social supports



Carbon tax design

- Coverage: Only non-ETS sectors and only CO₂ emissions (no agriculture)
- Rate: initially €15 per tCO₂, rising to €20 per tCO₂
- Revenue: 52% businesses, 48% households
- Not ring-fenced/hypothecated

million



Department of Finance, 2019



Supports implemented

- Households

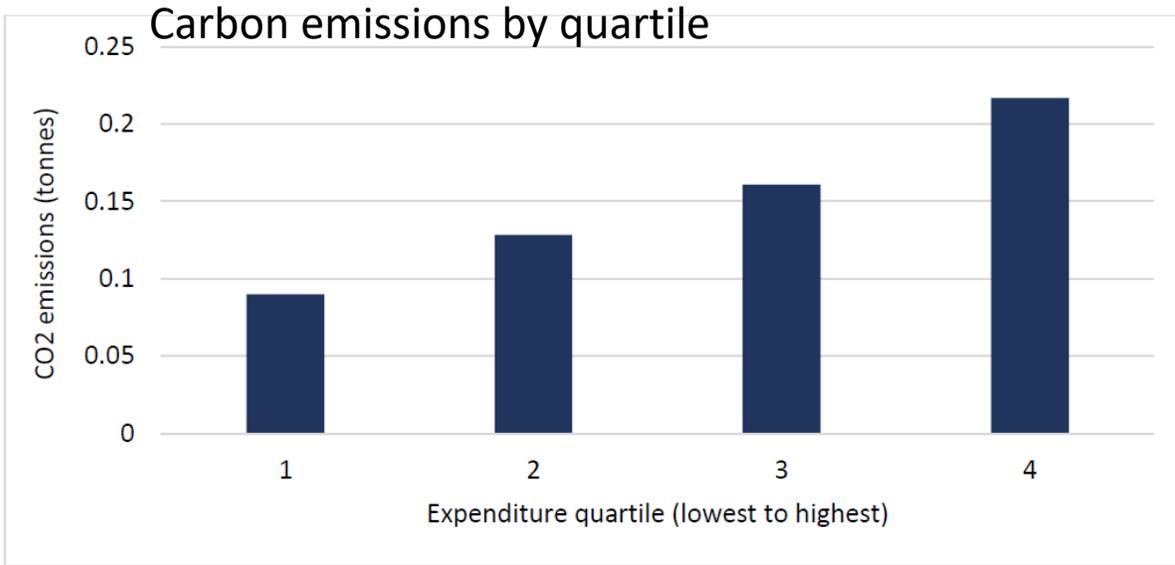
- Better Energy Homes grants for EE measures (€238m)
- Better Energy Warmer Homes scheme for houses in fuel poverty (€220m since 2000)
- Better Energy Communities grants
- Social housing retrofit programme (€213m since 2013)
- Warmth and Wellbeing scheme
- Deep retrofit pilot scheme
- Fuel Allowance increase to €22.50 for 28 weeks per year (€230m/year)

- Businesses

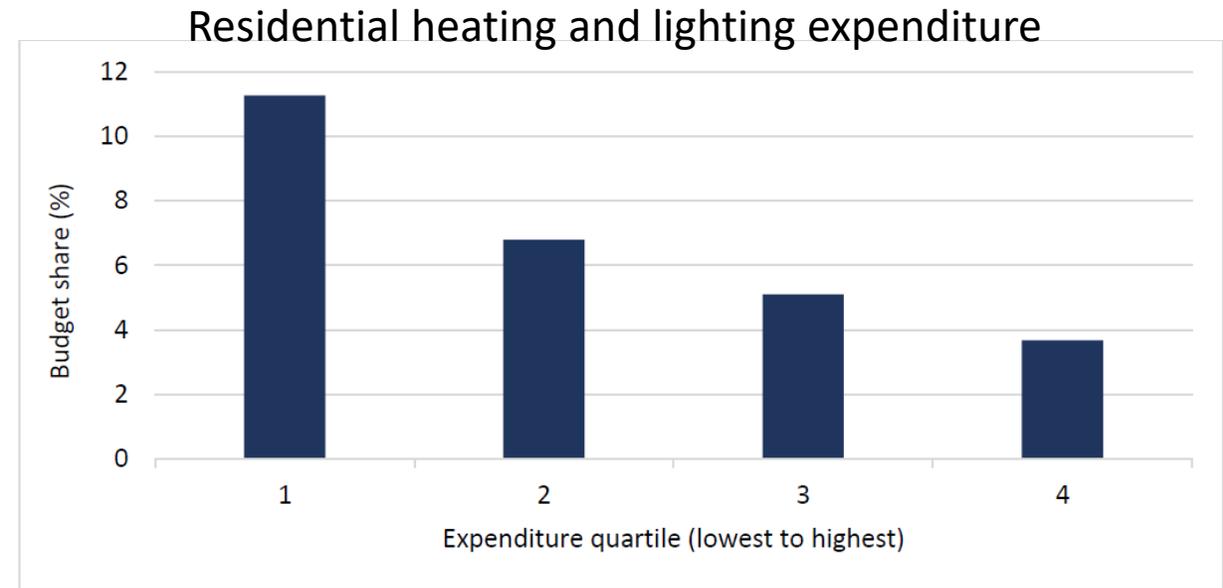
- Rebates on autodiesel VAT
- Partial excise refund for hauliers and bus operators
- EXEED energy efficiency scheme
- SME energy audits
- Large Industry Energy Network



Distributional concerns



Tovar and Lynch (2019)



Future plans for Irish carbon tax

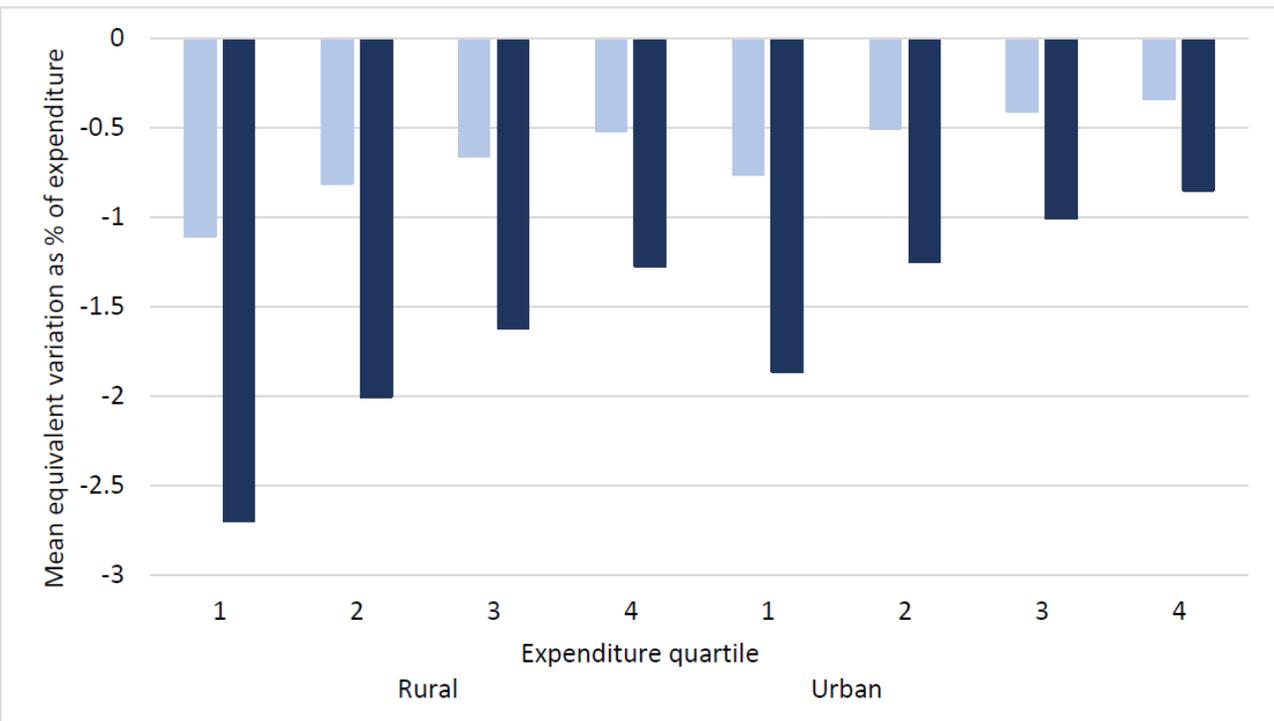
- Plan to increase to €80 per CO₂ by 2030 in new Irish ***Climate Action Plan***.
- First increase of €6 announced in 2019 to €26 per tCO₂.
- Debate in society on how revenue should be spent. Public want ringfencing.
- Rural Ireland very worried about additional costs.
- Commitment to spend additional €90m revenue on climate action.

Carbon tax revenue spending announced in Budget 2020	Allocation
Protecting the vulnerable: fuel allowance, energy poverty efficiency upgrades	€34 million
A Just Transition: housing upgrades, peatlands rehabilitation, transition fund	€31 million
Investing in the low carbon transition: cycling routes, EV grants, GCF, green agriculture	€25 million
Total	€90 million

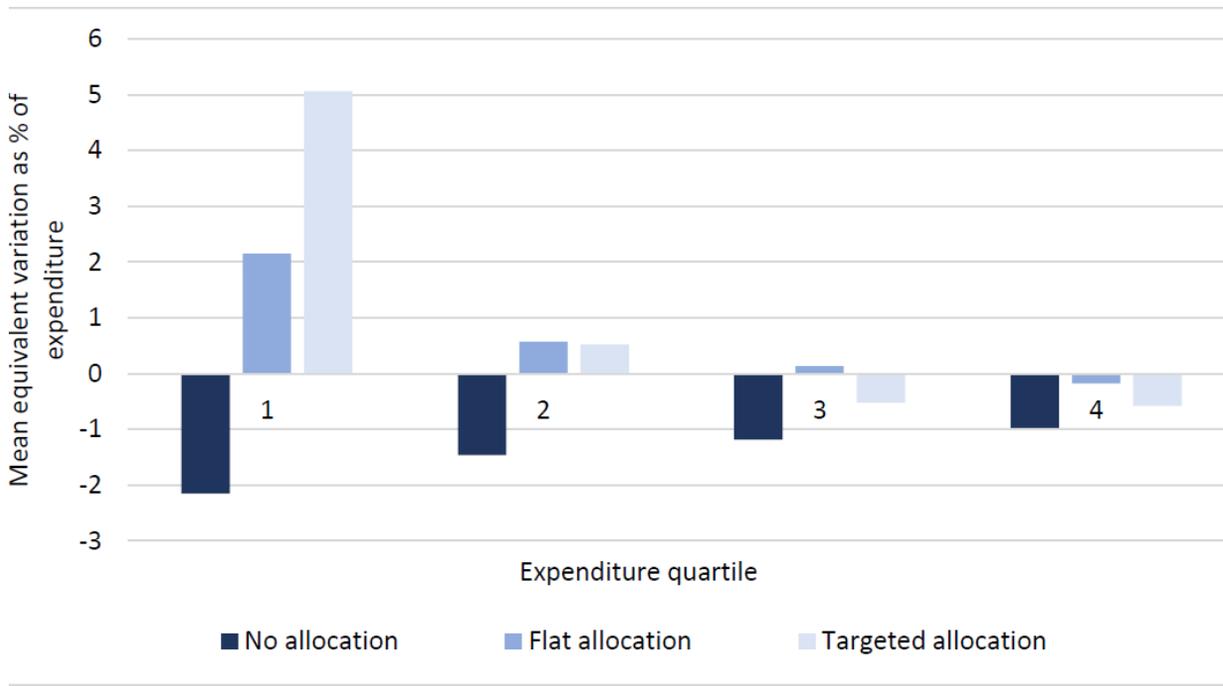


Estimated distributional impacts of carbon tax

No allocation



Revenue recycling mechanisms



Tovar and Lynch (2019)



Insights

- A recession can be an opportunity to introduce a carbon tax.
- Timing is crucial in introducing carbon tax
- Distributional effects need to be watched and addressed
 - Careful use of Carbon tax revenue can help
 - Rate less important to citizens than use of revenue
- Level of trust in institutions will also determine revenue use
- Broad agreement that need to act to reduce greenhouse gas emissions but nobody wants to pay
- Alternative options need to be provided, e.g. transport infrastructure, to make positive impact
- Overhaul of tax system will be needed – future will have no carbon emissions (we hope!)





Thank-you

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Some Resources

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