Policy options for Paris: Success factors for implementation

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Emissions are on the rise –
Coal is the biggest problem

Many countries still invest heavily in coal; building all coal-fired plants that are currently in the pipeline would put the 1.5°C target out of reach.
The role of fiscal policy

• A green fiscal policy reform should become a core element of climate policy to achieve the Paris Agreement targets.

• It involves:
  • specific incentives (e.g., carbon pricing) and
  • synergetic alignment of overall fiscal policy with climate goals (e.g., removing fossil fuel support).
Specific incentives: carbon pricing – The policy gap is still huge

- 34-68 €/tCO₂ needed by 2020 to reach 2°C
- 50% of the emissions from fossil fuels are not priced at all
- Only 10 percent of global emissions from fossil fuels are priced at a level consistent with limiting global warming to 2°C.
Synergetic alignment

- Fossil fuel subsidies: 0.5% of global GDP
  - phase-out could reduce emissions by up to 10%

- Tax treatment of commuting, company cars, freight, aviation and maritime transport.

- Tax treatment of low-carbon technology choices (cost structure, risk profile).

- Screen tax systems and remove misalignments
From obstacles to synergies –
Making fiscal reforms politically viable
From obstacles to synergies – Making fiscal reforms politically viable

- Ensure equitable distribution of costs: Support households and firms
- Alleviate effect of unilateral policies: Tackle carbon leakage
- Foster public support: Political and behavioral enablers to higher energy prices or taxes

Use revenues appropriately
From obstacles to synergies – Making fiscal reforms politically viable

- Successful reforms in countries involved:
  - Productive and inclusive use of revenues from carbon pricing
  - Flanking measures (e.g. for energy-intensive firms)
  - Communication & measures to establish trust

Ensure equitable distribution of costs: Support households and firms
Alleviate effect of unilateral policies: Tackle carbon leakage
Foster public support: Political and behavioral enablers to higher energy prices or taxes

Use revenues appropriately

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Key issues
- Ensure equitable distribution of costs: Support households and firms
- Alleviate effect of unilateral policies: Tackle carbon leakage
- Foster public support: Political and behavioral enablers to higher energy prices or taxes

Solutions and measures
- Affected industry support: targeted compensation (firms & workers)
- Investments fostering structural change (energy, infrastructure)
- Cash transfers for households/consumers
- Carbon tariffs and border carbon adjustment (BCA)
- Affected industry support: trade-exposed industries
- Establish trust in governments
- Avoid solution aversion
- Information and communication about impacts
- Appropriate timing and sequencing
- Consider wording and framing
- Reduce income taxes
- Climate projects, low-carbon investment

Use revenues appropriately
Contact

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