OECD publishes report Pricing Greenhouse Gas Emissions 2024

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In brief

What happened?

The OECD recently published a new report *Pricing Greenhouse Gas Emissions 2024: Gearing Up to Bring Emissions Down* (‘the Report’). The Report provides a comprehensive analysis of carbon pricing and energy taxation trends from 2021 to 2023 across 79 countries, covering 82% of global Greenhouse Gas (GHG) emissions.

Why is it relevant?

The Report underscores the need for rigorous and more globally aligned carbon pricing and energy taxation to meet climate goals. It provides valuable insights that are directly relevant to the discussions and negotiations at COP29, particularly concerning Article 6 of the Paris Agreement. Informing the implementation of Article 6 the Report includes insight on:

- the effectiveness of carbon pricing instruments;
- benefits of international linkages;
- importance of robust measuring, reporting, and verification systems;
- strategies to address carbon leakage;
- the potential for revenue generation.

By leveraging these insights, countries can advance their climate action efforts, promote international cooperation, and achieve the goals of the Paris Agreement more effectively.

Actions to consider

While progress has been made, it is clear that a significant gap remains between existing policies, those that are announced but not yet implemented, and those that would be necessary to reach net zero (see Figure 1.1 of the Report). The Report calls for comprehensive reforms and targeted support measures to ensure a just and effective

transition to a low-carbon economy.

Observation: Central to delivering on climate goals is ensuring there is a just transition, particularly for vulnerable groups or regions who will bear higher financial and other costs associated with climate change and with mitigating its effects. PwC recently published thought leadership exploring the role of tax policy in delivering a just transition as well as considering how public policy can encourage business investment in just transition.

In detail

The Report tracks the evolution of carbon taxes, emissions trading systems (ETSs), fuel excise taxes, and subsidies, using the Carbon Pricing and Energy Taxation database.

The key takeaways include:

- **Coverage of Emissions**: Approximately 42% of GHG emissions across the 79 countries are subject to a positive net effective carbon rate (ECR). ECR is calculated as the carbon price multiplied by the percentage of carbon emissions covered of total emissions (if 20% of all emissions are covered at EUR 100/t, then the ECR would be EUR 20/tCO2e). 27% of GHG emissions are covered by explicit carbon prices (ETS or carbon tax) and 23% by fuel excise taxes. The coverage of emissions by explicit carbon pricing instruments has seen minimal changes, with a slight increase in ETS coverage by 0.7 percentage points and carbon taxes by 0.3 percentage points from 2021 to 2023.

  Observation: The slow growth in the coverage of explicit carbon pricing instruments is not necessarily reflective of a trend - the Report underscores the existence of many measures proposed and adopted after the period of analysis.

- **Carbon Pricing Instruments**: There is a growing preference for ETSs over carbon taxes among countries developing new carbon pricing instruments. The data in the report suggests ETSs are favoured due to their ability to directly target emissions reductions and provide flexibility through mechanisms like free allocation of allowances.

  Observation*:* Considering the goal of the Paris Agreement, international linkages of carbon taxes and ETS systems (and potentially also the voluntary carbon market) is highly recommended as this would increase market liquidity, cost-effective emissions reductions, enhanced flexibility and compliance options, mitigation of carbon leakage and promotion of global cooperation. Moving forward on the negotiation of a UN-backed international carbon market at COP29 would be an important step in that direction.

- **Impact of the Energy Crisis**: The global energy crisis in 2022 led to significant reductions in fuel excise taxes and increases in fossil fuel subsidies, which in turn decreased the Net ECR. The average Net ECR declined from EUR 17.9/tCO2e in 2021 to EUR 14.0/tCO2e in 2023. Despite this, the coverage of explicit carbon prices through ETSs and carbon taxes saw modest increases.

- **Sectoral Coverage**: The coverage of emissions by carbon pricing instruments varies across sectors. The road transport sector has the highest coverage at 90%, primarily due to fuel excise taxes. The electricity sector follows with 74% coverage, driven by ETSs. Other sectors, such as buildings and industry, have lower coverage, with significant variations in the application of fossil fuel subsidies.

- **Revenue Potential**: The Report estimates substantial revenue potential from carbon pricing reforms, including phasing out free allocation of ETS permits, phasing out fossil fuel subsidies, and implementing a

minimum ECR of EUR 60/tCO2e to EUR 120/tCO2e. Such reforms could raise net carbon revenues to 1.7% to 2.3% of GDP on average, compared to the current 0.6% of GDP.

***Observation**:* There can be a substantial revenue potential from carbon pricing reforms, including phasing out free allocation of ETS permits, fossil fuel subsidies, and setting a minimum ECR (which could potentially be designed as an International Carbon Price Floor). However, there are substantial ('hidden') costs associated with this, with an implication for businesses and the population at large. It is important to ensure that there is public support for the implementation of carbon pricing policies, a just and fair transition for all, and preferably the linkages of systems.

- **Public support**: The Report suggests that earmarking carbon revenues for environmental spending, social protection, and other development objectives can improve public support. The Report also highlights the need for transparent and effective communication to explain the functioning and distributional outcomes of carbon pricing policies.

Let's talk

For a deeper discussion of how this Report might affect your business, please contact:

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