Building Forward Better: Carbon Pricing and Green Recovery

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SESSION 4: THE POTENTIAL FOR FOSSIL FUEL SUBSIDY REFORM AND CARBON PRICING TO CONTRIBUTE TO BUILDING FORWARD BETTER Role of Fiscal Policies in A Green COVID-19 Recovery, GFPN Workshop, 14-15 September 2021
BE SURE TO WASH YOUR HANDS AND ALL WILL BE WELL.
First Challenge:

Asia-Pacific countries are missing the opportunity to align COVID-19 with climate and SDG ambitions.
Second Challenge:
Asia-Pacific NDCs are not ambitious enough for their mitigation and adaptation targets.
Third Challenge:

COVID-19 lockdown did not slow down GHG emissions in Asia-Pacific
Global timeline to reach net-zero emissions

LIMITING GLOBAL WARMING TO 1.5°C ENTAILS

LIMITING GLOBAL WARMING TO 2.0°C ENTAILS

NET ZERO CO₂

NET ZERO GHG

2020 | 2030 | 2040 | 2060 | 2070 | 2080 | 2090
Asia-Pacific Net-Zero Status in 2021

Target:
- Achieved
- Law
- Proposed Legislation
- Policy Document
- Under Discussion
- N/A

Countries and their targets:
- Australia: 2050-2100
- China: 2060
- Kazakhstan: 2060
- Mongolia: N/A
- Pakistan: 2060
- Turkey: N/A
- Turkmenistan: N/A
- South Korea: 2050
- Federated States of Micronesia: 2050
- Vanuatu: 2050
- Papua New Guinea: 2050
- Kiribati: 2050
- Tuvalu: 2050
- Fiji: 2050
- Tonga: 2050
- Cook Islands: Not in 2021

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RISING CLIMATE AMBITION

What is needed?

A Symbiotic Relationship to Achieve Net-Zero Emissions by 2050

STRENGTHENED ENABLING FACTORS
MAINSTREAMING CLIMATE CHANGE INTO LAWS AND POLICY

ALLOCATION OF FINANCIAL RESOURCES (INCL SECTORAL BUDGETS TO SUPPORT NDC TARGETS)

HORIZONTAL AND VERTICAL COORDINATION MECHANISMS (INCL FOR LOCAL GOVT AND PRIVATE SECTOR)

MONITORING CAPACITY (TRANSPARENCY)

GENDER MAINSTREAMING UNDER EACH CATEGORY
Enhance Climate Ambition

Carbon Neutrality Pledges
Peak Carbon Emissions
National Level Decarbonization
Primary Sector-Level Decarbonization
Carbon Pricing
Carbon Pricing Revenue Benefits

- Decarbonization of electricity generation, i.e., renewable and/or Carbon Capture and Sequestration
- Fuel shifting (especially to electricity) in transport, heating, and industries
- Efficiency in all sectors, including building, transport, and agriculture
- Preservation and increase of natural carbon sinks
ESCAP CPI Modelling

The modelling focuses on:

• macroeconomic and social impacts of carbon pricing instruments
• CPI impacts on climate scenarios
ESCAP CPI Modelling

Select country to assess: Indonesia

Set carbon price ($ per tonne CO2): $20/tonne

Unilateral or Regional policy? Regional

Share of carbon revenue channelled back into the economy: 100%

of which: Social protection spending 40%

Environmental protection 30%

Spending on health 30%

Energy efficiency investment 0%

Enabling Factors for Climate Action

Climate Ambition

Financing

Coordination

Mainstreaming

Energy mix, 2021

Energy mix, 2030

Impact on GDP by component

Impact on Government debt (% GDP)

Impact on Inflation

Impact on Unemployment rate

Impact on Poverty Headcount Ratio

Impact on Gini Coefficient

Impact on TFP growth

Impact on Emissions

Carbon intensity of energy

Energy consumption by type

Energy intensity of production
ESCAP CPI Modelling

Carbon price is set, eg $20 per tonne of CO2

- Decline in demand for fossil fuels and shift in energy mix
- Fiscal revenue generated
- Costs of production increase

Energy input declines; potential output declines

- Global (pre-tax) price of fossil fuels decline
- Government budget balance improves
- Part of increase passes to consumer prices
- Remainder squeezes firm profits

Terms of trade effects

- Fiscal space created
- Inflation rises, consumer spending declines
- Investment declines; potential output declines
Key Takeaways

• Carbon Pricing Instruments (CPIs) - short-term impact on inflation with direct emission reduction effect.
• Regional/subregional carbon pricing action – high impact on emissions and less carbon leakage.
• Carbon price/tax revenue creates liquidity and drives economic activity
• CPIs can support policy priorities:
  • reducing inequality and poverty
  • Investment in NBS as carbon sinks
  • Investments in renewable energy
  • Energy efficiency
  • Combat air pollution
• CPIs – direct social impact, including job creation, innovation, improving health and raise productivity
• CPIs support climate action enabling factors
Register here:

ESCAP web-based Carbon Policy Simulation Tool:

https://forms.office.com/r/tXJ9GDiZkc
Vinaka Vinaka vaka levu!

谢谢!

Thank you!

Спасибо!

اشكرك!