

Just a Carbon Pricing Policy

or

A Just Carbon Pricing Policy?

Why a Just Carbon Pricing Policy?

- **Green investment push combined with steadily rising carbon prices** would deliver the needed emission reductions at reasonable transitional global output effects
- Introducing carbon pricing will likely face calls **to protect low-income households** from higher prices and **compensate for job losses in carbon-intensive industries.**
- According to an IMF study carbon pricing can produce enough revenue to spend on both goals if income support is well targeted.





A Just Transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.



ILO and Just Transition

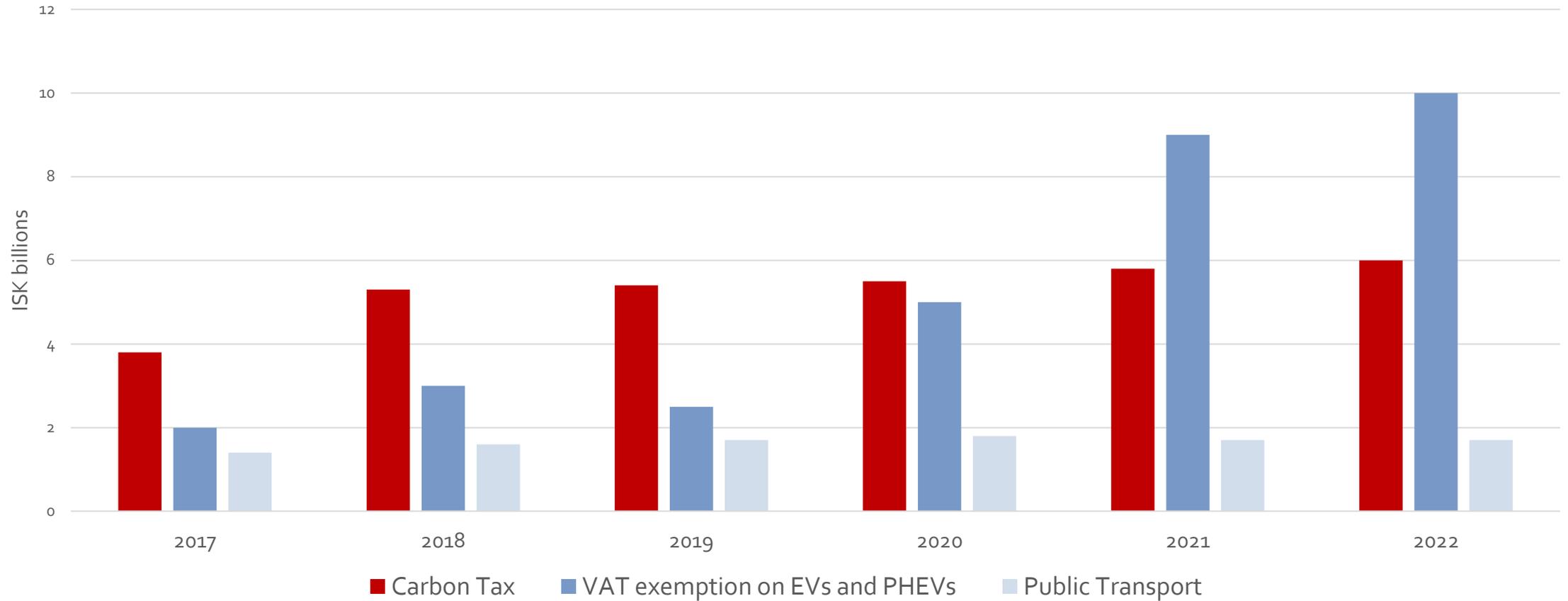
In 2015 the ILO adapted Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All.

- A policy framework and an operational tool to advance social justice and promote decent work
- The ILO has made several Policy Briefs to advance Just Transition

“The literature suggests that carbon tax revenues can be channeled to activities with positive externalities, such as green R&D, green infrastructure, or income distribution”

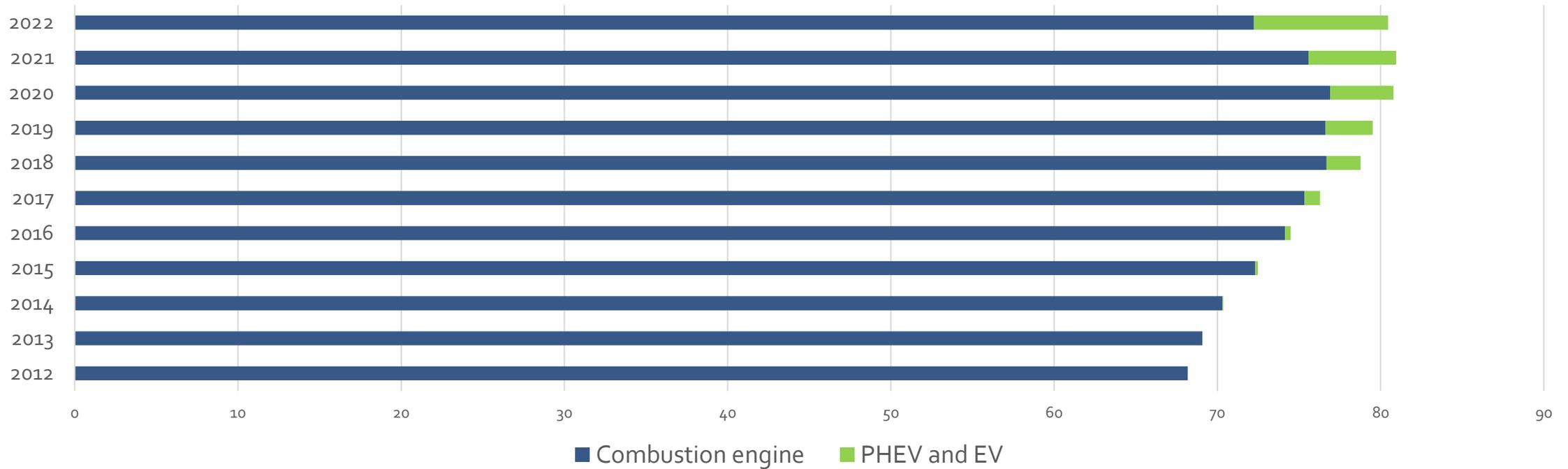


Carbon tax and subsidies in the transport sector in Iceland



The number of cars per capita in Iceland has increased since 2012 (rental cars excl.)

Number of cars per 100 inhabitants 17-80 years old



The distributional impacts of carbon pricing policies

Households are likely to be affected by a carbon pricing policy in two main ways

- 1) Through **increased expenditures**: as energy prices rise with carbon pricing, so too does the proportion of households' income that is spent on energy
- 2) Carbon prices can affect **household incomes**, by altering the income received from wages, from assets, and from government transfers

Generally, the more costs can be passed to consumers, the less the carbon price will affect income and the more it will affect household expenditures



Distributional impacts across households

The distributional effects of carbon pricing on household expenditures are well documented

- High-income households tend to have greater consumption of carbon intensive goods and services, and therefore pay a higher absolute CO₂ price
- However, carbon pricing is found to be regressive in most industrialized countries since low-income households spend a higher percentage of their income on energy or carbon intensive goods
- Carbon pricing can generate distributional impacts across income groups, gender and certain regions, also called the spatial incidence of carbon pricing



Distributional impacts – Gender

The gender pay gap implies that carbon taxes on products will affect women more than men, assuming men and women have a similar consumption pattern

- Any taxes on fuel will impact men more due to consumption patterns
- In Iceland higher proportion of men are registered car owners and a study shows that they drive longer distances for work
- Women are more positive towards car-use reduction measures and more likely to reduce their car use
- Yet, climate policies targeting households and everyday practices tend to raise the burden of informal unpaid work often carried out by women
- And women are more likely to be the only breadwinner in the family

Nordic Council of Ministers (2021). Policy brief. Climate policies are not gender neutral. How climate policies impact gender and vice versa in a Nordic context.
Frumvarp til fjárlaga 2024



Distributional impacts – social groups

A Swedish study combined **footprint analysis, sociodemographic and geographic analysis** to assess the distributional impacts of low-carbon transition policies from the perspectives of wealth, access, and health. They conclude that the impact of additional factors, such as age and access to services should be considered for low-carbon transition policy measures and transitional assistance policies.



Combining data for better insight and result

The study used a marketing tool to better understand different social groups.

About 40% of the Swedish population, responsible for 41% of consumption-based emissions appears to be at higher risk from the adverse impacts on wealth and access related to policies aiming at low-carbon transition, because this cohort depends heavily on cars and is less able to cope with the increased price of carbon-intensive goods that these policies are expected to entail.

Table 1. Information about MOSAIC™ lifestyle groups. The colour scale runs from lowest (green) to highest (red). Number of individuals refers to adult population.

MOSAIC™ profile name and letter	Number of individuals	Mean age per profile (years)	Mean disposable income (SEK)	Student share (%)	Retired share (%)
A Affluent Pioneers	522 564	47	219073	15	15
B Metropolitan Pioneers	548 473	46	222190	12	14
C Young Urban Pioneers	557 100	45	163431	12	14
D Curious Pioneers	517 687	38	116761	31	9
E Family Oriented Followers	864 813	41	163844	15	4
F Struggling Followers	634 653	47	151783	11	20
G Followers in Multicultural Suburbs	516 691	42	106863	17	15
H Latecomers in Villas	823 746	51	180989	10	23
I Latecomers in Flats	510 440	53	162901	7	30
J Struggling Latecomers	413 715	46	129646	12	24
K Handy Traditionals	617 174	55	145117	6	34
L Older Traditionals	456 753	58	161420	5	44
M Restrained Traditionals	368 304	61	146034	6	45
N Countryside Traditionals	841 054	55	139923	8	31



Options to address carbon pricing impacts on households

The way carbon pricing revenues are recycled will largely determine **the social outcomes** of the carbon pricing policy, but will also affect **how the policy is perceived**, and whether or not the **CO₂ price signal is preserved**

- Direct (lump-sum) transfers
- Subsidies and other transfers
- Using revenues to reduce other taxes

	Households		
	Direct (lump sum) transfers	Subsidies	Tax Reform: credits and swaps
Supports low-income households	Yes	Partially	Potentially
Preserves the carbon price incentives	Yes	Partially	Yes
Increases availability of low-carbon substitutes	No (may have lock-in effects)	Potentially	No
Reduces distortionary taxes	No	No	Yes





Thank you