Foreword

Governments around the world have joined forces to fight global warming. The Paris Agreement sets a clear goal – limiting global average temperature increases to well below 2 degrees Celsius. This requires deep cuts in carbon emissions, starting now. Carbon taxes and other specific taxes on energy use – analysed in this report – can integrate the climate and environmental costs of energy use into prices. They are indispensable components of the policies needed to fight climate change, and will help cut air pollution and other negative side effects of energy use.

Energy and carbon taxes are also a new source of revenues to help fund vital government services and foster the development of affordable and clean energy. They contribute to achieving the UN's Sustainable Development Goals on access to energy and domestic resource mobilisation, in addition to combating climate change and reducing pollution.

The data presented in this report clearly show that energy taxes are failing to attain their potential contribution to reaching economic, social and environmental policy goals. Policymakers continue to miss out on making full use of these effective instruments to reach climate goals.

OECD's *Taxing Energy Use* is a unique data source, allowing for systematic comparison of the patterns of energy taxation across 42 OECD and G20 countries, disaggregated by fuels and sectors. This report presents insights on the magnitude and coverage of existing taxes on energy use, based on the second vintage of the *Taxing Energy Use* database, which contains effective tax rates on energy use for 2015. It also allows for changes between 2012 and 2015 to be observed and analysed.

Taxes on energy use differ strongly between countries, sectors and fuels, but most are well below where they should be to reflect climate costs alone, even on the basis of a truly low-end estimate of the climate cost of emissions of EUR 30 per tCO_2. Where taxes exceed this estimate, notably in road transport, other environmental impacts and considerations related to traffic congestion suggest that while taxes may be approaching the right level in a few countries, they still remain well below optimal levels in most.

Price signals from energy taxes are also very uneven across different energy products, and they are extremely low for the most carbon-intensive fuels. Taxes on oil are relatively high, while taxes on coal are often low or zero. Given its high carbon content and large air pollution impacts, aligning taxes with environmental costs calls for comparatively high taxes on the use of coal.

Apart from some steps forward in a few countries, evidence of improved use of energy taxes to address the mounting global environmental and climate challenges is very limited. Emissions trading systems, not discussed here but in the OECD's *Effective Carbon Rates*, do little to change this picture. Similarly, the intense debate on carbon taxation has sparked action, but – despite encouraging initiatives in a number of jurisdictions – has not driven any significant change in actual tax rates. Excise taxes on energy use continue dominating price signals instead of carbon taxes.

The damages from climate change and from air pollution resulting from fossil fuel combustion can be contained. However, the longer we delay in taking action, the more expensive this becomes. Well-designed taxes on energy use are a core element of cost-effective policy, and vast improvements are urgently needed. It is key that if and when compensation for cost increases from energy taxes is deemed necessary, it is provided through targeted transfers that maintain the environmental integrity of market-based instruments, not through reduced tax rates or exemptions (that apply to all, regardless of whether they deserve them). This well-known principle should be more generally observed in policy practice.

Angel Gurría

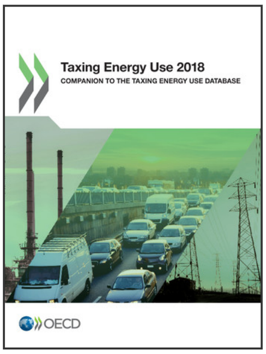
OECD Secretary-General

Acknowledgements

This report was prepared by Johanna Arlinghaus and Kurt Van Dender, with inputs from Jonas Teusch. The country notes, available online, and the data underlying the report were prepared by Johanna Arlinghaus and Melanie Marten. Johanna Arlinghaus led on the database architecture and the updates. Carrie Tyler improved the presentation and dissemination of the work. Kurt Van Dender provided oversight. All contributors are in the OECD's Centre for Tax Policy and Administration, in the case of Jonas Teusch through a joint appointment with the Environment Directorate. Peter Vogelpoel typeset the manuscript.

The authors would like to thank the following OECD colleagues for their very insightful feedback on earlier versions of the report: Nils-Axel Braathen, David Bradbury, Luisa Dressler, and Florens Flues.

The report was discussed by the OECD's Joint Meetings of Tax and Environment Experts, and it was approved for declassification by the Committee of Fiscal Affairs and the Environment Policy Committee. The authors would like to thank in particular the delegates to the Joint Meetings and their colleagues in national government administrations for their assistance with the provision of data, as well as for their invaluable suggestions, inputs and comments received at various stages of preparing the data and the report.



From:

Taxing Energy Use 2018

Companion to the Taxing Energy Use Database

Access the complete publication at:

https://doi.org/10.1787/9789264289635-en

Please cite this chapter as:

OECD (2018), “Foreword and acknowledgements”, in *Taxing Energy Use 2018: Companion to the Taxing Energy Use Database*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264289635-1-en