

## Foreword

**T**his report analyses the taxation of energy use in 41 countries, covering 80% of global energy use. It appears at a juncture when many countries struggle to sustain or reconnect with economic growth and face formidable fiscal consolidation challenges. At the same time, concerns over the very high human costs of air pollution are mounting and the urgency of acting to limit greenhouse gases is now abundantly clear.

Energy use is an important source of greenhouse gas emissions and of air pollution. It also is a critical input into production and consumption in modern economies. If deployed effectively, taxes on energy use are a powerful tool to balance the benefits and costs of energy use. Energy use taxes can also play a useful role in fiscal consolidation. What this report tells us, however, is that with current policies energy taxes fail to live up to their potential.

Taxes on energy use influence the price and use of energy. Ideally, end-user energy prices would reflect their environmental impacts to ensure that resources are used most productively and that the negative side-effects of energy use are contained. Taxes can help to achieve this, while also providing incentives to seek alternative, cleaner technologies.

To employ energy taxes more effectively, it is necessary to understand the signals they provide in respect of energy use. This report systematically analyses the structure and level of energy taxes across 41 countries: the OECD countries and seven selected partner economies (Argentina, Brazil, China, India, Indonesia, Russia and South Africa). Effective tax rates, expressed per unit of carbon and per unit of energy, are situated within the energy market structures and other pricing policies in each country, allowing the price signals they send to be better understood.

Our analysis highlights vastly different levels of energy use and taxation among these 41 countries, but also some common patterns. Transport energy is typically taxed at higher rates than other forms of energy use whereas fuels for heating and process use or electricity generation are more likely to be untaxed or taxed at lower rates. Fuels used for similar purposes are often taxed differently, with low rates applying to some of the fuels most harmful for human health and the environment. Tax rates on coal are particularly low.

The picture is not, however, entirely bleak. The awareness about the need to curb negative side-effects of energy use is rising on governments' political agendas, with many, including the selected partner economies, reconsidering price signals and taxes on harmful forms of energy use and investing in renewable sources of energy. This report can serve as a reference for policy makers and analysts to identify reform options to ensure that energy taxes are best adapted to their economic, social and environmental goals – that is, to develop better tax policies for better lives.



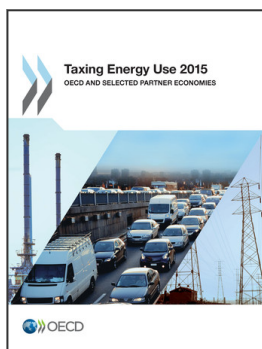
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