

Reflections on the implementation of the carbon tax in Ireland

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Section 1: Overview – The story so far....Budget 2010

- The previous administration's Programme for Government included a commitment to introduce a carbon tax over the lifetime of the Government.
- The 2010 Budget and Finance Act delivered on that commitment and introduced a carbon tax at the rate of €15 per tonne of CO₂.
- 3 implementation phases planned



Rate of €15 per tonne of CO₂

Categories	Specific Products	Implementation Date
Transport Fuels	Petrol and Auto-diesel	10 December 2009
Non-transport fuels (oil and gas)	Kerosene, Marked Gas Oil, Fuel Oil, Liquid Petroleum Gas (LPG) and Natural Gas	1 May 2010
Solid Fuels	Coal and Commercial Peat	Subject to a Commencement Order



Section 1: Overview – The story so far...Budget 2010

Impact on retail prices at Budget time

Fuel Type	Unit	Current Price €	Carbon Tax @ €15 (VAT incl.)	% change in price	Est. Revenue Yield In a Full Year (VAT incl.) €m
Petrol	Litre	1.19	4.2 cents	3.5%	75
Auto-diesel	Litre	1.10	4.9 cents	4.4%	92
Kerosene	1,000 Litres	516	€43.14	8.4%	47
Marked Gas Oil	1,000 Litres	539	€46.87	8.7%	43
LPG	1,000 Litres	720	€27.97	3.9%	4
Fuel Oil	1,000 Litres	600	€52.15	8.7%	1
Natural Gas	13,750 kwh ^[1]	800	€47.86	6.0%	47
Peat Briquettes	Bale	3.85	39 cents	10.1%	6
Coal	40kg	16.20	€1.79	11.1%	15
Total Yield					€330m

Section 1: Overview – The story so far...Budget 2010



- **Reliefs from the carbon tax at time of implementation**
 1. Those companies participating in the EU Emissions Trading Scheme, subject to the EU minimum rates in the Energy Tax Directive (2003/96/EC) for each fuel being observed, and
 2. Biofuels or the biofuel content of blended fuels.
- **Estimated Yield**
- The estimated yield was €250 million in 2010 and €330 million in a full year (VAT inclusive).



Section 1: Overview – The story so far...Solid Fuels

- The application of the carbon tax to solid fuels was delayed because:
 1. Particular problems existed relating to the control of movements of coal, which (unlike oil fuels) are not subject to an EU-wide movement control regime
 2. There was an environmental issue of coal with a higher sulphur content entering the Irish market.
- The Department of Environment undertook to examine the sulphur content issue to develop a ‘robust mechanism’ to prohibit high-sulphur coal.



Section 1: Overview – The story so far...Solid Fuels

- Result was the Minister for the Environment, Heritage and Local Government introduced a new specification for the sulphur content of bituminous coal placed on the market for residential use in Ireland. It was given legal effect through the Air Pollution Act, 1987 (Marketing, Sale and Distribution of Fuels) (Amendment) Regulations on 7 June 2011.
- Information from the administration of this new specification to be made available to the Revenue Commissioners.
- The Minister for Finance and the Government decided not to commence the legislation in respect of solid fuels as part of the 2012 Budget.



Section 1: Overview – The story so far...Budget 2012

Illustrative impact of a €5 increase in the carbon tax from €15 to €20 per tonne

Fuel Type	Unit	Current Price €	Carbon Tax increase (VAT incl.)	% change in price	Revenue Yield In a Full Year (VAT incl.) €m
Petrol	Litre	1.499	1.4 cents	0.93%	23
Auto-diesel	Litre	1.479	1.6 cents	1.09%	32
Kerosene	1,000 Litres	856.40	€14.40	1.68%	18
Marked Gas Oil	1,000 Litres	893.30	€15.58	1.74%	17
LPG	1,000 Litres	910.00	€9.33	1.03%	1
Fuel Oil	1,000 Litres	900.00	€17.52	1.95%	0.5
Natural Gas	13,750 kwh	746.90	€14.46	1.94%	17
Total					108.5

Section 1: Overview – The story so far...Budget 2012



- The Budget and Finance Act 2012 provided for a partial relief from the carbon tax where certain *high efficiency Combined Heat and Power (CHP)* with a capacity of 50 kW or greater is used.
- The relief is subject to the EU minimum rates under the ETD being observed; in the case of gas that is €0.54 per MWh
- It is estimated that this relief will cost in the region of €2.8 million per annum.



Section 1: Overview – The story so far...Budget 2012

- There is a commitment in the Programme for Government to ‘exempt farm diesel from further increases in the carbon tax’
- FA 2012 provided for a double income tax relief for farmers in respect of their additional carbon tax liabilities from 1 May 2012.
- Estimated cost approx. €3.4 million in a full year.



Section 2 - Revenue yields and consumption - 2010

2010	Carbon	Est VAT	Total
	€m	€m	€m
Auto-diesel	98.4	2.1	100.5
Petrol	65.1	13.7	78.8
Kerosene	17.0	2.3	19.3
MGO	27.0	3.6	30.7
Fuel Oil	1.6	-	1.6
LPG (other)	2.6	0.4	2.9
Auto LPG	0.0	0.0	0.1
Natural Gas	11.3	0.9	12.2
Total	223.1	23.0	246.0



Section 2 - Revenue yields and consumption - 2011

2011	Carbon	Est VAT	Total	%
	€m	€m	€m	Yield
Auto-diesel	97.5	2.0	99.6	30.2%
Petrol	60.1	12.6	72.8	22.1%
Kerosene	40.5	5.5	46.0	14.0%
MGO	48.9	6.6	55.6	16.9%
Fuel Oil	2.3	-	2.3	0.7%
LPG (other)	5.4	0.7	6.2	1.9%
Auto LPG	0.2	0.0	0.2	0.1%
Natural Gas	43.1	3.5	46.6	14.2%
Total	298.2	31.0	329.2	100.0%

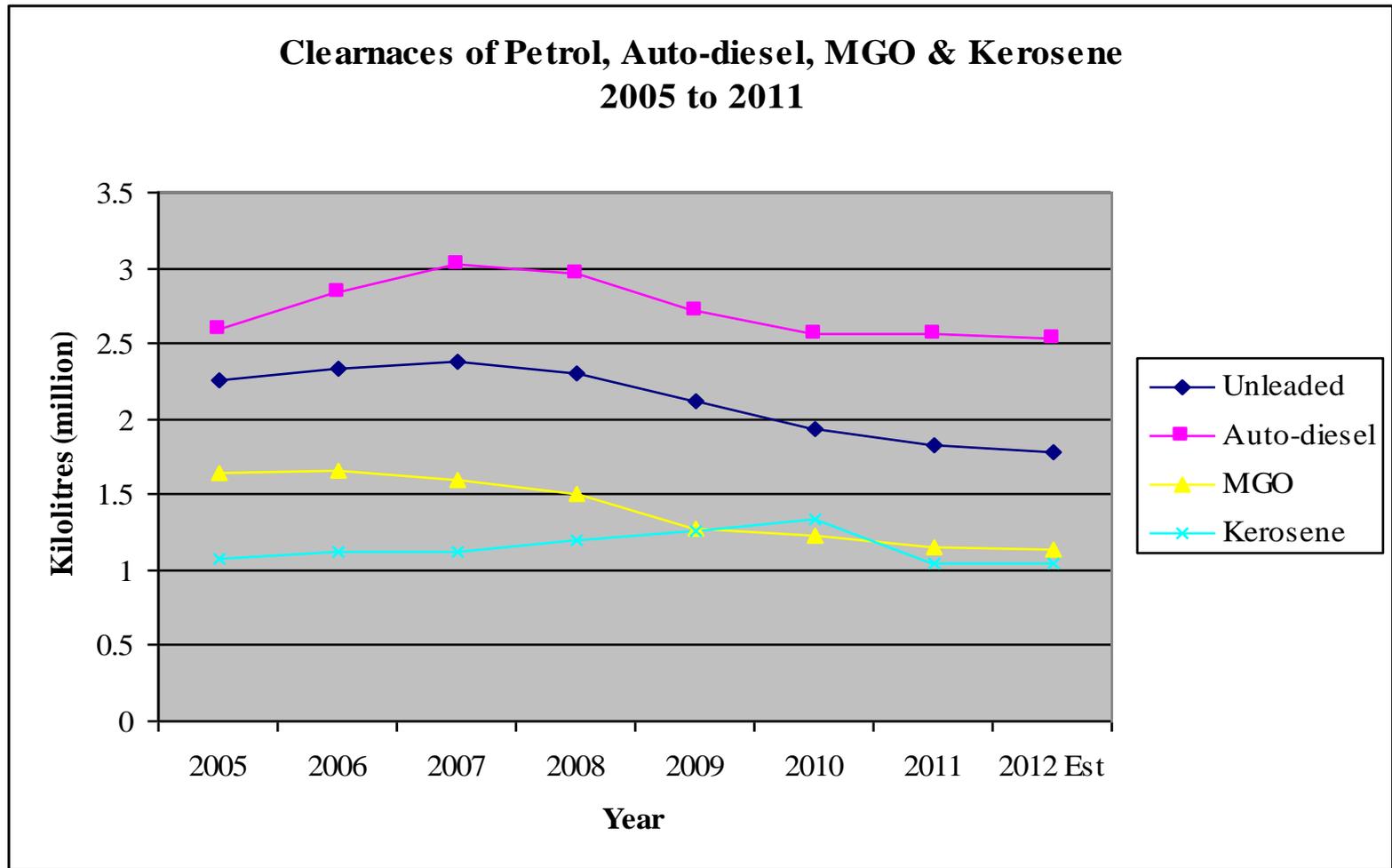


Section 2 - Revenue yields and consumption - 2012

2012	Carbon	Est. VAT	Total	%
Jan to April	€m	€m	€m	Yield
Auto-diesel	41.2	0.9	42.2	32.6%
Petrol	24.9	5.7	30.6	23.7%
Kerosene	14.7	2.0	16.7	12.9%
MGO	14.5	2.0	16.5	12.7%
Fuel Oil	0.7	-	0.7	0.6%
LPG (other)	2.1	0.3	2.4	1.8%
Auto LPG	0.1	0.0	0.1	0.1%
Natural Gas	18.6	1.5	20.1	15.6%
Total	116.8	12.4	129.2	100.0%



Section 2 - Revenue yields and consumption trends





Section 2 - Revenue yields and consumption trends

	2007 million litres	2008 million litres	2009 million litres	2010 million litres	2011 million litres	Actual Decline
Petrol	2,377.30	2,310.40	2,117.10	1,930.20	1,829.20	23%
Auto- diesel	3,025.20	2,959.90	2,714.40	2,559.70	2,563.40	15%
Total	5,405.10	5,272.30	4,832.50	4,491.00	4,392.60	19%



Section 2 - Revenue yields and consumption trends

Budgetary Excise Changes on Motor Fuels (VAT inclusive) since 2007		
Budget	Petrol	Auto-diesel
2007	no change	no change
2008	no change	no change
2009 (emergency and supplementary)	increased by 8 cents (Oct. 08)	increased by 5 cents (Apr. 09)
2010 (via carbon tax)	Increased by 4.2 cents	Increased by 4.9 cents
2011	Increased by 4 cents	Increased by 2 cents
2012 (via carbon tax)	Increase by just under 1.5 cents	Increase by just over 1.5 cents
Total increase per litre	17.7 cents	13.4 cents



Section 3 – The future; what lies ahead...domestic front?

- Carbon tax remains to be implemented in respect of solid fuels.
- There was a commitment in the Memorandum of Understanding with the Troika
- In addition both Government party manifestos referred to a carbon tax rate of €25 per tonne, however, the Programme for Government does not contain any reference to a specific increase.
- Next years Budget, there will be a requirement to raise in the region of €1.2bn from tax measures.....



Section 3: – The future; what lies ahead – EU front?

- The revision of the EU Energy Tax Directive potentially could have an impact on how domestic carbon tax operates.
- Current state of play regarding negotiations suggest that the EU Commission's original proposal will be considerably watered down with a mandatory carbon tax now becoming optional for Members States.
- Still work to be done in relation to how minimum rates are calculated and exemptions and reliefs will operate.



Section 4: Reflections so far

- Carbon tax is still in its infancy however has a high profile and is sending a price signal to the non-ETS sector as intended.
- Decline in consumption levels began prior to introduction of the carbon tax and are mainly due to wider economic factors and the general downturn, price of oil etc.
- The price of carbon in non-ETS (currently €20) versus ETS (currently around €6/7) may be an issue going forward, this has also been raised in the context the revision of EU Energy Tax Directive.



For more information go to:

<http://www.taxpolicy.gov.ie>

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Thank you