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GIZ – Carbon Pricing Training for Members of the Energy Community

Building support for carbon pricing – stakeholder engagement,
communications and using carbon revenues

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25 March 2022

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Outline



Stakeholder engagement



Communications



Using carbon revenues

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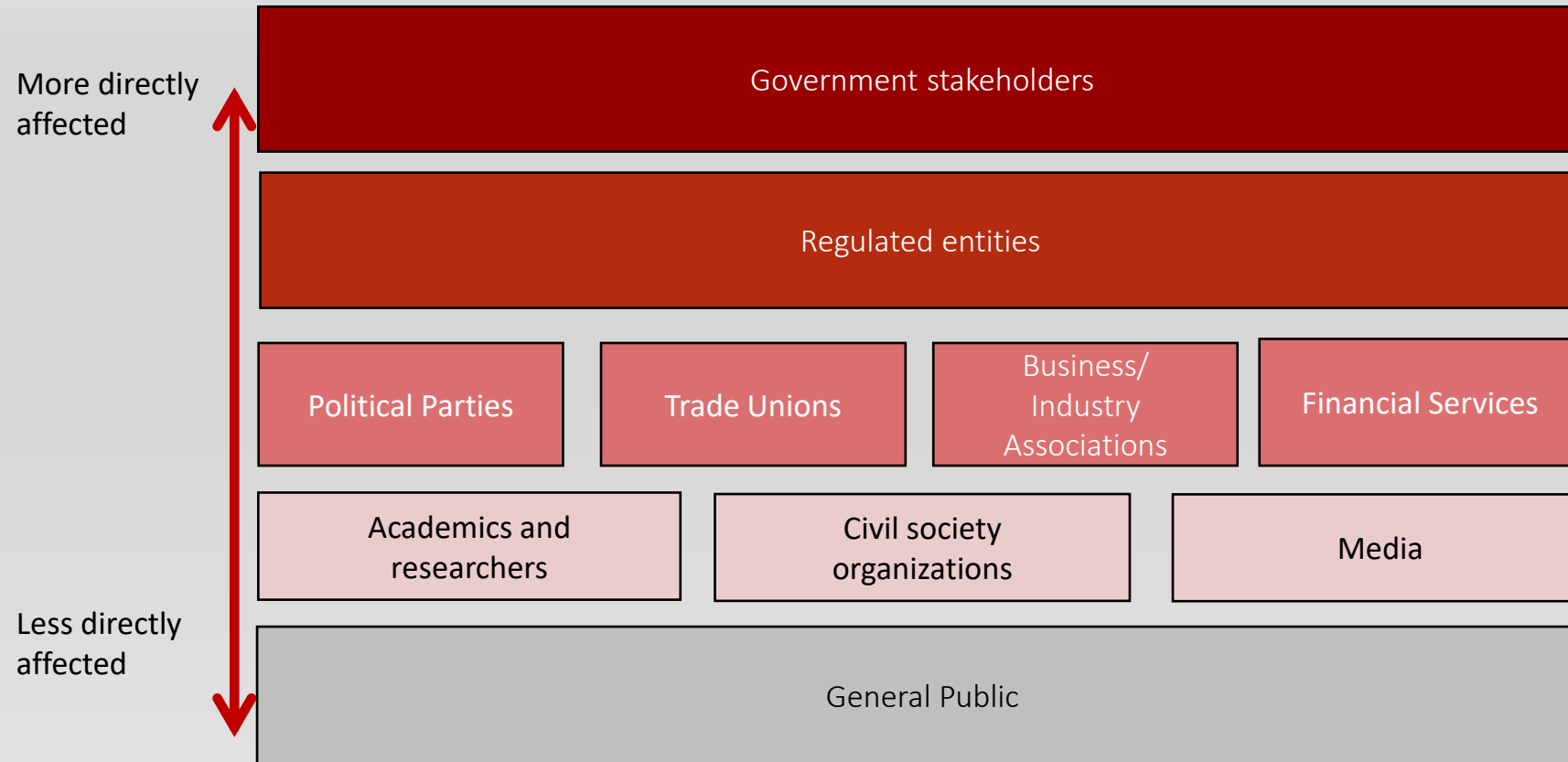
1. Stakeholder engagement

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Understanding the stakeholders



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Objectives for stakeholder engagement

- Main objectives of stakeholder engagement in carbon pricing implementation:

Build
understanding and
expertise on all
sides

Build credibility and
trust by providing
information

Meet statutory
obligation

Foster acceptance
and active
participation of key
actors

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Different forms of engagement

- Engagement should happen early on, be transparent, inclusive and accountable



Source: ICAP & World Bank 2016 (adapted from IAP2)

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Case study: EU ETS stakeholder engagement

Introduction of EU ETS (1998-2003)

From presentation of idea, to stakeholder consultation, to passing of EU ETS Directive

- 
- Communications from the European Commission
 - Studies on behalf of the European Commission
 - Publication of a Green Paper
 - Open online consultation, followed by a report
 - Stakeholder hearing with selected stakeholders
 - Legislative proposal from the European Commission
 - Parliamentary process & negotiations (EU Parliament, Council, Commission)
 - Passing of Directive



Similar process for all revisions and amendments to the EU ETS

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2. Communications

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Nine principles for communicating carbon pricing (1)

Value-driven

- Explain how different audiences will benefit from the policies, reflecting their real motivations, value, and concerns

Early & sustainable

- Communicate at all stages of policy design
- Review and refine messages over time

Seen to work

- Highlight examples of effectiveness of the policy, avoid unrealistic claims
- Visible use of revenue key strategy

Nine principles for communicating carbon pricing (2)

Simple

- Avoid technical terms and use accessible language to explain key mechanisms

Broad-based

- Communications should engage a wide range of stakeholders across the political spectrum

Trusted!

- Trust in the messenger often more important than message itself.

Nine principles for communicating carbon pricing (3)

Tested

- If possible test communications with target audiences before announcing the policy

Two-way

- Stakeholder engagement and communication go together: listen and respond to stakeholder concerns, be open to critical feedback

No magic words!

- A weak or unpopular policy cannot be rectified by 'magic' communication

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Some successful carbon pricing narratives

Non-climate benefits: less
air pollution, green jobs,
energy security...

“A balanced
approach...”

“A fair way to share
responsibility for
pollution...”

Visible use of
revenue

“Shift to
clean
energy...”



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Case study: Lessons from the French yellow vests movement



- ‘Gilets jaunes’ (*Yellow Vests*) protests were a response to the announcement of an acceleration of the planned carbon tax increase by President Macron
- Lessons learned:
 - Design the revenue usage in a **socially fair manner** and with targeted social cushioning measures.
 - **Effective communication** of revenue usage, social cushioning measures and expected policy changes.
 - Low-carbon alternatives should be made **easily accessible** for both companies and individuals in order to secure public acceptance.

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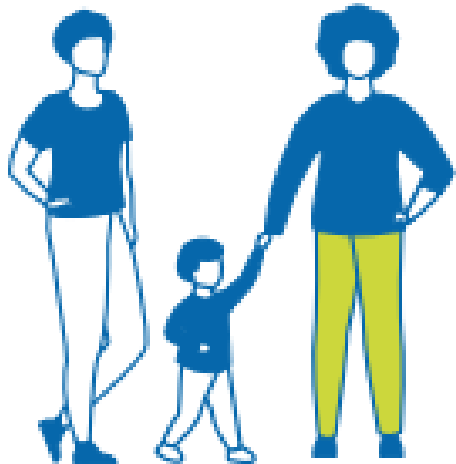
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3. Revenue use to increase social acceptance of carbon pricing

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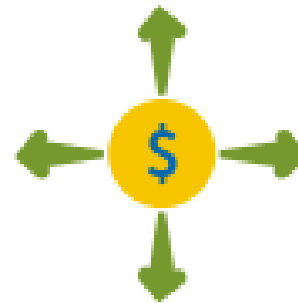


Carbon pricing revenues can be used in different ways...



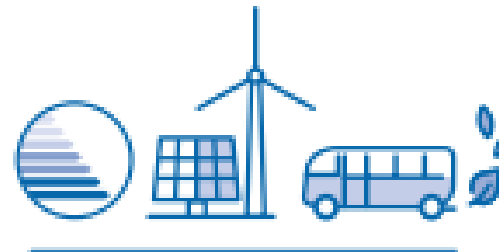
FINANCIAL ASSISTANCE TO DISADVANTAGED GROUPS

Governments can support low-income households or vulnerable communities to counter rising energy costs and to facilitate the transition to a low-carbon economy.



CONTRIBUTION TO THE PUBLIC BUDGET

Governments can use ETS revenue to reduce taxes, finance other policy priorities or to reduce the budget deficit.

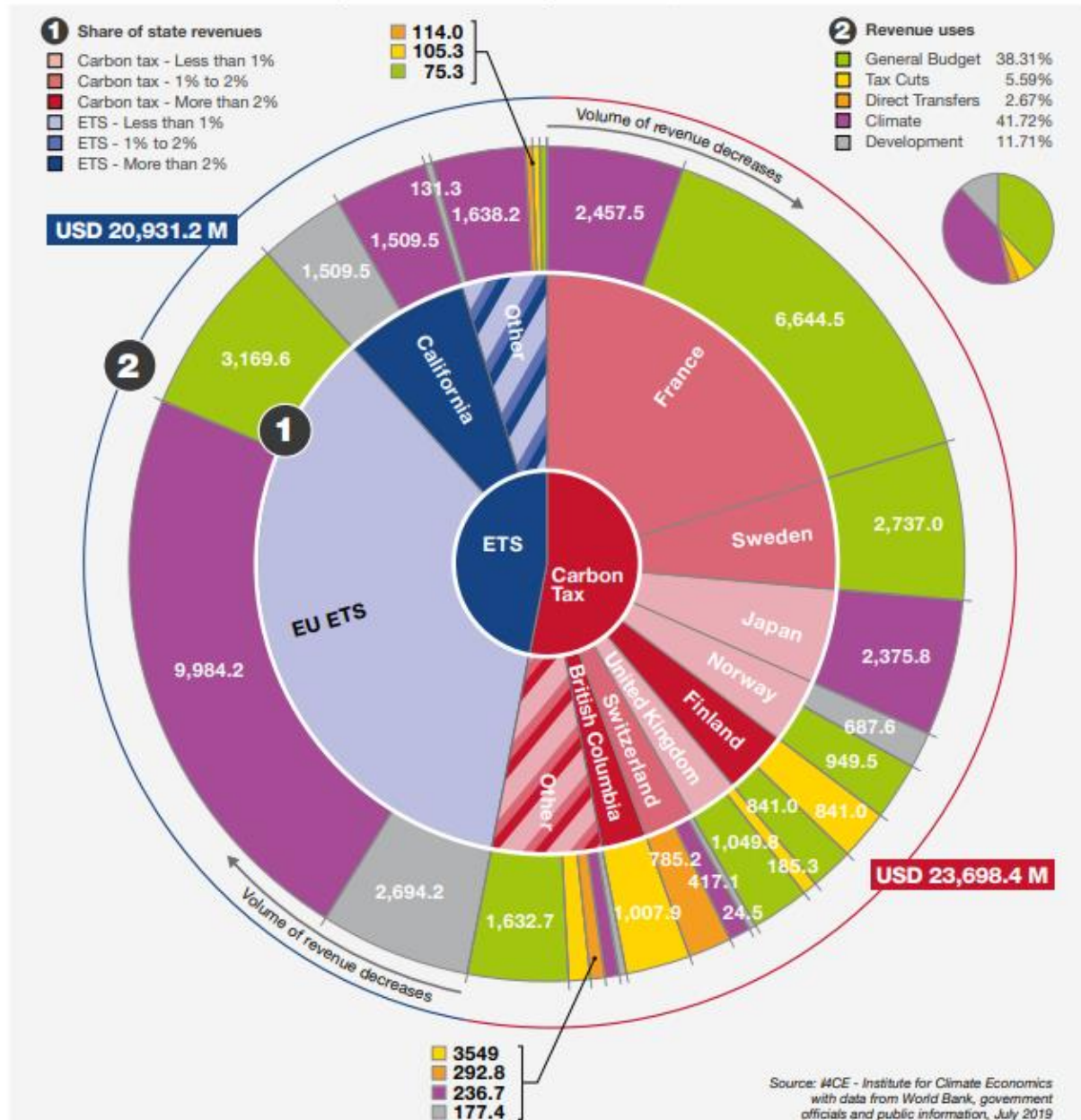


FUND CLIMATE ACTION

Governments can invest in adaptation, renewable or other low-carbon technology, energy efficiency, clean transport, waste and forestry.

Carbon pricing revenues use and jurisdiction

FIGURE 1. Carbon revenues by revenue use and jurisdiction, 2017/18



Source: IACE - Institute for Climate Economics with data from World Bank, government officials and public information, July 2019

Note: Figures represented here are for calendar year 2018 or fiscal year 2017/18. If no data were available, calendar year 2017 was taken into account.

Source: IACE (2019)

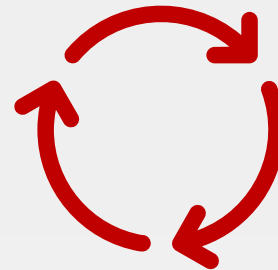
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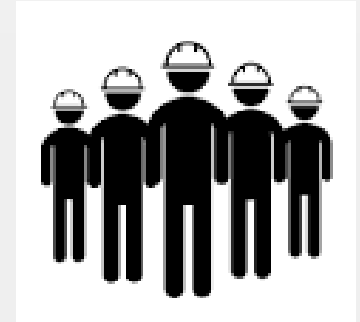
Compensating distributive impacts – groups affected by carbon pricing



Additional expenses for energy and fossil intensive products

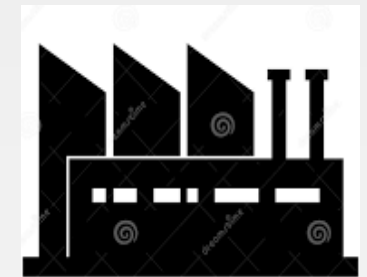


Economic transition/loss of jobs



Fair distribution of co-benefits

Competitiveness impacts



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Carbon pricing effects on households

- Covered entities pass on carbon cost to consumers -> rising prices for energy (and/or depending on coverage, fuel)

Regressive



Progressive

Poorer households pay proportionally
more than wealthier ones

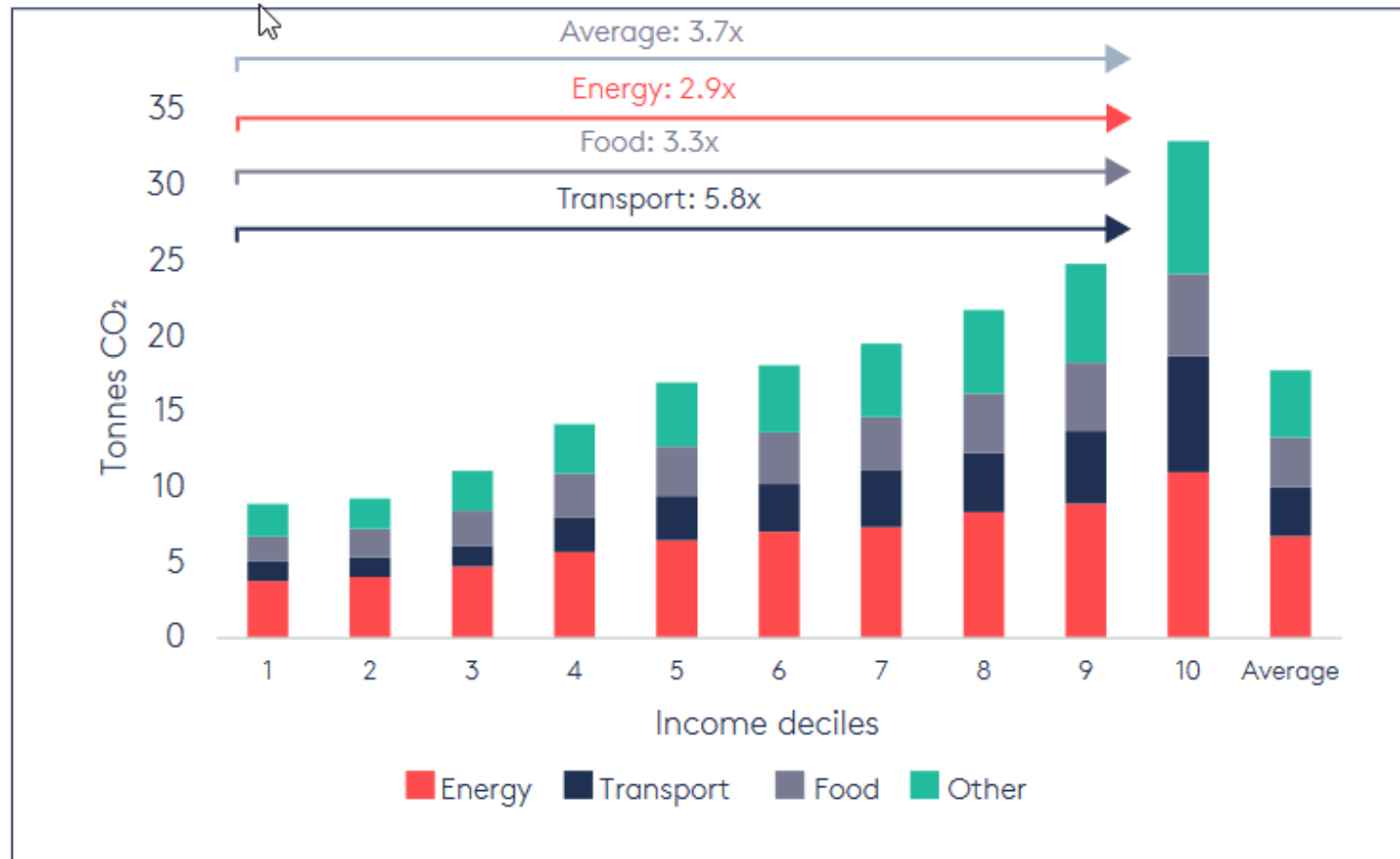
Poorer households pay proportionately
less than wealthier ones

- While carbon pricing **in industrialized countries tends to be regressive**, it is generally found to be **progressive** in emerging economies and developing countries (e.g. Ohlendorf et al., 2021; Dorband et al., 2019)
- **BUT: energy access and affordability challenges!**

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Poor households have a lower carbon footprint

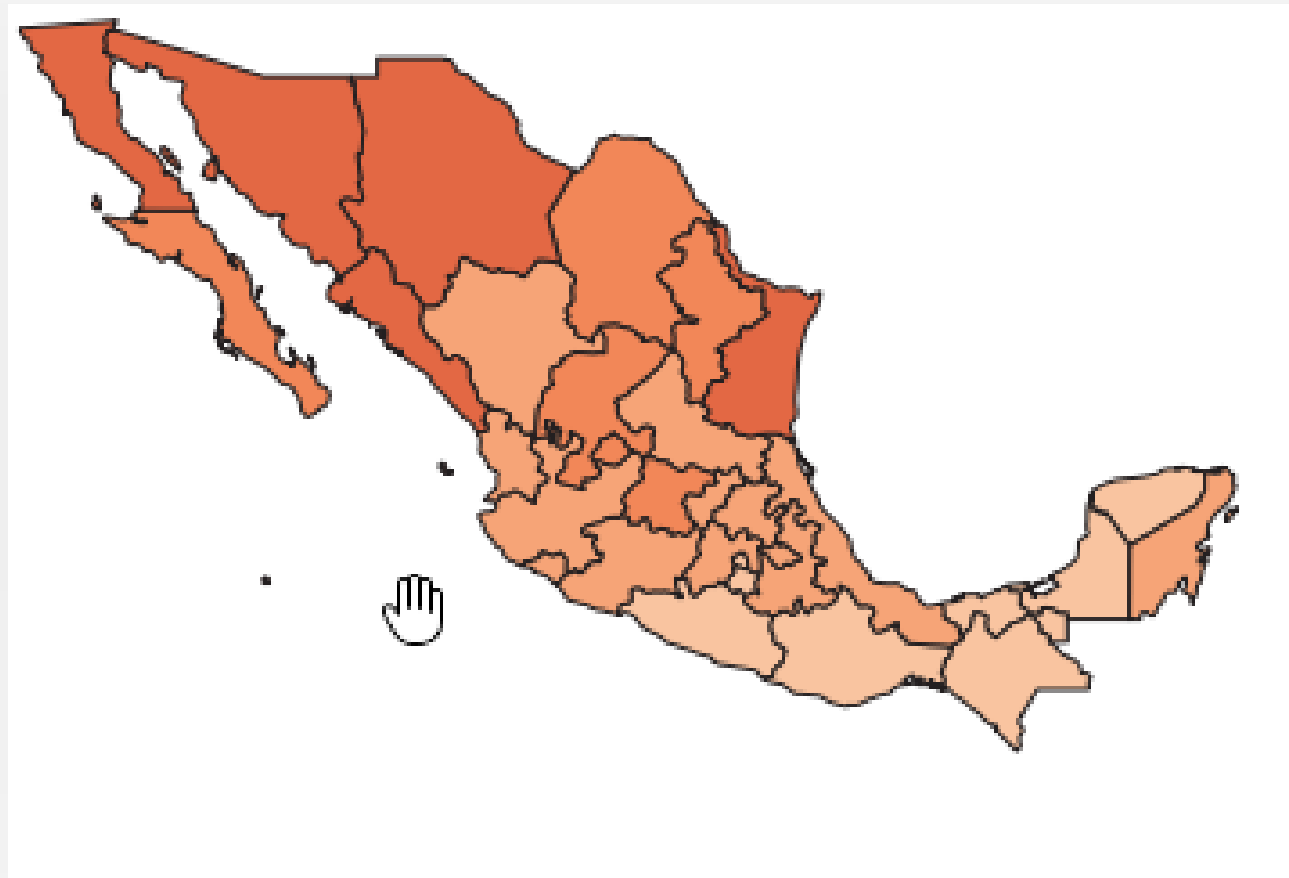


Source: Burke et al., 2020

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Carbon pricing can impact regions differently...

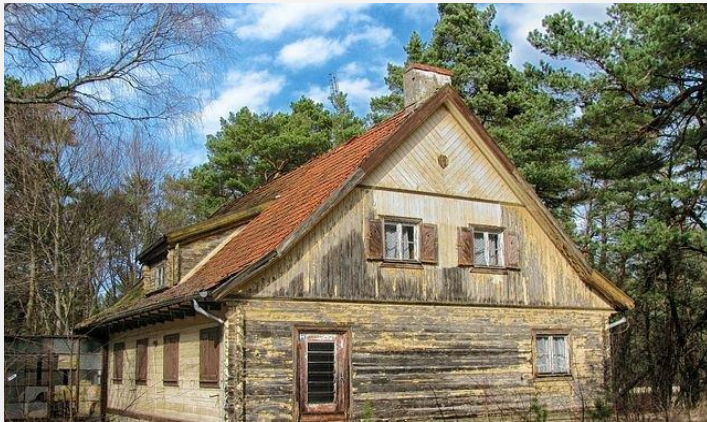


Source: Renner, 2018

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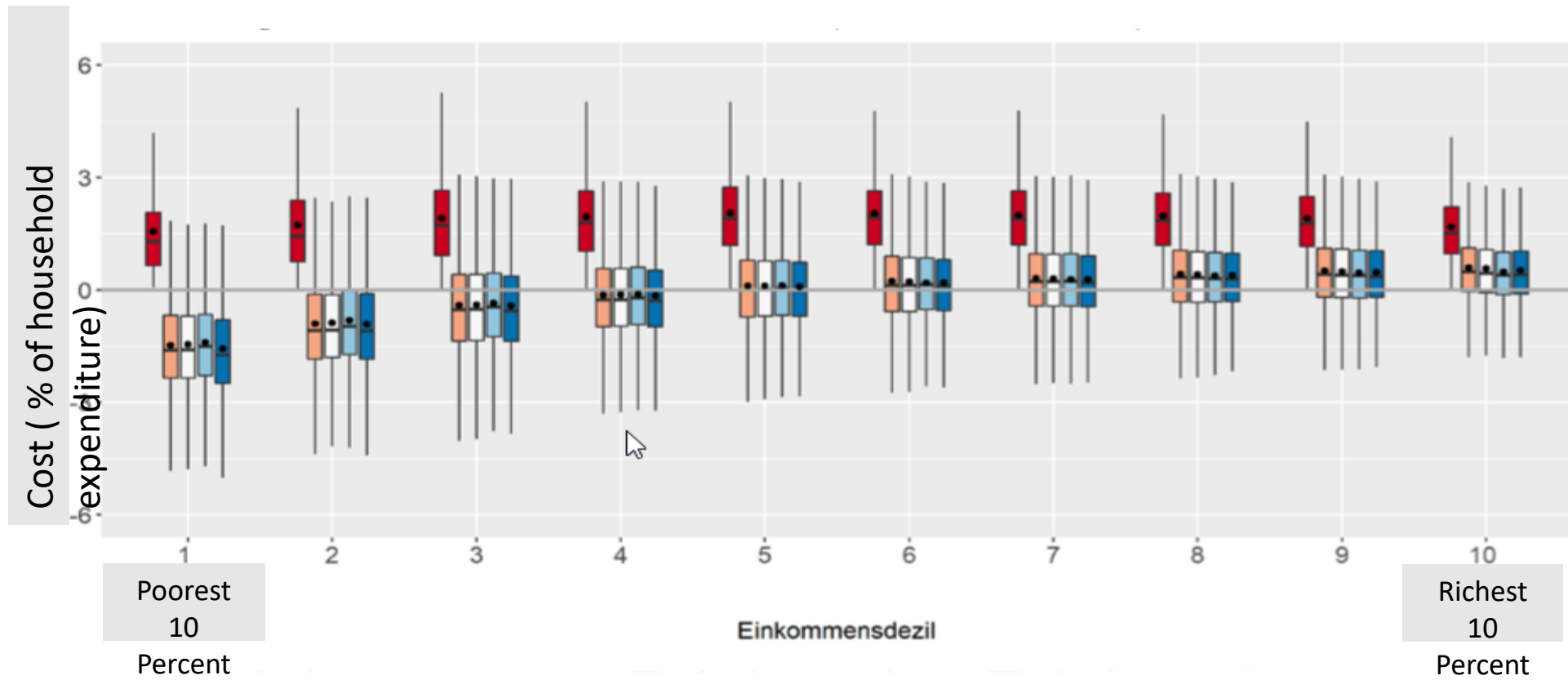
... as well as urban vs. rural populations



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Revenue recycling makes carbon pricing (even more) progressive



BUT: for ETS, this requires auctioning to generate revenue in the first place!

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Key considerations in assessing revenue recycling options

Are they effective in...

- **redistributing cost of the policy away from low-income households?**
- preserving the carbon price incentive?
- increasing availability of low-carbon substitutes?
- (improving the efficiency of the tax system?)
- ... and not too complex/costly to administer?



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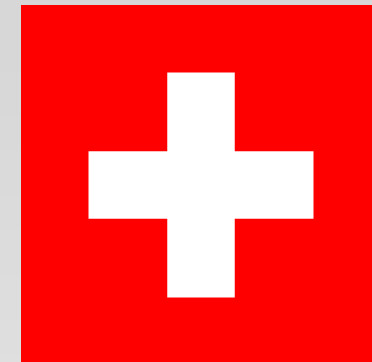


Lump-sum payments



- Strongly progressive
- (Can be) highly visible
- Reinforces perception of atmosphere as a global public good
- Potentially costly & complex to administer
- No double climate dividend

Applied in:



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Lowering other taxes



- Increases efficiency
of the tax system

- Only reaches tax payers
- Can be regressive

Applied in:



-> needs to **target low-income segment to be progressive**

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Subsidies and transfers



- Increasing social transfers easy to administer & directly compensates price increases
- Subsidies for clean energy and mobility increase availability of low carbon substitutes
-> double climate dividend

- Only reaches transfer recipients
- Subsidies need to be means-tested to be progressive

Applied in:



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Reducing cost of electricity



- Drives electrification and sector coupling

- Risk of rebound effects

Applied in:



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Complementary policies have a role in addressing potentially adverse social effects



Public investments in climate-friendly infrastructure



Mitigating energy cost for low-income households



Labour and skills policies for a just transition

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Concluding remarks

- ✓ Different forms of **engagement** are suitable for different types of **stakeholders** and at different **stages** in the policy process
- ✓ Appropriate **communication** around carbon pricing is also important: communicate **early** and **regularly** with messaging connecting to audiences' core values.
- ✓ International experience shows: carbon pricing can gain and maintain public support if it **addresses adverse distributive outcomes and communicates this effectively**.
- ✓ Social impacts are more critical when covering some sectors (transport!) than others
- ✓ **Visible recycling of carbon revenues** effectively addresses adverse social impacts.
- ✓ This **requires auctioning** some share of ETS allowances, and also requires **trading off between different policy goals** when using carbon revenue.
- ✓ **Complementary policies** drive availability/competitiveness of climate-friendly substitution options and help cushion social impacts

Further reading





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REPORT

Addressing the distributional impacts of carbon pricing policies

Constanze Haug, Alexander Eden and Mariza Montes de Oca

<https://www.adelphi.de/en/publication/addressing-distributional-impacts-carbon-pricing-policies>



 CLIMATE FOCUS  perspectives climate group  adelphi

POLICY BRIEF

Tipping the balance

Lessons on building support for carbon pricing

<https://www.adelphi.de/en/publication/tipping-balance>

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Mentimeter

Your feedback on menti

1. What are the main opportunities you see for carbon pricing in your region?
2. What challenges do you see for implementing carbon pricing in your region?
3. What activities are needed to further advance carbon pricing in your country?
4. What is your 'commitment to act' to advance carbon pricing in your country?

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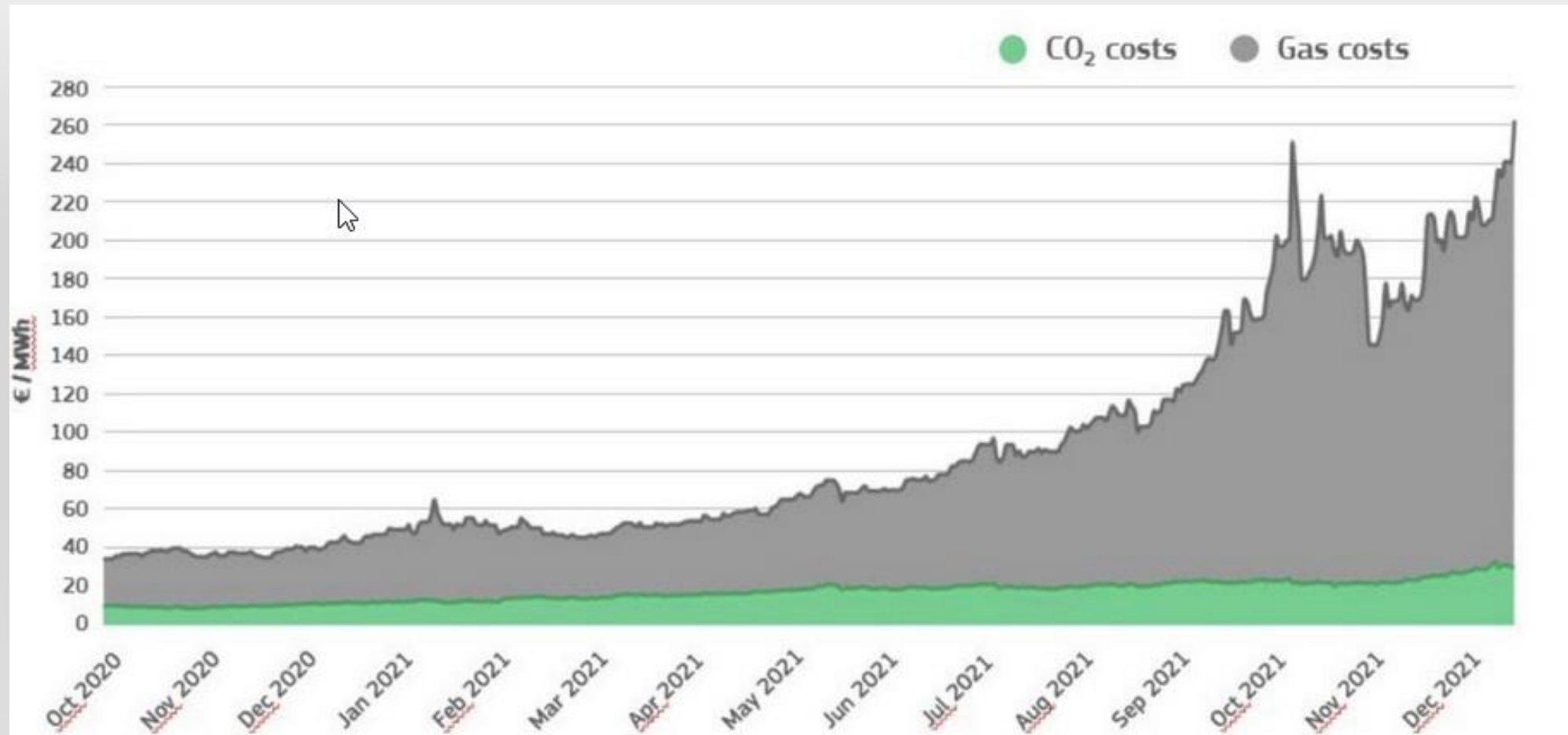
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Thank you for your attention!

This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMUV) supports this initiative on the basis of a decision adopted by the German Bundestag.

Dispelling myths: Carbon price increases are NOT the main driver for increasing gas prices in 2021



Source: [Powermex](#) for TTF fossil gas prices (day ahead), [ICE-Endex](#) for EU-ETS carbon prices (December contract)
Costs calculated using emissions intensity of 0.37 tCO₂eq / MWh and plant efficiency rate of 55% (Lower Heating Value)

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