



# Fueling Climate Finance in Colombia

*IETA COP 23*

*Changing Landscape of REDD+ and Results-based  
Payments*

*November 7, 2017*

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# Overview of Colombia Carbon Fuel Tax

## Effective July 1, 2017

### Background and Scope of Tax

- As part of Colombia's tax reform in 2016
- New fuel tax to encourage compliance with Colombia's greenhouse gas mitigation goals.
- Includes all petroleum products and all types of fossil gas used for energy purposes, provided that they are used for combustion (other than coal)
- Tax are covered under Decreto 926 de 2017

### Structure of Tax

- Effective on 1 June 2017
- Tax rate initially for 2017, COP\$15,000 (~USD\$5) per ton of CO<sub>2</sub>
- Adjusted each year on 1 February - previous year's inflation + 1%
- Allows tax neutralizing using verified emission reductions
- In 2017, international credits allowed
- January 2018, only Colombian credits

**The provisions of the law are clearly intended to stimulate implementation of mitigation activities that generate emissions reductions/removals that can**

# *Potential Market Size*

## *Climate Finance of US \$250 million per year*

### **Potential Market Size**

- Still early on, but market is developing quickly
- Many newly taxable entities are only now learning about the ability to use VERs
- Based on Mines and Energy reports, fuel use subject to the tax is equivalent 4 million tons of CO<sub>2</sub>e per month
- Could provide an opportunity for climate finance through carbon purchases of COP\$756 billion (USD \$261 million) per year
- To put this in perspective, State of the Voluntary Carbon Market reported that the total value of voluntary offset transactions in 2016 was USD \$191 million

### **Supply and Demand Outlook**

- Actual portion of this tax liability mitigated will depend on a number of factors
  - Actual fuel use
  - Taxable entities' expertise in accessing VERs
  - VER prices relative to cost of tax
- Next 2-4 years the estimated supply of Colombian VERs, 1-2 tons million per month
- Potential demand 3-4 million tons per month
- Prices for VERs are likely to trade near the cost of the tax.