

Carbon Pricing in the Caribbean

On 9 August 2021, the Intergovernmental Panel on Climate Change (IPCC) published its sixth assessment report, addressing the current understanding of the climate's state and the human impact on the global climate. More so than ever before, the report shows that manufactured climate change continues and that the current efforts to reduce climate change are insufficient. By 2020, the observed temperature is more than 1.0° Celsius, above the trend as determined by the 1850-1900 period. The report leaves no doubt that human activity is the primary driver for the rapidly changing climate, with greenhouse gas emissions being the lead cause.

In addition to increasing temperatures, human-induced climate change also increases precipitation intensity and affects the capacity to practice agriculture in the way it has been done in the past. For those reasons, the IPCC report again calls on countries and leaders to act now and make the utmost effort to control global warming before it is too late. Controlling the emission of greenhouse gasses is one of the most effective ways to address climate change.

For this reason, and for the first time, the [International Energy Agency \(IEA\) \(2021\)](#) published a roadmap for the global energy sector to achieve net-zero by 2050. Doing so requires a complete transformation of the energy system, which needs to start as soon as possible to be effective and to have the desired effect of keeping global heating below 1.5° C above the pre-industrial average. With the energy sector being one of the essential emitters of greenhouse gasses, it is a crucial moment that the IEA proposes to make this issue so important.

Action in the Caribbean

The Caribbean is a minor player in the global emission of greenhouse gasses. According to [World Bank data](#), the region is only responsible for 0.1% of CO₂ emissions, for example. Nevertheless, there are four reasons why the Caribbean should care about reducing its greenhouse gas emissions. First, it is a shared responsibility that everyone should contribute to, whether they are the smallest or the more significant polluters. Second, reducing greenhouse gas emissions will also have other environmental benefits, such as reduced air pollution. Third, reducing the dependence on imported fossil fuels may have other economic benefits as well, such as greater energy independence and a reduced dependency on [international price fluctuations](#). Finally, as a region that is particularly sensitive to extreme climate events (mainly tropical cyclones), the Caribbean has a special responsibility to contribute to halting the process of climate change.

However, while there may not be much doubt over the importance of fighting climate change in the Caribbean, the question of the required remedial actions by the vanguards of climate change is another one altogether. An essential instrument in reducing the emission of greenhouse gasses is by using carbon pricing, a key instrument in capturing the external costs of such emissions covered by the public purse. Pricing carbon will help shift the external costs of greenhouse gas emissions from the public to those responsible for such emissions. Furthermore, it is an imperative economic signal that incentivizes emitters to reduce their emissions and can thus be a critical tool in reducing emissions and achieving the objective of limiting climate change.

The two primary instruments in carbon pricing are an emissions trading scheme that admits a limited sum of emissions and permits emission trading amongst emitters and a carbon tax that emitters pay a tax on the volume of greenhouse gasses emitted.

The participants of the Jamaican Economy Panel (JEP) disclosed their preferences between these two options. A plurality of respondents (44%) expressed a preference for carbon taxes compared to emissions trading (33%), with other respondents either unsure about their response or insisting on further study to see whether either would have an impact. JEP member Dennis Chung, Chartered Accountant, believes a carbon tax would be more effective.

“ Carbon taxes will be a more immediate penalty and be more effective.

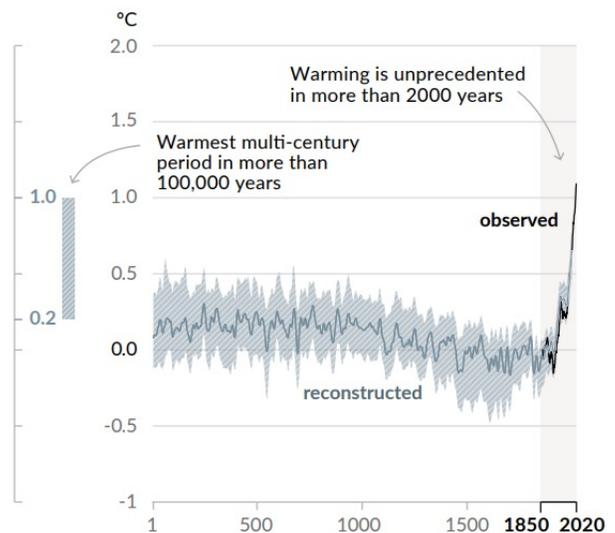
– Dennis Chung
Chartered Accountant, JEP Member

The panellists also considered what the most significant arguments against implementing a carbon pricing regime would be. The panellists identified several risks to implementing a Caribbean carbon pricing mechanism, mainly focusing on the administrative costs and the overall economic impacts. A carbon pricing policy risks causing carbon leakage, where economic activity shifts away from the region, for example. Even if this does not happen, when producers pass the costs to consumers, this may lead to inflation that is especially problematic for the poorest. **Keenan Falconer**, Research Economist, describes his different objections.

“ The danger inherent in the implementation of any pricing mechanism that bears an additional cost for Carbon producers is the passing on of these costs during their operations to consumers, through increased retail prices. As a result, it could potentially affect the poorest who rely on the services provided by the entity. Moreover, making business more expensive to conduct may just divert economic activity from the region and reduce overall competitiveness, especially if the cost is seen to be too burdensome relative to revenues being generated

– Keenan Falconer
Research Economist, UWI, Mona

a) Change in global surface temperature (decadal average) as reconstructed (1-2000) and observed (1850-2020)



Source: IPCC, 2021

How to overcome objections to carbon pricing

The final question asked to the panellists was about how a carbon pricing proposal can be more effective and more palatable to the greater public.

The results show broad support for revenue redistribution amongst the population through tax credits or lower taxes. This redistribution will primarily help alleviate the fears that the poorest would be affected by the higher costs resulting from such a regime.

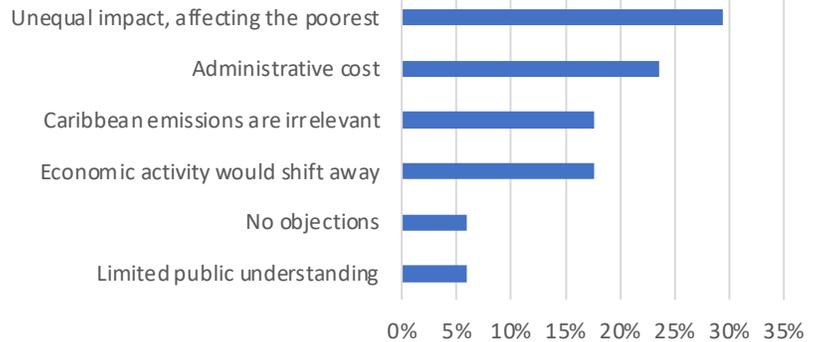
Olaf J. de Groot, Senior Economist at the Office of the United Nations Resident Coordinator, sums up his opinion as follows:

“ Some form of redistribution will be important to reduce the impact on the poor and will help increase public support for such a measure. But most importantly, it will engage the principle of making the polluter pay. If costs are borne by those whose consumption patterns are more polluting and the revenue redistribution is equal in the greater population, the least polluting will be better off as a whole. In contrast, those who pollute most will feel the financial pinch.

– Dr. Olaf J. de Groot
Economist, Office of the United Nations Resident Coordinator

Of significance is that the respondents also supported the implementation of a carbon pricing regime in a larger international context going beyond the Caribbean. Greenhouse gas emissions and human-induced climate change are archetypical examples of requiring collective action. Addressing such an issue as a single nation (or, in this case, region) can cause substantial externalities, such as carbon leakage. In order to address that, the European Commission's latest Green Deal proposals, for example, intend to also price untaxed emissions from outside the European Union through a [Carbon Border Adjustment Mechanism](#). This may not be realistic for the Caribbean due to the associated administrative costs, so a concerted effort to come up with broad international solutions may be required.

Main arguments against carbon pricing



What would make carbon pricing more palatable?

