IPAC

International Programme for Action on Climate

OECD

A CREDIBLE CARBON TAX TRAJECTORY FOR IRELAND

Key messages

Ireland introduced a carbon tax in 2010. It gradually increased its rate and extended its scope to all fuels used in sectors not covered by the European-wide cap-and-trade system. The government committed to progressively raise the carbon tax rate to reach EUR 100 per tonne of carbon dioxide by 2030, while recycling revenue to prevent fuel poverty, finance climate-related investment and ensure a just transition. This is expected to help reduce greenhouse gas emissions in line with Ireland's targets to 2030 and 2050.

Country: Ireland
Sectors: Buildings | Energy | Industry | Transport
Scale: National

Challenge

Ireland's 2021 Climate Act commits the country to net-zero greenhouse gas (GHG) emissions by no later than 2050, and to more than halving emissions by the end of this decade. The country has also a target of reducing GHG emissions not covered by the European carbon market by 30% by 2030 (compared to the 2005 level). This means that emissions from the transport, building and agriculture sectors need to drop dramatically. A stronger carbon price signal is needed to encourage businesses and households to take action.

Approach

The Irish carbon tax applies to all fuels used in sectors not covered by the Emissions Trading System of the European Union. It was introduced in 2010 in the context of a deep economic recession. The tax initially applied to liquid and gaseous fuels at the rate of EUR 15 per tonne of carbon dioxide (CO_2). It was extended to solid fuels in 2013 (although initially at a lower rate). There were phased increases of the tax to reach EUR 26 per tonne in 2020.

The 2021 government budget further raised the tax to EUR 33.5 per tonne of CO_2 on automotive fuels in October 2020 and on all fuels as of May 2021. The 2021 budget implemented the government commitment to raise the carbon tax by EUR 7.50 per tonne of CO_2 per year over the decade. This would allow the tax rate to reach EUR 100 per tonne of CO_2 by 2030.

The increase of the nominal carbon tax rate between 2018 and 2020 resulted in a nearly 5% rise in the effective carbon tax rate in the transport sector and a 35% increase in the non-transport sector. Ireland is among the ten OECD countries that priced (via carbon and energy tax and emission trading) at least half of their energy-related CO2 emissions at EUR 60 per tonne. This is the mid-point estimate of carbon costs in 2020 and a low-end estimate for 2030.

The government committed to use the revenue from the carbon tax increase until 2030 (EUR 9.5 billion over ten years) to prevent fuel poverty, ensure a just transition for displaced workers and finance climate-related investment. In line with this commitment, the government allocated part of the carbon tax revenue to enhance some social welfare schemes in 2021, such as benefits for children and people living alone. This increase is expected to mitigate the impact of the carbon tax on vulnerable households. It may even contribute to reducing poverty, as average weekly disposable income of households would increase as a result of the budget package. In addition, EUR 6 million of carbon tax revenue was allocated in both 2020 and 2021 to finance the newly established national Just Transition Fund for the Midlands. The Fund provides financial support for retraining workers and for business projects that can generate sustainable jobs in a region that is being affected by the phase out of peat extraction and use.

Outcomes and lessons learned

According to government's estimates, the progressive carbon tax increases (to EUR 100 per tonne of CO2 in 2030) should help Ireland achieve an average GHG emission reduction of 7% per year from 2021 to the end of the decade.

A credible future trajectory of carbon prices will provide an incentive for low-carbon consumption, investment and innovation without immediately imposing the burden on households and firms recovering from the COVID-19 crisis.

Revenue from the carbon tax is used to mitigate the impact of higher taxes on vulnerable households and communities, which helps increase social acceptability.

Further information

OECD (2021), *OECD Environmental Performance Reviews: Ireland 2021*, OECD Environmental Performance Reviews, OECD Publishing, Paris, https://doi.org/10.1787/9ef10b4f-en.

OECD (2021), *Effective Carbon Rates 2021: Pricing Carbon Emissions through Taxes and Emissions Trading*, OECD Publishing, Paris, https://doi.org/10.1787/0e8e24f5-en.

Government of Ireland (2020), *Budget 2021 – The Use of Carbon Tax Funds 2021*, prepared by the Department of Public Expenditure and Reform, Government of Ireland, Dublin, http://budget.gov.ie/Budgets/2021/Documents/Budget/Carbon%20tax%20document.pdf.

Last updated: 06-10-2021