

70 – Carbon Pricing in Peru: Energy Transition and Development in a Covid-19 Context

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The main greenhouse gas emission source (GHGE) in Peru is the use of land, land use change and forestry (LULUCF). According to Peruvians NDC's, GHGE from LUCUCF accounted more than half of total Peruvian emissions. However, the GHGE from the energy sector have ascended in a significative proportion, reaching 26% of the total, which are specially the related with transport. These emissions are mainly from the transport sector.

Carbon pricing (CP) is an iconic mechanism to mitigate the effects of climate change around the world, specially burning fossil fuels emissions. Furthermore, it contributes to energy transition, as it provides a market signal to increase cleaner energy use. However, a carbon price in development countries such as Perú, may be more than a climate instrument. It also could accomplish the closing of the public budget gaps of some countries in the region, which have been exacerbated by the Covid-19 crisis. The revenues of carbon pricing could be redirected towards health and social equity priorities. Moreover, the Peruvian Government could replace regressive taxes, such the VAT or salaries tax (they represent 50% of national fiscal resources), for a pollution tax. As a matter of fact, a carbon pricing in Peru could be a key development tool.

Even if different modalities of CP have been implemented around the world, the Perú's social, environmental, and economic conditions shape the CP types that should be prioritized are the following: i) a carbon tax and ii) fossil fuel subsidies substitution. The first one could be implemented by redesigning the existing fiscal institutional infrastructure and increasing the value to cover the development and social gap in Peru. Regarding to the fossil fuel substitution, its implementation should be progressive to avoid social impacts. In developing countries, CP provides additional social benefits since it generates public revenues. Also, the shock in fuel prices creates an opportunity for Peruvian government, not to eliminate fossil fuel subsidies, but to convert them into direct money transfers and improve development in the most vulnerable parts of the country, such as rural communities.

This research proposes to use CP for an energy transition and to accomplish social equity in a Covid-19 context. To this end, a regulatory impact assessment of the implementation of CP in Perú would be developed, considering the pandemic's context. First, it analyzes the socioeconomic and climatic context of Peru. Then, it will analyze the economic, social, and political effects of establishing a CP. Finally, this proposal suggests a strategy to introduce a CP, which is consistent with energy transition and development policies.

Biographical note

Carlos Trinidad Alvarado is a Peruvian lawyer and works as a senior researcher at the Climate Policy Institute. He has postgraduate studies in sustainable environmental management from the University of California, Berkeley. He was editor of the book: "Carbon pricing in Latin America: trends and opportunities" (SPDA/Konrad Adenauer Foundation, 2019): <http://bit.ly/2F73BqZ>