

Experience Spotlight: South-South Collaboration Chile and Colombia Technical Exchange on Offsets

May 2020

Setting the Scene

In February 2020, a Tax Modernization Law (Law 21,210) was approved in Chile which modified the green taxes that originally went into force in 2017 (Law 20,899) by incorporating offsets as an unprecedented instrument. Colombia, meanwhile, passed a tax reform in 2016, which included a carbon tax and offsets. As part of the work of the [Pacific Alliance's Technical Subgroup on MRV](#) (SGT-MRV) and its

[Chile – Law 21210](#)

[Colombia – Law 1.819](#)

[Coordinating Framework](#), Environmental and Climate Change Canada (ECCC) supported a South-South technical exchange between delegations from Chile and Colombia that took place in May 2019 in Bogota, Colombia. The aim of this exchange was to share experiences, challenges and lessons learned in the design and implementation of both country's first green taxes and, in particular, to present the Chilean delegation with the lessons learned by Colombia from implementing offsets, in order to provide guidelines for a potential design in Chile. Since the meeting in Bogota, the two delegations continue to exchange experiences and information; which is particularly important for Chile in its process of designing and implementing an offset system.

Carbon Pricing Instruments

Chile

In 2014, Chile passed its first tax reform ([Law 20,899](#)) law that included green taxes. The law taxes domestic atmospheric pollutants with the greatest impact on the health of the population: particulate matter (PM); nitrogen oxide (NO_x), sulfur dioxide (SO₂) and carbon dioxide (CO₂). The tax rate for local pollutants was established considering the level of damage (social cost) while for carbon it was set at \$5 USD per tonne emitted. The facilities subject to the tax were those with boilers and/or turbines with nominal thermal power capacity equal to or greater than 50 MWt. The tax went into force in 2017 and during its first two years of implementation over 90 facilities were affected equating to approximately \$190 million USD collected annually; covering approximately 42% of the total national CO₂ emissions.

In February 2020, a new reform was approved (Law 21,210), modifying the implementation limit and replacing the technical threshold with one based on annual emissions. Under the new reform, all facilities with annual emissions of more than 100 tonnes of PM or more than 25,000 tonnes of CO₂ must pay taxes. In addition, offsets were included as a new instrument of climate management. The new threshold coverage is thus expected to reach roughly 44% of total national CO₂ emissions and 94% of those emitted by stationary sources.

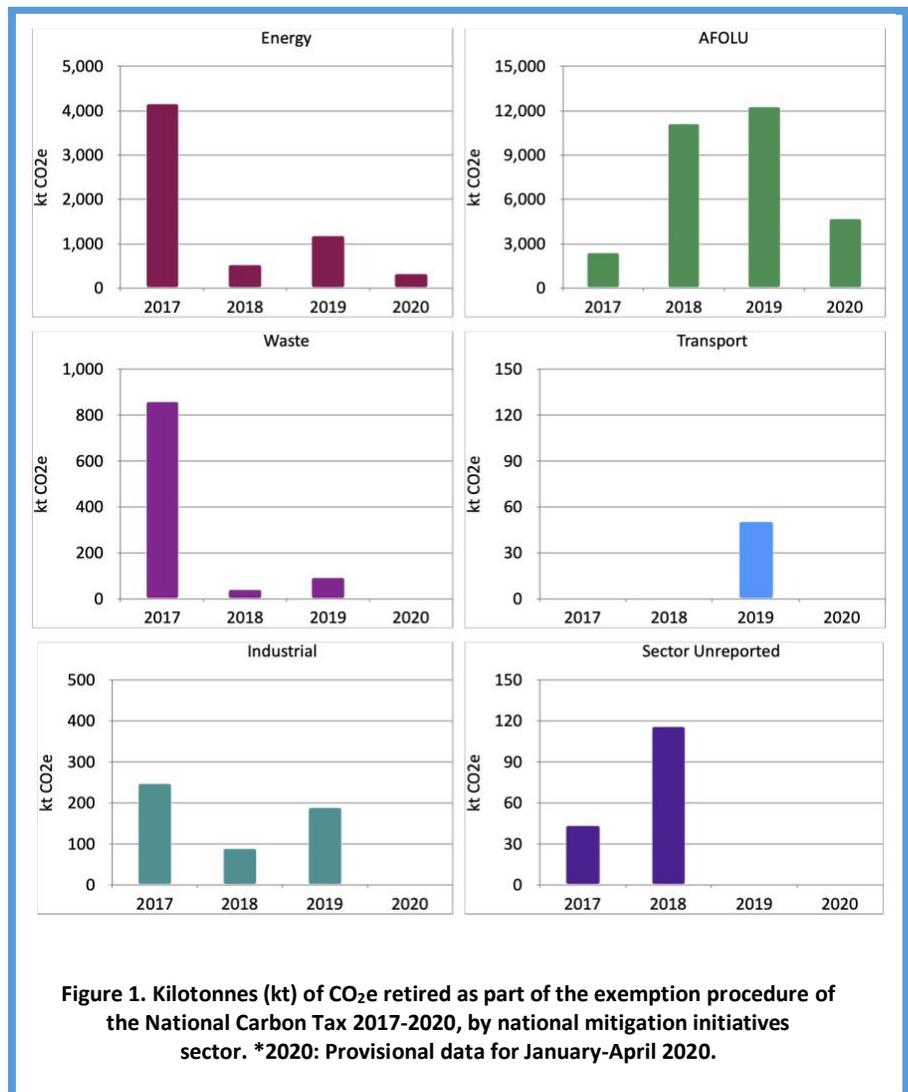
Colombia

Colombia approved a tax reform in 2016, which included a carbon tax ([Law 1,819](#)) that is applied on the carbon content of fossil fuels at purchase, sale, production or import. The fuels subject to the tax are gasoline, kerosene, jet fuel, diesel and fuel oil. For industrial consumers natural gas usage is also taxed when used in the hydrocarbon refining and petrochemical industries and liquefied petroleum gas (LPG)¹.

The tax took effect at a rate of \$15,000 Colombian pesos per tonne of CO₂, equivalent to \$5 USD/tCO₂. The rate is adjusted annually to account for domestic inflation rate plus 1%, gradually increasing up to one tax unit (UVT by the acronym in Spanish), equivalent to approximately \$10 USD/tCO₂.

Under the carbon tax regulation (Article 221), Decree 926 of 2017 was issued, establishing the conditions so that taxable entities can apply for exception (*'no causación'*) of the tax, as long as they can certify being 'carbon neutral', from the perspective of burning fossil fuels. In order to avoid restricting the use of methodologies developed under voluntary or regulated market standards, the exemption procedure for the tax allowed the use of certification programs or carbon standards. These standards must be from voluntary markets which have; CDM methodologies either nationally or internationally; methodologies issued by the National Government through the National Standardization Agency (ONAC) or complying with the REDD+ methodologies. All emissions resulting from fossil fuels subject to the tax can be neutralized.

This exception procedure has boosted the development of local initiatives to reduce or eliminate GHG emissions. In this respect, 100 GHG mitigation initiatives have been submitted as part of the exemption procedure; including sectoral and REDD+ projects. According to information provided by the Ministry of Environment, Housing and Territorial Development (MINAM), as shown in Figure 1, 90.6% of the reductions come from initiatives in the forestry sector, 7.2



¹ To have a reference on the magnitude of the coverage of this tax, it is important to mention that the emissions due to these fuels represent about 27% of the total emissions of the country, that is, about 51 million tons of CO₂ equivalent.

% from the energy sector, 1.6% from the industrial sector, 0.5% of reductions/eliminations from initiatives in the waste sector and 0.2% from initiatives in the transport sector.

Taxable entities certified as carbon neutral may opt for exemption from the tax however in order to do so, they must submit a Voluntary Cancellation Certificate and a Verification Statement of the GHG mitigation results that will be used as the offset. The first is issued by a carbon program or standard and the latter by a Validation & Verification Body (OVV, by the Spanish acronym) with the necessary accreditations to provide such services.

In addition, the mitigation results used for the exemption must comply with the criteria and accounting rules set forth in Resolution No. 1,447 of 2018.

Table 1 - General characteristics of carbon taxes and offsets in Chile and Colombia

Country	Tax on CO ₂	Tax base	Year of implementation	Rate (USD/tonne CO ₂)	National coverage (% total)	Use of offsets (Year)
Chile (2014)	Tax on CO ₂ emissions. Law 20,780 (Art. 8) and subsequent amendment to Law 20,899	Emission from boiler/ turbine facilities (> 50 MW). Includes all sectors and fossil fuels. Excludes biomass.	2017	5	40*	No
Chile (2020)	Tax on CO ₂ emissions. Law 21,210	Establishments with emissions of 100 tons of PM or more, or 25,000 tons of CO ₂ or more.	2023	5	44 approx.	Yes (As of 2023)
Colombia	Tax on CO ₂ content in fuels. Law 1819 (Art. 221).	Purchase / Sale of fossil fuels. All fuels, except coal and natural gas for power generation)	2017	Starts at \$5 and increases annually at the rate of 1% + the corresponding adjustment at the national inflation rate	20	Yes (As of 2017)

*This value corresponds to the total emissions, measured through the tax, including biomass emissions (exempt from paying taxes). Taxed emissions represent about 33% of the national total.

Lessons learned from the implementation of offsets in Colombia

Colombia has three years of experience in the implementation of offsets, an instrument that has been made more dynamic as a consequence of the exemption procedure designed for the carbon tax. The speed with which it had to execute their design and the experience gained during their implementation are of great value to Chile now that the use of offsets has been approved to supplement the green taxes that went into force in 2017. In fact, the Chilean Ministry of the Environment (MMA) is in the process of drafting the regulations that will put the instrument into operation.

The Colombian experience provides key elements to consider in the design of the offset MRV system:

1. **Precise definitions of principals which are new in national legislation.** For the purpose of exemption from the tax through offsets, carbon neutrality was established as a principle. However, this caused some confusion as it was not explicit whether it referred to neutrality in the final product or in the entire process. Ultimately, carbon neutrality was linked to emission offsets related to the final product, while a new concept, carbon neutral, was established to define offsets associated with the production process as a whole.
2. **Define and specify the institutional responsibilities for the correct operation of the instrument.** It's important to develop, disseminate and train all those involved in the process (regulated entity, regulator and inspector) of MRV and provide resources to the institutions that must handle the new responsibilities. It's also important to strengthen and build capacity depending on the role performed by each type of actor. Understanding the technical issues that support the regulation is an essential element for the appropriate operation of the instrument.

Likewise, it is essential to precisely establish the institutional structure, defining the competencies (roles and responsibilities) of each actor who should be involved in the regulation, including: the entity responsible for regulating the tax (Ministry of Environment or competent ministries), the Accreditation Body, the holders or implementers of mitigation initiatives, Validation and Verification Bodies, National Tax and Customs Directorate, Carbon Standards or Programs and records of offset transactions

3. **Generate clear indicators that encourage the reduction or elimination of GHG emissions at the national level in order to improve domestic environmental conditions while complying with the commitments established in the Nationally Determined Contribution (NDC).** As of 2018, Colombia only accepts GHG reductions from national initiatives for exemption from the tax and as of 2020 only mitigation results in effect for less than five years. In this respect, it is recommended to establish transition regimes with achievable dates, for which the institutional capacities can be reviewed, not only of public entities (Tax directorate, the party responsible for the tax, Ministry of Environment, Accreditation Body, among others), but also the preparation of private entities (GHG Validation and Verification Bodies (OVVs), carbon standards programs, taxable entities, among others).

Conclusion

More countries are expressing their interest carbon pricing instruments and the Pacific Alliance has a capacity for technical exchanges on climate policy principally as it relates to MRV. The technical exchange supported by ECCCC in March 2019 and the subsequent reunions between the Colombian and Chilean delegations strengthens a platform that favors South-South cooperation and reinforces capacities not only in both countries, but also for other member countries of the Pacific Alliance by recording and disseminating the lessons learned.

Chile has Colombia's shared experience to support as Chile's Ministry of Environment (MMA) works to draft the regulations that will drive national offsets and works to develop its platform to register mitigation actions for pollutants subject to the tax. Specifically, clearly defining administrative responsibilities and key fundamentals, developing and disseminating MRV protocols, generating incentives for local projects and providing resources to the institutions involved should be priorities.

Likewise, potential improvements both in the design and implementation of these instruments in the two countries will be a subject of exchange in order to continue evolving towards more efficient and effective environmental and climate policies, not only at national level, but in the region as a whole.

For more information on this Spotlight Paper or on any other [Spotlight Papers in the Series](#) please contact the [SGT-MRV Coordinator](#) – Mr. Francisco Pinto.

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