

COLOMBIA CARBON TAX AT A GLANCE

Start of operations	January 2017
Target (s)	<ul style="list-style-type: none"> • Reduce 51% GHG below BAU by 2030, which translates to a 2030 emissions level of 169.44 MtCO₂e, implying a net reduction of 176 MtCO₂e. • Zero deforestation by 2030. • Declaration of 30% of the national territory as protected areas. • Carbon neutrality by 2050.
Fuels covered	<p>The national carbon tax is a levy on the carbon equivalent content (CO₂e) of all fossil fuels: coal, diesel, gasoline, fuel oil, jet fuel, kerosene, liquefied petroleum gas, and natural gas.</p> <p>Clarifications:</p> <ul style="list-style-type: none"> • Coal: coking coal is exempt, and tax collection starts in 2025. • Liquefied petroleum gas: only applies to industrial users. • Natural gas: only applies to hydrocarbon refining and petrochemical industry.
Use of offsets	Using carbon credits, companies can compensate up to 50% of the carbon tax-covered emissions.
Emissions compensated to date	99.8 MtCO ₂ e from 2017 to September 2023
Other features	<p>The procedure to compensate for the carbon tax, carbon credits acceptance criteria, and MRV system are regulated by Decree 926, 2017; Resolution 114, 2018; Decree 446, 2020; Resolution 0831, 2020. It is worth mentioning some key points:</p> <ul style="list-style-type: none"> • Carbon credits must be originated in Colombia. • Carbon credits must have a vintage of at most five years vs. the year the taxed emissions are generated. • There is no positive list of approved carbon standards. • VVB should be approved by National Accreditation Authorities. • Projects must be registered in the National Emissions Reduction Registry (RENARE).
Penalties for non-compliance	The National Customs Agency (DIAN) shall have the powers outlined in the Tax Statute for the investigation, determination, control, penalisation, discussion, refund, and collection of taxes.



Use of revenues

The government has raised US\$690 million. 80% of the income is directed to environmental projects through the Ministry of Environment and 20% to the National Illicit Crop Substitution Program managed by the Colombia in Peace Fund.

MAJOR DEVELOPMENTS

Law 1753

National Development Plan 2014 – 2018

Art. 175. Setting framework for developing the National Emissions Reduction Registry (RENARE)

Law 1844

Ratification of the Paris Agreement: -20% vs BAU

Decree 926

Carbon Tax compensation scheme rules

Law 1955

National Development plan 2018 - 2022

E2050

Official launch of Colombia's Long Term Strategy 2050

Law 2169

Climate Change Action Plan

Resolution 0012

Tax authority modifies the prices for the carbon tax independently to each fossil fuel type



2015

Law 1819

Tax Reform and inclusion of the Carbon Tax (Art. 221)

2016

2017

2018

Law 1931

Guidelines for Climate Change Management and ETS framework

2019

Resolution 1447

Regulations on RENARE, accounting, and MRV systems

2020

Decree 446

Resolved issues for Validation and Verification bodies

2021

Resolution 0831

Continuous development of RENARE

2022

Law 2277

Tax reform that limits the compensation opportunity to 50%

2023

March

Green Taxonomy

A reform approved in December 2022 introduced modifications to the carbon tax and the offsetting mechanism that took effect in January 2023. The government established a cap for compensation of 50% of covered emissions and new rates. For 2023, the carbon tax price is set between US\$4.60 and US\$5.80 (depending on the fuel type) and will increase every year in line with the consumer price index

plus one percentage point. However, coal has a special transition regime: for 2023 and 2024, the rate is 0; from 2025, it will begin to be gradually settled as a percentage of the total rate until 2028, when the full rate will be applied. The law also mentions that the Ministry of Environment may regulate control mechanisms and define technical criteria for the GHG mitigation results for the offsetting mechanism.

Fossil Fuel	Measurement unit	Value COP/Unit	Value USD/Ton CO2e
Coal	Tonne	59,587	5.7
Fuel oil	Galon	272	
Jet fuel	Galon	231	
Kerosene	Galon	225	
Liquefied petroleum gas	Galon	153	
Diesel	Galon	191	4.6
Gasoline	Galon	169	
Natural gas	Cubic meter	36	



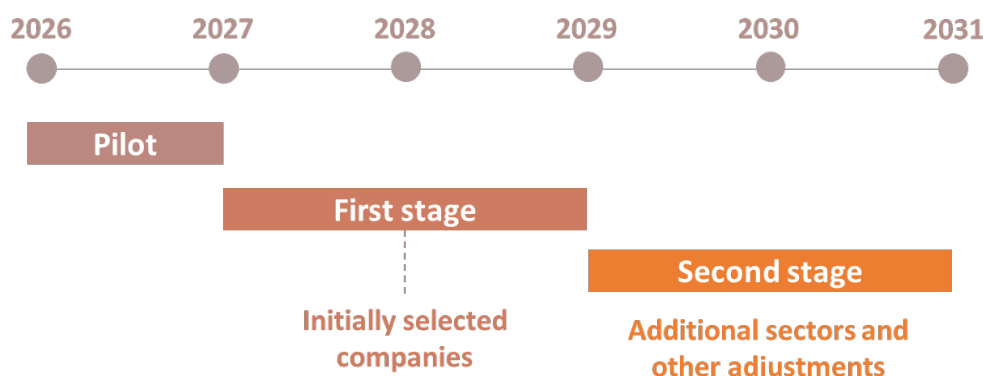
According to the Colombian business association Asocarbono, around 100 million tons of CO₂e have been offset since 2017, corresponding to 38% of the total emissions covered historically by the carbon tax. During 2021 and 2022, the average emissions reductions compensated in the market were 22 million tons of CO₂e, corresponding to 52% of total emissions. During the first nine months of

2023, around 11 million emissions have been offset. Additionally, there are 212 Colombian projects certified with greater participation of the AR, energy, and REDD+ sectors, respectively. It is worth noting that the market price of national carbon credits has been fluctuating somewhere between 80% and 95% of the tax price.

Year	Compensation (MtCO ₂ e)	Taxed emissions (MtCO ₂ e)
2017	7.7	39.5
2018	11.9	30.6
2019	14.9	42.4
2020	10.1	27.3
2021	23.4	42.34
2022	20.8	43.3
2023	11	34.9

Source: Asocarbono, 2023

MARKET COMMENTARY



In 2018, Colombia passed Law 1931 – “Strategies and Guidelines for the Management of Climate Change” – establishing the framework for a national ETS and outlining basic provisions. The Ministry of Environment and Sustainable Development will determine the number of allowances in line with Colombia’s national mitigation targets and is also in charge of allocation, which will take place primarily via auctions. Non-compliance is to be punishable by a fine of up to double the auction price.

It is expected that offsets from non-covered sectors will be eligible and that the national government may recognise the tonnes of emissions that have been paid for via the carbon tax as allowances acquired at auction. The government is expected to publish the Decree with the regulations for the pilot phase of the ETS in 2024.

According to the regulatory plan for 2024, the Ministry of Environment will release regulation related to:

- Carbon tax offsetting mechanism
- Project developments and procedures
- Communities' engagement and social and environmental safeguards
- ETS design rules
- Article 6 institutional framework
- Establishment of the carbon budget system



USEFUL LINKS

- [Asocarbono: Colombian Carbon Market State Report](#)
- [Mexico2: Carbon Tax Technical Note](#)
- [ICAP: Colombia ETS profile](#)
- [National Planning Department: Climate Change Economic Instruments](#)
- [Colombian Green Taxonomy Policy 2022](#)
- [Long Term Strategy to 2050](#)

REFERENCES

- [Law 1819 / 2016](#)
- [Ley 1844 / 2017](#)
- [Decree 926 / 2017](#)
- [Resolution 1447 / 2018](#)
- [Law 1931 / 2018](#)

- [Law 1955 of 2019](#)
- [Decree 446 / 2020](#)
- [Resolution 831 / 2020](#)
- [Law 2169 / 2021](#)

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