Ireland's Carbon Tax in the context of the Fiscal Crisis

Frank Convery, Louise Dunne* and Deirdre Joyce

School of Geography, Planning & Environmental Policy University College Dublin

Abstract

Beginning in late 2008, Ireland experienced a fiscal crisis. This resulted in November 2010 in agreement between the Irish government and the European Central Bank, the European Commission and the International Monetary Fund (IMF) whereby the latter provided substantial financial support, on condition that a number of revenue raising and expenditure reduction targets were met. Also in 2010, a carbon tax at a rate of EUR 15 per tonne of CO₂ was introduced, covering most CO₂ emissions from sectors such as transport, heat in buildings and heat and process emissions by small enterprises. This paper describes the features of the tax, recounts the story of its interplay between fiscal adjustment and helping meet the obligations to raise taxes, and implications for competitiveness and carbon leakage, environmental effectiveness and equity issues, and draws some conclusions regarding why it happened, and provides some tentative insights for other countries in a similar situation.

Keywords: Carbon tax, market-based instruments, Irish Fiscal policy, policy lessons.