

**An Upstream Carbon Tax in the Guyana-Suriname Basin:¹
Proposal Discussed at the 2021 Green Economy Workshop**

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A carbon tax is one way of "putting a price on carbon," the other being to establish a carbon emissions trading system (ETS). Carbon pricing causes economic agents who are transacting in a market to recognise third party costs as part of their production costs. As such, an explicit carbon tax that leads to a reduction in crude oil production is associated with a certain amount of "avoided emissions."

The Upstream Carbon Tax at the Wellhead (UCTW), discussed on Day 1 of the 2021 Green Economy Workshop is a game-changing one that will in fact address all four objectives of COP26: Climate Mitigation, Adaptation, Finance and Cooperation. A "Pigouvian tax" that will be set equal to the best measure of the Social Cost of Carbon (SCC), the UCTW will achieve the climate mitigation objective by ensuring that oil producers internalise the full cost – including the "third party cost" or negative externality imposed on all of us when CO₂ emissions are released on combustion - of their activities. As it is a tax the UCTW will also generate revenues, which could be earmarked for climate adaptation, in the jurisdictions that adopt it. In other words, the UCTW will achieve enhanced ambition in the Guyana-Suriname Basin, but without the usual concerns about a reduction in revenues. Cooperation as envisaged in Article 6 of the Paris Agreement will therefore be "incentive compatible" for Guyana and Suriname, which could be seen as achieving enhanced ambition as a regional climate club, an idea that has been promoted by Economics Nobel Laureate, William Nordhaus.

The carbon tax is administratively simple, but one must distinguish between an upstream and a downstream version. The downstream version of the carbon tax is one that is levied at the petrol pump. It has become a focal point for the global effort to reduce emissions from fossil fuels, receiving strong support in the US from the Climate Leadership Council (CLC), which calls it the "bipartisan climate solution;" and wider support from leaders around the world from government, private sector, academia, and civil society organised as the Carbon Pricing Leadership Council. Both the World Bank and the IMF have endorsed carbon pricing, the Managing Director and staff of the latter even being more specific in their advocacy of a minimum carbon price floor to be adopted by the full G20.

Timing, however, is of the essence, and not just because the imminent COP26 will probably finalise the Rulebook for Article 6. Rather, if a developed country were to adopt a carbon tax first, then it will no doubt impose a border adjustment on oil imports from countries that do not have a carbon tax, ultimately causing those latter countries to pay their carbon tax, without being able to earn any revenues from it. This could well be the fate of crude oil extracted from the Guyana-Suriname Basin if the UCTW is not adopted first. On the other

¹ Statement based on the presentation made by **Dr. Thomas B. Singh, Director of the UGGI** on Day 1 of the (Virtual) 2021 Green Economy Workshop. Comments should be sent to thomas.singh@uog.edu.gy. Please note that nothing in this statement is to be attributed to the University of Guyana.

hand, countries that import oil from the Guyana-Suriname Basin will be penalised by having to pay higher, UCTW-inclusive prices *and* losing the opportunity to earn corresponding revenues unless they themselves adopted a higher carbon tax. Because carbon taxes cannot be successfully challenged either under WTO rules or international investment dispute settlement mechanisms, the adoption of the UCTW in the Guyana-Suriname Basin will provide an important nudge to the process of putting a price on carbon. Universal adoption of carbon pricing, which seems inevitable, would itself ensure that there will be no significant loss in the competitiveness of crude oil produced in the region, nor would there be any carbon leakage due to the transfer of oil production to other regions.

The upstream carbon tax, levied at the wellhead in the Guyana-Suriname Basin, is notably superior from a national (Guyana or Suriname) perspective to the downstream version that is being advocated by the CLC. For one thing, the CLC downstream version applies to consumers in the US. Thus the tax revenues would increase in the US and other developed countries that adopt the proposal. This, of course, is in the nature of taxes: they are earned in the tax jurisdictions in which they are levied or implemented. The "irrelevance-of-who-pays the tax" logic would guarantee that the climate mitigation effect of the tax is identical, regardless of where it is levied - at the petrol pump in developed countries or the wellhead in the Guyana-Suriname Basin. What is wholly different is the "distributional effect," because it is only in the case of the latter that Guyana and Suriname would earn revenues from the measure. Thus, if Guyana's oil production were to remain at 120,000 barrels per day, the Government of Guyana (GoG) will earn about **USD750 Million annually** if an average carbon price of say US\$40/tonne of CO₂ equivalent were to be assumed. And in Guyana's case, this could be a simple administrative charge levied by the Guyana EPA, requiring no new legislation or regulation. Indeed, the very same provision Section 4 (4) (a) Environmental Protection Act 1996 that was used to introduce a charge on excess flaring emissions in the Stabroek Block, is available for the introduction on this UCTW.

A key design element of carbon taxes - upstream or downstream - relates to the use of the revenues that would be raised by the tax. The general principle is that the revenues must be earmarked for activities that will not lead to a leakage, or an increase in CO₂ emissions elsewhere; or may even reduce them further. In the case of the UCTW, the revenues ought to be thought of as **self-generated climate finance, to be used for adaptation, and perhaps for loss and damage, and climate resilience; and also for immediately fulfilling the unconditional and conditional Nationally Determined Contributions (NDCs) made under the Paris Agreement.** Moreover, this self-generated climate finance will be controlled and distributed in an institutional framework that would allow countries that have generated the emissions reductions to have a say in the use of the funds. Finally, while the commitment by developed countries to US\$100 Billion annually to climate finance seems as elusive as the quest to limit the average global temperature increase to 1.5 degrees above pre-industrial levels, the Guyana-Suriname Basin can generate enough climate finance for the region to even consider making subscriptions to start a Regional Climate Adaptation Fund to support other countries.

By adopting the UCTW, Guyana and Suriname will therefore be able to address the deep paradox of producing a commodity that increases CO₂ emissions at the very time that net-zero has become critically important, while also being renowned for the positive externalities

of rich biodiversity and significant carbon sequestration services it provides as part of the Guiana Shield. The development in the Guyana-Suriname Basin is also coming on stream at a time when the International Energy Agency (IEA) has issued a call for an end to new investments in fossil fuels, rather than making the phasing out of unabated power plants in advanced countries the priority. Beyond the mitigation it would achieve, the UCTW could, if adopted, be invoked for the role it will play in providing a much-needed nudge to the rest of the world to adopt carbon pricing, while providing a positive response to the IEA's call in a way that respects the common but differentiated responsibilities to address climate change among countries.

In contrast, the ETS is a 'cap-and-trade' scheme which requires the regulatory agency to set limits or caps on emissions, allocate allowances, and then let participants trade allowances in order to meet their regulatory requirements. A carbon price emerges from this trading. One key difference between the two forms of carbon pricing therefore is that with carbon taxes prices are known, while with the ETS, the carbon price is very uncertain. It is for this reason that even oil majors such as ExxonMobil have publicly announced their support for carbon taxes as the most effective way of stabilising the global climate. In fact, ExxonMobil has even adopted the stance that carbon pricing is "essential to achieving net-zero emissions."

The upstream version of the carbon tax, levied at the "wellhead," or on each barrel of oil produced in the Guyana-Suriname Basin, is superior to the alternative of establishing an ETS in which oil companies would participate. For one thing, unless allowances are sold or auctioned when being allocated at the outset, governments earn no revenue at all from the operation of emissions markets. Second, the ETS creates great uncertainty about the ensuing carbon price for investors, whereas carbon taxes give companies a chance to take stable and explicit carbon prices into account when making decisions. From a climate mitigation perspective, one should further point out that while the ETS and carbon taxes would, with the right assumptions, have the same effect of reducing emissions, it is far easier to get the carbon price "right" in the case of the carbon tax than in the case of ETS.

The upstream version of the carbon tax is also clearly superior to any of the voluntary "private-public" schemes that are now emerging. One such is the Lowering Emissions by Accelerating Forest finance (LEAF) Coalition, which is itself a voluntary coalition that seeks to match buyers and sellers of carbon offsets. Its Call for Proposals indicates that these offsets are designed for "voluntary, not international compliance purposes," and therefore should be seen as complementary to other measures such as the UCTW, and not an alternative to it. It should be emphasised that Guyana stands to earn revenues from carbon offsets generated by LEAF projects only in stage 5 or 6 of the LEAF cycle, after emissions reductions (ERs) have been verified, the credits have been paid for by a third-party agency, due diligence has been done, and so forth. Indeed, in posting an update that lists the jurisdictions "eligible for purchase agreement discussion with Coalition participants," the LEAF Coalition states clearly that "This posting does not guarantee a transaction. LEAF Coalition transactions are conditioned on the ability of a jurisdiction to demonstrate compliance with the requirements of v2.0 (or other applicable version) of The REDD+ Environmental Excellence Standard (TREES) ... and the terms of the Call for Proposal issued on April 22, 2021." This contrasts with the assured climate finance that could be generated from a UCTW, but it is important to point out that the two carbon mechanisms are not in any way mutually exclusive.

For all these reasons therefore, and because of the resounding climate justice that would finally be infused in a mitigation mechanism, the just-concluded 2021 Green Economy Workshop hosted by the University of Guyana GREEN Institute (UGGI) recognised the urgency and the importance of an Upstream Carbon Tax at the Wellhead in the Guyana-Suriname Basin, and by this statement, requests that governments of the region give serious consideration to it.

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