

# Mexican fiscal reform environmental taxes

Carbon tax  
Tax on Pesticides

June, 2014

## Introduction

- The 2013 fiscal reform in Mexico introduced two new environmental taxes with an extra-fiscal objective aimed at improving the environment of our country:
  - I. An excise tax on fossil fuels for its potential emissions of carbon dioxide (CO<sub>2</sub>) to the atmosphere; and,
  - II. An excise tax on pesticides according to their degree of acute toxicity.
- This action endorses the commitment of the Mexican present generation to future generations in Mexico and the world to protect our environment, and has placed our country as an active participant in implementing measures to fight climate change.
- These taxes are based on the “polluter pays principle”; and both were designed with the support of the Centro Mario Molina.

# Mexican fiscal reform – environmental taxes

## Carbon tax

### ➤ Chronology of the proposal:

#### September 2013

Government Proposed to the Congress the tax

Price of US\$5.70 per ton of CO<sub>2</sub>e.

Support of the Centro Mario Molina.

The carbon dioxide emissions in combustion processes was determined according with the 1996 IPCC Guidelines.

#### October 2013

The Congress approved the tax with some changes:

- A limit to the quotas at a 3% of the price for each fuel.
- New price of US\$3.21 per ton of CO<sub>2</sub>e.
- A tax credit for taxpayers who use fossil fuels as inputs to produce other goods and services.
- Taxpayers can pay the tax in cash or with carbon credits (offset scheme).

#### January 2014

The tax applied.

Fossil fuels prices were adjusted to reflect the tax.

The expected collection of this tax is approx. 1 billion of dollars a year.

In the first quarter of the year, the collection was approx.. 190 millions of dollars.

## Mexican fiscal reform – environmental taxes

### Carbon tax

- The tax structure was as shown in the following table:

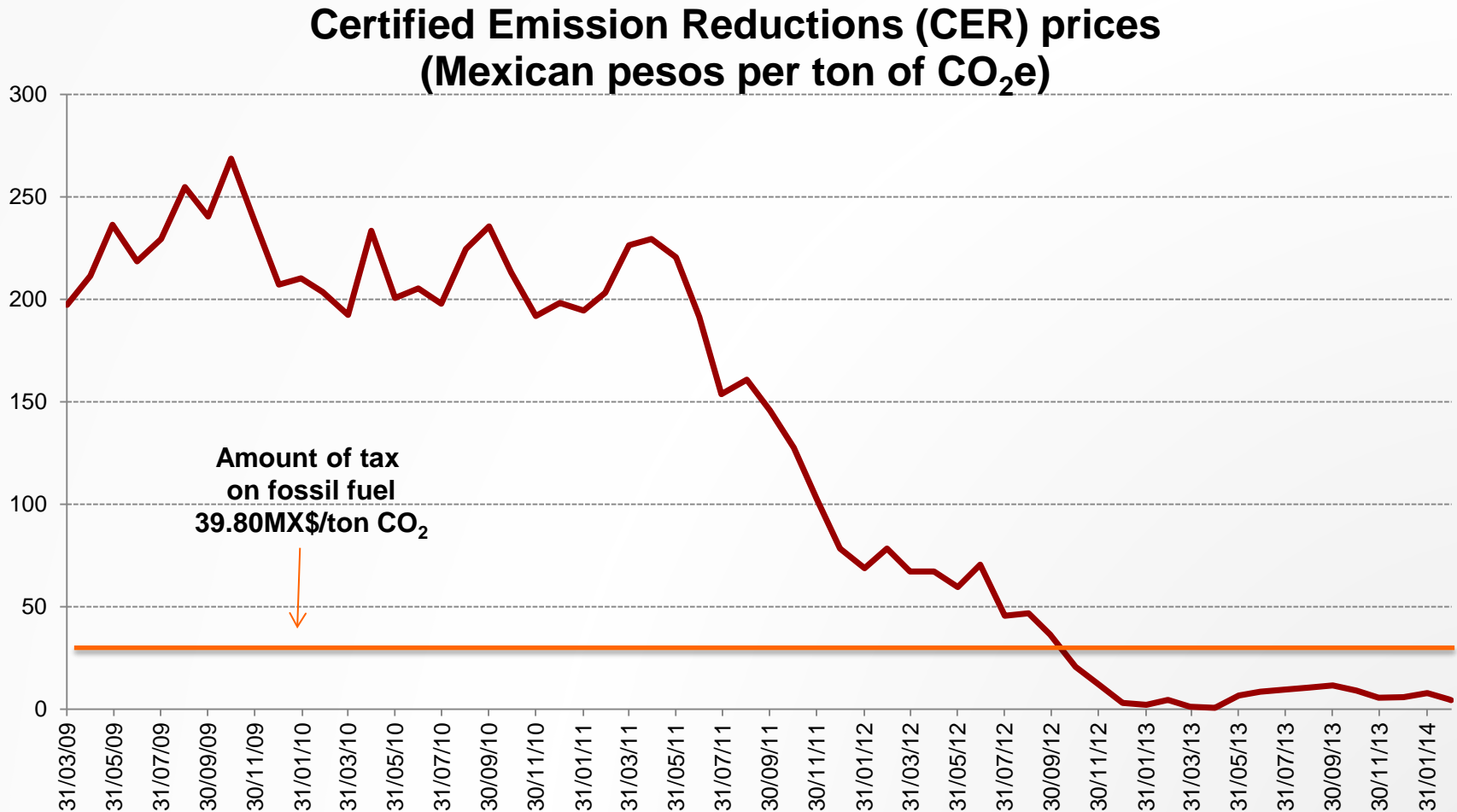
| Type of fuel                     | Quota | Measure unit for the tax       | Quotas in US\$ Dollars          |
|----------------------------------|-------|--------------------------------|---------------------------------|
| <b>Propane</b>                   | 5.91  | MXN cents per liter            | 0.45 cents per liter            |
| <b>Butane</b>                    | 7.66  | MXN cents per liter            | 0.58 cents per liter            |
| <b>Gasoline and aviation gas</b> | 10.38 | MXN cents per liter            | 0.78 cents per liter            |
| <b>Jet Fuel and kerosene</b>     | 12.40 | MXN cents per liter            | 0.94 cents per liter            |
| <b>Diesel</b>                    | 12.59 | MXN cents per liter            | 0.95 cents per liter            |
| <b>Fuel oil</b>                  | 13.45 | MXN cents per liter            | 1.02 cents per liter            |
| <b>Petroleum coke</b>            | 15.60 | MXN per ton                    | 1.18 per ton                    |
| <b>Coal coke</b>                 | 36.57 | MXN per ton                    | 2.76 per ton                    |
| <b>Mineral coal</b>              | 27.54 | MXN per ton                    | 2.08 per ton                    |
| <b>Other fossil fuels</b>        | 39.80 | MXN per ton of CO <sub>2</sub> | 3.21 per ton of CO <sub>2</sub> |

- To prevent deterioration in real terms, the tax amounts will be adjusted annually with the variation of the national consumer price index.

## Offset - Compensation mechanism

- The Ministry of Finance (SHCP) has the attribution to determine the procedure and the value of carbon credits (regulation).
  - Right now we are in the final stage of the emission of this regulation, which consists in:
    - ✓ Deliver procedure.- an administrative process.
    - ✓ Price formula.- that is relate to the last month average price (in Mexican pesos) of the CER's.
- In the Law, a carbon credit is defined as *“economic instrument referred to in the Kyoto Protocol and endorsed by the United Nations Organization within the United Nations Framework Convention on Climate Change and each carbon credit is equivalent to one carbon dioxide ton equivalent which has been avoided to be emitted into the atmosphere”*.
- This limits the possibility of taking into account any other than the CER's market; and due to the actual situation of this market, this payment mechanism will not be attractive to any taxpayer, since the amounts of the tax is higher than the carbon credits market value (aprox. 3.0 US\$/ton vs. 0.5 US\$/ton).

CER's prices versus carbon tax



Source: Bloomberg, march 4th, 2014.

# Mexican fiscal reform – environmental taxes

## Excise tax on pesticides

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- While the most toxic pesticides have already been banned by international conventions, in the Mexican market there are still some products with a significant level of contaminants and toxicity, which negatively affect productivity, mainly of peasants in the country, because acute exposure to this type of substances could lead to some of the following adverse health effects:
  - a) Acute poisoning (mild, moderate or severe), sub chronic, and chronic.
  - b) Diseases such as immune dysfunction and permanent neuronal damage, and in extreme cases can cause death and acute effects such as burns in skin and eyes, headache, nausea, blurred vision, muscle cramps, vomiting and difficult breathing, and even there are no studies conclusive to suggest that these products may be carcinogenic.
  - a) Contamination of water, soil, air and food.
- This tax is designed to charge more those pesticides with greater acute toxicity in humans, and it exempts pesticides with lower toxicity. It intends to send signals to consumers in order to prevent the use of more toxic products instead of those products that generate less negative effects on human health.

# Mexican fiscal reform – environmental taxes

## Excise tax on pesticides

### ➤ Chronology of the proposal:

#### September 2013

Government Proposed to the Congress the tax

Increasing rates according with the acute toxicity level of each pesticide.

Support of the Centro Mario Molina.

The acute toxicity level is based on the international regulation (WHO) applicable in Mexico.

#### October 2013

The Congress approved the tax with one change:

- In 2014, the rates will be reduce to a half of the original proposal.
- From 2015 and onwards, the rates will apply completely.
- Pesticides with the lowest toxicity are exempted.

#### January 2014

The tax applied.

All segments in the supply chain are taxed.

The expected collection of this tax is approx. 14 millions of dollars in 2014, and 30 millions from 2015.

In the first quarter of the year, the collection was approx. 4 millions of dollars.



# Mexican fiscal reform – environmental taxes

## Excise tax on pesticides

### ➤ Structure of the tax:

| Route of human exposure      | Category 1 | Category 2 | Category 3 | Category 4 | Category 5 |
|------------------------------|------------|------------|------------|------------|------------|
| Oral (mg/kg)                 | 5          | 50         | 300        | 2,000      | 5,000      |
| Dermic (mg/kg)               | 50         | 200        | 1,000      | 2,000      | -          |
| Inhaled Gases (ppmV)         | 100        | 500        | 2,500      | 5,000      |            |
| Inhaled Steams (mg/l)        | 0.5        | 2          | 10         | 20         |            |
| Inhaled Dust and Fogs (mg/l) | 0.05       | 0.5        | 1          | 5          |            |

- According with the acute toxicity category, pesticides pay these rates:

| Category | Tax rate |      |
|----------|----------|------|
|          | 2014     | 2015 |
| 1 and 2  | 4.5%     | 9.0% |
| 3        | 3.5%     | 7.0% |
| 4        | 3.0%     | 6.0% |
| 5        | 0.0%     | 0.0% |