

The Incidence of a Carbon Tax and CO2 Emissions

We use field-level cost estimates of all oil and natural gas fields to highlight dynamic aspects of a global carbon tax. Some of the initial reduction in consumption will be offset through higher consumption later on. Only high-cost reserves will be priced out of the market, e.g., at 200 dollars per ton of CO2 cumulative emissions decrease by 4%. The tax incidence initially falls on consumers under a constant tax but eventually becomes negative as the lifetime of the resources is extended. An increasing tax over time reduces the initial incidence on consumers.