

## Putting a Price on Carbon, an accelerated momentum ahead of the Paris negotiations

Thomas Kerr

Principal Industry Specialist  
IFC Climate Policy team

*\*Tom Kerr leads climate finance and policy strategy and external engagement at the International Finance Corporation and World Bank Group. He also is responsible for private sector adaptation investment and climate risk screening; national clean energy/climate investment strategy development; and public finance innovation. Tom has a Masters of International Environmental Law from Georgetown University Law Center, a JD from DePaul College of Law and a Bachelor of Economics from the University of Michigan.*

### Key points:

- **Existing carbon pricing instruments are now worth about \$50 billion**
- **The body of evidence on well-designed and run carbon pricing systems is inspiring other jurisdictions to follow**

Ahead of the upcoming Paris climate negotiations - which are expected to set a final legally binding agreement to reduce greenhouse gas emissions -, almost all countries have submitted their INDCs (Intended Nationally Determined Contribution) and are now looking at different pathways to begin implementation. A key policy that is receiving attention is carbon pricing.

Today, 39 nations and over 20 cities are using a carbon price. This represents the equivalent of about 7 billion tons of CO<sub>2</sub>, or 12% of annual global GHG emissions. This is a threefold increase over the past decade; since 2012, the number of implemented or scheduled carbon pricing instruments nearly doubled, from 20 to 38, and existing instruments are now worth about \$50 billion.

China and the United States host the two largest national carbon pricing initiatives in terms of volume covered. Since 2011, China has been quietly — and successfully — running seven regional carbon trading pilots in places like Beijing and Guangdong Province, covering the equivalent of 1 billion tons of CO<sub>2</sub>. And the government is putting the building blocks in place to knit these pilots together into a national ETS that will launch in 2017.

In the US, programs in California and the Northeast cover the equivalent of half a billion tons of CO<sub>2</sub>. California's ETS is now delivering 6.6% less climate pollution for every dollar of GDP as compared to 2009<sup>1</sup>; a recent report on the RGGI (Regional Greenhouse Gas

Initiative) showed the system found similar positive benefits, estimating that RGGI has generated \$1.3 billion in economic benefits and 14,000 job-years in the last three years for its nine member states in the Northeast<sup>2</sup>.

And let's not forget the world's pioneering emissions trading system – the EU ETS. It covers 2 gigatons of carbon dioxide equivalent (GtCO<sub>2</sub>e), while sending an even stronger signal to investors and businesses since the establishment of the Market Stability Reserve. Likewise, the Province of Ontario in Canada is projected to launch its own ETS in 2017 and link with Québec and California, showing movement toward a wider North American market. In Asia, Taiwan has adopted the Greenhouse Gas Reduction and Management Act 98, a law that sets an emission reduction target of 50% below 2005 levels by 2050 and that indicates ETS as one of the major means to achieve this target. Korea launched in early 2015 the world's second-largest ETS, and is now in full implementation.

### 1. Why is this happening?

There are a number of reasons we are seeing accelerating momentum to price carbon. First, with a global climate agreement on tap for the Paris climate summit, national governments are announcing their climate action plans. In addition to China, a number of jurisdictions — such as Korea, Switzerland and Norway — explicitly reference their intention to use carbon pricing as an instrument to decouple economic growth from pollution. Examples include China's announcement of two new sub-national ETS in Hubei and Chongqing last year and Korea's adoption of an overarching policy package to reduce emissions by 30% against BAU (Business As Usual) by 2020, capping carbon prices at KRW 10,000/tCO<sub>2</sub> and

<sup>1</sup> Carbon Market California: a comprehensive analysis of the Golden State's cap-and-trade program 2012-13, Environmental Defense Fund, 2014.

<sup>2</sup> The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States, Analysis Group, 2015.

covering approximately 66% of its national emissions. These price stabilization measures are designed to enable emission reductions in a cost-effective manner, while giving clear signals of predictability to encourage investment in low-carbon technologies.

Second, governments are becoming more confident in designing and running effective carbon pricing systems. This is evident in the new *FASTER Principles for Successful Carbon Pricing* report issued in September by the World Bank Group and the OECD<sup>3</sup>. These Principles capture the dynamic learning that we have seen over the past decade, and show that governments are building from one another's success to develop a common set of elements that address key political challenges such as competitiveness, impact on the poor and productive use of revenues. This body of evidence on well-designed and successfully-run carbon pricing systems is inspiring other jurisdictions to follow.

Finally, business is moving beyond simple calls to "put a price on carbon" in two important ways. They are preparing for carbon constraints by initiating **internal carbon pricing** systems. In September 2015, CDP<sup>4</sup> announced a nearly threefold jump in the number of global companies disclosing the use of an internal carbon price—the total is now over 430 companies<sup>5</sup>. The largest growth was in Asia, where the number of businesses divulging their use of an internal carbon price jumped from 8 in 2014 to 93 this year, including major companies such as Mazda, Nissan and Asian telecom companies SK Holdings and NTT Docomo. In Japan, companies are calculating their corporate environmental footprint and turning to alternative renewable resources and introducing more energy efficient equipment and technologies. CDP reports that currently, 22 Japanese companies report the use of an internal carbon price, 17 more are expected in the coming year.

## 2. How can we take this to the next level?

While all of this momentum and action is welcome, it is insufficient to put the world on a 2°C stabilization pathway. Efforts to advance carbon pricing are struggling to overcome a common set of key issues, such as a fear of losing competitiveness or the potential impact on energy

prices and the poor. To address these important issues, **the Carbon Pricing Leadership Coalition (CPLC)** is being created.

This 'coalition of the working' grew out of the movement to support carbon pricing seen at the 2014 Climate Summit, and provides the space for global businesses, governments and non-governmental organizations to come together and work jointly to address challenges and advance effective carbon pricing around the world, one jurisdiction at a time.

The Coalition has three work pillars:

1. building and sharing the evidence base—through the *Principles* and other synthesis of competitiveness, alignment of policies, and equity, among others:--to address the key issues that prevent action on carbon pricing;
2. mobilizing business support for carbon pricing, through corporate 'readiness' activities like the use of internal carbon pricing and targeted policy advocacy; and
3. Convening leadership dialogues globally and in key jurisdictions that need assistance in advancing their carbon pricing policies.

The Carbon Pricing Leadership Coalition will formally launch its Work Plan at the Paris climate summit in December 2015. Some partners are already beginning the work; for example, the UN Global Compact is creating a guide to internal carbon pricing, and the CDP has launched a Carbon Pricing Toolkit that enables a more detailed business-government conversation about price levels, coverage, and how to effect a smooth transition away from emissions-intensive fuels. Series of Leadership Dialogues will also be launched in key countries – with the first stop being South Africa in November to discuss the government's carbon tax proposal with businesses and other stakeholders.

At the World Bank Group, we expect these activities to send a signal that carbon pricing is here to stay at Paris and beyond. There is a growing number of leaders that are ready to work together to raise our collective climate ambition through successful carbon pricing implementation for years to come. The Coalition will allow these leaders to track global progress in carbon pricing implementation, convening forward-looking businesses and governments in a focused set of dialogues to successfully advance carbon pricing, one jurisdiction at a time.

<sup>3</sup> The FASTER principles for successful carbon pricing: an approach based on initial experience, World Bank Group, 2015.

<sup>4</sup> Carbon Disclosure Project: a global initiative to inventory greenhouse gas (GHG) emissions and evaluate the risk of climate change to business operations.

<sup>5</sup> Putting a Price on Risk: Carbon Pricing in the Corporate World, CDP, 2015.