Climate Leadership in Action

WORLD BANK GROUP
Climate Change

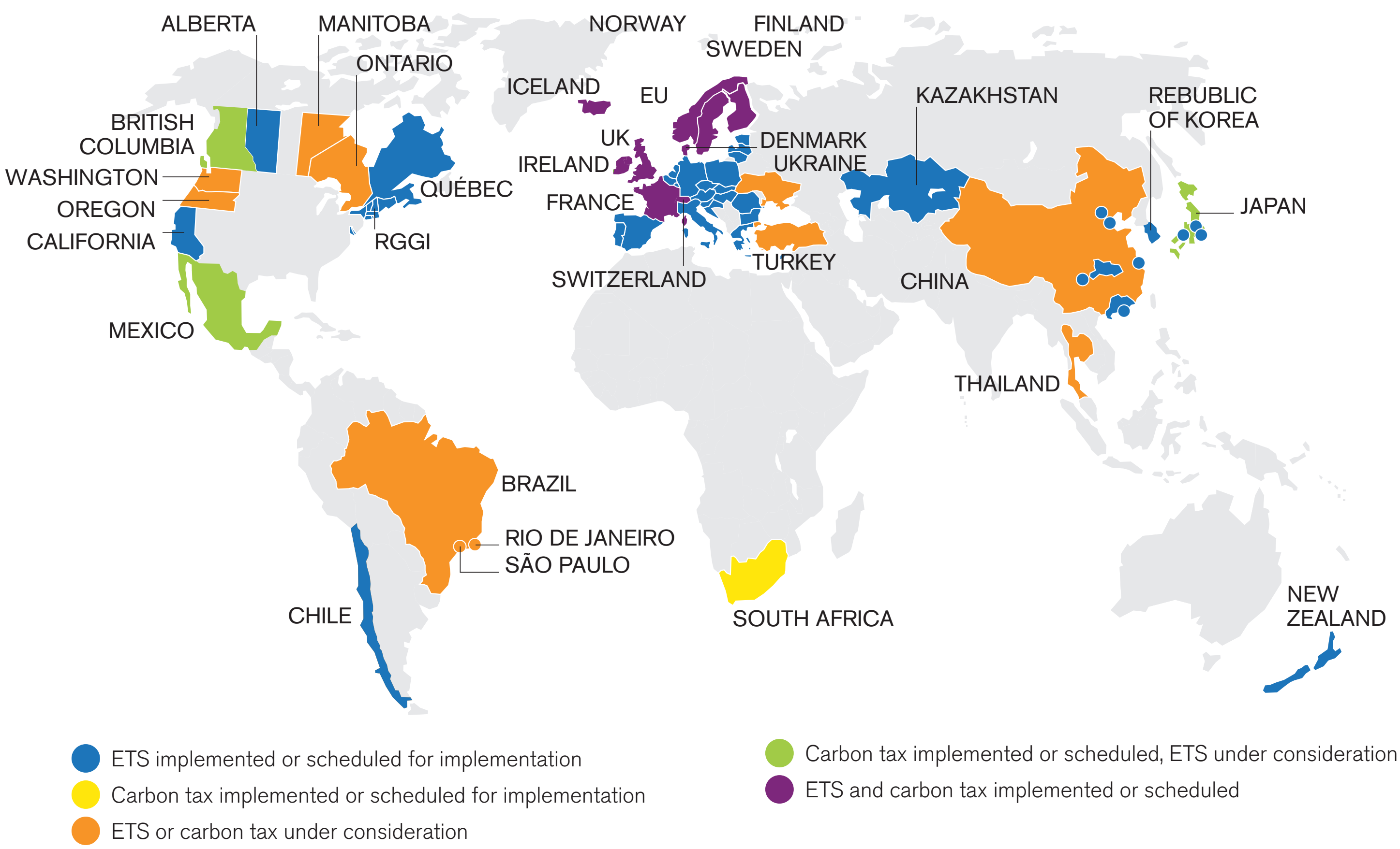
Carbon Pricing

At a Glance

- Action is needed soon to reduce greenhouse gas emissions and also to help countries build resilience and prepare for a world of dramatic climate and weather extremes.
- Mobilizing finance for climate action is a priority, and a robust price on carbon is one of the most effective strategies to unlock private investment. A strong price signal in all major economies will direct financial flows away from fossil fuels and advance the growing global market for energy efficiency and clean energy.
- Various carbon pricing instruments can be used including emissions trading systems, carbon taxes, use of a social cost of carbon and/or payments for emissions reductions. Good practice is emerging on how to implement effective carbon pricing policies that reduce emissions while maintaining economic growth and competitiveness.

THE CHALLENGE

Carbon pricing is gaining momentum. About 40 countries and more than 20 cities, states and provinces use carbon pricing mechanisms such as emissions trading systems and carbon taxes or are preparing to implement them. Together, these countries and regions account for about 22% of global emissions. Many more are developing schemes that will put a price on carbon. Altogether, these actions will encompass almost half of global CO2 emissions.



The private sector is also acting. Businesses in a range of sectors view carbon pricing as the most efficient means of tackling the climate challenge; many companies are also using an internal carbon price to guide their investment decisions.

At the United Nations Climate Summit in September 2014, business and government came together in a strong support for action on carbon pricing. 74 countries and 12 states and provinces – together responsible for 54 percent of emissions, 52 percent of GDP and almost half of the world's population – joined over 1,000 businesses and investors.

The Carbon Pricing Leadership Coalition, organized by the World Bank Group with several partners, will build on this momentum and accelerate the effective implementation of carbon pricing policies that redirect investment to low carbon solutions at a scale that is commensurate with the climate challenge. The Coalition will be a platform for discussion, knowledge-sharing, and ideas; and will help governments learn from existing carbon pricing programs and create a platform for businesses and government to explore how to thrive while reducing greenhouse gas emissions. Ultimately, we must achieve the long-term objective of a carbon price applied throughout the global economy.

Moving Forward

- To accelerate the global momentum toward carbon pricing, there are a number of priority actions that can be taken by governments and business, including:
- Support mutual action. Increasing the dialogue between policy makers and companies in key jurisdictions could reinforce corporate support for government carbon pricing policy and government support for corporate carbon pricing strategies. The World Bank's Partnership for Market Readiness (PMR) brings together over 30 governments, whose actions are critical to global climate mitigation efforts, to facilitate exchange of information and build momentum toward carbon pricing. The PMR supports countries to prepare and develop coherent climate policy packages to scale up domestic greenhouse gas mitigation. This includes carbon pricing and other innovative policy instruments. The PMR works with leading companies to enhance the private sector's preparation to implement carbon pricing policies and facilitate exchanges with policy makers.
- Increase corporate action to price carbon internally. Building from the work of the Carbon Disclosure Project and others, leading companies could convene a diverse group from different industry sectors, locations and sizes to collect and share best practices in the valuation of carbon, internal carbon fee design and carbon disclosure. This could lead to the development of good practice in voluntary action via—for example—renewable energy and energy efficiency targets; engaging other stakeholders in the value chain, including suppliers, customers and communities; implementing internal greenhouse gas reduction targets; and communicating with shareholders and stakeholders.
- Explore connecting carbon pricing systems to achieve cost reductions and scale up investment. While the development of diverse national and sub-national carbon markets is strong evidence of the attractiveness of pricing carbon as a climate change strategy, there are efficiencies that can be gained through a connected approach. The World Bank Group has been advancing ideas for a Networked Carbon Markets (NCM) approach which enables diverse carbon assets to become fungible. This offers a way to increase innovation, flexibility and respect for sovereignty. In achieving these objectives, it seeks to address market barriers and catalyze large-scale private sector investment by reducing regulatory risks and delays and reducing the potential for a public sector bottle-neck in the operation of an international carbon market.

Examples of Leadership

- A number of governments and businesses are demonstrating the path forward to put a price on carbon. These include:
- China announced its plan to develop seven official Emissions Trading Schemes pilot programs (Beijing, Shanghai, Tianjin, Chongqing, Guangdong, Hubei and Shenzhen) in 2011 and by June 2014 all seven pilots became operational. With that, China now houses the second largest carbon market in the world, of the equivalent of over 1.2 gigatons of CO2. The experience from these pilots will provide valuable experience for developing a national ETS, which is expected to be launched by 2020.
- Mexico introduced a carbon tax on fossil fuel sales and import by manufacturers, producers and importers which came into effect in 2014, covering approximately 40% of Mexico's total GHG emissions. Mexico is also exploring a domestic emissions trading scheme to scale up its mitigation efforts in a cost effective manner.
- South Africa plans to introduce the carbon tax in 2016. The government is currently conducting technical analyses of the tax design and assessment of its potential impact. The tax is envisioned to be a fuel input tax based on the carbon content of the fuel and cover all stationary direct GHG emissions from both fuel combustion and non-energy industrial process emissions, amounting to approximately 80% of the total GHG emissions.
- The Canadian province of British Columbia was an early mover on carbon pricing, with the creation of a carbon tax in 2008. From 2007 to 2012, British Columbia's per capita GHG emissions declined by 4.4, outpacing the rest of Canada. From 2008 to 2013, the program returned CAD$760 million more in tax cuts than it received in carbon tax revenue – resulting in a net benefit for taxpayers. The province's personal and corporate income tax rates are now among the lowest in Canada, due to the carbon tax shift, while its GDP has outperformed the rest of the country.

- Several companies—some working globally with carbon prices that vary country to country—actively manage their risks by using an internal "shadow" carbon price to help plan and make smart investments for the future. For example, large utilities like American Electric Power and Exelon price carbon internally to help avoid stranding assets, such as large fossil-fuel-fired power plants. Other less carbon-intensive businesses—including Brazilian cosmetics company Natura, BMW and the Walt Disney Corporation—use internal pricing to engage customers, encourage employee innovation and identify new internal energy savings measures that deliver increased profits.

STATEMENT

Putting a Price on Carbon

Climate change poses one of the greatest global challenges and threatens to roll back decades of development and prosperity.

The latest report from the United Nations Intergovernmental Panel on Climate Change makes clear the importance of putting a price on carbon to help limit the increase in global mean temperature to two degrees Celsius above pre-industrial levels.

Depending on each country's different circumstances and priorities, various instruments can be used to price carbon to efficiently and cost effectively reduce emissions, such as domestic emissions trading systems, carbon taxes, use of a social cost of carbon and/or payments for emission reductions.

Governments are taking action. In 2014, about 40 national and over 20 sub-national jurisdictions have already implemented or scheduled emissions trading schemes or carbon taxes. Together, these jurisdictions account for more than 22 percent of global emissions. Many more countries and jurisdictions are advancing preparation for pricing carbon. Together, these represent almost half of global GHG emissions.

Corporations are responding. A growing number of companies are already working within carbon pricing systems and are developing expertise in managing their emissions. Others are incorporating greenhouse gas reduction targets in their business planning. In 2013, over 100 companies worldwide publicly disclosed to CDP that they already use carbon pricing as a tool to manage the risks and opportunities to their current operations and future profitability. Businesses see that carbon pricing is the most efficient and cost effective means of reducing emissions, leading them to voice support for carbon pricing.

The momentum is growing. Pricing carbon is inevitable if we are to produce a package of effective and cost-efficient policies to support scaled up mitigation.

Greater international cooperation is essential. Governments pledge to work with each other and companies pledge to work with governments towards the long-term objective of a carbon price applied throughout the global economy by:

strengthening carbon pricing policies to redirect investment commensurate with the scale of the climate challenge;

bringing forward and strengthening the implementation of existing carbon pricing policies to better manage investment risks and opportunities;

enhancing cooperation to share information, expertise and lessons learned on developing and implementing carbon pricing through various "readiness" platforms.

We invite all countries, companies and other stakeholders to join this growing coalition of the working.

For a list of supporters of the statement please visit:
www.worldbank.org/carbonpricing

References and suggested reading

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