PUTTING A PRICE ON CARBON, ONE JURISDICTION AT A TIME

Tom Kerr outlines how the public and private sector are working together to accelerate momentum to put a price on carbon around the world

Today, 39 nations and 23 cities, states or regions are using a carbon price. This represents the equivalent of about 7 billion tonnes of CO2, 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 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 tonnes of CO2. 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, programmes in California and the Northeast cover the equivalent of half a billion tonnes of CO2. California's ETS is now delivering 6.6% less climate pollution for every dollar of GDP as compared to 2009[1]; a recent report on the 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[2].

EXISTING CARBON PRICING INSTRUMENTS ARE NOW WORTH ABOUT $50 BILLION

And let's not forget the world's pioneering emissions trading system – the EU ETS. It is now sending a more stable signal to investors and businesses, due in part to the establishment of a Market Stability Reserve. And the Province of Ontario will launch its own ETS in 2017 and link with Québec and California, showing movement toward a wider North American market.

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 carbon pricing as important elements of their plans to decouple economic growth from growth in emissions.

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.[3] 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 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 programmes often referred to as "internal carbon pricing systems". In September 2015, CDP announced a nearly threefold jump in the number of global companies disclosing the use of an internal carbon price.[4] The largest growth was in Asia, due in part to the growing use of ETS by China and Korea.

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 stabilisation 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 is being created.

This 'coalition of the working' grew out of the movement to support carbon pricing seen at the 2014 Climate Summit, and involves global businesses, governments and non-governmental organisations working together 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. mobilising 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. We will also be hosting a series of Leadership Dialogues in key countries – the first of which in South Africa discussing the government’s carbon tax proposal with businesses and other stakeholders.

We expect these activities to send a signal is that carbon pricing is here to stay at Paris and beyond. There is a growing set 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.

THE BODY OF EVIDENCE ON WELL-DESIGNED AND RUN CARBON PRICING SYSTEMS IS INSPIRING OTHER JURISDICTIONS TO TAKE ACTION

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(1) Carbon Market California: a comprehensive analysis of the Golden State’s cap-and-trade program 2012-13, Environmental Defense Fund, 2014. (2) The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States, Analysis Group, 2015. (3) The FASTER principles for successful carbon pricing: an approach based on initial experience, World Bank Group, 2015. (4) Putting a Price on Risk: Carbon Pricing in the Corporate World, CDP, 2015.