

REPORT OF THE
HIGH-LEVEL COMMISSION
ON CARBON PRICING
AND COMPETITIVENESS



**CARBON PRICING
LEADERSHIP COALITION**

KEY FINDINGS

- 1.** Climate change poses a real threat to our industries and economies and needs to be addressed as a matter of urgency. The cost-effective transition to a net zero-carbon economy by the middle of the century is important to avoid the most severe impacts on our climate and to maintain the productivity of our economies.
- 2.** Carbon pricing is an effective, flexible, and low-cost approach to reducing greenhouse gases (GHGs). Combined with other policies, carbon pricing can help accelerate and ensure a smooth transition to a low-carbon economy.
- 3.** Carbon pricing is intended to drive a shift away from high-emissions products to low-emissions products and processes. Some firms that compete against these low-emissions substitutes may experience a loss of market share and reduced profits even as others adapt, increase their profitability and develop new business models.
- 4.** Concerns exist that, due to differential carbon prices between jurisdictions, there is the potential risk that high-carbon economic activity may move to regions without a carbon price or with a lower price. This could result in decreased profits and job losses. It could also exacerbate political push-back and undermine the intended environmental outcome of reduced GHG emissions. If this “carbon leakage” occurs, it would be a lose-lose: a loss of competitiveness or economic activity without an environmental gain.
- 5.** There is little evidence to date that carbon pricing has resulted in the relocation of the production of goods and services or investment in these products to other countries. This outcome is consistent with the economic literature assessing the competitive impact of environmental regulation more broadly. There may be several reasons for this, including the observation that carbon price levels have generally been moderate and existing programs include protection for at-risk sectors. In addition, tax rates, labor availability, and infrastructure may be more significant to investment decisions regarding location of production than environmental regulations.
- 6.** While competitiveness remains a key concern for policymakers considering a price on carbon, these concerns should not be overstated. Competitive risks exist primarily for highly emissions-intensive and trade-exposed (EITE) sectors and jurisdictions that depend on such sectors. These risks can and should be addressed through a suite of locally tailored policy design choices intended to protect industry from unfair international competition even as they ensure that the incentive and support for low-carbon innovation remains.
- 7.** There are a variety of options to address competitiveness risks, including free allocation of emission rights and border measures. However, these should be based on a location-specific, data-driven evaluation of impacts. Once implemented, these measures should be periodically reevaluated to ensure their effectiveness and usefulness. To that end, data transparency from industry, at least with government officials, is particularly important for assessing how and when intervention is necessary.

8. As ambition levels increase to meet the goals of the Paris Agreement, two countervailing effects may be relevant for competitiveness impacts. On the one hand, greater ambition will generally mean higher carbon price levels leading to the potential for more significant competitiveness impacts for EITE industries. On the other hand, as more countries adopt climate policies and develop linkages between carbon markets, differences in carbon prices among countries and regions should become smaller, alleviating competitiveness concerns.

9. Concerns about competitiveness implications should not preclude carbon pricing or keep regions from increasing carbon prices or emission targets over time to levels needed to implement the Paris Agreement, for example as set out in the Stern-Stiglitz report (CPLC 2017), namely \$40–\$80/tCO_{2e} by 2020 and \$50–\$100/tCO_{2e} by 2030.

10. Carbon pricing, along with complementary measures, can also drive innovation, investment and substantial growth in some sectors. The investment opportunities that arise from decarbonization are considerable, as is the potential for the development of new industries and innovation within existing ones. Carbon pricing can also generate revenues to further program or national objectives and to support those who might be negatively impacted.

11. Innovation and investment, as well as stable and predictable policies, are crucial to the transition to a low-carbon economy. Policy clarity, with strong governmental commitment to meaningful policy which increases in stringency over time, can help ensure that companies and regions remain competitive in global markets. Furthermore, large mainstream investors are increasingly factoring in the development and implementation of low-carbon strategies when evaluating their portfolios.

THE COMMISSION

The potentially adverse impact of carbon pricing on the competitiveness of businesses and economies has been a matter of concern to industry and policymakers. It has also been a barrier to progress on carbon pricing. The Carbon Pricing Leadership Coalition launched the High-Level Commission on Carbon Pricing and Competitiveness at its 2018 High-Level Assembly to address the issue. The Commission is co-chaired by Feike Sijbesma, Chairman and CEO of Royal DSM, and Anand Mahindra, Chairman of Mahindra Group.

OBJECTIVE

The Commission serves as a platform for dialogue among business leaders to explore the evidence base, the concerns of business, and the lessons learned in the design and implementation of carbon pricing policies in the context of competitiveness.

CO-CHAIRS

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Feike Sijbesma, Chairman and Chief Executive Officer, Royal DSM

MEMBERS

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