

# Internal carbon pricing

Practical instruments for local and regional climate policies, sustainable procurement and planning

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Energiebesparing



Burgerparticipatie



Hernieuwbare energie



Europa

# Internal carbon pricing

(joint program Dutch municipalities, waterboards, provinces en ministries)

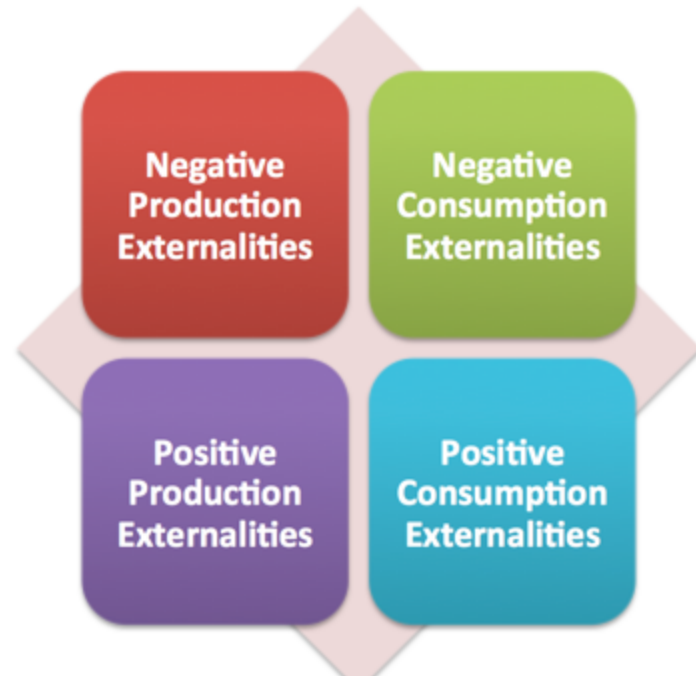
- Failing markets
- Carbon pricing
- Basic principles for finding the correct price
- The correct price
- Practical use (business)
- Practical use (local government)
- Essential steps, follow up

“Climate change is the biggest market failure the world has seen”, Sir Nicolas Stern

## Externalities and Market Failure

Externalities are a major cause of market failure and occur in nearly every market – be clear on effects for producers and consumers

- Externalities are **spill-over effects** arising from production and consumption for which no appropriate compensation is paid
- Externalities lie **outside the market transaction**
- Externalities cause **market failure** if the **price mechanism** does not take account of the **social costs** and **social benefits** of production and consumption
- Externalities can be **positive** and/ or **negative**



Real economy carbon prices

The 'right' carbon price: social cost of climate change

Taxes/levies

SDG's

Emission Trading Schemes

Compensation

Abatement costs



## Basic principles for establishing the right price

- Precautionary principle (tipping points, runaway climate change)
- Intergenerational equality (taking full responsibility for the costs of future generations)
- Global responsibility (taking full responsibility for the costs elsewhere caused by our emissions)

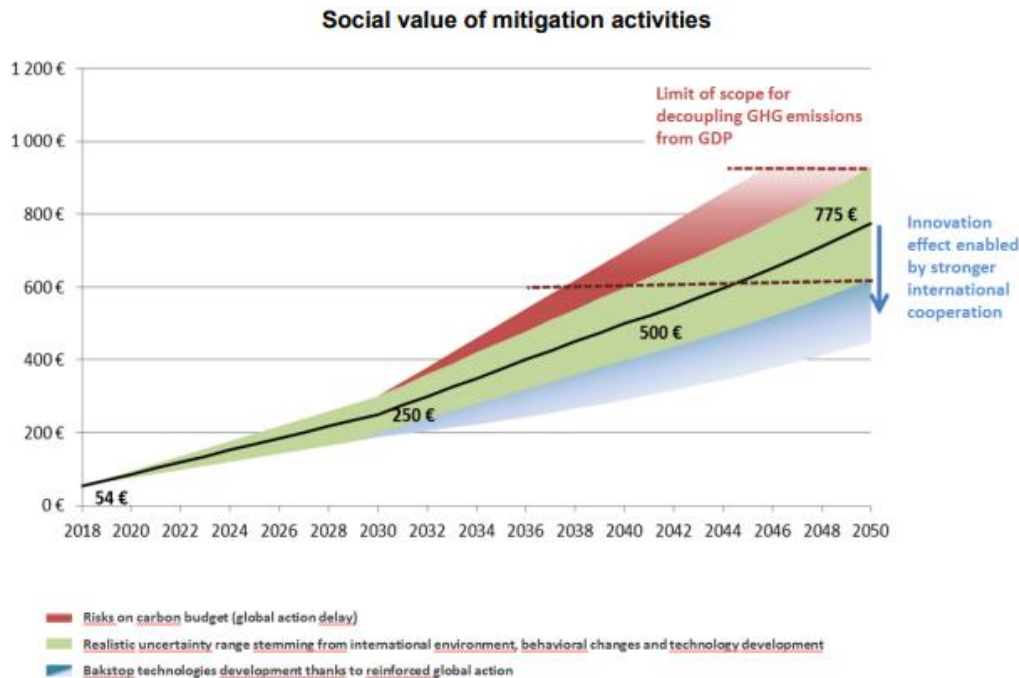
**Discount rate is zero or even negative, we take the full set of SDG's into account calculating the social cost of climate change**

# The 'right' price: 700 Euro/ton baseline, higher likely

**Table 1: UBA recommendation on climate costs in €<sub>2016</sub> / t CO<sub>2</sub> eq**

	Climate costs in € <sub>2016</sub> / t CO <sub>2</sub> eq		
	2016	2030	2050
1% pure rate of time preference	180	205	240
0% pure rate of time preference	640	670	730

Source: Own presentation.



Methodological Convention 3.0 for the Assessment of Environmental Costs Cost Rates by Dr. Astrid Matthey and Dr. Björn Bünger, German Environment Agency, Dessau Roßlau, January 2019

The Value for Climate Action A shadow price of carbon for evaluation of investments and public policies Report by the Commission chaired by Alain Quinet, February 2019

## Practical use of internal carbon pricing

Businesses are actively involved: Unilever, SHELL, Philips...  
hundreds of them

Unilever: “Carbon Pricing: what is it and why does it matter?”

*When you have to pay for something you're less likely to waste it. Carbon pricing is a way to persuade polluters to reduce their CO<sub>2</sub>-emissions or pay the price. This both cuts pollution and generate revenue to fund cleaner options.*

At Unilever we levy an internal carbon price on emissions of our factories. This funds energy efficiency-initatives and innovations. We also use internal carbon pricing to help inform investment decisions. We believe that all governments will set a carbon tax. So setting an internal price helps us get ahead of legislation and will help us succeed in a sustainable low carbon future.

# **In the context of municipalities or regions**

- . Procurement**
- . Land development/ urban renovation**
- . Cost/benefit analysis**
- . Climate budgets**
- . Communication**
- . International cooperation**



# Three essential steps

- Carbon footprint (scope 1, 2 and 3)
- Concrete application of instruments
- Ensuring full integrity policy evaluation



## Follow up

### European cooperation is essential

- Certifying carbon footprints
- High quality and trustworthy instruments
- Joint target setting and monitoring



Climate Alliance