



HIVA

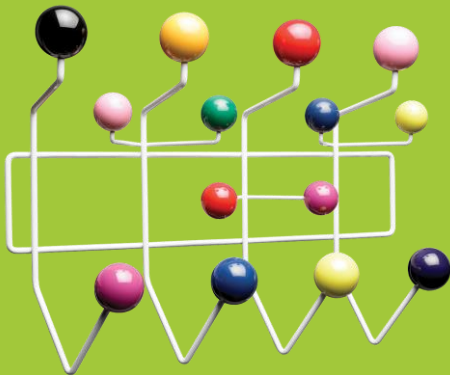
ONDERZOEKSINSTITUUT VOOR **ARBEID EN SAMENLEVING**

K.U.LEUVEN

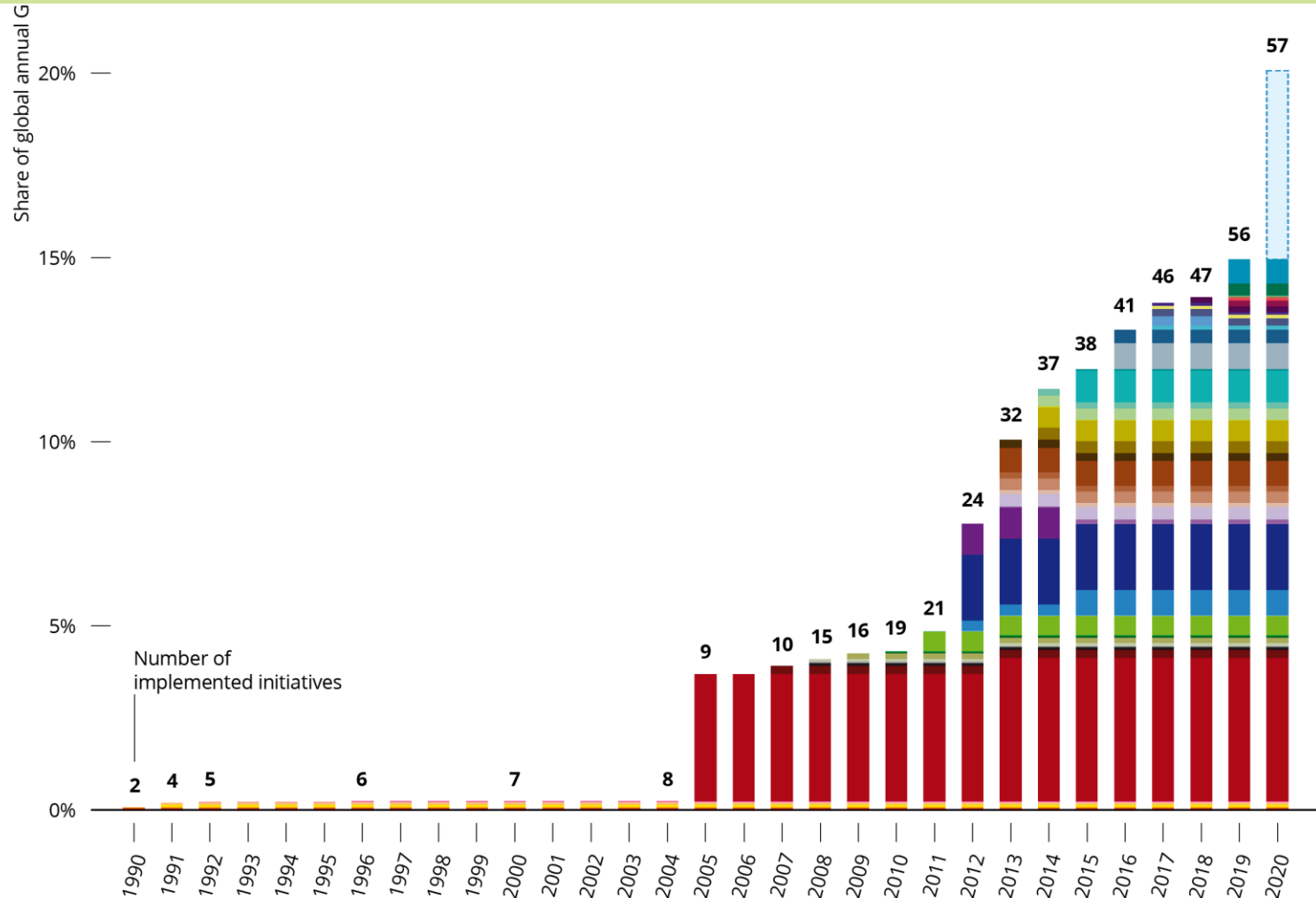
“If the government won’t tax our emissions, we’ll do it ourselves” Potential and limitations of Internal Carbon Pricing

Kris Bachus, KU Leuven

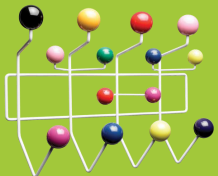
20th GCET Conference
Limassol, September 27, 2019



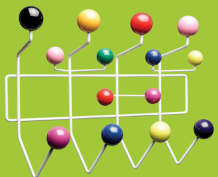
1. Introduction



- Progress has been mixed
- Global carbon tax is a utopia
- Lack of (inter)national government action creates a gap
 - Local governments
 - Private sector governance
- Role of business has been ambiguous:
 - Blocking, lobbying against, lot of BAU



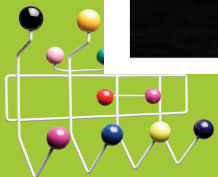
Ad campaigns hide investment in a huge expansion of oil and gas extraction, says InfluenceMap



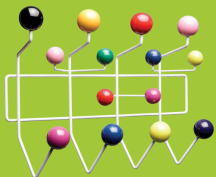
Some support by CEO's

BRIEF

PG&E, Dominion, 11 other major companies push carbon tax in new climate initiative

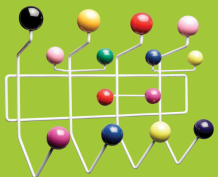


- Turning; why? Because there interest is also turning:
 - Damage from CC;
 - Future markets: the train has left, and will move on, either with our without them;
 - Dislike current uncertainty, unpredictability: better a clear tax now, with a clear future path than continue the uncertainty;
 - Public opinion turning against them, blaming them. Image, mix of CSR and genuine responsibility.
- Lack of government action: taking action themselves: ICP



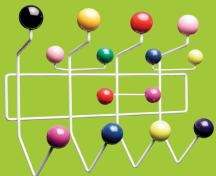
2. What is ICP?

- Is it a tax, then?
- Metric that places a monetary value (mostly between €5 and €100) on a company's GHG emissions, which businesses can then factor into investment decisions and business operations.



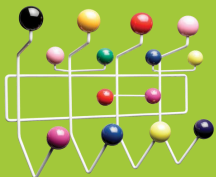
3. Types of ICP

- Shadow price: used for investment decisions, but no actual financial flows are generated
→ hypothetical carbon cost
- Internal carbon fee mechanism: actual financial flows by internally imposing a fee on GHG emissions
(can also be internal cap & trade)



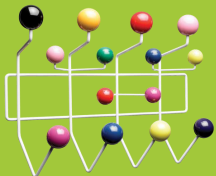
4. Benefits to society

- contributes to mitigation (reduces CO₂)
- more transparency
- Better prepared when the political debate or decision arrives
- more support, less lobbying against CP
- even non-carbon-intensive companies can use it, e.g. universities.
- Mitigation moves from the CSR manager to the CFO and CEO: moves to the core of business.



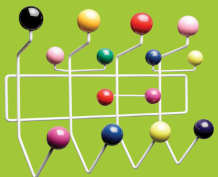
5. Benefits to the company

- Voluntary: time to build support
- Reduces uncertainty, anticipate real carbon tax;
- Competitive advantage
- Measuring = knowledge; GHG emission profile: emissions throughout the value chain
- Staff retention
- Attracting investors



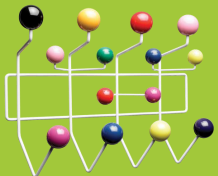
6. Risks and downsides for society

- ‘Voluntary’:
 - many companies will never do it;
 - window-dressing lurks behind the corner
 - price should be high enough
 - No auditing or quality standards
 - Can be abandoned at any time



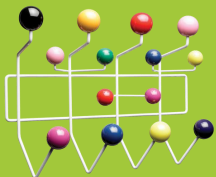
7. Risks and downsides for the company

- Financial return uncertain
- High investment threshold (GHG emission profile)



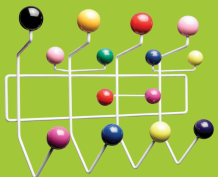
8. Conditions for impact (1)

- price should be high enough, and allowed to rise.
- Should be accompanied by internal information and awareness campaigns (seeing the long-term gains) (culture)
- Selfregulation should not be used as a cheap alternative for CP, with only rewards, exemptions and lock-in for real CP.



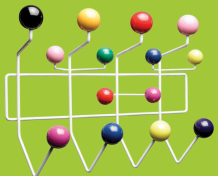
Conditions for impact (2)

- Government should be ambitious and credible on the increasing use of CP in the future.
- In countries with CP, ICP can still be advisable (anticipation, competitive edge)
- Tailor-made solution for each company, not copy-paste.



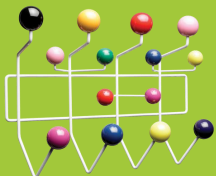
9. Niche or breakthrough?

- 2014: 150 companies
- 2017: 600 companies



9. Cases

Shadow price	Internal fee
Tetra Pak investment decision (EU ETS)	ICP in operational decisions: KU Leuven CO2 contribution on flying
Danone scope 3 procurement decisions	Supplier fund: Ben & Jerry's value chain GHG contribution, revenues to farmers
Saint-Gobain (60 countries)	Viña Concha y Toro
Owens Corning	Danone: Bonus payments
Unilever	Unilever
PwC	Microsoft



10. Conclusions - Position of ICP in the policy mix

- Welcome addition, especially in slow moving countries
- Multinationals implementing it worldwide can have a great impact, and increase the momentum for both more ICP and CP.
- Good second-best solution to be used especially in a transitional phase towards government CP
- Just one element in the array of policies, private sector governance and solutions.

