



ACCA POLICY PAPER

PAYING THE (CARBON) PRICE FOR NET ZERO

ACCA recommendations

- ACCA is calling for **more ambitious policies** to achieve net zero emissions by 2050. **Early and global action** on this is necessary.
- Governments have a crucial role in reducing carbon emissions through **regulation, the provision of green infrastructure and appropriately targeted subsidies**.
- **Carbon taxes** are necessary to reach net zero. By deploying the power of the **price mechanism**, carbon taxes can ensure that no decision about any carbon intensive activity escapes its influence; consumers producers, investors and innovators all face the same choices.
- ACCA is calling on a **global minimum carbon price**. In an integrated global economy unilateral action by individual countries has limits. This would be a major step towards reaching the goal of net zero emissions by 2050, in an equitable and economically efficient way, and not at the expense of continued economic growth.

Recent events, including devastating floods in China, Europe and north east US, forest fires in Greece and California have underscored the need to act on climate change. In the [2015 Paris Agreement](#), countries agreed to “holding the increase in the global average temperature to well below 2°C above pre-industrial levels” to avert catastrophic outcomes, and this will require bringing net greenhouse gas emissions to zero by 2050. The importance of the delayed UN Conference on Climate Change COP26 meeting scheduled to take place in Glasgow later this year cannot be overstated.

More ambitious policies

As indicated in our [Q3 Global Economic Conditions Survey](#) (GECS), ACCA believes that the policies that will achieve net zero emissions by 2050 need to be much more ambitious than it has been so far.

ACCA’s recommended strategy to support these ambitions involves two key elements: **green infrastructure investment from the public and private sector** and a form of **carbon pricing**, as also highlighted by [ECOFIN’s conclusions on climate finance](#) from October 2021, which say that carbon pricing and phasing out environmentally harmful fossil fuel subsidies are key in achieving Net Zero commitments.

Green infrastructure investment from the public and private sector

A green investment push can help lead the economy out of the COVID-19 crisis and make significant progress on mitigating climate change. The EU’s earmarking of 37 percent of the total disbursement under the 2021/22 [Recovery and Resilience Facility](#) for climate-friendly investments a good example. But over the next decade **a scaling up of investment and a reallocation away from fossil fuels and toward clean energy will be necessary**. The public sector will have a crucial role to play through investment in critical public infrastructure and support measures for private investment, including R&D. Estimates of required additional public investment range between **0.5 to 4.5 percent of GDP cumulatively** over the next decade, with a consensus of around **2% of GDP**.



Carbon Pricing

Carbon pricing is an essential tool in delivering net zero emissions. Carbon pricing can take the form either of a **straightforward tax** that raises the price to a certain level or in an **emissions trading scheme (ETS)** ('cap and trade') where the quantity of CO₂ emissions is set and permits issued for this quantity; these permits are then traded which effectively generates a price for carbon. In either case raising the price of carbon provides incentives to transition towards low carbon alternatives and away from fossil fuels. Both carbon taxes and ETSs have existed for many years.

A **limiting factor** in the geographical spread and level of carbon pricing is the risk of '**carbon leakage**', which can seriously undermine efforts to address global climate change. One way of correcting for this is through **Border Carbon Adjustments**, which in effect are import tariffs that raise the import prices of energy intensive goods such that they include the carbon price applied to domestic producers. In July 2021 the EU announced its intention to introduce a [Carbon Border Adjustment Mechanism](#) (CBAM) covering iron and steel, cement, aluminium, electricity and fertiliser. The CBAM is intended to become fully operational in 2026.

An alternative approach than CBAMs favoured by ACCA would be **an agreed global minimum price of carbon**, which would allow for a lower carbon price floor for countries with lower per capita incomes in recognition of differing responsibilities between countries.

Need for early and global action, coupled with government support

As with so much policy designed to change economic behaviour, **the adoption of early and anticipated policy changes** is the most effective approach. The [IMF modelling](#) suggests that delaying carbon pricing until 2030 would make it almost impossible to reach net zero by 2050 with the most likely outcome being that CO₂ emissions would merely be stabilised.

Such policies also need to be pursued at a **global level**. While substantial progress to net zero can only be made by the bigger emitters such as China, the US and EU reaching that goal themselves, **net zero will still be missed unless emerging markets also reduce emissions**. The challenge is however much greater for emerging markets striving also for faster economic growth and higher living standards.

A shift from fossil fuels to low carbon energy requires the **replacement of existing carbon-intensive capital with low-carbon capital**. Government **investment and support** clearly has a role to play, for example in funding R&D into new technologies which are likely to be necessary if the target is to be reached. But by raising the price of carbon to reflect its environmental impact, carbon taxes create the market incentive to switch out of carbon-intensive capital. The incentive for consumers is to switch to low carbon products and reduce emissions whenever to do so costs less than the carbon price.

Carbon taxes effectively target the biggest emitters of CO₂, which generally are the high-income countries. But within such economies it tends to be those on lower incomes that would pay a higher proportion of their income in carbon taxes: they spend relatively more on food and energy for example. Revenues from carbon taxes are likely to be returned to a degree to those on lower incomes, for example in the form of a carbon dividend.

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