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Pricing pollution can drive green growth

New report busts industry competitiveness myths

Carbon pricing can unlock the potential for innovation and boost new low-carbon businesses. Contrary to industry claims, it plays only a limited role in companies' location and investment decisions. Sectors such as cement where transport costs are high are unlikely to lose competitiveness due to carbon pricing.

The months ahead are critical for Europe's climate action – a number one priority for the incoming European Commission. The EU must adopt its long-term climate strategy – currently blocked by Estonia, Poland, Hungary and the Czech Republic – and ramp up its 2030 climate target.

Putting heavy industry on a carbon-neutral path is paramount for Europe to reach its climate targets. With total greenhouse gas emissions of 708 million tonnes CO2eq per year, the resource and energy-intensive industry is the third-largest climate polluter in Europe.

Industrial greenhouse gas emissions are regulated under the EU Emissions Trading System (ETS). However, due to the numerous exemptions and free pollution permits included in the law, it has failed to drive down emissions from industry: carbon pollution from heavy industry has been flatlining since 2012 and is not predicted to go down until 2030 (EEA 2018). Heavy polluters are in fact making windfall profits worth billions of euros from a system that is supposed to make them pay.

Industry associations lobby hard to keep their free pollution subsidies – claiming that carbon pricing hurts their competitiveness and they will be forced to relocate production and slash jobs if they are subject to such burden. A new report by the High-Level Commission on Carbon Pricing and Competitiveness debunks these common industry myths of reduced competitiveness and loss of market share as a result of carbon pricing.

Carbon pricing cannot be used as an excuse for relocation

Free pollution subsidies are given to industrial sectors competing internationally under the assumption that having to pay a pollution price would harm the companies' competitiveness and force them to move production to countries with laxer environmental regulation.

However, as the carbon pricing and competitiveness report points out, the decision to relocate or decrease production or investment in any company is hardly based on just one factor such as carbon

pricing. Numerous studies have shown that other factors such as access to raw materials, infrastructure, geographical location, labour availability, tax rates, energy prices, wage rates, prices for commodities and materials have more influence on a decision to locate or invest.

Another factor highlighted in the report as essential for location considerations of the emissions-intensive sectors is transport costs. For example, transport costs for cement can account for up to 10% of the variable costs and can limit the distance that it is profitably shipped. So products that are expensive to transport relative to their value are less likely to experience competitiveness concerns.

Benefits of pricing pollution

Carbon pricing, coupled with other policies, such as increased investment in low-carbon technologies, can drive innovation and continuous process improvement. These policies will help even highly resource and energy-intensive and trade-exposed sectors transition to low-carbon business models.

Moreover, carbon pricing generates significant revenues for governments. The report refers to World Bank figures, according to which global programs that include both emissions trading schemes and carbon taxes generated approximately $44 billion in 2018. These revenues can be used to replace other fees such as taxes on employment or investments, hence boosting a region’s economy. When revenues are used to advance climate action, they also trigger a virtuous circle and accelerate the transition to carbon-neutral economies.

The report adds to the mounting evidence that industry can decarbonise and remain competitive, and strong carbon pricing policies can catalyse this shift. We simply cannot afford another decade of climate inaction in industrial sectors. It is time industry moved beyond the narrative of threats to its competitiveness and engaged in a constructive discussion on how to best drive its climate-friendly transition.