

# Instead of a Global Carbon Tax



Policy Proposals for Enhanced Climate  
Consideration on the World Market

January 2019

The full report, published in Swedish, was produced by Ingrid Sidenvall Jegou, Nils Westling, Mikael Karlsson and Jannike Hising, 2050 Consulting, commissioned by AP7 and ICC Sweden. January 2019.

# Executive summary

*Firms trading and investing on the global market have a key role to play to develop and disseminate climate relevant products, and to reduce emissions throughout their global supply chains to contribute to the goals of the Paris Agreement. Fragmented climate policies and inadequate frameworks for trade and investment make that task difficult. There is a need for clear, coherent policies and more international harmonisation. Firms need to articulate their needs and concerns as well as demonstrate their abilities, and step up action in their own value chains.*

This is a summary of the Swedish report “Instead of a Global Carbon Tax - Policy Proposals for Enhanced Climate Consideration on the World Market”. Based on literature studies as well as on in-depth interviews with global, climate-ambitious firms, the report intends to highlight challenges and opportunities to foster sustainable business on the global market.

## THE CHALLENGE AT STAKE

In December 2015, Parties to the United Nations Framework Convention on Climate Change, UNFCCC, agreed to limit the increase in the global average temperature to well below 2°C and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The IPCC special report<sup>1</sup>

from 2018 shows that emissions will need to decrease by 45 per cent by 2030 and reach net-zero by 2050 to reach that goal. This will require a radical and swift transformation of our global economy and way of life, involving all actors in society, including the business sector.

## GLOBAL INDUSTRY HAS A KEY ROLE TO PLAY

Through its international trade and investment, the industry has a crucial role and the ability to contribute to the goal of the Paris Agreement. The business sector holds the key to innovation and technology development, and to a broad transformation of methods and patterns of production towards a fossil-free economy. Through specialization, economies of scale and the good use of each country’s strengths and assets, firms’ international trade and investment also allow for a more resource efficient production and ensure the supply of climate relevant goods and services in all markets.

Much of the investment needed to accomplish the technology shift - one recent study points to an investment gap of 480 billion USD per year in order to stay within the 1.5°C-target<sup>2</sup> - needs to come from the private sector. Cross-border investment, not least towards climate-investment in developing countries, needs to increase significantly. This is a considerable challenge in a situation where FDI is rather on the decline.

<sup>1</sup> “Special report – Global warming of 1.5°C”. IPCC, 2018. <https://www.ipcc.ch/sr15/>

<sup>2</sup> McCollum et al (2018), “Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals.”



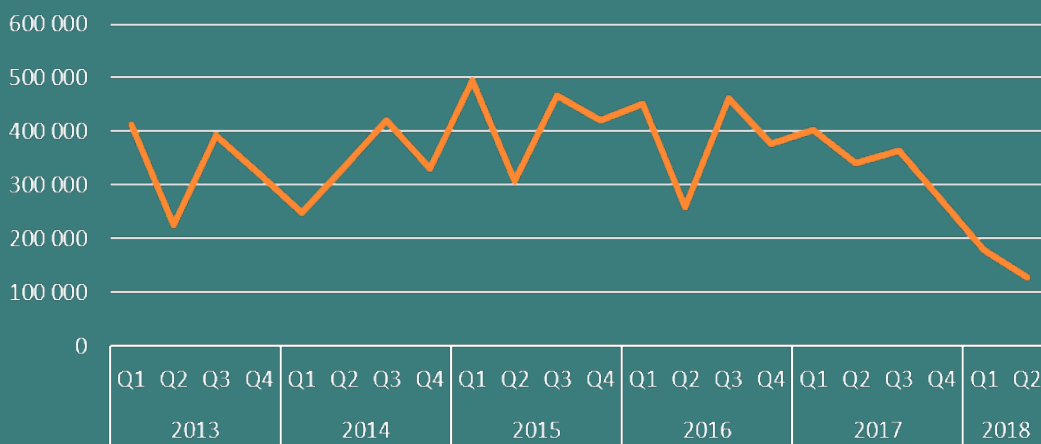


Figure 1. Quarterly FDI (unit: million USD) Source: OECD investment statistics.

Expectations on companies environmental responsibility are increasing and transparency is becoming more prevalent. Increasingly, firms on the one hand value the opportunities of being a frontrunner in the fight against climate change, and on the other hand assume their part of the responsibility and take action to shield themselves from climate-related risks. In addition to firms' individual climate targets- for example, 525 companies are taking action towards setting science-based targets<sup>3</sup>, nearly 1,400 companies are currently using, or

planning to implement an internal carbon price<sup>4</sup> - there is a range of international cooperative climate initiatives.

” We want to be part of the solution of the global warming and climate change so yes, it is on the agenda, including on every board meeting.”

KIM HELLSTRÖM, STRATEGY LEAD, CLIMATE & WATER, H&M

<sup>3</sup> <https://sciencebasedtargets.org/companies-taking-action/>

<sup>4</sup> <https://www.cdp.net/en/climate/carbon-pricing>

## A FRAGMENTED POLICY ENVIRONMENT

”

*National is not the solution- we're a global company. All international frameworks are important.”*

DIETER VOLLKOMMER, CORPORATE VP SUSTAINABILITY,  
SIEMENS

The Paris Agreement is based upon nationally determined contributions, and policy makers have considerable flexibility

to set targets and to design and implement climate policies that are commensurate with national needs and capacity. This has led to the emergence of a wide range of policies and measures worldwide, with low levels of, or non-existent efforts towards harmonization. This is something that firms operating on the global market need to relate to. One such example is carbon pricing initiatives in a global context.

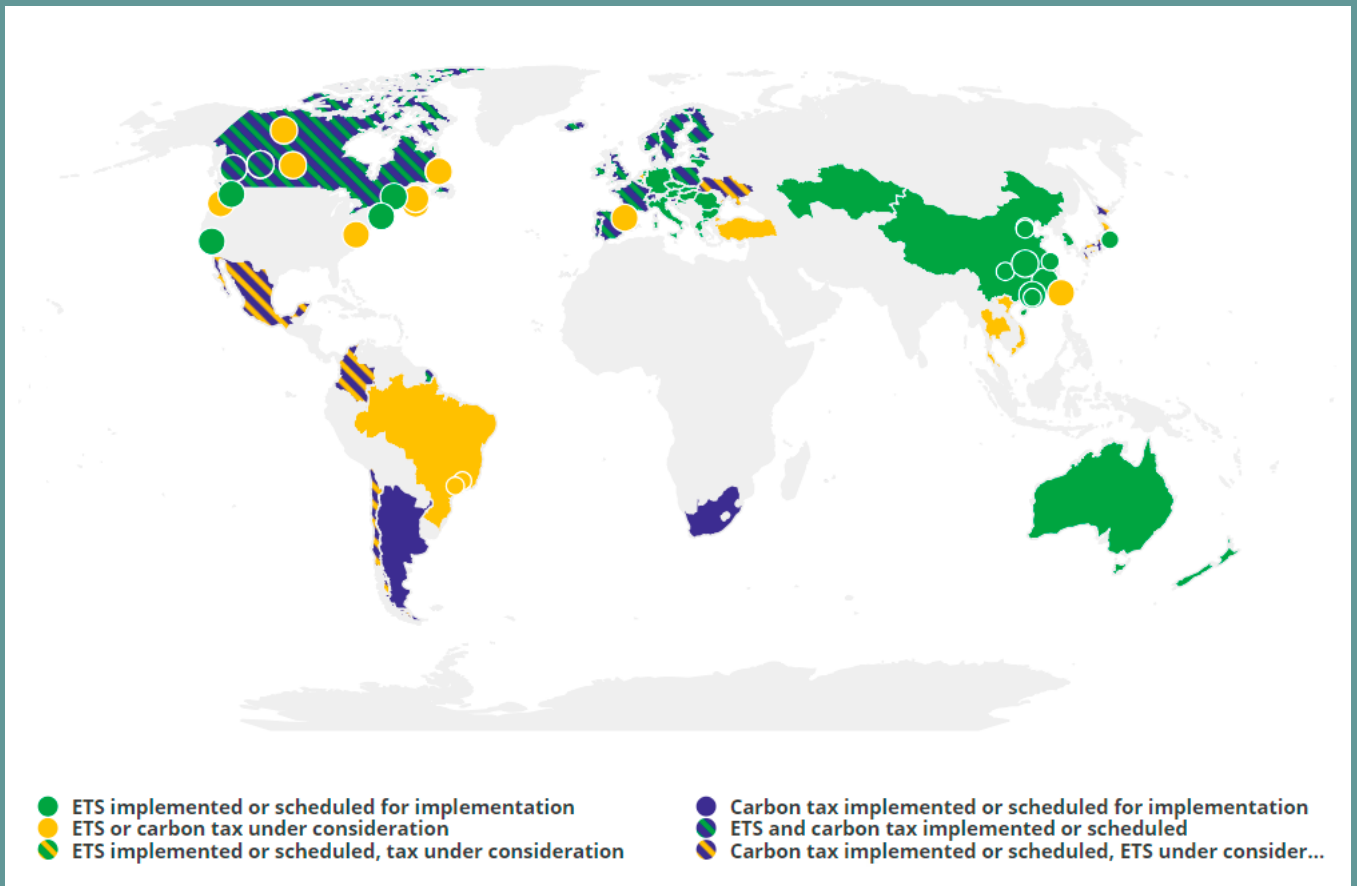


Figure 2. Summary map of regional, national and subnational carbon price initiatives like carbon taxes or Emission Trading Systems (ETS).  
Source: The World Bank, Carbon Pricing Dashboard.



## CHALLENGES AND OPPORTUNITIES

In a paper commissioned by the Swedish investment fund AP7 and the International Chamber of Commerce (ICC) Sweden, 2050 Consulting has conducted a review of firm-specific literature, as well as conducted in-depth interviews with 10 climate-ambitious multinational firms with headquarters in Europe, North America and Japan, and a survey with ten companies at UNFCCC's COP23. The study clearly confirms that climate change and climate policies are a factor

which influence their trade- and investment decisions, and their opportunities to do business on the global market. It also highlights the inability of current trade and investment-frameworks to create a level playing field based on high ambition. The key takeaways of challenges and opportunities are exemplified in five headings; Cross-Border Investment, Supply and Demand, Barriers to Trade, Carbon Pricing and International Transport.

### Cross-border investment

Investment decisions are mainly informed by business considerations, and the firms emphasize that prospects for profitability are often influenced by climate policy (or lack thereof). For example, one firm referred to a specific climate program in Australia which contributed to stimulating demand for clean energy, thereby creating a business opportunity which motivated an investment. However, domestic policies such as local content-requirements continue to hinder such investment flows, in spite of their incompatibility with

multilateral trade rules under the World Trade Organization (WTO).

”

*When we are looking at new sites for the company, the infrastructure must support our renewable power (electricity) goal.”*

JIM MASSEY, GLOBAL VICE-PRESIDENT OF GLOBAL SUSTAINABILITY, ASTRA ZENECA

### Supply and demand

Firms point to an increasing scarcity of input, as climate change negatively impacts global supply of certain raw materials. They also refer to an insufficient and uneven access to clean energy across regions as a limiting factor. As for the demand-side, many firms point to a growing demand for

climate-responsibility by investors. At the same time, they state that consumers- B2B as well as public purchasers- tend to disregard climate considerations in their purchasing requirements.

### Barriers to trade

Tariffs as well as non-tariff barriers on environmental goods and services continue to hinder trade. Concrete examples raised were import duties on solar panels and regulatory border restrictions on imports of recycled material. Trade remedies, such as anti-dumping duties, have been over-represented in clean energy in recent years and have had a chilling effect on trade and investment.

”

*An ambitious EGA [Environmental Goods Agreement, under negotiation in the WTO] will further increase global trade in environmental goods, lowering the cost of addressing environmental and climate challenges by removing tariffs that can be as high as 35 percent.”<sup>5</sup>*

<sup>5</sup> "Global business supports an ambitious and rapid conclusion to an environmental goods agreement at the World Trade Organization", 8 July, 2014. [https://www.uscib.org/docs/2014\\_07\\_08\\_EGA-Global-Industry-letter.pdf](https://www.uscib.org/docs/2014_07_08_EGA-Global-Industry-letter.pdf)



## Carbon pricing

Carbon pricing is asymmetric in the world today, with different methods for pricing carbon, as well as different price levels. In addition, price signals are blurred by subsidies to fossil fuels. While this was raised as a challenge- on the one hand, facing carbon costs at home impacts firms' possibilities to compete through price on the global market, and on the other hand, a lack of or insufficient carbon pricing on export markets render emissions-efficient solutions less competitive- many have own coping strategies. Internal carbon pricing is one of them. Firms in the survey generally don't call for

a global carbon tax, but rather for effective, constructive measures that can make a difference in a foreseeable future, such as climate clubs or linking of emissions trading schemes.

“ We have been pushing for carbon price and regulation throughout the world. It would help a lot with regard to competitiveness.”

CHRISTINE FAURE-FEDIGAN, HEAD OF CORPORATE CLIMATE STRATEGY, ENGIE

## International transport

International transport is an inevitable feature of trade and investment, and one where the climate ambitious firms face challenges to reduce emissions. Political action on the international level has been lagging and there are weak political signals, a lack of infrastructure for electrical vehicles, shortage of fossil-free fuels, and an under-dimensioned and poorly harmonised railroad network to name a few. While

clearer policy-signals are needed, firms also point to the need for harmonisation between regions.

“ We would welcome stricter regulation in general, if it's on larger geographic scales.”

SAMI LUNDGREN, VP RESPONSIBILITY, UPM



## BOTH FIRMS AND POLICY-MAKERS NEED TO STEP UP

In order to allow climate-ambitious firms to lead and prosper, and for more firms to be able to step up their climate efforts, there is a need for timely, concrete action on behalf of

policy-makers as well as the business sector. Thus, the authors of the report, addressing policy-makers as well as firms, recommend the following:

### RECOMMENDATIONS



= FIRMS



= POLICY-MAKERS

#### SET A CLEAR DIRECTION TOWARDS SWIFT, COMPREHENSIVE CLIMATE ACTION



There is a need for strong, clear and coherent signals from policy-makers in climate, trade and investment frameworks. While multilateral solutions are preferable, strong national action with efforts towards international harmonisation is a good second-best option.



Climate-ambitious firms hold they key to climate action through their innovative capacity. They need to demonstrate to policy-makers that technological solutions exist that can be scaled up in the right enabling environment.

#### DEMAND CLIMATE-RELEVANT PRODUCTS



Policy-makers need to shape markets and stimulate demand for climate-relevant solutions. This can include climate-streamlined public procurement policies or regulatory measures such as performance standards.



Firms need to not only supply, but also demand climate-relevant solutions in their purchasing processes. By striving for reduced emissions along the value chain they can incentivize their suppliers towards a higher climate-ambition.

#### PUT A PRICE ON CARBON



Jurisdictions need to put a price on carbon, and in parallel aim for harmonisation and collaboration to reduce fragmentation. Whereas a global carbon tax is not within reach, options such as climate clubs or linking of emissions trading schemes are, and must be pursued.



By setting internal carbon prices, firms can both steer their activities towards lower emissions and reduce their own climate-related risks, and pave the way for external pricing, which will be more readily accepted.

#### RAISE CLIMATE CHANGE IN TRADE- AND INVESTMENT AGREEMENTS



Climate-ambitious firms deem that they would be able to scale up their climate-solutions globally if trade- and investment policy frameworks were to take climate change considerations. Policy-makers must align such frameworks with the goals of the Paris Agreement, and should strive to involve climate-ambitious firms when doing so.



Climate-ambitious firms need to make their voices heard for trade- and investment frameworks which further climate considerations. While few feel enthusiastic towards the WTO, it is by taking an interest in its work that they can contribute towards the formulation of rules and frameworks that can foster sustainability in trade.



Commissioned by the Swedish pension fund AP7 and the International Chamber of Commerce (ICC) Sweden, 2050 Consulting has explored the views of international, climate ambitious companies regarding their opportunities to contribute to meeting the goals of the Paris Agreement on climate change. A literature review combined with in-depth interviews and a short survey carried out on the occasion of UNFCCC:s COP23 in Katowice, Poland, indicate that climate ambitious firms want to see clearer political signals and a greater harmonisation of policies and measures. The report makes recommendations to firms as well as to policy-makers in order to scale up the contribution of the private sector to climate action through international trade and investment.

» 2050

**Good business on a planet in balance.**  
We help our clients towards sustainability and increased profitability through analysis, communication and business development. We work in the intersection between policy, research and business. [www.2050.se](http://www.2050.se)



**AP7 is the state alternative to the private investment funds offered within the Swedish premium pension system.** As a sustainable and responsible investor, AP7 actively advocates for the values enshrined in international conventions to which Sweden is a signatory in the areas of environmental protection, human rights, labour rights and anti-corruption. [www.ap7.se](http://www.ap7.se)



**The International Chamber of Commerce (ICC) is the world's largest business organisation.** Through advocacy and self-regulation tools, we strive to make business work for everyone, every day, everywhere. We also work with dispute resolution through the ICC Court of Arbitration, one of the leading arbitral institutions in the world. [www.icc.se](http://www.icc.se)