

# Carbon pricing is the way to rectify runaway climate change



*Around 80% of the funding we need must come from the private sector. So how do we raise it? The answer is clear. Image: Diana Parkhouse/Unsplash*

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As world leaders gather in New York City this week for the [UN General Assembly](#), climate change is front and centre. And rightly so: the window for action is closing. The 2015 [Paris Agreement](#) is the most ambitious policy framework the world has ever agreed to, but without collective action, it's just words.

While governments should lead by setting climate-smart policies, they can't address climate change alone. Business has the innovation and operational competences to accelerate the shift to a low-carbon and climate-resilient economy. Already, many companies are demonstrating that achieving net-zero emissions by 2050 and keeping global warming to 1.5°C is necessary and achievable. The economic case is beyond doubt.

Although climate change represents perhaps the largest, most complex economic opportunity since the industrial revolution(s), many

investments are needed to make the transition. Most of the money required (up to 80%) needs to come from the private sector. It is therefore critical that the financial contributions from investors and business are unlocked.

The key? Putting a price on carbon emissions. There is enough evidence to suggest this is by far the best instrument to trigger investors and companies to move faster, especially when combined with other supporting policies.

## **Transforming Markets**

During the last 50 years there has been unprecedented progress in human indicators – life expectancy has increased to record levels; infant- and maternal mortality has fallen; more girls are staying in school; more people have been lifted out of poverty than ever before; and inequality between nations has narrowed. The market system has served us well.

But deep fractures are beginning to show: gaping inequality within almost all countries; record environmental degradation and species loss; and the broader impacts of irreversible climate change. Our markets are unsustainable – and we need a new economic model.

To tackle these challenges, *Transforming Markets* is one of four focus areas at the World Economic Forum's 2019 [Sustainable Development Impact summit](#). A range of sessions will bring stakeholders together to take action that places human and environmental health at the core of market systems and value chains. These include building sustainable markets, responsible supply chains, moving beyond disposability, circularity and scaling solutions of the Fourth Industrial Revolution, among others.

Two years ago, the [High-Level Commission on Carbon Pricing](#), chaired by Joseph Stiglitz and Nicholas Stern, suggested a carbon price needs to be in the \$40-\$80 per tonne range by 2020 and \$50-\$100 by 2030 to achieve the Paris Agreement target. A World Economic Forum survey of 80 CEOs found the same: a price of at least \$30 per tonne is needed to impact emission reductions and investments to decarbonize fast enough.

The momentum for a carbon price is increasing, but we are still far from where we need to be to deliver on our Paris goals. Today, 46 national and 28 subnational jurisdictions have carbon pricing systems in place covering over 20% of annual greenhouse gas emissions. These include Europe,

Canada, California and Washington state, Mexico, Peru, Colombia, Chile, China and Singapore.

Since the Paris Agreement, the price of carbon in Europe has increased by 350% to €27 per tonne of CO2 equivalent. Next year's update to the Nationally Determined Contributions (NDC) provides a clear opportunity to step up carbon pricing ambitions – especially since it is now clear a meaningful carbon price will not harm competitiveness.

Global Carbon Emissions from Fossil Fuels, 1900-2014

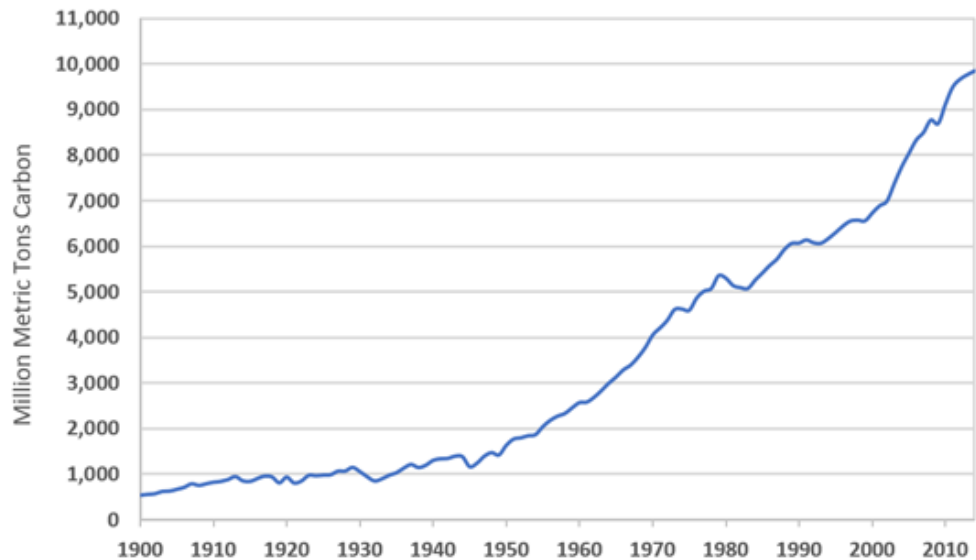


Image: US Environmental Protection Agency

This week's report by the [High-Level Commission on Carbon Pricing and Competitiveness](#), which I co-chaired with [Anand Mahindra](#), shows that for companies, additional costs created by carbon pricing are small relative to other factors affecting the competitiveness of a company. These factors include corporate tax rate differences, wage arbitrage, regulations, availability of labour, infrastructure, exchange rates and commodity prices. In our view, this is especially the case if the price is within the \$30-\$100 (or more) range.

The report also demonstrates that policies can be designed to incentivize reducing emissions while providing support to affected industries or regions. In other words: both the loss in competitiveness and the threat of carbon-leakage can be prevented, without a negative impact on economic activity and employment - if the right policy measures are implemented in parallel. These measures could include temporary or partial exemptions for certain specific industries or regions competing heavily on a global scale.

### **A meaningful price**

To level the global playing field – by preventing perceived carbon leakage due to competitiveness differences – the report recommends policymakers around the world move faster in implementing a meaningful carbon price in line with the Stern-Stiglitz recommendations.

At DSM several years ago, we applied a global internal carbon price of €50 per tonne of CO<sub>2</sub> to accelerate our efforts in reducing our emissions, but also to ensure our company is prepared for future regulations. Companies who haven't yet adopted an internal price to prepare for an external carbon price will soon have to do so, as investors demand more and more insight into the risks of climate disruption – and into the financial opportunities of taking action on climate change.

By embedding emissions firmly in our financial systems and by putting this meaningful price on carbon, we can unlock trillions of dollars in climate finance from companies and investors in the private sector. This is a critical step toward harnessing and optimizing the financial means, innovative power and actions of businesses when it comes to funding the transition to a low-carbon future