Grantham Research Institute on Climate Change and the Environment

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Grantham Research Institute on Climate Change and the Environment

Chair: Professor Lord Stern of Brentford

Briefing Note (December 2011)
The case for carbon pricing

The Grantham Research Institute on Climate Change and the Environment has published a policy brief: *The case for carbon pricing* for decision-makers interested in the transition to a low-carbon economy.

Headline issue

Carbon pricing, whether through emissions trading or taxes which discourage high-carbon behaviour, should be a fundamental pillar of policies designed to mitigate climate change. Nevertheless, successful implementation of pricing schemes can be hindered by their unpopularity with businesses and consumers. This policy brief outlines the arguments for implementing a broadly uniform carbon price across sectors and considers how governments can begin to reduce perceptions of unfairness through improved policy-making and communication.

Key points

- A uniform global carbon price, delivered either by carbon taxes or cap-and-trade, would be an ideal tool to reduce greenhouse gas emissions sharply in a cost-effective way, based on the principle that the ‘polluter pays’.
- A carbon price would act as a pervasive encouragement for businesses to adjust their investment, mix of inputs and innovation away from greenhouse-gas-intensive technologies. For consumers, a carbon price on products would encourage them to adjust their spending away from high-carbon products.
- We recommend a carbon price today of £30 per tonne of carbon-dioxide-equivalent, to be consistent with achieving UK targets for emission reductions in a cost-effective way. This is around three times higher than the current price in the European Union Emissions Trading System (EU ETS). Although the UK already taxes carbon in other ways too, the implicit carbon price should generally be increased.
- But a key point is that the carbon tax or trading scheme can and should be revised over time as policy-makers learn from experience.
- Policy-makers in the UK and other countries should move towards a uniform carbon price across sectors so that the burden of adjustment costs is spread efficiently across economies and thus minimised. Promoting cost-effectiveness is also likely to promote political acceptability.
- Policy-makers will also have to consider the distributional consequences of carbon pricing, which could be problematic. But compensatory measures are possible.
- The consequences for competitiveness have to be assessed, too. However, they seem unlikely to be substantial.
- Other policies are needed as well, particularly those which promote innovation and appropriate infrastructure investment.
- Communicating with businesses and the public about why carbon pricing is a sensible option needs improvement. A failure to explain the rationale for carbon pricing in terms of the ‘polluter pays’ principle could jeopardise public acceptance and support.

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