ICC CARBON PRICING PRINCIPLES

Mobilising markets for the net-zero transition

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INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

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I. EXECUTIVE SUMMARY

The momentum for climate action continues to grow. The wave of recent countries' climate commitments and pledges[1] signifies a promising new alignment of ambitions and actions to face the climate crisis and ensure an inclusive, just and resilient recovery. Similarly, corporate net zero pledges represent increased ambition in voluntary commitments.[2]

In order to reach net zero emissions by 2050 and hold the global temperature rise to 1.5°C above pre-industrial levels– in line with the latest and leading available science—the total annual required investments in the energy sector alone will need to more than triple by 2030.[3]

The kind of investment required for a successful transition to a net-zero emissions energy system and economy will require a high-level of cooperation and engagement by all stakeholders, industry, consumers and, crucially, governments. This should enhance coherence, consistency and comprehensive solutions that take into account the interaction of different policy instruments and approaches, facilitate cross-border trade and investment and help set a level playing field that reduces administrative complexities for business. Business has a central role to play in tackling climate change and stands ready and willing to engage with policy-makers and broader stakeholders in this collective effort. Transforming the energy system also requires further change on a broader scale, with unprecedented collaboration between industry, consumers and, crucially, governments, which have the power to set policy frameworks, regulate markets and stimulate investment in key areas to accelerate the transition to net zero.

The International Chamber of Commerce (ICC) has a longstanding involvement in sustainability and climate action and stands squarely behind collective efforts to tackle climate change and limit global temperature increase to 1.5°C. We strongly support the use of market-based approaches and the successful implementation of a new phase of emissions trading under Article 6 of the Paris Agreement[4]—an essential part of international climate policy, reflecting the global challenge of ambitious mitigation action. We recognise that carbon pricing mechanisms will play an instrumental role in achieving the goals of the Paris Agreement.

Carbon pricing instruments are intended to reflect external costs of GHG emissions and come in several forms—they may be mandatory or voluntary, private sector, state, intra-state or supra-nationally led; emissions trading or through carbon taxation. Well-designed carbon pricing instruments give a clear signal of climate change mitigation and adaptation costs to stimulate reduced emission activity. Whilst not a complete answer, carbon pricing is a cost-effective policy tool that public authorities and companies can use as part of their broader climate strategy.[5]

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1 U.S. President Biden convened the leaders of 40 nations to the Leaders' Summit on Climate in April 2021, which underscored the urgency and the economic benefits of stronger climate action and a series of new climate pledges have been made by some of the biggest greenhouse gas (GHG) emitting countries around the Summit and in the past months. The U.S. announced a new Nationally Determined Contribution (NDC) with an economy-wide target for the U.S. to reduce its net GHG by 50-52% below 2005 levels in 2030. The UK set the world's most ambitious target into law to reduce emissions by 78% by 2035 compared to 1990 levels. The EU adopted legislation that mandates climate-neutrality by 2050, and a collective net GHG reduction target (emissions after deduction of removals) of at least 55% by 2030 compared to 1990. Quad nations, including Australia, India, and Japan at their first ever in-person Summit at the White House in September 2021 confirmed their intent to communicate more ambitious NDCs by COP26. Russia announced its plan for climate-neutrality by 2060.

2 See for example Graham, Jack (23/03/21): "Net-Zero Emissions Targets Adopted By One-Fifth of World's Largest Companies," Reuters, (28/10/21)

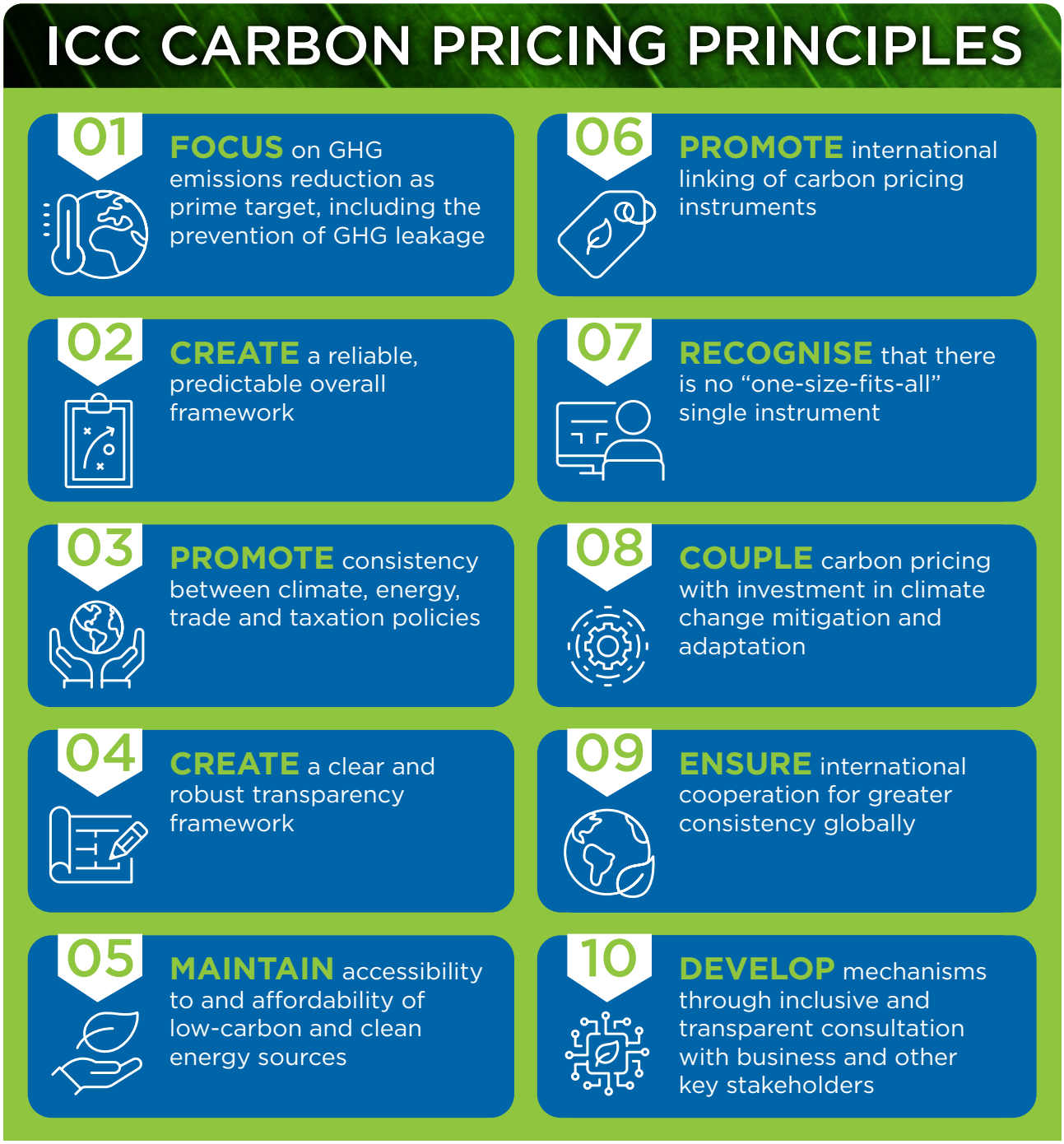
3 See International Energy Agency Report (May 2021) Net Zero by 2050 - A Roadmap for the Global Energy Sector.

4 Article 6 of the Paris Agreement is generally known as the "markets article" but could also be referred to as the "article on international cooperation." The provisions under this article address specific examples of cooperation that involve using internationally transferred mitigation outcomes (ITMOs) toward meeting NDCs, as well as creating a framework for building international carbon markets and a framework for non-market approaches to international cooperation.

5 E/C.18/2020/CRP.19 Committee of Experts on International Cooperation in Tax Matters: Environmental Tax Issues. Chapter 2: An Introduction for Policymakers – Carbon Taxation Handbook. Note by the Secretariat.

If properly designed, these instruments could enable countries to raise the ambition of their Nationally Determined Contributions (NDCs) while establishing a policy foundation for a global emissions trading system.

ICC proposes the principles and recommendations below, drawing on lessons learned thus far, to help policy-makers design carbon pricing policies within effective climate policy frameworks for implementation at national, regional and international levels:



ICC believes the following principles should form an essential part of national and international approaches to climate change for the growing number of countries that decide to use carbon pricing instruments. These principles should also be given consideration when developing market-based instruments under Article 6 of the Paris Agreement.

II. ICC CARBON PRICING PRINCIPLES

Based on a wide range of business experiences, ICC has developed the principles below which should be taken into account for developing market-based instruments under Article 6 of the Paris Agreement in order to:

- tackle climate change at the quantitative scale and timescale needed, irrespective of location, and at the lowest cost to consumers and society;
- avoid economic and competitive distortions between regions and sectors in order to achieve net emission reductions on a global scale, while preventing any shifting of emissions within sectors and between regions (carbon leakage); and
- for policy-makers to give companies immediate, medium and long-term frameworks and policy clarity to support their investment decisions.

The principles are aimed at helping policy-makers to find a balance when designing and implementing a carbon pricing instrument that should help countries achieve three main objectives:

- halving GHG emissions by 2030 and achieving net zero emissions by 2050 by both reducing emissions and increasing removals, in line with the latest and leading available science;
- contributing to the achievement of the longstanding USD$100 billion climate finance goal and triple annual investments in low and net zero emissions technologies to $3.5 trillion by 2030, further promoting urgently needed climate action and supporting vulnerable actors in their efforts in line with the UN Sustainable Development Goals (SDGs) [SDG 13], while at the same time;
- keeping energy prices, also through complementary policies, at a level that does not impede consumer access to affordable and clean energy [SDG 7], does not impede economic growth and job creation [SDG 8] and does not overburden industry; and
- allowing the continued efficient conduct of business, innovation and infrastructure development [SDG 9].

01 FOCUS on GHG emissions reduction as prime target, including the prevention of GHG leakage

The carbon pricing instrument needs to be considered and designed to focus on emissions reduction and removals in accordance with the 2030 and 2050 climate targets. The instrument should be part of a consistent policy addressing climate, energy, trade and taxation with this clear focus. The effectiveness of the policy could become muddled when multiple objectives are pursued, e.g., increasing the part of renewable energy, improving energy efficiency or plainly raising revenues. Where there are multiple objectives, carbon reduction should be prioritised.

Carbon reduction should preferably be dealt with through global action. If local or regional carbon pricing instruments are put in place, ideally these should converge over time to create a global level playing field with comparable reduction requirements. Until this is the case, it is important that carbon pricing instruments do not lead to shifting of emissions between regions. Solely shifting investment, production and emissions to other regions

may lead to carbon leakage, does not necessarily reduce global emissions and hence may not have a net climate benefit.

Given the interaction of climate policies with international trade, ICC believes that aligning climate and sustainability policy frameworks with trade should be a first priority—policies should be designed to deliver meaningful climate results, support sustainable trade and trade finance and greater global convergence to avoid distortions that could undermine international trade.

Policy-makers should clearly address carbon leakage concerns for those sectors in global competition and for those that are not in a position to pass on additional costs arising through carbon pricing. ICC supports the development of a multilateral approach that meets climate goals without compromising trade rules[6].

Any such approaches to prevent carbon leakage such as free allowances in emission trading systems, tax reductions in carbon tax or the introduction of carbon adjustments at the border should be considered and designed carefully and proportionately. They should be compatible with international treaties and agreements, most notably with WTO rules and non-discrimination principles. Compliance with WTO's rules depend on the structure and implementation of any policy measures to prevent carbon leakage. Engagement with foreign governments and businesses is imperative to avoid any administrative complexity that would put additional hurdles on businesses.

02 CREATE a reliable, predictable overall framework

Creating an immediate, medium and long-term perspective and reliable framework conditions in national and international climate, energy, trade and taxation policies is essential for business investment decisions. Such a perspective and reliable framework conditions provide the most important elements for a carbon pricing instrument to fulfil its purpose, which is to reduce emissions and further increase removals, and to this end trigger appropriate investments. Those investments, however, require appropriate timescales and reliable expectations on future carbon prices. Investment cannot happen or adapt overnight, especially investment of the scale needed to successfully address climate change, carbon reduction and energy transition. An inconsistent or unpredictable general approach, both at national and international levels, will inevitably limit the effectiveness of any carbon pricing instrument and other public policy or even eliminate its ability to deliver emission reductions.

Simplicity and cost effectiveness should also be key objectives. The climate objective should be clearly stated and measurable, taking into account the competitive impact on affected businesses.

6 See most recent OECD statements on international carbon pricing, IMF proposal on international carbon price floor as well as WTO and Word Bank's calls for adopting a global price on carbon.

03 PROMOTE consistency between climate, energy, trade and taxation policies

A carbon pricing instrument can be designed in different ways, for instance as a tax, an emissions trading scheme or hybrid schemes. Other ways to price carbon are to directly reward emission reductions or even to reward the use of less carbon-intensive or renewable energy, thus paying for a lesser environmental impact. It is important that there is consistency between the ambition to reward emission reductions and national and subnational tax policy. Climate measures taken by a company should be considered as a normal business expense. As such they should be deductible expenses for corporate tax purposes. Some nations currently limit deductions that have not been clearly proven to generate future profits for the company. The relevance of carbon pricing instruments should be dealt with and accepted up front. Therefore, deductions of all expenses related to climate measures should in principle be acceptable.

We are currently seeing increased efforts to align tax policy instruments with climate policy tools. G20 Ministers at the G20 High Level Tax Symposium on Tax Policy and Climate Change earlier this year agreed that reaching the common goal of net-zero emissions by mid-century is a priority and that tax policy can help to achieve this objective in an effective and inclusive manner.

Governments that use carbon pricing instruments should pay special attention to potential interactions with other instruments and carefully examine how to coordinate and align their climate and energy policy instruments. In doing so it is vital that policies are calibrated in such a way as to avoid overlaps and inconsistencies and do not negatively affect each other where possible. Conflicts need to be avoided through an active climate diplomacy —this is particularly important for trade policy measures that will put a carbon price on imported goods aligned to the domestic carbon price.

Care should be taken that any action to manage carbon markets does not negatively impact monetary policy.

04 CREATE a clear and robust transparency framework

Carbon pricing instruments should be transparent, based on robust criteria for emission reductions and based on a clear legal framework.

In particular, it would be useful to have a policy framework which enables carbon pricing to be implemented at an initial level gauged to avoid severe economic disruption, but with a clear path forward for price increases to a level determined by required carbon emissions reductions. Such a policy framework may limit initial economic losses and resistance to the scheme whilst allowing businesses to align their longer-term investments based on high carbon prices.

Emissions reductions as well as removals, especially if covered by a carbon pricing instrument, should be measured, reported and verified (MRV) on the basis of agreed international criteria. A transparent and coherent approach to MRV across sectors and jurisdictions is important not only for the accountability of emission reductions and

removals, but also for building trust between countries and regions concerning the appropriateness and comparability of their reduction goals. A strong MRV framework is an important element to guarantee the security of long-term investments in small- and large-scale mitigation projects and will help promote inter alia carbon footprint disclosure throughout the supply chain at all production stages and thus contribute to the overall decarbonisation of the industry.

Finally, measuring, reporting and verifying carbon emissions and removals/sinks/offsets in the same way will provide a solid and aligned basis for linking carbon pricing instruments and other efforts to converge national policies. When setting up national or subnational instruments, by using MRV on the basis of internationally agreed criteria, systems will be intrinsically comparable, even if scope or price levels are different. Clear and internationally agreed MRV criteria will also facilitate the development for proxies of emissions, in case and to the extent emissions themselves cannot be fully measured [e.g., in transport]. When creating these frameworks, it is important to build on and further harmonise and integrate existing frameworks and initiatives, such as (but not limited to) the Task Force on Climate-Related Financial Disclosures, the Global Reporting Initiative, International Financial Reporting Standards Initiative and the sustainability reporting measures proposed by the EU.

05 MAINTAIN accessibility to and affordability of low-carbon and clean energy sources

Regardless of the carbon pricing instrument that is chosen, financial burdens arising from it must remain at a reasonable level, in accordance with the UN SDGs and the principle of just transition. The Paris Agreement states that Parties to it should take into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities. Under the UNFCCC, the issue of just transition is considered as one of the social impacts of climate policies and actions.

Policy-makers should find a balance when implementing such an instrument that allows the achievement of the following two objectives:

- first, reducing emissions and triggering investments in low carbon technologies; and
- secondly, keeping energy prices at a reasonable level that balances the need to accommodate the cost of climate mitigation and adaptation, but does not overburden industry and does not impede consumer access to energy.

Considering previous principles, carbon pricing instruments can be combined with targeted measures that would alleviate the burden for energy price increases for the vulnerable consumers, targeted in a way that such measures do not undermine the societal impact of carbon pricing measures.

For consumers as well as for industry, it is important to consider the overall effect that a combination of different pricing and other measures could have on the overall burden.

06 PROMOTE international linking of carbon pricing instruments

A carbon pricing instrument should enable countries to swiftly link their carbon pricing instruments. Linking carbon pricing instruments, can improve cost effectiveness by lowering the overall economic costs and for certain sectors as well as reduce carbon leakage risks and competitive disadvantages. At the same time, it can increase the economically viable options for mitigation actions in different regions.

In order to advance a more inclusive approach to carbon pricing and linked instruments every effort should be made to design and implement all carbon pricing mechanisms in alignment with international trade rules and avoid creating trade barriers. Using an internationally based MRV system optimises chances for international alignment. Limiting barriers and increasing the coverage of carbon pricing instruments should also improve cost effectiveness of the instruments as it should reduce complexity of carbon pricing coverage for cross border production processes and supply lines.

07 RECOGNISE that there is no "one-size-fits-all" single instrument

In principle, ICC considers that economy-wide approaches, covering all relevant sectors in the context of a global policy framework, offer the best opportunities to minimise societal costs of mitigation. At the same time, it is recognised that extending carbon pricing to some sectors of the economy may lead to significant increases in complexity and administration.

The wider the scope of emission reduction possibilities under a carbon pricing instrument, the more cost-efficient options for emission reductions can be identified. The scope of incentives for mitigation actions with the optimum impact depends on how broad the range of segments of society and economic sectors are affected.

In general, harmonisation of instruments can be advantageous with respect to overall cost reduction. However, it should also be recognised that a "one-size-fits-all-approach" for all economic sectors and segments of society does not exist at this point and not all specific sectoral needs can be included under one single instrument. For instance, while a market-based cap and trade approach can guarantee that a certain mitigation target is fulfilled, the exclusive use of a carbon tax will give an incentive for mitigation action too but cannot guarantee the achievement of a certain emission reduction target.

If various sectors have different abatement costs for changing behaviour, there is an argument for different pricing, but this should be temporary. The competitive position of trade exposed industries needs to be addressed until consistent carbon pricing mechanisms are applied globally[7]. Any mechanisms should be used proportionately[8] and designed in compliance with WTO rules and non-discrimination principles.

7 Carbon border adjustment mechanisms are currently being explored in Europe and other regions and will need to be examined more closely with respect to compliance with WTO rules and non-discrimination principles.

8 The mechanisms should be focused on ensuring carbon reduction, not e.g., revenue raising.

Furthermore, potential social implications of selected policy instruments should be addressed through integrated policy approaches consistent with the other principles [e.g., principles ensuring accessibility and affordability of low-carbon and clean energy resources].

08 COUPLE carbon pricing with climate change mitigation and adaptation

Significant government expenditure will be required alongside corporate investment to ensure that climate targets are met. Unlike regulatory measures which focus on reducing carbon, carbon pricing mechanisms will have as an additional benefit that they will generate government revenues. It is therefore an important principle that governments should give careful consideration as to how to use the revenues generated. Loss of competitiveness for businesses should be considered for compensation, as should mitigation of price impacts for consumers, energy poverty and other social aspects. When raising carbon taxes, governments should consider commensurate reductions in other taxes within the frame of their overall tax policy. When done in a considered and targeted way, such an approach could remove pre-existing obstacles to local growth and employment However, whether used to compensate for competitive impairment or price impact, revenue use should be set up in a way that drives further climate change mitigation and adaptation. For example, investing proceeds in energy efficiency retrofits for low-income housing complexes would help to lower energy bills and balance increased rates. It should be designed to support climate change mitigation and adaptation.

The more successful a carbon pricing measure is in reducing carbon, the less a government should receive in revenues from it over time. Therefore, considering use of the revenue and ensuring at least part is considered for climate mitigation, adaptation and energy transition spending is seen as good practice to leverage carbon pricing and decouple growth from negative environmental impacts.

Carbon pricing initiatives may generate additional government revenues, but these will be difficult to forecast, as will be impacts (positive or negative) on other sources of government revenue (e.g., higher costs may reduce corporation and/or consumption tax revenues in the short term and result in changing tax bases and tax mixes in the longer term). Governments should plan strategically and review frequently to ensure that revenues from all taxes, including carbon pricing initiatives, allow them to meet their carbon reduction and other societal spending commitments in ways that appropriately encourage rather than undermine carbon reduction across the economy.

ICC believes introducing carbon pricing mechanisms are most effective in decoupling growth whilst tackling climate change if the introduction of such pricing forms part of a more holistic approach, considering economic assets present, expected developments on natural assets and population as well as potential obstacles to local growth and development.

09 **ENSURE** international cooperation for greater consistency globally

A successful transition to a net-zero future, will require a high-level of cooperation and engagement by all stakeholders to enhance coherence, consistency and comprehensive solutions that take into account the interaction of different policy instruments and approaches to achieve environmental and climate policy objectives.

Instruments should be conceived and designed to be implemented as global as possible, either immediately or where necessary, in stages, considering cross border aspects and impacts on international value chains. The design and implementation of such cross-border aspects should respect international agreements and favour resolution in an international setting. International cooperation and the objective of global consistency would avoid creating asymmetrical positions that may affect a country's competitiveness and also create trade disputes. International cooperation is essential in order to develop consistent and harmonised approaches that are key to providing a global framework that better facilitates cross-border trade and investment and economic growth.

Greater consistency, clarity and co-ordination between regional, national and supranational carbon pricing systems is needed to reduce the risk of fragmentation and will be crucial in setting a foundation for the successful finalisation of the negotiations under Article 6 of the Paris Agreement at COP26.

10 **DEVELOP** mechanisms through inclusive and transparent consultation with business and other key stakeholders

ICC demonstrates the value and necessity of a multistakeholder and multilateral approach to developing and implementing effective carbon pricing instruments. In developing their policy frameworks, governments should consult with businesses and other stakeholders as an integral part of the process in order to maximise transparency and clear communication for businesses and broader society. Governments should equally aim to minimise complexity to reduce administrative and compliance costs for businesses. Continued consultation and dialogue with business and other stakeholders are therefore essential when designing, implementing and upgrading policy frameworks.

Governments should establish stable and predictable legal environments that provide business with a foundation to design long-term economically and environmentally effective strategies.

New instruments, and changes to existing legislation must be introduced with sufficient lead-in-times to avoid disruption to investment plans.

III. CONTEXT

In order to avoid catastrophic climate impacts and irreversible damage to our societies and economies, we must hold temperature rise to 1.5°C above pre-industrial levels. This requires halving greenhouse gas emissions (GHG) by 2030 and reaching net-zero emissions by 2050.[9] The latest report issued by the Intergovernmental Panel on Climate Change (IPCC) in August 2021: "Climate Change 2021: the Physical Science Basis" only underlines this global imperative. Recent extreme weather events demonstrate the imperative for bold and urgent climate action—in line with the Paris Climate Accord and latest and and leading available science—by all stakeholders.

The needed massive systems change cannot be achieved by public sector actions alone. The majority of new investments will need to come from the private sector. There is evidence and increased recognition that a significant scale up in investments can only be accomplished if the policy framework conditions are adjusted and if emissions are priced appropriately to establish the business case for decarbonisation.

ICC stands squarely behind collective efforts to tackle climate change and limit global temperature increase to 1.5°C. We strongly support the use of market-based approaches under the Paris Agreement through successful implementation by states of emissions trading under Article 6 of the Paris Agreement, [or through voluntary carbon markets], in order to achieve their NDCs.

The International Monetary Fund calculates that the average global carbon price is currently US$2 a ton and needs to rise to US$75/tCO2 by 2030[10] to curb emissions consistent with the goals of the Paris Agreement in order to establish cost-efficient paths to reach net-zero emissions. Latest studies suggest a global carbon price of more than $100/tCO2 would be required as early as the 2020s in order to achieve 1.5°C. However, the contrast between "ideal" carbon prices in energy systems models and real-world carbon prices is still stark and establishing the appropriate level of the carbon price is and how it should change over time remains a challenge.[11]

More than 60 carbon pricing schemes, including carbon taxation, have been implemented across the globe whilst others are still being developed, which has created a fragmented international climate policy landscape, compounded by administrative complexity. Scheme architectures are gradually becoming more ambitious with more stringent monitoring, capping, auction allocation and retirement, as well as introducing adjustments for cross border emission trading. The global policy community and the private sector continue to learn from practical experiences with (and unexpected and unintended consequences from) these various approaches, and it is clear that the "state of the art" concerning carbon pricing is still evolving, and one in which the private sector continue to play an indispensable role.

Carbon pricing mechanisms will become increasingly important as the pressure on countries to achieve climate targets and needed financing grows. According to the latest UNFCCC NDC Synthesis report the available NDCs to date of all 191 Parties taken together imply a sizable increase in global GHG emissions in 2030 compared to 2010, of about 16%. Such an increase, unless actions are taken immediately, may lead to an unacceptable temperature rise of about 2.7C by the end of the century.

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9 See Intergovernmental Panel on Climate Change (IPCC) Special Report on the Impacts of Global Warming of 1.5 °C above pre-industrial levels (https://www.ipcc.ch/sr15/chapter/spm/)

10 See IMF/OECD Report for the G20 (April 2021) Tax Policy and Climate Change.

11 See https://www.annualreviews.org/doi/10.1146/annurev-environ-102017-025817

There is an important opportunity to advance approaches on carbon pricing as well as achieve an agreement on effective and transparent rules for Article 6, particularly as governments lack specific guidance on the smart design of carbon pricing policies that support the real economy and incentivise enhanced climate action and ambition.

Policy makers should seek to utilise the most appropriate policy instruments to achieve our climate goals, as well as the broader UN SDGs. The design parameters of the policy instruments should provide a framework that underpins climate policies in the most economically efficient manner to affect behaviours in the most economically efficient manner. Such a framework should be designed within and be consistent with the overall context of the total climate, energy, trade and fiscal framework.

IV. OPPORTUNITIES AND CHALLENGES

State of play of carbon pricing[12][13]

The State and Trends of Carbon Pricing 2021 Report published by the World Bank Group in May 2021 marked the increase in usage of carbon pricing instruments worldwide from 58 carbon taxes and ETS in 2020 to 64 carbon pricing instruments in 2021. This increase occurred despite the COVID-19 crisis. However, carbon pricing has not yet lived up to its full potential to drive global emission reduction with less than a quarter of global greenhouse gas emissions being covered by carbon pricing initiatives.

While some countries and regions are moving ahead rapidly, ambition varies country-by-country with the global average emissions price at only $2 per ton. Consequently, some countries and regions with high or rising carbon prices are considering placing charges on the carbon content of imported goods from countries without similar approaches.

Yet, a stronger and more coordinated approach to carbon pricing is critical if we are to achieve the goals of the Paris Agreement. As governments are preparing for COP26 in Glasgow in November, there is an opportunity to make significant progress on the effective and transparent global implementation of Article 6 of the Paris Agreement – establishing the framework conditions for effective carbon pricing in order to unlock the needed investments.

Key opportunities and challenges based on industry experiences in existing national regimes

Many companies and sectors already have experience with carbon pricing instruments in public policy and regulation. The energy sector and other industry sectors often have significant emission reduction obligations under national climate policies. New business opportunities can arise when carbon pricing leads to efficiency investments in industry and private households – or indeed other areas of the economy. Individual companies have also explored internal carbon pricing and trading in order to incentivise energy efficiency and help identifying risks and guide investment decisions.

The purpose of carbon pricing is to incentivise behavioural change from all the stakeholders: public authorities, households, business and financial institutions; as a conscious input to markets, including but not limited to energy markets. To be an effective driver of climate

12 See World Bank Group Edition of the Annual State and Trends of Carbon Pricing, 2021.

13 See OECD Effective Carbon Rates 2021: Pricing Carbon Emissions through Taxes and Emissions Trading.

change mitigation and adaptation, it needs to be designed in a manner that incentivises low or zero carbon emitting activity, generates revenue for investment in the necessary alternative infrastructure energy, land use, industry and infrastructure systems, and ensures that such revenue is deployed appropriately.

Carbon pricing, whether through emission trading, carbon tax or other, is likely to increase the cost of production and consumption. Therefore, it is even more important to design policies in the most effective way in order to mitigate this to the best extent possible. Carbon pricing, including taxation for pursuing climate change policies, is an input into markets. Unintended consequences of this input should be therefore considered when choosing and designing the most appropriate carbon pricing instrument.

Preferably such unintended consequences should be considered throughout the production and consumption value chain. To enhance effectiveness, it is important to ensure the most efficient instrument is chosen for promoting carbon reduction within the economy. Cross border aspects also need to be considered. As more and more jurisdictions will be introducing carbon pricing through one tool or another, special attention needs to be paid to avoid repeated pricing on the same carbon, through multiple overlapping instruments within the country or across jurisdictions. For example, carbon pricing design should avoid adding a price on carbon in one country that has already been priced in another country. Design should also consider reduction in price due for carbon not emitted or saved elsewhere in a company's value chain. In order to address this possible double pricing accordingly, carbon pricing measures should strive to use a standardized carbon MRV system.

When considering carbon taxation as an instrument, it is important to consider that taxation is generally levied on a country basis, and not on a co-ordinated and worldwide (or large regional) basis and should take into account cross border trade issues and their pricing effects caused by such domestic tax rules. Tax rules also tend to be subject to more stringent constitutional requirements.

The design parameters for carbon taxation should provide a framework that underpins climate change policies as to affect behaviours for specific emissions reduction goals in the most economically efficient manner. Such a framework should be designed within and be consistent with the overall context of the total fiscal framework. Otherwise, carbon taxes may increase the economic costs of taxation while providing only a limited benefit to climate action.

In some countries carbon taxation is used in conjunction with other environmental taxes, as well as other forms of regulation, to promote environmental protection and mitigate climate change. Targeted tax subsidies or incentives may also be needed to support investment in low carbon technology and innovations. The UN Committee of Experts on International Cooperation in Tax Matters has developed a Handbook on Carbon Taxation[14] that covers a broad spectrum of issues and presents a useful guide for developing countries considering the introduction of a carbon tax.

The scale of technological change and development for example needed to meet the climate targets of governments is significant. Also, potential timescales for change could be very demanding. Together they provide a major challenge in terms of research, development and initial deployment of commercial scale technology required to "green" economies. Policies should thus seek to deliver climate objectives at the lowest overall cost to society. For that reason, in the case of quotas mechanisms, provision should be made to allow the use of

14 Available at https://www.un.org/development/desa/financing/sites/www.un.org.development.desa.financing/files/2021-10/Carbon%20Taxation.pdf.

highest integrity offsets in alignment with global efforts toward net-zero by 2050 and existing global standards, such as the Race to Zero criteria and Science Based Targets initiative.

Offsets should be issued in accordance with high integrity carbon standards. Carbon standards, in turn, should demonstrate that carbon credits are accurately quantified, real, verified and additional, while properly addressing leakage, non-permanence, and double counting risks. Offsets should be productive, environmentally positive and socially beneficial and there needs to be a coherent international approach to ensure their measurement, reporting and verification. Making offset markets transparent and ensuring that carbon offset credits are available economy-wide, quantifiable, do not expire, and are independently certified through a publicly available tracking system will be 'essential'—at COP26 governments have an opportunity to do so.

Differing environmental policies between nations have consequences in terms of impact leakage, which may lead to economic competitiveness distortions. For climate change, this is especially true for energy intense industries such as steel, aluminium, cement, fertilizers, etc., producing globally competitive commodity goods. ICC believes that any policies aimed to redress such concerns should be consistent with existing agreements on trade and investment.

ABOUT THE INTERNATIONAL CHAMBER OF COMMERCE (ICC)

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 100 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations and local chambers of commerce.

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