

53 – Climate Policy Leadership and Competitiveness Post Covid-19: Strengthening Carbon Prices for Industry

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Carbon pricing helps to align investment and consumption choices with climate objectives, but the political economy of carbon pricing is challenging. Carbon prices to date are too low to incentivise deep decarbonisation for most energy users and other emitters of greenhouse gases. The presence of fossil fuel subsidies sometimes implies that carbon prices are effectively negative. Policies seeking higher carbon prices for industry have raised competitiveness concerns, and these have led to design choices that sometimes blunt the effectiveness of carbon prices. This raises the question of how best to use carbon pricing as part a sustainable economic recovery despite the challenging circumstances during and after the pandemic.

The stark reductions in economic activity have prompted strong fiscal policy responses, focusing on the immediate need to provide liquidity and gradually also mitigating solvency risks and anticipating on a need for economic stimulus in the post-pandemic recovery phase. It will be increasingly important to seek cost-effective approaches that align with longer term objectives, including decarbonisation. Reconciling short term stimulus needs with longer term objectives is not necessarily straightforward, but lessons from the global financial crisis could be drawn to design viable options and create synergies.

Carbon pricing can be part of tax reforms after the pandemic. Increased awareness of the need to strengthen resilience has led to calls for increased spending on public goods and concomitant higher tax revenue. There also may be pressure to increase the progressivity of taxation as part of fair burden sharing. Also, in some countries, debt to GDP ratios may rise by enough to require efforts at fiscal consolidation at some point. Exceptional times may provide a window of opportunity for broader fiscal reform, which could facilitate arriving at a politically and socially acceptable reform package.

The policy paper aims to discuss the interaction between carbon pricing and the policy dynamic triggered by the Covid-19 crisis. The paper will make suggestions for updating the carbon pricing debate for the present context. Special focus will be paid to carbon pricing for industry in a world of asymmetric climate ambition.

Biographical note

Jonas Teusch works as Economist at the OECD's Centre for Tax Policy and Administration. Based in the Tax and the Environment Unit of the Tax Policy and Statistics Division, he works on energy taxation, carbon pricing and the assessment of environmental tax reforms. He is the lead author of the recent OECD report "Taxing Energy Use 2019: Using Taxes for Climate Action". Jonas is a former researcher at the Centre for European Policy Studies" and holds a Ph.D. in Economics and Management from Université catholique de Louvain & Université de Liège, Belgium, and a Master's degree from McGill University, Canada.