State and Trends of Carbon Pricing
NET ZERO & CARBON PRICING

• Despite the economic and social upheaval of COVID-19, there was a proliferation of net zero commitments over the past year.
• But what do these net zero commitments mean for how governments and companies use carbon pricing?
• How will carbon pricing instruments look like under a net zero framework?
• More governments are adopting net zero targets and we are beginning to see more ambitious carbon pricing instruments: the EU, Canada, Germany, Ireland and New Zealand.

• Conversations on carbon border adjustments may also spur more ambitious climate policies (Fit for 55 package; July 14)

• This past year has also seen new carbon pricing instruments come online...
CARBON PRICING: CESEE REGION

• Many EU Member States operate additional carbon pricing instruments to complement the EU ETS
• Latvia’s carbon tax increase
• Kazakhstan’s ETS: benchmarking
• Ukraine: ETS in 2025?
CARBON PRICING: WESTERN BALKANS

• Many jurisdictions in the Western Balkans are considering carbon pricing and are building carbon pricing capacity based on the design of the EU ETS and potential CBAM impact
  • Serbia: Law on Climate Change & MRV System based on EU ETS
  • Montenegro: adopted ETS legislation
  • North Macedonia, Kosovo: World Bank support to understand impacts of carbon pricing

• EU alignment is an important driving factor – what does this mean for ambition, esp with increasing EUA price levels?

• Regional approach given the interconnectivity of the power market?
BUT THERE IS STILL SIGNIFICANT UNTAPPED POTENTIAL...

• Despite the increasing number of carbon pricing instruments, short- and medium-term ambition needs to be strengthened.

• Countries’ climate plans continue to fall short and carbon pricing instruments are no exception.
3.76% of global GHG emissions are covered by a carbon price at or above USD 40-80.
ALLOWANCE PRICES (2020)

Allowance prices were largely stable in 2020, likely aided by PSAMs.
CONCLUSIONS

• Carbon pricing is a cost-effective mitigation tool. But it works best within a broader climate framework. Other complementary measures are also needed to tackle nonprice barriers and reduce emissions in sectors not covered by carbon pricing.

• Countries’ climate plans continue to fall short and carbon pricing instruments are no exception. While net zero targets are ambitious, current policies need to be aligned to these goals.

• Despite the COVID-19 pandemic, carbon pricing plans continue to roll out and ETSs have proven to be resilient despite the economic downturn.
Thank you

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