INTERNAL CARBON PRICING

Carbon pricing is a way to reduce GHG emissions, by attributing a cost to them. There are two forms of carbon pricing – external and internal.

- External carbon pricing systems aim to set a price on GHG emissions. These include Emissions Trading System (ETS), Emission Reduction Funds, or Carbon Taxes.

  - Emission Trading Schemes (such as the EU ETS), are cap and trade permit schemes where there is a cap on the total amount of emissions allowed to be emitted. Companies covered by the ETS are usually from industries with high emissions who are required to hold an allowance (unit) per tonne of GHG emitted. As these allowances can be bought and sold, the supply and demand of these allowances will vary, causing high variability in the price of carbon.

  - Carbon taxes occur when a government taxes GHG emissions over and above a set level, either across country or based on industry level emissions.

  - Emission Reduction Funds are schemes where a government buys credits created by emission reduction or carbon sequestration projects – an example is the Australian ERF scheme, which issues Australian Carbon Credit Units (ACCUs) for every tCO_2e avoided or stored.

- Internal carbon pricing is a company-specific strategic planning method, whereby companies set an internal 'cost of emissions'; either as a shadow price, or as an internal charge. Adding the cost of CO_2 emissions as a performance indicator can help to make the cost of GHG emissions reductions activities more comparable and relevant, and support companies in making decisions that support decarbonisation. For example, a high capital expenditure (CAPEX) project that has a long pay pack period (i.e. internal rate of return or 'IRR'), but that shows a low cost per tonne of carbon saved versus the internal carbon price, may support the prioritisation of these types of projects.

Our approach to internal carbon pricing

We understand the role internal carbon pricing can play in driving our low-carbon transition and to reflect the financial impact of decarbonising our value chain and we are piloting the use of a shadow carbon price of 100€/tonne within Europe. This means that the carbon price will be used to guide decision making for some processes (e.g. CAPEX planning) but will not result in an internal fee.
We will review the price regularly, and will look to expand to other markets, as we mature our data and our processes.