The consumer checklist FOR FAIR AND EFFICIENT CARBON PRICING

Today, consumers who wish to eat, move around, heat their home or buy products more sustainably often pay a higher price for the more climate-friendly option. This is because price signals in general poorly reflect the impact of our activities on the environment. For instance, it is often much cheaper to take a flight to reach a holiday destination rather than travelling by train, although the latter is a much more climate-friendly option.

With the overwhelming awareness about the scale of the climate crisis, there is also a growing consensus that tax policies should be adapted to push more sustainable choices while discouraging less sustainable ones. However, if ill-designed, tax measures can have a detrimental effect on households, especially – but not only – the less affluent ones. This impedes the much-needed change of attitudes and lifestyles that must be an integral part of decisive action against the climate crisis. To ensure public support for climate policy tools, taxation measures should therefore ensure distributional fairness, the availability of convenient and affordable alternatives, and dynamise the market of green technologies and products.

The EU and national policymakers are contemplating possible new initiatives in the field of carbon pricing, from extending the EU Emissions Trading System to revising the Energy Taxation Directive. In this *consumer checklist*, we outline the conditions to make carbon pricing acceptable for consumers, socially just, and as a result efficient to achieve policy objectives.

1

DISTRIBUTE COSTS FAIRLY ACCORDING TO THE POLLUTER PAYS PRINCIPLE

Carbon pricing measures will not be accepted if people feel they are paying the full price for environmental/climate protection while companies escape their responsibilities. For instance, we have seen that a large number of energy-intensive industries have been exempted from (some of) the costs of the energy transition. Such discounts or subsidies – which are usually claimed as necessary to keep EU companies competitive – hinder the decarbonisation of the energy sector, harm consumers and lead to a lower public acceptance of climate policies. The **fair distribution of the costs** between consumers and companies according to the **polluter pays principle** is therefore a key criterion for the social acceptability of carbon pricing among consumers.

2

BEFORE TAKING ANY MEASURE, CLOSELY ASSESS HOW CHANGES IN CARBON TAXATION/PRICING AFFECT DIFFERENT CATEGORIES OF CONSUMERS, ESPECIALLY LESS AFFLUENT ONES

Introducing or strengthening carbon taxation can have a detrimental effect on consumers with lower incomes and/or people living in sparsely populated areas. This is because producers will pass on the energy costs to consumers in their final products. Therefore, higher energy taxes for products with a higher carbon content will mean higher prices for consumers. Before taking any such measure, public authorities should therefore carefully consider its **distributional impact** on different consumer groups. This analysis, which could be conducted with the help of consumer organisations, should inform policymakers about whether the planned increase in taxation risks putting an extra burden on households. Such an assessment can also provide possible measures to compensate or mitigate this burden on those most-affected.

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3 BE TRANSPARENT ABOUT THE USE OF THE REVENUES

Policymakers who wish to introduce/strengthen carbon pricing measures must clearly communicate to their constituents what the extra revenues will be used for. Ensuring transparency about the use of the revenues stemming from new or higher CO_2 taxes will greatly influence their social acceptance. This need for transparency also means that public authorities should explain clearly who will be paying for and who will be benefitting from taxation measures, as well as how potential negative impacts will be mitigated.

4 EARMARK THE REVENUES TO ALLEVIATE THE BURDEN FOR CONSUMERS

Revenues stemming from higher carbon taxes/prices should 1) **fund sustainable public investments** and/or 2) **be retroceded to consumers**[1]. The revenues of higher carbon prices could for instance fund investments in public transport, buildings insulation or the roll-out of renewable energy infrastructure. This will provide consumers with convenient and affordable solutions to unsustainable lifestyles. A complementary option could be to retrocede the money to consumers to mitigate the negative distributional impacts of those measures. This can take the form of a lump sum payment. It might also take place through tax deductions, by encouraging green investments or making sustainable products cheaper (by reducing taxation rates on a series of green products, for instance).

5 MAKE CARBON PRICING A COMPLEMENT TO, NOT A SUBSTITUTE FOR, SECTOR-SPECIFIC CLIMATE POLICIES

Increasing the price tag of polluting activities can contribute to the fight against the climate crisis, but it will not deliver climate goals on its own. Higher carbon pricing – which is an illustration of the polluter pays principle – must be accompanied by sector-specific policies. Such policies would help provide consumers with convenient and affordable alternatives to unsustainable products/activities that are becoming more expensive due to carbon pricing. That allows us to step away from the principle that one has a right to pollute, as long as one pays. This is particularly needed in the buildings and transport sectors where consumer demand is relatively inelastic to price signals. To ensure consumers are not trapped in a consumption model that is bad for the climate and their wallets, strong regulatory action in line with the EU's climate objectives is needed on top of higher prices.

6 DO NOT SIMPLY DISPLACE CO_2 EMISSIONS TO OTHER PARTS OF THE WORLD

CO_2 emissions know no borders and Europe's ambition should not be achieved at the expense of carbon intensive imports from other parts of the planet. This is why stronger carbon pricing at EU level should be accompanied by a carbon border adjustment mechanism. It ensures that imported products, manufactured in countries with less stringent climate policies, will not have a competitive advantage over those produced in the EU.

7 ENSURE CONSISTENCY ACROSS ALL CO_2 PRICING MEASURES

Carbon pricing policies can take many different forms, from national CO_2 taxes to carbon emissions trading or the introduction of a carbon border tax. Whatever the form they take, all carbon pricing measures should abide by the principles listed above. To be acceptable and socially just, the transition to a carbon neutral economy should be defined as a challenge for the whole society. This means that all fossil fuel subsidies should be removed, and environmental externalities must be included in the price of products and services. It also means that environmental and social considerations must become part of investment decisions. Therefore, sustainable finance must be at the heart of the EU's economic system.

[1] In some countries, it is legally impossible to 'channel' the money of a tax to specific uses. In this case, instead of directly using the revenues of the higher carbon tax, public authorities could make a yearly estimate of what the revenues of the carbon tax will be and commit to spend at least the same amount of money on sustainable public investments such as public transport, energy saving investments and renewable energy infrastructure.