UK GBC

The voice of our sustainable built environment

CARBON PRICING
EXPLAINER GUIDE

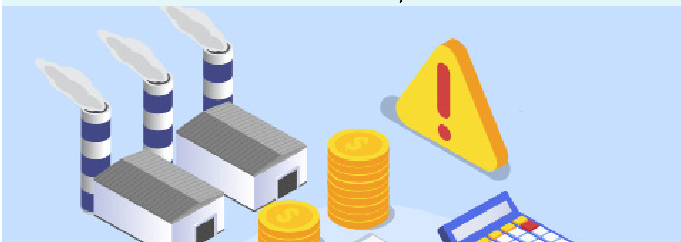
This Explainer Guide covers the key principles of carbon* pricing in the built environment.

What is carbon pricing?

A carbon price is a cost applied to carbon pollution to encourage polluters to reduce the amount of greenhouse gases they emit into the atmosphere. Without these costs reflected in market prices, communities vulnerable to the impacts of climate change and future generations will suffer. To overcome this, economists argue that there is a need to 'internalise' the costs of future environmental damage by putting a price on greenhouse gas emissions.

Carbon pricing is a method that does exactly this. It gives monetary value to greenhouse gas. A monetary unit given per ton of carbon dioxide equivalent (tCO_2e). The current UKGBC **Renewables & Offsets Guidance** recommends following the values set in the **HM Treasury's Green Book**. At the time this guide was published (2023), the value is £252/tCO_2. Central to this approach is the 'polluter pays' principle, which can create financial incentives for emitters to reduce emissions. How the carbon price is set and how the resulting hypothetical or realised funds are spent varies from organisation to organisation.

Emissions trading schemes are compliance-based schemes where carbon pricing is implemented by governments. The total level of greenhouse gas emissions are capped, which enables industries with low emissions to sell extra allowances to larger emitters. Emissions trading schemes are often called cap-and-trade systems for this reason. Internal Carbon Pricing (IPC) is becoming an **increasingly popular mechanism** by which organisations internally assign their own stimated cost of carbon emissions which can be used to determine financial opportunitites and risk, and drive positive change within their business. An IPC can be achieved through 'shadow pricing' (a hypothetical or assumed cost per ton of carbon emissions), or an 'internal fee' (an actual levied cost calculated across the business).



Why is it important?

Carbon pricing can play a role in mitigating climate change. It helps promote low-carbon investments and can influence changes in consuption patterns as low-carbon products will have lower prices compared to others. It also promotes industry best practice for sustainability. Carbon pricing will promote investment, research, and innovation in clean technology as companies seek solutions to lower their carbon emissions.

DID YOU KNOW...

The term "carbon" is used as a shorthand expression to refer to multiple greenhouse gases. Within these Explainer Guides, we've chosen to used the term "carbon" as proxy for "carbon dioxide equivalent" (CO_2e). CO_2e describes the aggregated global warning potential of multiple greenhouse gases in a common unit.

What is the role of the built environment?

Some materials used in the building industry are covered by the UK Emissions Trading Scheme. The activities listed in Schedule 2 of the **Greenhouse Gas Emissions Trading Scheme Order 2020** include, amongst others, the manufacturing of ceramic products by firing (in particular roofing tiles, bricks, refractory bricks, tiles, stoneware or porcelain) with a production capacity exceeding 75 tonnes per day.

Not all players in the building sector value chain are covered by compliance-based carbon pricing. Companies are therefore turning to internal carbon pricing. Once a price has been set, this can be factored into investment decisions, incentivise efficiency, enable low-carbon innovation and used to purchase offsets that align with an organisation's personal objectives.

25%

of global emissions are expected to be under some carbon pricing mechanism by 2025(**UNFCCC**)

43%

Is the increase in organisations disclosing their internal carbon price **to CPD** since 2018

FURTHER RESOURCES

- WorldGBC **Beyond the Business Case**
- World Bank **State & Trends of Carbon Pricing**
- CDP **How-to Guide to Corporate Internal Carbon**
- UKGBC **Advancing Net Zero**