A whitepaper by

Abatable

May 2025

Internal carbon pricing

A strategic tool for corporate climate leadership

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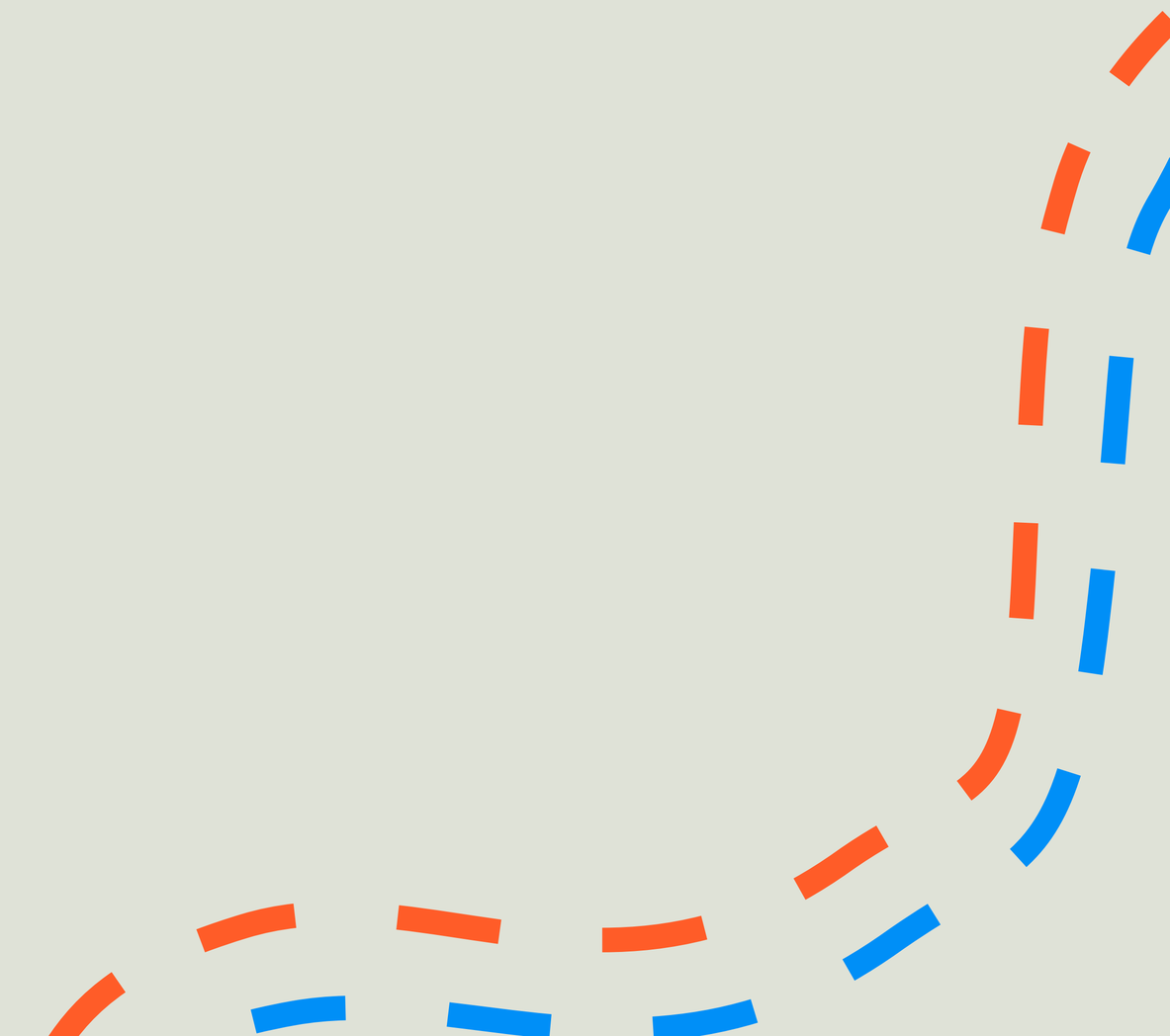


Introductory remarks

Nick Daniel
Global Commercial Director, Abatable

Setting an internal carbon price (ICP) is emerging as a powerful tool for companies to integrate climate considerations into core business decisions. By assigning a monetary value to each tonne of greenhouse gas emissions, ICPs help companies factor climate costs and risks into strategic decision-making. But they can do much more than that. Leading organisations use ICPs to drive decarbonisation investments, build dedicated climate budgets and hedge against future carbon regulations.

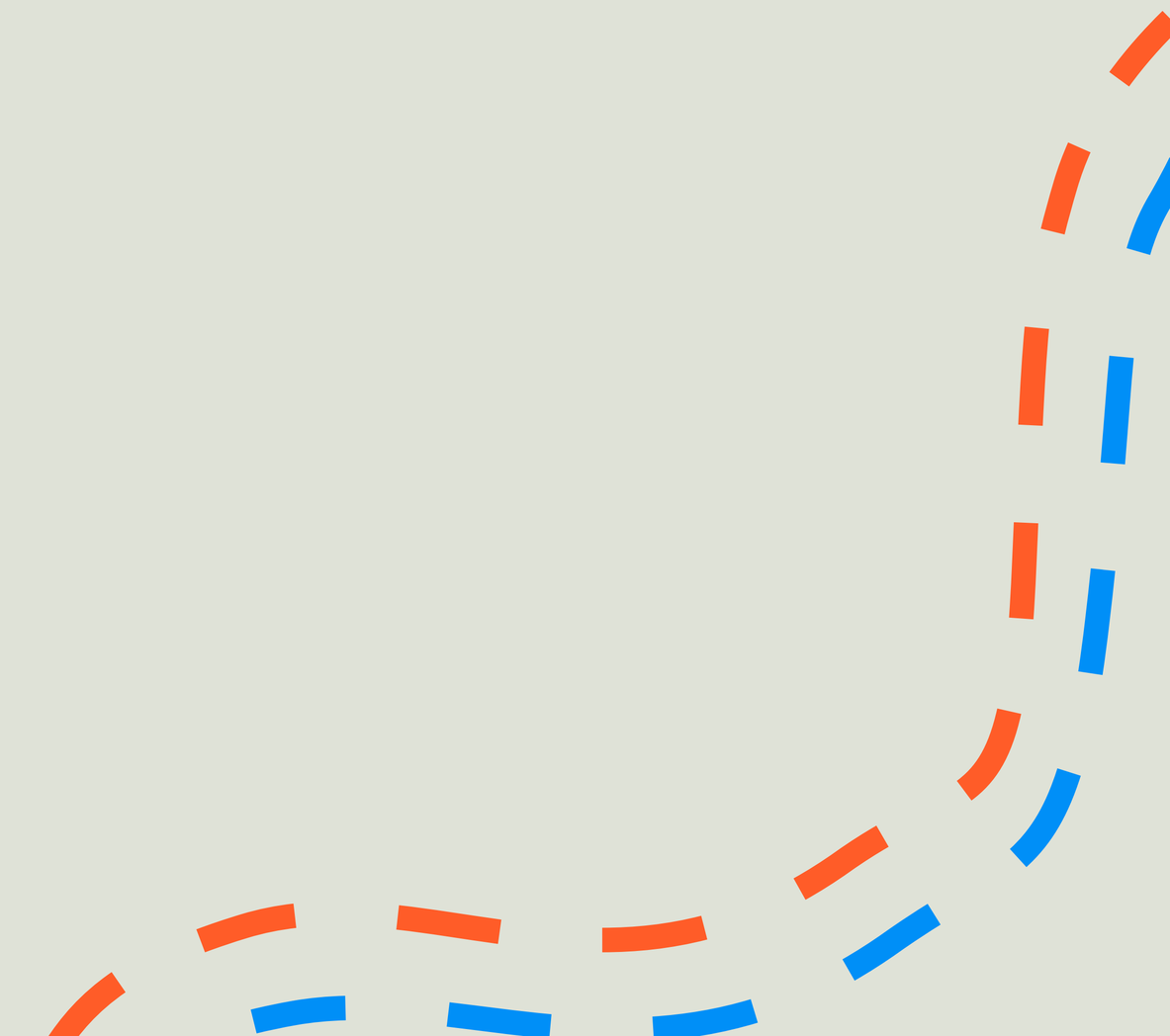
This white paper explores how ICPs support good corporate climate strategy. It shines a light on the ways companies around the world leverage ICP-generated funds for climate action, and provides practical ICP implementation strategies and insights for businesses based on global best practices.

It also highlights guidance from leading sustainability frameworks including the UN Global Compact, the Science Based Targets initiative and CDP, and showcases ICP action from sustainability leaders like Microsoft, Swiss Re, Disney, and Klarna.

This guide is ultimately designed to unpack how ICPs can play a crucial role in shifting sustainability more firmly into the realm of business and finance, enabling C-suite leaders to make risk-averse, informed and future-proofed decisions – while also benefiting the planet.

Done right, ICPs can spur business innovation, secure stakeholder buy-in, provide finance for climate solutions and ultimately strengthen business resilience in the low-carbon economy. They are a critical tool to navigate a future where CO2 is priced, accounted for and properly valued for the benefit of climate, nature and people.

What is internal carbon pricing and why now?



What is internal carbon pricing and why now?

Climate change poses a material risk to businesses, and corporations are under pressure to align with global climate goals. Internal carbon pricing is a mechanism where a company assigns a monetary price to each tonne of CO2 emissions from its operations and value chain. In practice, an internal carbon price (ICP) can take several forms:

- **A shadow price**
  A theoretical cost used in decision-making so businesses are aware of the impact future carbon price regulation would have on operations (no actual cash exchanged).
- **An internal carbon fee or levy**
  An actual charge on business units or projects for their emissions, generating funds internally.
- **Internal cap-and-trade**
  An internal emissions trading system among business units.

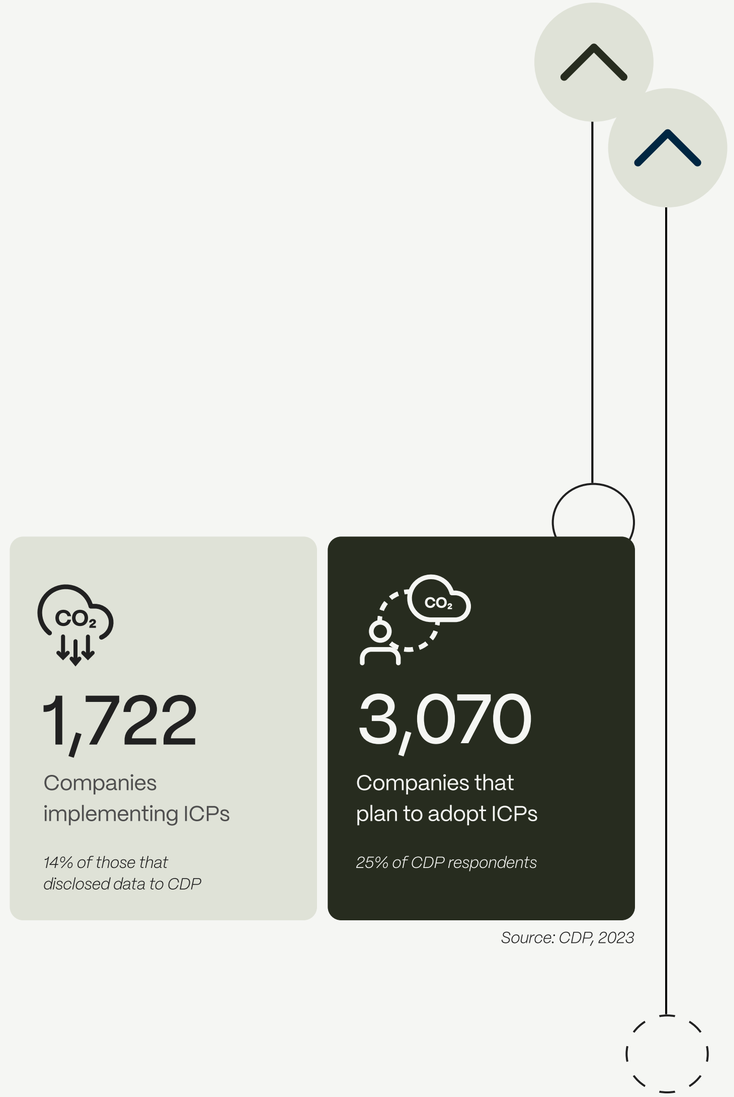
At their core, ICPs bring CO2 onto the balance sheet and into financial planning, moving it out of the realm of corporate social responsibility and into day-to-day business management.

By 'pricing' carbon internally, companies make the cost of greenhouse gas emissions visible to managers and investors, driving home the link between emissions and financial performance. This helps future-proof a business against future carbon taxes or regulations and encourages investments in low-carbon technologies and energy efficiency.

The impetus for ICPs has never been greater. Around 25% of the largest 100 companies in each major industry have adopted an ICP so far, and usage is growing as companies recognise their value.

Internal carbon pricing adoption has significantly increased over the last five years, with **1,722 companies globally** reporting to CDP that they have already implemented an internal carbon price as of 2023, representing **14% of the companies that disclosed their climate data.** Moreover, an additional **3,070 companies (25% of respondents)** indicated plans to adopt internal carbon pricing mechanisms.

This trend is expected to accelerate with mounting stakeholder pressure and new disclosure rules (such as the upcoming European Sustainability Reporting Standards) that demand transparency on climate risk management.



Source: CDP, 2023

Many companies in the EMEA region have pioneered internal carbon pricing. European firms, in particular, often set ICP levels in line with or above EU carbon market prices to stay ahead of regulations.

Organisations like the UN Global Compact urge businesses globally to adopt a *minimum internal price of $100 per tonne* to align with the Paris Agreement's goal to limit temperature rises on pre-industrial levels to 1.5C. Currently, however, most companies' carbon prices are still below what climate science deems necessary, with a recent analysis finding fewer than 5% of firms with ICPs set their price in line with the Paris Agreement.

This gap presents an opportunity for sustainability leaders: by setting ambitious internal prices now, companies can demonstrate climate leadership, influence peers and prepare for the higher carbon costs likely in the near future.

/tonne

$100

1.5° aligned level

Demonstrates climate leadership

Business future-proofed for high carbon cost

The strategic benefits of using an internal carbon price

ICPs are fundamentally a strategic planning tool. They enable C-suite and sustainability executives to make forward-looking, financially grounded decisions on everything from capital investments to supply chain management.

The strategic benefits of using ICPs include:

Integrating climate risk into business decisions

Placing a monetary value on CO2 allows companies to assess the true cost and risk of emissions-intensive activities. For example, when evaluating a new project or capital expenditure, using a shadow carbon price can reveal which option will be more profitable in a low-carbon future. This practice helps leadership identify carbon-intensive 'hot spots' and justify investments in cleaner alternatives using a rational financial metric.

Hedging against future carbon costs

ICPs serve as a hedge against regulatory and market changes. Forward-thinking companies that expect carbon pricing regulations (e.g. carbon taxes or emissions trading) are five times more likely to use an internal carbon price than those that don't expect such rules.

By simulating a carbon cost now, businesses are much better positioned to absorb the impact of upcoming policies. This can help avoid stranded assets and sudden cost shocks as government carbon pricing mechanisms become more prevalent. ICPs effectively act as an insurance policy, ensuring long-term projects remain viable under carbon-constrained scenarios.

Driving innovation and efficiency

When business units are financially accountable for their emissions (even if only on paper), this creates an incentive to **innovate and cut waste.** Microsoft, for instance, has used an internal carbon fee since 2012 as a **'key tool to accelerate decarbonisation internally'.**

Each year, Microsoft charges its divisions a fee per tonne of CO2 for their operations (covering Scopes 1-3), making carbon an explicit cost in their budgets. This pushes teams to find efficiencies and invest in clean energy to reduce their fee burden, thereby spurring internal innovation in energy savings and low-carbon solutions.

This also has the added benefit of reducing the company's ongoing energy costs.

> *'ICPs are a critical tool to translate the language of sustainability into business and finance.'*

Simon Fischweicher
Chief Delivery Officer, CDP

Improving decision quality with data

ICPs can improve the quality of decisions by adding carbon metrics to ROI calculations.

Iceland's utility Landsvirkjun, for example, ran a trial of 50 different carbon price scenarios to determine the optimal internal price that maximised the net present value of potential emission-reduction measures. This exercise helped identify the price at which certain projects (like renewables or efficiency upgrades) became cost-effective. The result was an ICP of $144 per tonne, which the company has applied in supplier tenders to encourage, for example, low-carbon materials in a new wind farm project.

Incorporating ICPs into scenario analysis and project bids ensures climate impact is considered alongside traditional costs, leading to more robust, future-ready plans.

Measurable emissions reductions

Early evidence suggests ICPs drive results. An in-depth study of 500 US companies found that those using ICPs achieved a **13.5% reduction in CO2 emissions per employee**, and **16% per unit revenue,** compared to peers.

By making carbon an internal cost centre, companies can align employee incentives and operational decisions with emissions cuts – contributing to corporate climate targets. Indeed, Walt Disney Company attributes part of its 50% greenhouse gas reduction from 2012 levels (achieved by 2020) to its use of an internal carbon fee that guided investments and behaviour change.

In sum, **ICPs embed climate considerations into day-to-day business decision-making.** They shift the mindset from viewing emissions as an externality to treating them as a **tangible cost of doing business**.

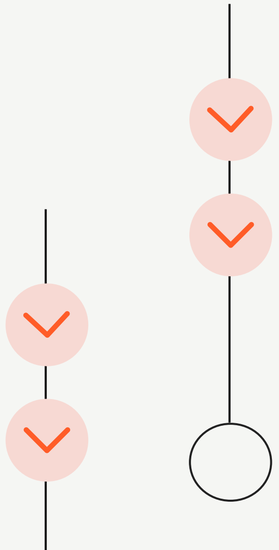
As Elizabeth Sturcken of the Environmental Defense Fund observes, companies must communicate how ICPs are influencing decisions: 'The storytelling here is so crucial because it focuses on what's really important, and it communicates [to] business partners, suppliers, regulators and others that this is just good for business.'

In other words, beyond the math of dollars per tonne, the value of ICPs lies in the strategic choices and cultural changes they catalyse within an organisation.

16%

The CO2 emissions reduction per unit of revenue achieved by companies with ICPs compared to those without

Zhu et al., Journal of Business, 2022



Use cases: How ICPs can fund climate action

One of the most powerful aspects of internal carbon pricing is that it can create an internal fund for climate action. By charging yourself for your emissions, you effectively earmark the budget to invest in emissions reduction or compensate for carbon impact.

There are several use cases for the climate finance generated by ICPs:

Investing in internal emissions reductions

Many companies recycle the funds raised from an internal carbon fee back into their business to drive down emissions. This could mean upgrading to energy-efficient equipment, purchasing renewable energy, electrifying vehicle fleets, or funding R&D into low-carbon technology. For example, Microsoft's internal carbon fee proceeds are used to fund its sustainability initiatives – from buying clean power and sustainable aviation fuel to investing in carbon removal technologies. At Disney, the ICP similarly supports capital projects and operational changes that help achieve the company's goal of reaching net-zero operational emissions by 2030.

In essence, the fee creates a **dedicated decarbonisation budget** to ensure climate goals aren't stymied by a lack of funding. If investing in carbon credits, this can be used in a dollar-for-tonne fashion that offers greater flexibility in carbon credit procurement options.

Financing climate action beyond the value chain

Some sustainability leaders deliberately allocate a portion of their internal carbon price revenue to climate solutions outside their direct operations or supply chain. This recognises that to tackle climate change, companies may need to invest beyond their own footprint – for example in community renewable projects, climate adaptation, or carbon removal efforts globally.

Klarna provides an illustrative case: the fintech company set an internal carbon fee in 2021 (at $100 per tonne for Scope 1, 2 and travel emissions, and $10 per tonne for other Scope 3 emissions), which generated over $5mn by 2023. Rather than purchasing offsets and claiming carbon neutrality, the company instead channelled the money into a portfolio of climate projects ranging from carbon removal and reforestation to climate policy advocacy.

Last year Klarna doubled its ICP for Scope 1 and 2 emissions to $200 per tonne to support impact-focused projects that 'otherwise may have fallen through the cracks of the voluntary carbon market'.

By being an early customer and funder of high-quality climate projects (rather than a pure philanthropist), Klarna aims to accelerate decarbonisation globally and spur market demand for clean innovations. This approach exemplifies using ICPs as a form of corporate climate finance to support solutions beyond a company's value chain.

> *'Equipped with this benchmark, business leaders can spot inefficiencies in their internal processes and make a business case for sustainable investments.'*

Valerio Magliulo
CEO and Co-founder, Abatable

Offsetting or removing residual emissions

Another use of ICP funds is to address emissions that a company cannot eliminate internally. Historically, companies like Microsoft and Disney have used internal carbon fee revenues to purchase carbon offsets, achieving carbon neutrality for operations year-to-year. However, there is a notable shift toward using the revenues to support higher-impact compensation measures like carbon removal projects.

Swiss Re – one of the first multinationals with a triple-digit carbon price – explicitly uses its internal carbon levy to move 'from carbon offsetting to supporting carbon removal projects' over the next decade. Swiss Re's levy, which was set at $100 per tonne in 2021, is now at £145 per tonne, and is set to rise to $200 by 2030, creates a 10-year funding stream to invest in carbon removal solutions that will neutralise any emissions the company cannot eliminate by 2030. This includes purchases of negative emissions certificates and partnerships with cutting-edge CO2 capture firms (e.g. Swiss Re's agreement with Climeworks).

Swiss Re is using its ICP to finance its net-zero commitment, ensuring money is available for high-quality removals to 'remove the rest' of its emissions. This forward-looking approach is crucial as companies aim for net-zero targets – ICPs today can scale the carbon removal technologies needed tomorrow.

Supporting climate resilience and adaptation projects

While less common, ICP budgets can also be used to support climate adaptation efforts (e.g. community resilience projects, climate risk management) as part of broader corporate responsibility, especially in sectors heavily impacted by climate change.

The Alliance of CEO Climate Leaders has highlighted a $5.9tn climate finance gap in the global south by 2030. ICPs alone won't fill this, but corporate carbon funds could contribute. For instance, a company might invest a portion of its carbon fee in local watershed protection to safeguard its supply chain or in research for drought-resistant crops if agriculture is key to its business.

It's important to note that prioritising internal abatement comes first – companies should use ICPs to drive as much emissions reduction in their own operations and value chain as possible. But once a 'carbon fee pot' is created, leading firms are finding a balance between internal versus external climate spending.

As we've argued, if the 1,097 companies with science-based emission targets in 2022 all set a $50 per tonne internal price for their Scope 1 and 2 emissions and devoted just 10% of that budget to external climate investments (in line with the Science Based Targets initiative's recommendations on tackling residual emissions), this would mobilise $2.1bn annually for climate projects beyond their walls.

Expanding such practices to more companies and including supply chain (Scope 3) emissions could exponentially increase the level of private climate finance generated.

> *'ICPs enable companies to play offence (invest in low-carbon opportunities) as well as defence (mitigating risks) on climate.'*

Nick Daniel
Global Commercial Director, Abatable

In summary, **ICPs turn carbon from a cost into capital** – capital that companies can deploy to pursue their climate objectives. Whether cutting emissions internally, funding offset and removal projects, or supporting broader sustainability initiatives, internal carbon pricing creates a virtuous cycle: the higher the internal price, the more funds are available to drive further emission cuts.

It's important that ICPs are set high enough to be meaningful: a token price (say $5 per tonne) won't deter status quo behaviour or generate significant investment, whereas an ambitious price (>$50/tonne) starts to change budgets and outcomes materially.

$2.1bn

The amount of external climate finance that would be raised if the companies with a science based emission target set a $50 per tonne ICP for their Scope 1 and 2 emissions and dedicated 10% of the proceeds to climate projects

Why businesses need an internal carbon price, Abatable

Strategies and best practices for implementing ICPs

Implementing an internal carbon price involves more than picking a number. It requires careful design and change management to ensure the price influences decisions and gains traction across the organisation.

Companies with successful ICP programmes have adopted several practical strategies:

1 Define clear objectives and scopes

Before setting a price, leaders must clarify what they want an ICP to achieve (e.g. spur internal emissions abatement, fund carbon offsets, inform project finance – or all of the above) and which emissions and operations it will cover.

Most companies start with Scope 1 and 2 emissions (direct operations and energy purchases) and business travel as these are easiest to measure and often directly manageable. Microsoft, for example, initially applied its fee to Scope 1, 2, and air travel emissions, later expanding it to cover all Scope 3 categories across its business groups.

Broadening scope ensures that supply chain and product use emissions – often the largest share of a company's carbon footprint – are not overlooked. Klarna's dual-tier pricing (a high price for direct emissions, a lower price for supply chain emissions) is one way to phase ICP across scopes. Ultimately, an effective ICP should be integrated 'enterprise-wide', but starting with a focused scope can simplify initial implementation.

2 Determine the right price level (and adjust over time)

Setting the actual level of the ICP is a bit of a balancing act. If set too low, it will fail to incentivise meaningful change; if too high too fast, it could face pushback from business units and be seen as punitive.

Many firms calibrate the price to something material but manageable in the context of their operating margins, then plan to raise it gradually. For instance, Swiss Re chose $100 per tonne as a bold starting point (far above typical industry practice) but signalled a gradual increase to $200 by 2030, giving its business units time to adapt. This evolutionary pricing approach – regularly adjusting the price upward – is increasingly common; over 50% of companies that use ICPs have escalating internal carbon prices rather than static one-off prices.

To guide price-setting, companies look at external reference points and tools. These include the UN Global Compact's call for $100/tonne, the High-Level Commission on Carbon Prices' recommendation of $50–$100/tonne by 2030, and emerging guidance from the Science Based Targets initiative (SBTi) which offers methodologies to align internal prices with climate goals. Some companies base their price on the social cost of carbon (an estimate of the net present value of future climate damages), others on the marginal abatement cost required to meet their emission targets, and others on the prevailing market or carbon tax rates.

It is important to note there is no single 'correct' price. **The key is not to let the perfect be the enemy of the good: start with a rational but impact-driving price and refine it over time**. In practice, this means reviewing the internal price annually or biannually in light of new climate scenarios, regulatory developments, and corporate targets.

3 Integrate ICPs into financial processes

An ICP will only drive change if embedded in a company's core processes and decision frameworks. Best-in-class implementers incorporate ICPs into:

- **Capital expenditure and R&D approval**
  Requiring a carbon cost analysis or adding a shadow carbon price to project net present values ensures low-carbon projects get a fair evaluation. Disney, for example, mandates an 'Environmental Assessment Statement' (including carbon impact) for any capital investment over $25mn. This kind of integration means high-emitting projects effectively 'carry' an extra cost in business cases, which can tilt decisions toward greener alternatives.

- **Procurement and supply chain**
  Integrating ICPs into procurement criteria (e.g. using a carbon price in supplier bids or Requests for Quotations) can influence suppliers to offer lower-carbon solutions. Landsvirkjun's $144 carbon price in its wind farm tender is a case in point – it signals to contractors that using low-emission materials or methods will make their bid more competitive when the carbon cost is factored in. Over time, this will green the supply chain by creating a market advantage for low-carbon suppliers.

- **Product pricing and design**
  Some companies may choose to reflect internal carbon costs in product pricing or use it to guide design choices. This could result in selecting materials with a lower carbon cost. While not common yet, this could become a way to pass on a price signal to customers or at least design products that are profitable under future carbon prices.

- **Internal budgets and P&L**
  Internal carbon fees make emissions a real Profit and Loss item for each business division, grabbing leadership attention. Carbon charges for each business unit appear as an expense line, while the central sustainability team may get a corresponding budget allocation from the pool of collected fees.

  One best practice is developing internal carbon dashboards for transparency – Klarna for example built a dashboard that lets employees see emissions and carbon fees by department and even by vendor, fostering accountability at all levels.

- **Performance metrics**
  Tying ICPs to performance management can reinforce their importance. Some firms are starting to link executive compensation or bonus criteria to carbon reduction targets or ICP implementation. For instance, a company might give department heads a KPI to reduce their 'carbon fee bill' year-on-year through efficiency gains. The World Business Council for Sustainable Development (WBCSD) notes that incorporating ICP progress into variable compensation can incentivise senior stakeholders to actively support the pricing programme.

4 Secure buy-in through engagement and co-benefits

Implementing ICPs can face internal resistance, especially if operating units fear they will increase their costs or constrain their activities. Successful companies invest in **change management and education** to get ICP buy-in. Examples include:

- **Executive sponsorship**
  Having the CEO, CFO and Chief Sustainability Officer jointly champion an ICP sends a clear signal that it is a strategic business priority, positioning the ICP as a tool for long-term competitiveness and risk management, not just an environmental initiative. Some companies form internal task forces or working groups with finance, sustainability, and business unit leaders to co-create the ICP approach, ensuring all perspectives are considered.

- **Demonstrating business value**
  It's critical to frame ICPs in terms that matter to each business function. For example, emphasising to operations teams how efficiency projects paid for by an ICP-generated carbon fund can lower energy bills. For the finance team, showing that using an ICP can reveal cost savings or avoid future liabilities, effectively making the company more financially resilient.

  Sharing case studies where the ICP drove profitable decisions helps make its benefits real. This is even the case if the business is using a shadow carbon price, as this is still an important tool to prepare the business for known future trends.

- **Highlighting co-benefits**
  Early wins can be used to illustrate the co-benefits of ICPs. For instance, if carbon fee-funded LED lighting upgrades not only cut emissions but also saved money on electricity, this can be publicised internally. Or, if business travel has been curtailed to avoid carbon charges, note the cost savings and time efficiency gains from virtual meetings.

  Swiss Re found that its carbon levy reinforced a target to cut air travel for its 14,000 employees, contributing to both emissions reduction and lower travel expenses. You can build broader support by showing how ICPs can drive desirable outcomes (innovation, efficiency, reputation boost) beyond just climate metrics.

- **Transparency and fairness**
  Ensure that the ICP methodology is transparent. If using a fee, clearly communicate how it is calculated, how funds will be used, and that it's applied fairly. Some firms choose to ring-fence ICP funds for sustainability projects, which can assuage concerns that it's just a punitive measure. Reporting back on how the money was invested each year and what the ROI or impact was will maintain trust in the system.

5 Start small and scale up

A pragmatic approach to implementation is to pilot ICPs in a subset of the business. For example, a company might start by applying a carbon cost to business travel and a couple of energy-intensive facilities in one region, learn from that experience, and then expand to all operations.

This iterative approach has been echoed by WBCSD members, which advise focusing on high-impact areas first and then scaling up while making improvements along the way. The pilot can demonstrate success and work out kinks before a company-wide rollout.

6 Implement complementary policies and systems

ICPs work best alongside other climate strategies. They are not a silver bullet; rather one tool in a broader corporate climate programme.

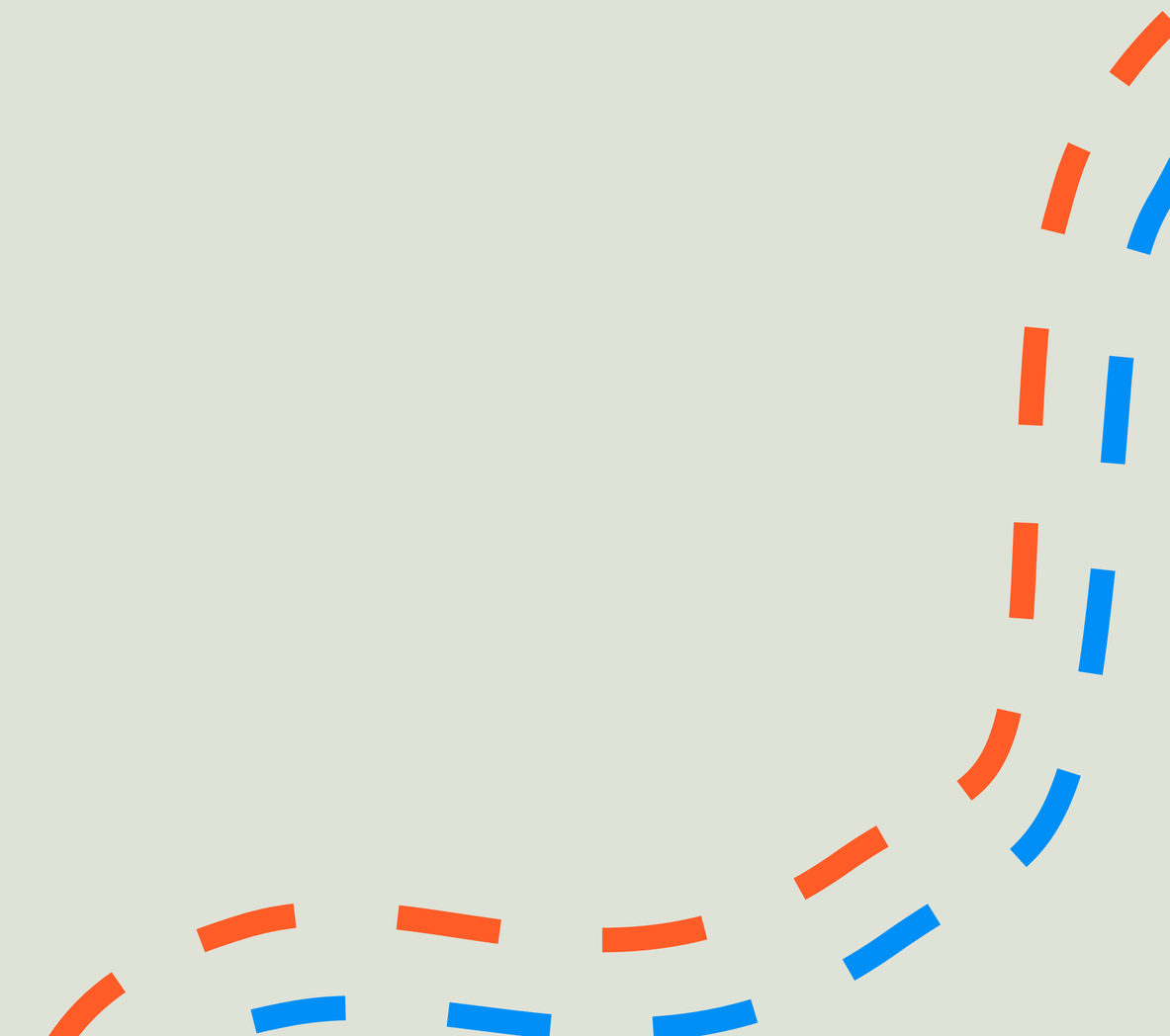
To be effective companies need to also have strong emissions measurement and accounting systems (to quantify what's being priced accurately), emission reduction targets (so the internal price is aligned with a goal), and policies like green procurement standards or renewable energy commitments.

Combining these is mutually beneficial. For instance, an internal price on carbon plus a target to source 100% renewable power can enable carbon funds to be channeled directly into clean energy procurement. For tackling Scope 3 emissions, ICPs might need backup from supplier engagement programmes and R&D into low-carbon materials. The idea is to ensure ICPs are part of a coherent strategy that covers all bases from accounting to action.

By following these best practices, companies increase the chances that their internal carbon pricing programme truly drives decision-making and emissions reductions, rather than just ticking a box. As WBCSD summarises, when designed thoughtfully **an ICP strategy can 'drive decision-making, secure buy-in from key stakeholders, and effectively reduce both direct and indirect emissions throughout the value chain.'** It becomes ingrained in how the company operates, akin to an internal energy price or material cost that every manager knows to consider.

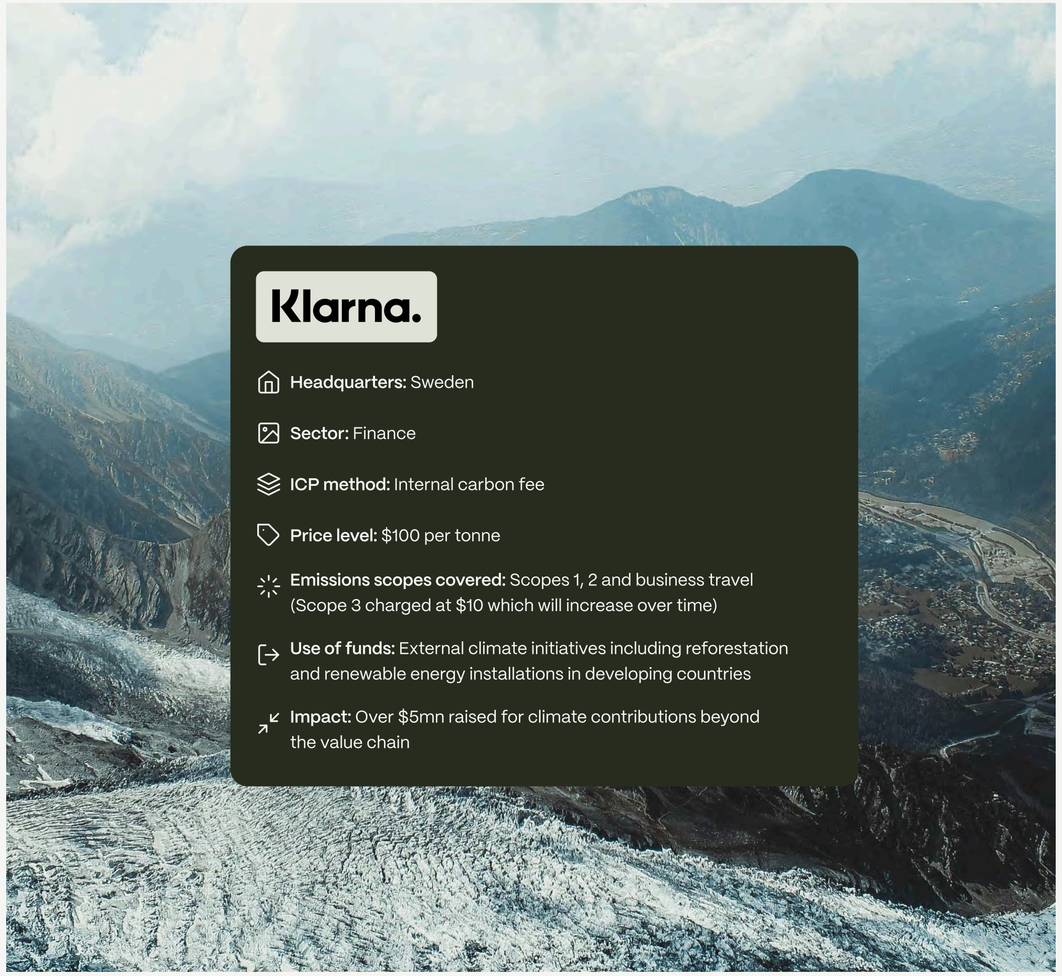
The companies leading the way

Global companies across sectors are using ICPs to drive their sustainability strategies.



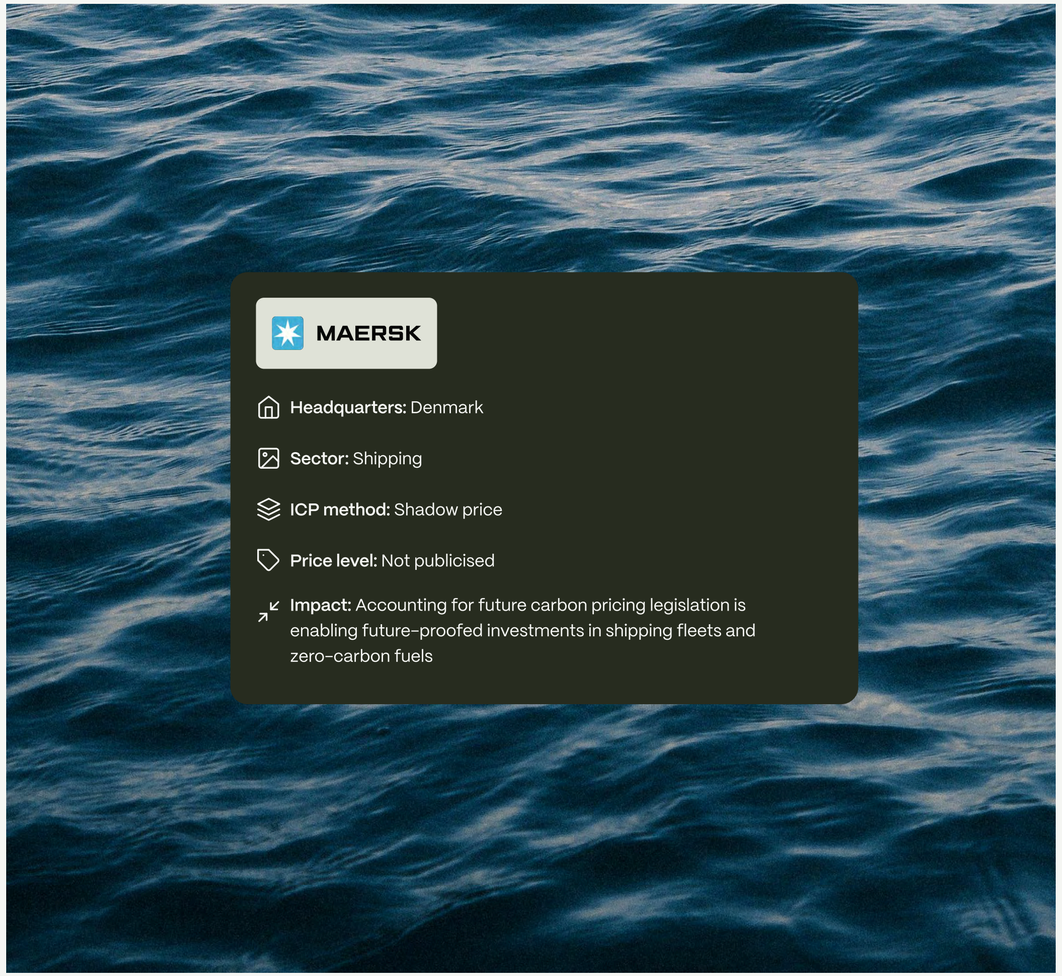
'[By holding the whole company accountable [for our carbon pollution] at a fixed price, [our carbon] fee has increased transparency and helped reduce Klarna's absolute emissions... and the payments support projects that really need funding in order for us to solve the climate crisis.'

How Klarna put an internal price on carbon, Trellis



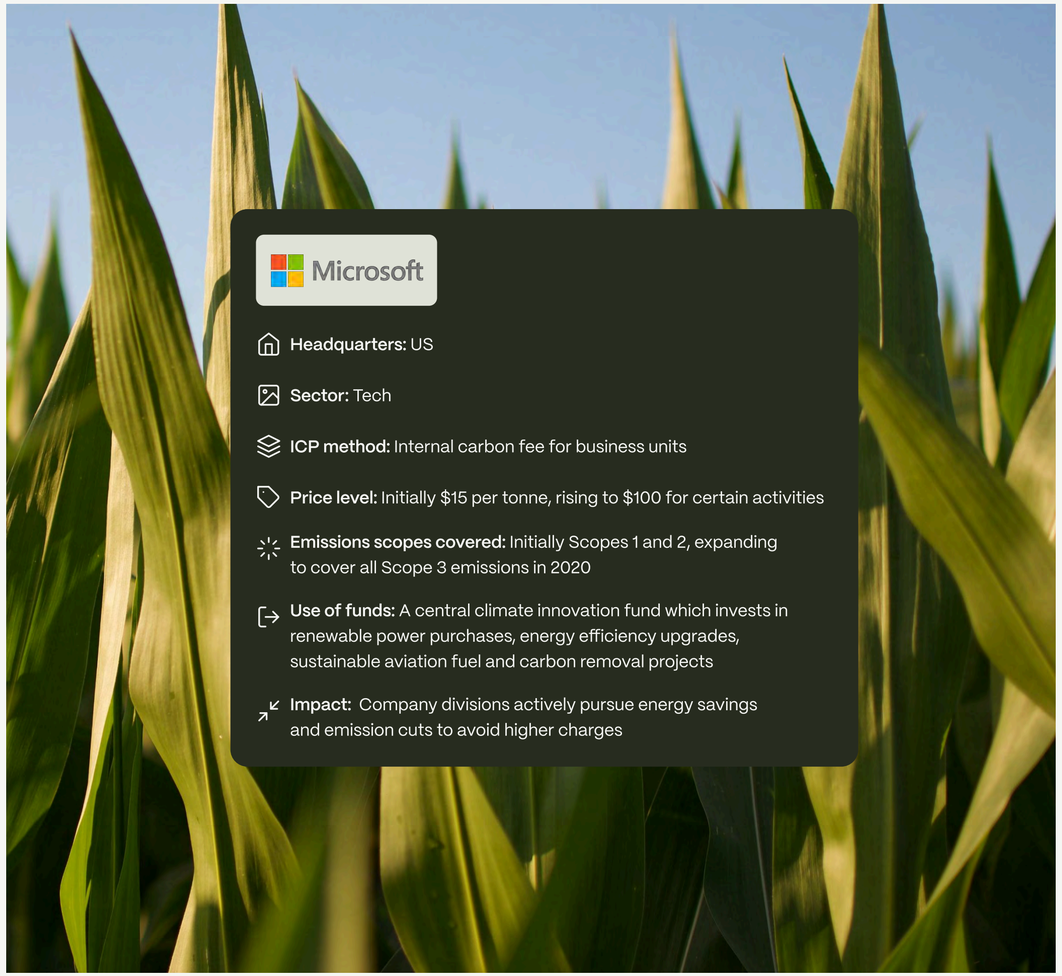
'As recommended by SBTi, over the decade Maersk will go above and beyond the 1.5°C–aligned targets and invest in building a portfolio of natural climate solutions that will result in around five million tons of CO2 savings per year by 2030.'

A.P. Moller – Maersk accelerates Net Zero emission targets to 2040 and sets milestone 2030 targets



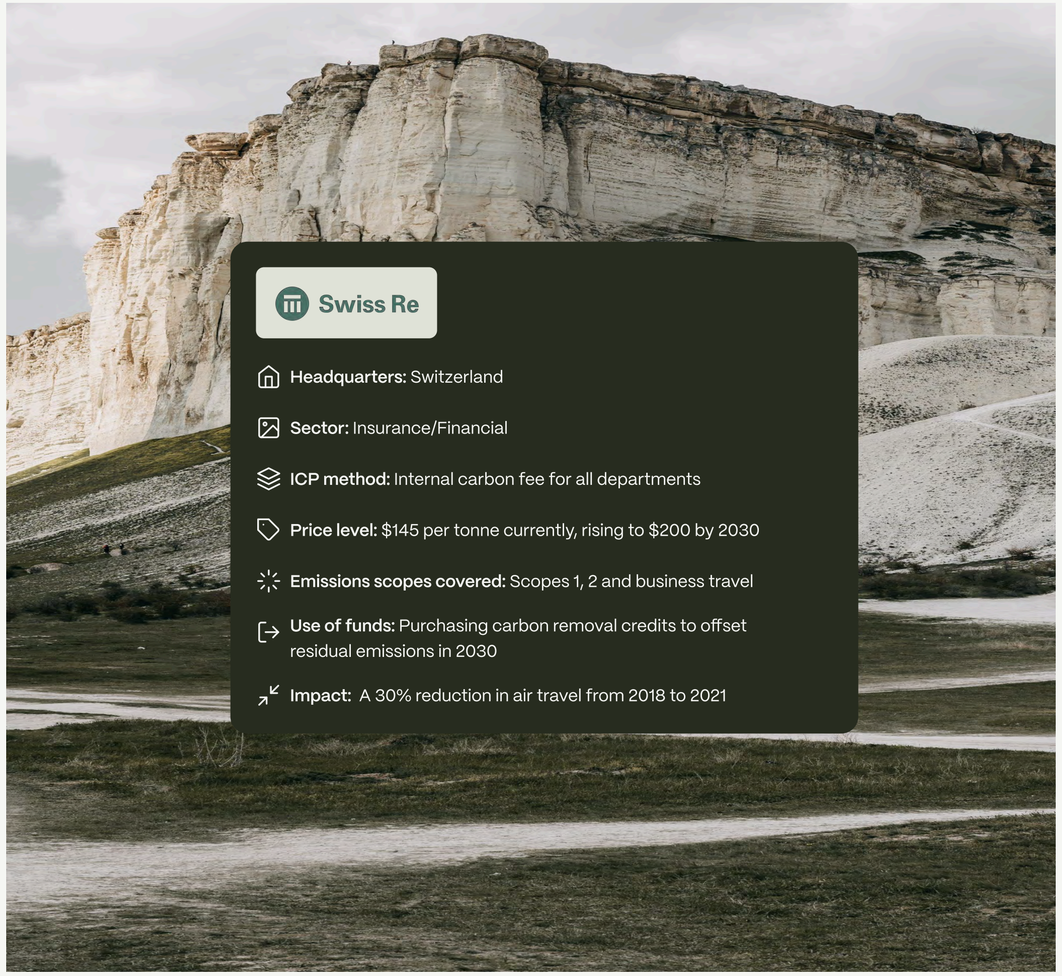
'One of our key tools for [emissions] reduction is an internal carbon fee — a way to accelerate decarbonisation internally and generate funding for carbon reduction and removal efforts.'

How Microsoft is using an internal carbon fee to reach its carbon negative goal



'The levy gives Swiss Re a strong incentive to further reduce its operational emissions. It also provides a 10-year funding scheme to move from carbon offsetting to supporting carbon removal projects enabling the compensation of any unavoidable emissions in line with its "remove the rest" strategy.'

Swiss Re announces ambitious climate targets; accelerates race to net zero

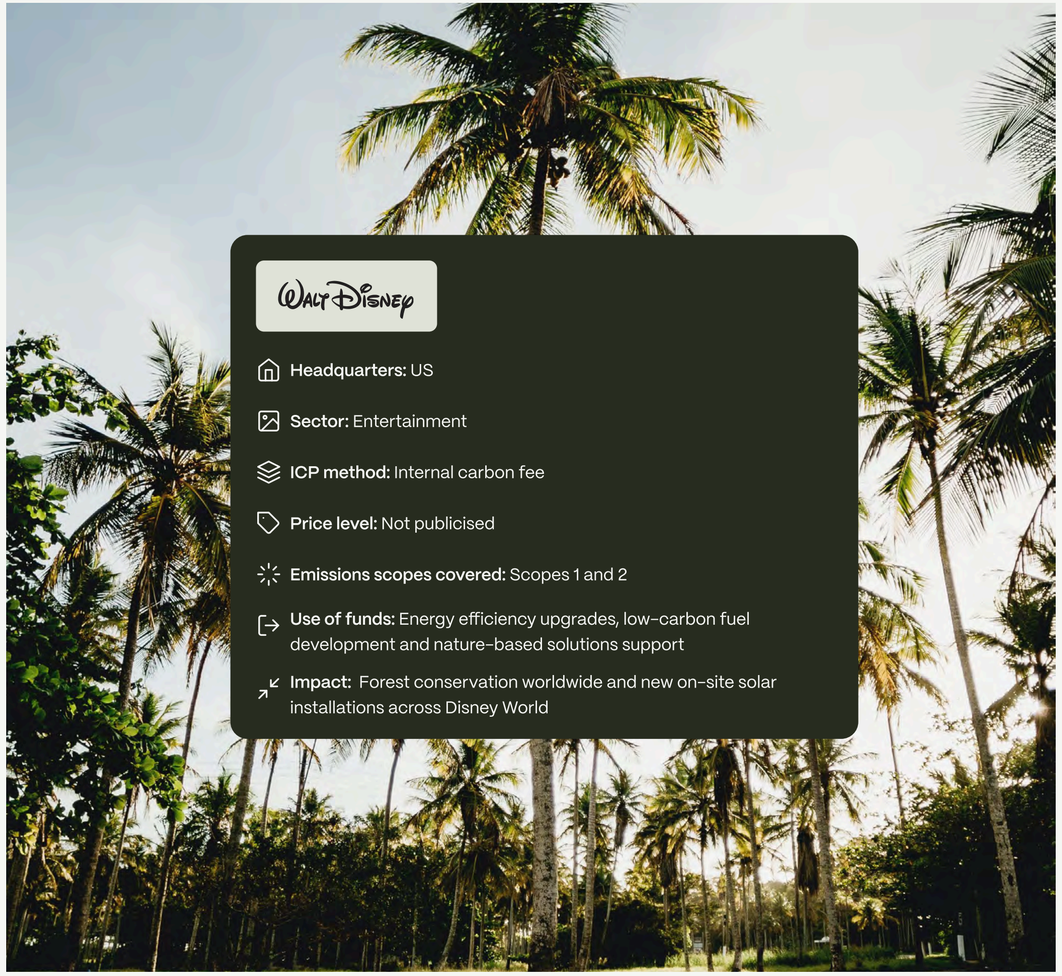


'In 2016, we implemented an internal carbon price... We have had a smooth ride on progress through our operations.'

Unilever Partners with Suppliers and Consumers to Deliver Net Zero Ambition, ERM

'Disney uses an internal carbon fee that helped meet the company's target of reducing greenhouse gas emissions by 50% by 2020.'

CDP



These examples illustrate how diverse companies tailor ICPs to their contexts: a tech firm uses them to fund innovation, an insurer to drive removals, a fintech to finance external climate action, and an entertainment company to meet reduction targets.

Common to all is the message from top executives that internal carbon pricing is not just an environmental measure, but a smart business decision. As Microsoft's President Brad Smith has noted, internal carbon fees 'make good business sense because they prepare us for the day when carbon might have a price outside our company'.

Importantly, these leaders also speak about ICP in terms of opportunity and responsibility, as capacity-building mechanisms for the climate solutions ecosystem.

This cultural shift – getting every department, from finance to procurement, engaged in climate action through a price signal – is one of the most profound benefits of ICPs. This turns abstract climate goals into concrete, accountable metrics that managers must grapple with.

Key actionable insights for sustainability and procurement leaders

ICPs are a versatile and impactful tool for corporate climate strategy. For C-suite executives, Chief Sustainability Officers, and procurement directors considering ICPs, we've compiled some actionable insights to take away:

1. Use ICPs strategically

Treat ICPs as a core part of business strategy, not just a sustainability initiative. Use them to inform major decisions, align with future regulations and drive innovation. In doing so, you **strengthen your company's long-term resilience and agility** in the face of the climate transition.

2. Set a meaningful carbon price

Don't be timid – choose a price that will materially influence behaviour and investment choices. Align your internal price with climate science and external benchmarks. You can phase it in, but signal the ambition from the start.

3. Link to targets and budget

Connect your ICP to your emissions targets (e.g. use it to generate funds to close the gap to reach net zero) and integrate it into your budgeting process. By creating a **carbon fund or budget** from the price, you ensure money is available for emissions reduction projects year after year.

4. Communicate and train

Educate internal stakeholders on why you're doing this. Show them examples of how ICPs leads to better outcomes. Be transparent about how funds will be used and report successes. When people see the win-win results – cost savings, new business from green products and reputational gains – support will grow.

5. Leverage external guidance

Utilise the wealth of resources out there. The UN, SBTi, CDP, WBCSD and others provide frameworks and case studies. Join industry coalitions or working groups on carbon pricing to learn from peers. This not only helps in design but also demonstrates to stakeholders that your approach is aligned with global best practices.

6. Monitor, report, iterate

Track the impacts of your ICP. Are business units changing their plans? How much CO2 reduction or clean energy investment is it driving? Communicate these metrics in sustainability reports or even annual reports – this creates a strong message to investors. And use the data to refine your price or approach. Maybe you'll find you need to raise the price to reach that last 20% of emissions, or perhaps you'll expand it to suppliers. ICPs are not a one-time policy but an evolving tool.

In closing, internal carbon pricing turns the abstract challenge of climate change into concrete financial terms that businesses can act on. It enables companies to play offence (investing in low-carbon opportunities) as well as defence (mitigating risks) on climate.

Adopting an internal carbon price is a hallmark of sustainability leadership, signalling to employees, investors, and society that you're not only anticipating the future but actively financing and shaping it, bridging the gap between sustainability and business and finance.

We must leverage all options to raise the trillions of dollars needed to stem the climate crisis. ICPs can be an effective part of the solution. With the insights and examples in this report, corporate leaders can confidently implement them and drive their organisations towards a future-proofed, low-carbon and prosperous tomorrow.

> *The act of pricing carbon internally creates awareness and urgency that no company aiming for longevity in a low-carbon future can afford to ignore.*

Nick Daniel
Global Commercial Director, Abatable

Abatable

Abatable – the integrated carbon market solution

Interested in optimising your external climate action budget? Abatable utilises next-generation tools to allow organisations to efficiently source and procure high-quality carbon credits as part of their sustainability strategies.

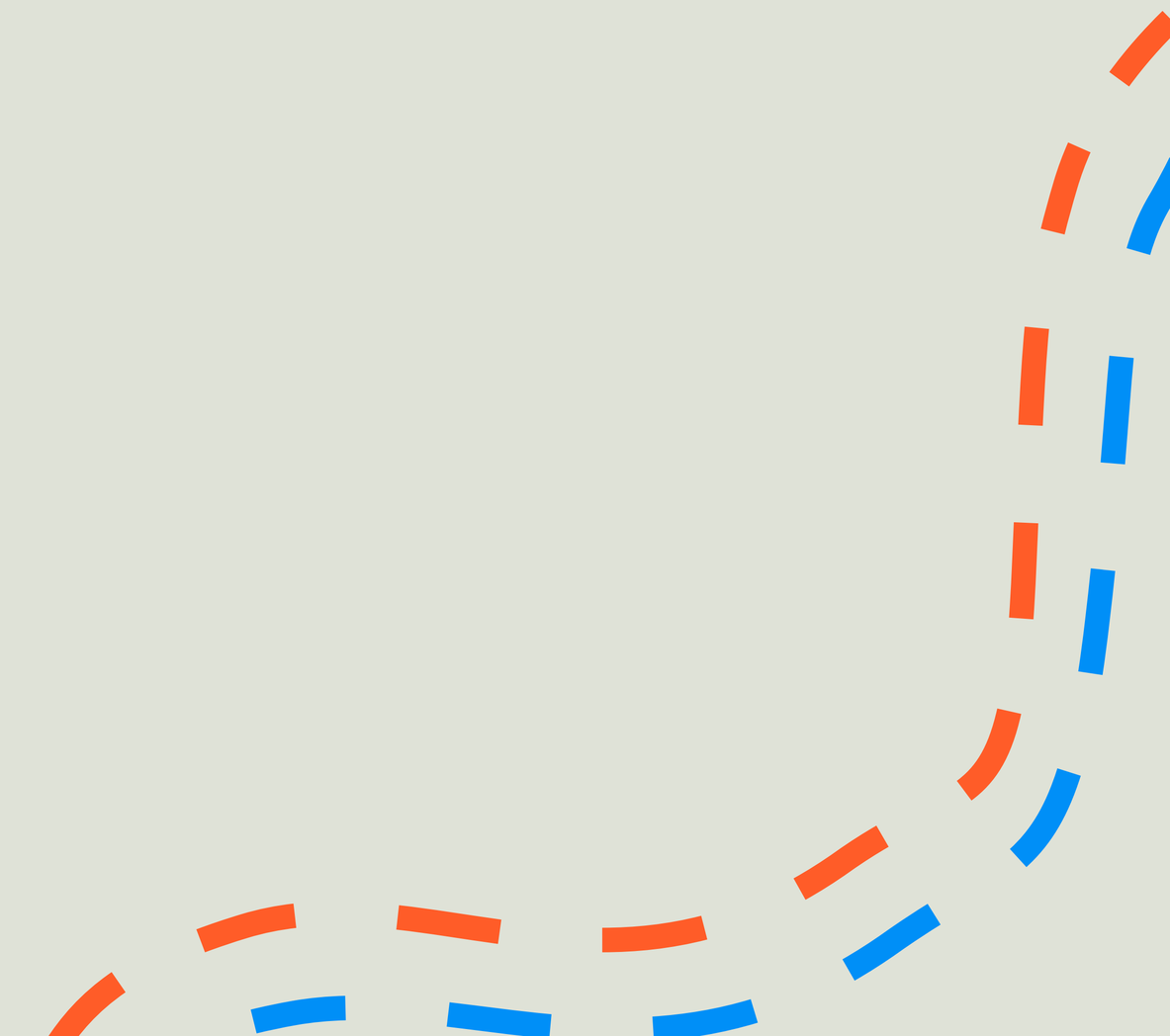
Our solutions are built on a foundation of cutting-edge technology and deep carbon project developer relationships, enhanced by our extensive carbon market expertise.

We are a trusted partner for organisations looking to go beyond transactional relationships to create long-term impact through carbon markets.

Reach out to our team to find out how we can help your carbon market journey here.

Some of our clients and partners:

Appendix



Recommended further reading

- **Building a science-aligned carbon procurement strategy**
  Abatable
- **Carbon Pricing Leadership Report 2022/23**
  Carbon Pricing Leadership Coalition
- **Report of the High-Level Commission on Carbon Prices**
  Carbon Pricing Leadership Coalition
- **Putting a Price on Carbon: The state of internal carbon pricing by corporates globally**
  CDP
- **Why businesses need an internal carbon price**
  Environmental Finance
- **How Microsoft is using an internal carbon fee to reach its carbon negative goal**
  Microsoft blog
- **Putting a price on their climate impact remains a big challenge for companies**
  Reuters Sustainable Business
- **Above and Beyond: An SBTi Report on the Design and Implementation of Beyond Value Chain Mitigation (BVCM)**
  Science Based Targets initiative
- **How Klarna put an internal price on carbon**
  Trellis
- **Navigating internal carbon pricing to drive decision-making and emissions reduction: three strategies for effective implementation**
  World Business Council for Sustainable Development

Supporting frameworks for ICPs

Implementing ICP is not happening in isolation – companies can draw on a growing body of guidance from international frameworks, NGOs, and expert networks.

Key insights and recommendations from these thought leaders include:

- **UN Global Compact (UNGC)**
  UNGC's 'Business Ambition for 1.5°C' calls for participating companies to set an internal carbon price of at least $100 per tonne as soon as possible, a figure designed to reflect the level needed to drive investments consistent with limiting warming to 1.5°C. Many UNGC members, such as Klarna, have heeded this advice – Klarna's $100 per tonne fee for certain emissions is explicitly in line with UNGC's recommendation.

- **Science Based Targets initiative (SBTi)**
  In 2023, SBTi released detailed guidance on internal carbon pricing as a mechanism to achieve science-based emissions targets as part of its report on the design and implementation of beyond value chain mitigation strategies. The document outlines various approaches to setting ICPs, recommending social cost of carbon or true marginal abatement costs as viable routes to science-based carbon pricing.

- **CDP (Carbon Disclosure Project)**
  CDP has long been a driving force in encouraging meaningful ICPs that increase over time, encouraging companies to publicly disclose their rationale and usage of ICPs to improve accountability.

- **Task Force on Climate-Related Financial Disclosures (TCFD)**
  While TCFD doesn't mandate internal carbon pricing, its recommendations push companies and financial institutions to include ICPs in climate scenario risk planning. For banks and investors, there's also growing interest in whether the companies they invest in are using ICPs as a sign of prudent risk management.

- **Carbon Pricing Leadership Coalition (CPLC)**
  This global partnership of governments, businesses, and NGOs (convened by the World Bank) advocates for ICPs as part of a comprehensive climate strategy and provides a platform for companies to share lessons (e.g. through case studies of pioneers like Mahindra or Microsoft).

- **The World Business Council for Sustainable Development (WBCSD)**
  WBCSD has run peer learning sessions and identified common ICP challenges, with recommendations to define objectives, use regional benchmarks, anticipate future external prices, and integrate ICPs into governance. WBCSD also encourages companies to join business coalitions or working groups on carbon pricing to stay updated on evolving best practices.

- **Alliance of CEO Climate Leaders (World Economic Forum)**
  This group of 100+ CEOs has openly called for a broader use of carbon pricing, noting that only ~25% of global emissions are covered by formal pricing schemes. When top executives publicly champion carbon pricing (both internal and external), it sends a strong message through their industries.

Glossary of terms

Internal carbon price (ICP)	A financial tool where a company assigns a monetary value to its greenhouse gas emissions, typically per metric ton of CO_2e, to guide investment decisions and support decarbonisation efforts.
Shadow price	A hypothetical cost per tonne of CO_2e used in internal decision-making (e.g. for capital allocation or procurement) without actual financial transactions.
Internal carbon fee	A real charge levied on business units based on their emissions, with collected funds reinvested in sustainability projects or emissions reduction initiatives.
Carbon offsets	Credits representing a reduction or removal of one metric ton of CO_2e from the atmosphere, purchased to compensate for emissions that cannot be eliminated.
Carbon removal	Processes or technologies that physically remove CO2 from the atmosphere and store it permanently, such as direct air capture or reforestation.
Decarbonisation	The process of reducing carbon emissions through operational changes, energy efficiency, renewable energy adoption or cleaner technologies.
Carbon budget	The total amount of CO2 emissions a company or sector can emit while still aligning with climate targets like the Paris Agreement.
Social cost of carbon (SCC)	An estimate of the economic harm caused by emitting one additional ton of CO2, used to inform pricing levels aligned with societal impact.
Marginal abatement cost (MAC)	The cost of reducing an additional unit of emissions – used to help determine where investments in carbon reductions are most efficient.
Climate finance	Funding dedicated to climate change mitigation or adaptation activities, including internal investments or external project support.
Science-based targets (SBTs)	Greenhouse gas reduction targets aligned with what climate science deems necessary to limit global warming to 1.5°C or well below 2°C.
Carbon leakage	When emissions reductions in one area (e.g. a regulated country) lead to increased emissions elsewhere, often due to shifting production to regions with looser regulations.
Beyond Value Chain Mitigation (BVCM)	Climate actions taken outside of a company's direct operations or supply chain, such as investing in global carbon removal or adaptation projects.
Compensation	The act of compensating a company's residual emissions by purchasing carbon credits. Compensation is typically used after all feasible internal reductions have been made and focuses on balancing out remaining emissions.
Contribution	A forward-looking investment into climate solutions, such as nature restoration, or carbon removal projects, focusing on enabling global climate progress beyond a company's own footprint.
Net zero	A state where a company reduces the majority of its emissions and balances its emitted greenhouse gases with equivalent removals, resulting in no net increase in atmospheric CO2.
Climate scenario analysis	A strategic planning tool used to assess how different climate futures (e.g. 1.5°C, 2°C, 4°C warming) could impact a business's operations and value.
Carbon intensity	The amount of carbon emitted per unit of output, such as per product, service, or dollar of revenue.