

Carbon cost pass-through in industrial sectors

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Abstract To achieve the ambitions of the 2015 Paris Climate Agreement, the decarbonization of energy-intensive industrial sectors is becoming increasingly important. This paper focuses on the economics of carbon cost pass-through: the change in product prices induced by carbon pricing. We provide a theoretical framework to understand pass-through at the sectoral level and a constructive review of the empirical evidence from the EU ETS and other jurisdictions. Our analysis is structured around three key drivers: international trade, market structure, and free allowance allocation. We provide a synthesis of our key findings for policymakers and identify gaps in the literature for future research.

Keywords Carbon pricing, cost pass-through, free allocation, full carbon price internalization, international trade, market structure

JEL Classification L11 (pricing and production), L70 (primary industry), Q54 (climate economics), Q58 (environmental policy)

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