Carbon Pricing's Impact on Global Industry Is Quietly Growing

Carbon pricing schemes cover ~30% of global emissions—led by the EU and China—and are impacting corporate costs and investment flows, with carbon border mechanisms amplifying their impact and accelerating adoption worldwide.

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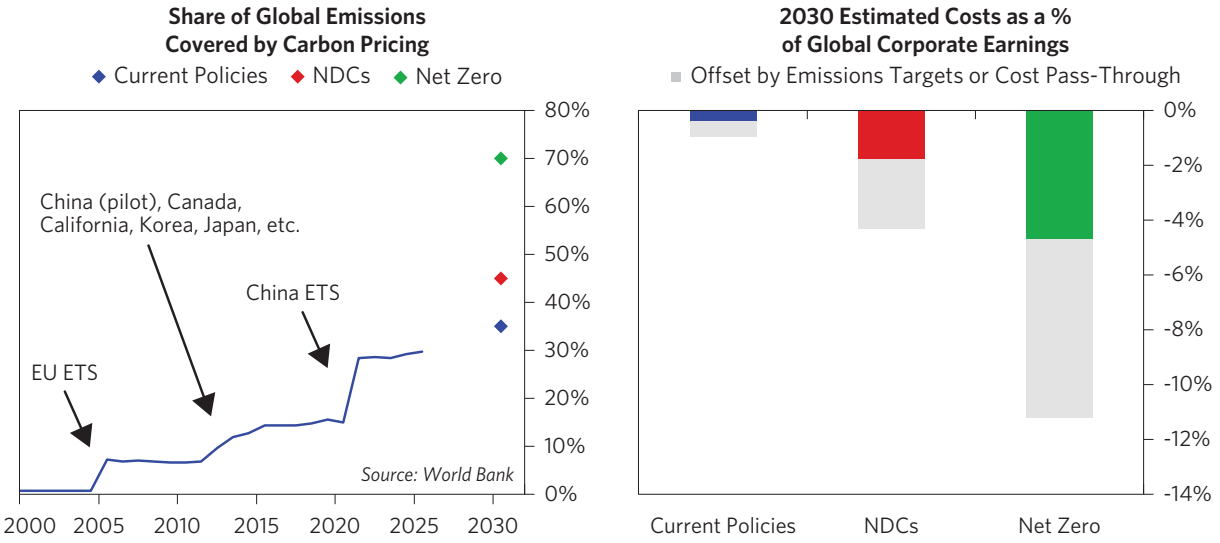
Despite the increasing global pushback against climate policies, carbon pricing schemes have continued to grow over the last few years. **Some form of direct carbon pricing now covers ~30% of global emissions**—spanning both carbon taxes (where governments charge a set price per tonne emitted) and emissions trading systems (where governments set the supply of allowances available for companies). Most coverage comes from emissions trading systems in China and the EU, and these schemes are increasingly being adapted to fit their specific industrial policy goals. For example, as a complement to its domestic emissions trading system, the EU has started to implement a Carbon Border Adjustment Mechanism (CBAM), which imposes carbon pricing on certain high-emitting imports regardless of where they are produced.

As these schemes grow in prominence, they are affecting economies and markets through two main channels:

1. **The direct financial cost to companies from carbon pricing**, which is rising over time as carbon prices increase, coverage expands, and free allowances are phased out. These costs have historically been modest for most companies but could rise significantly even if the more expansive emissions-reduction goals are not met. Some proportion of this is likely to be offset by companies reducing their emissions or passing their costs on to consumers, but we think the cone of outcomes for both the initial costs and subsequent company responses is large enough to warrant closer investor attention.
2. **The impact of carbon pricing schemes on corporate investment decisions**, which are impacting global industry even before these costs have materialized. In China, for example, carbon policies have already changed the relative economics of coal-based versus renewables-based steel and aluminum production, which is shaping where and how new industrial assets are built and retired. In the EU, private sector investment in climate mitigation has noticeably increased with each phase of the EU ETS, rising to almost 0.8% of GDP (or >5% of total EU business investment). And the CBAM now extends this reach globally, potentially covering as much as 17% of EU goods imports and impacting the profitability of investment decisions for global firms who want to access the European market.

For investors, company exposure to carbon pricing creates financial risks—and winners and losers—in both directions, as evidenced by the diverging market reaction across chemicals, cement, and power in February as the EU recalibrated its emissions trading system. Some companies have already invested aggressively in energy efficiency and decarbonization, so they could underperform if carbon pricing policies are softened or delayed unexpectedly. Other companies are heavy emitters that are susceptible to losses if carbon pricing policies continue on the same trajectory or accelerate.

On the left-hand chart below, we show the historical and estimated growth of carbon pricing schemes under three scenarios: 1) current policies already implemented (e.g., in the EU and China) that are increasingly being phased in; 2) the Nationally Determined Contributions (NDCs) that countries have pledged under the Paris Agreement (which could drive additional carbon pricing in places like Indonesia and Pakistan); and 3) a net zero trajectory where rapid policy and technological developments substantially reduce global emissions by 2050. On the right, we show the earnings pressure each path would create and how much companies could potentially offset. Note these estimates are from a tool that Bridgewater has developed with the Capitals Coalition that calculates the potential financial impact of carbon pricing on individual companies; the tool uses Bloomberg data as input and is available to Bloomberg Terminal users via XLTP XTRC <GO>. See the appendix for more details.

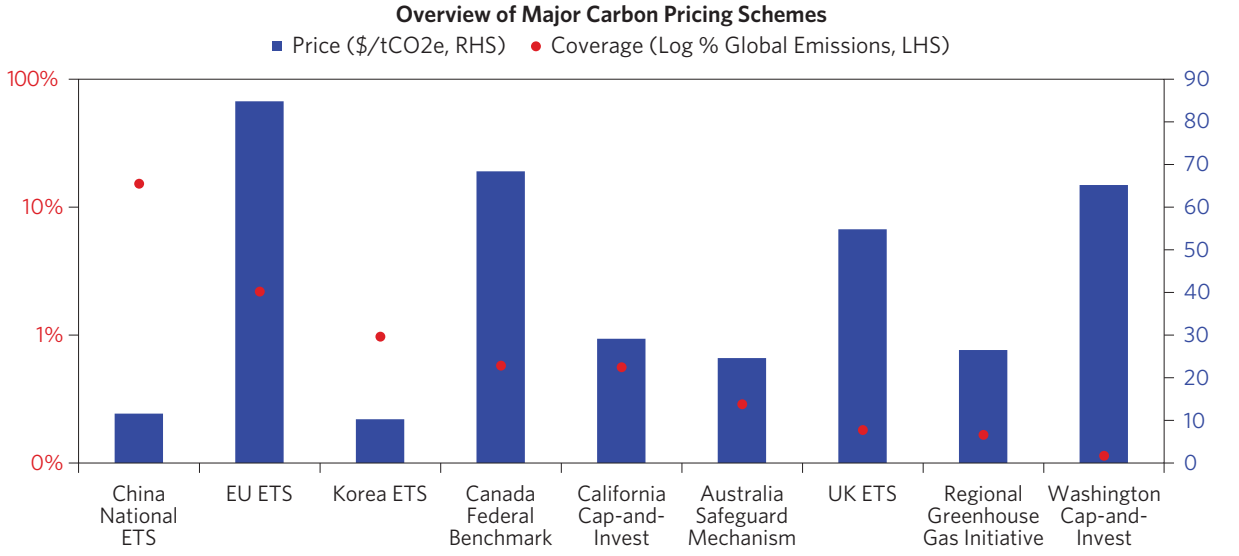


In the rest of this report, we walk through in greater detail how carbon pricing schemes have evolved, including how CBAM is magnifying these dynamics; their future trajectory under different policy scenarios; and their impact on company financial costs and investment decisions.

Carbon Pricing Schemes Have Continued to Gain Momentum Globally

Carbon pricing schemes have steadily expanded over the last two decades and now cover ~30% of global emissions. Major developments include the introduction of the EU ETS in 2005, the consolidation of China's regional pilots into a national market in 2021, and similar schemes in Canada (at both the regional and federal level), the United States (including California Cap-and-Invest and the Regional Greenhouse Gas Initiative), South Korea's ETS, and Australia's Safeguard Mechanism. Carbon markets are also being developed or consolidated in countries like India, Vietnam, and Türkiye, although large gaps remain in places like the United States and the Middle East.

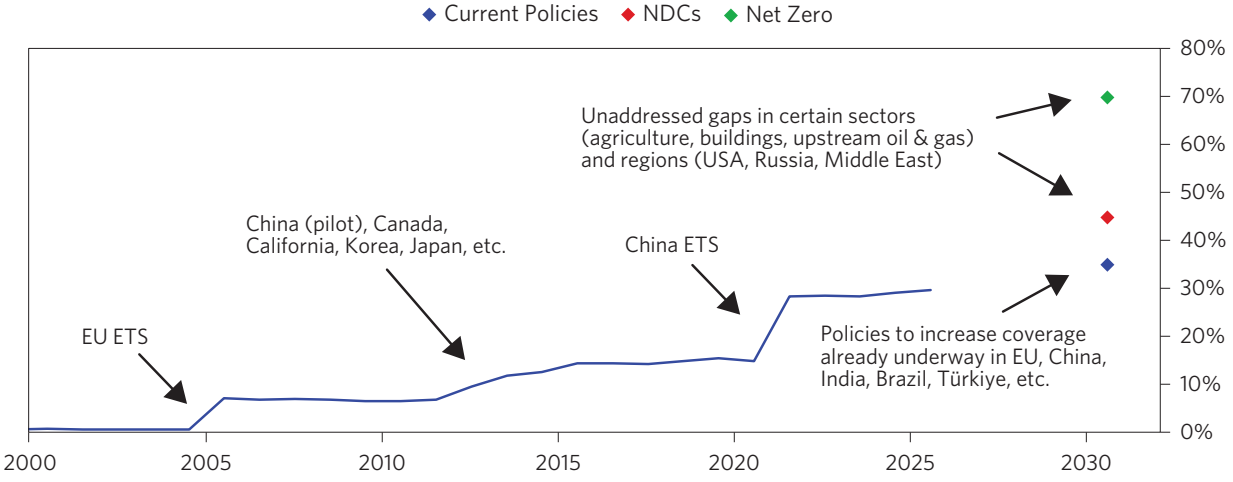
While a rising share of emissions are covered by some form of carbon pricing, the price of carbon across these schemes remains relatively low. China's carbon pricing scheme is the largest—covering about 15% of global emissions—but at very low prices. Prices are much higher and have been rising in places like the EU and Canada but still remain far below the "social cost of carbon" that captures the marginal damages associated with emissions (which the Capitals Coalition assesses to be above $200/tCO2e). To put these numbers into perspective, the World Bank estimates that a $100/tCO2e carbon price is roughly equivalent to adding $43 to the price of a barrel of oil.



Source: World Bank

The current glide path of already announced policies is for carbon pricing to continue to expand in scope and for prices to continue to rise. As shown below, simply adding up already announced carbon pricing schemes (or in relatively advanced stages of development) would increase coverage of global emissions from ~30% to ~35% by 2030. Similar (but earlier-stage) measures are being considered in countries like Indonesia, Pakistan, the Philippines, and Thailand, where governments are drafting carbon pricing frameworks and, in several cases, explicitly linking them to implementation of their NDCs. That said, there are still many parts of the global economy where carbon pricing has not been prioritized, including several high-emitting sectors (e.g., agriculture, upstream oil and gas) and geographies (e.g., the US and the Middle East).

Share of Global Emissions Covered by Carbon Pricing



Source: World Bank

Details on Current Policies: Carbon Pricing Expansions Already Underway

Jurisdiction	Coverage Added	Share of Global Emissions	Status and Timing
China	Chemicals and Petrochemicals	~2.5%	China's Ministry of Ecology and Environment has confirmed that chemicals and petrochemicals will be added to China's national ETS as part of its planned expansion to all major industrial emitters by 2027
European Union	Road Transport and Buildings (ETS2)	1–2%	EU ETS2 is fully enacted, with verified reporting already underway and full operational implementation beginning in 2028
India	Iron and Steel	~0.7%	India is collecting baseline emissions data and building the compliance infrastructure for iron and steel, with meaningful compliance likely to begin from 2027
Brazil	National ETS (SBCE)	~0.6%	Brazil's ETS framework is legally enacted, and the Ministry of Finance has published a detailed implementation road map, including initial monitoring and reporting in 2027 and broader operationalization through 2028–29
Türkiye	National ETS (TR-ETS)	~0.4%	Türkiye's climate law has established the legal framework for a national ETS, although detailed implementation rules are still being finalized

While governments generally do not set carbon prices directly under emissions trading systems, they can influence prices through the overall supply of carbon allowances. **In most major carbon markets, current policies also point toward progressively tighter free allowances, which increase the share of carbon costs borne directly by companies.** For example, power, aviation, and shipping companies in the EU will need

to fully pay for their carbon costs before 2030, while harder-to-abate sectors such as cement and aluminum will receive only around half of their previous benchmark-based free allowances. It is also worth noting that even for sectors that are "fully" covered by free allowances today, this is an aggregate number, and higher-emitting companies with a deficit already need to purchase carbon allowances from lower-emitting companies.

Carbon Pricing Schemes Are Becoming an Industrial Policy Tool

In a world of modern mercantilism, policy makers have increasingly emphasized the need for carbon pricing schemes to support—rather than constrain—industrial competitiveness. The EU Carbon Border Adjustment Mechanism (CBAM) is the clearest example of this. The CBAM essentially imposes a carbon "tariff" on certain high-emitting industrial imports (e.g., steel, aluminum, fertilizers) and serves as a market access mechanism to support domestic producers and minimize the risk of "carbon leakage" (where high-emitting production moves abroad to regions with weaker environmental regulations and is subsequently re-imported into Europe at lower prices, undermining the region's competitiveness).

> **Ursula von der Leyen, EU Commission President:** "[One of our targets is] securing the global level playing field, notably by promoting carbon pricing. **Europe must protect its industries.** They are doing the right thing to decarbonize. And they should be rewarded and incentivized."
>
> **Lakshmi Mittal, Executive Chair of ArcelorMittal:** "Enabling fair trade takes on a new dimension when Europe is the only major market with a cost on carbon. When Europe decided to take the lead on implementing climate policy…it was assumed that everyone else would follow. **That has not happened, and Europe's competitiveness in globally traded manufacturing sectors like steel is declining.**"

More broadly, while earlier formulations of carbon pricing focused primarily on decarbonization, more recent statements have centered on the ability of carbon pricing schemes to encourage **investments in energy efficiency and upgrading, and maintain global trade competitiveness**.

> **Mark Carney, Prime Minister of Canada:** "To stay competitive, we must ensure that the foundation is solid. Canada must stimulate investments in both the clean energy and conventional energy sectors. **Our carbon markets must also be designed to attract investments, reduce emissions over time, and keep our industries globally competitive.**"
>
> **Cyril Ramaphosa, President of South Africa:** "Instruments like the European Union's Carbon Border Adjustment Mechanism…signal **the inevitability of carbon pricing in global trade systems**. Our emissions-intensive energy system is likely to increasingly undermine our competitiveness in global markets."

And in China, where there are pockets of industrial capacity that have expanded meaningfully, carbon pricing has been used as a tool to **encourage the phase-out of the least efficient and most environmentally damaging sources of production**.

> **Huang Runqiu, Minister of Ecology and Environment of China:** "Efforts will be made to further ensure the effective operation of the national carbon market…and **help private enterprises turn surplus carbon emission allowances into assets, while accelerating the market-driven phasing-out of outdated production capacity**."

These co-benefits have helped carbon pricing schemes remain relatively resilient, even as other climate policies—including consumer subsidies, fossil fuel phase-out targets, EV mandates, and other regulatory requirements—have been delayed or weakened in parts of the world.

The Direct Financial Costs of Carbon Pricing Are Potentially Large, and Very Uneven

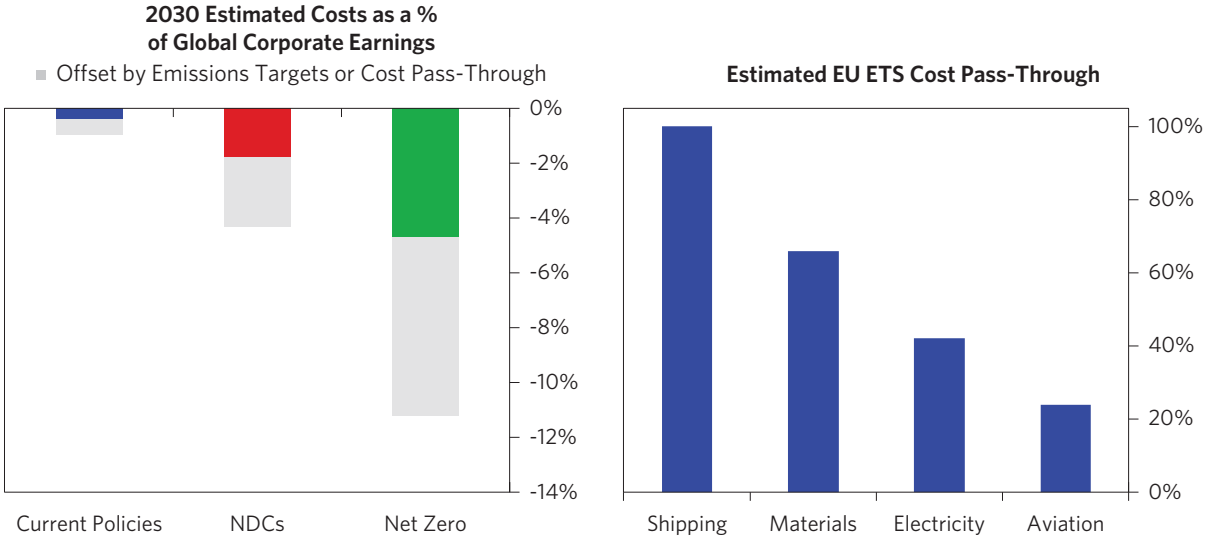
The ongoing nature of these policy discussions creates risks for investors as the relative winners and losers of carbon pricing are reshaped. For investors looking to stress test their portfolios against exposure to these risks, we find it helpful to think about the following high-level groupings from the Network for Greening the Financial System (NGFS), namely:

- **Current policies** that have already been implemented by governments, and which are expected to be increasingly phased in over the next few years.
- Incremental policy changes to align with commitments that governments have already made in their **Nationally Determined Contributions** (NDCs) under the Paris Agreement.
- Rapid acceleration in climate policies to realign the world with a **net zero** trajectory (which is unlikely to happen in reality, but still helpful for investors to stress test their portfolios against).

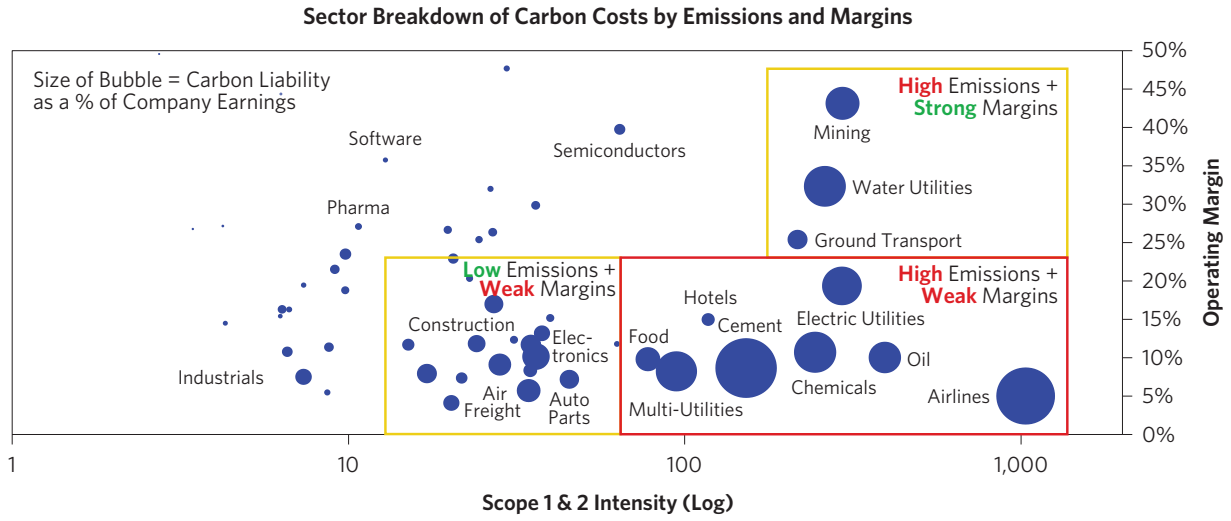
Companies can likewise respond to carbon pricing in several different ways. For example, if companies are unwilling (or unable) to absorb these additional costs, they can choose to pass them on to consumers or reduce their emissions over the longer term. However, each of these choices comes with trade-offs: raising prices to protect margins could come at the expense of market share (particularly if a company faces a higher carbon compliance burden than its peers), while sustained emissions reductions will require large upfront capital investments.

The combination of these carbon pricing and company response scenarios will determine the size of the operating expense that companies face as a result. **There is a wide range of outcomes around both of these—reflecting different emissions profiles, business models, and technological capabilities across sectors and companies—and we think these numbers are large and divergent enough to warrant closer investor attention.**

As shown below, even if the world falls short of net zero, **companies could face initial cost pressures equivalent to 2–5% of global corporate earnings—although a large proportion of this is likely to be offset in some way**. The sectors most affected are those with not only higher emissions but also weaker financial buffers (e.g., low margins or pricing power). For example, airlines and shipping companies already need to pay for the majority of their emissions under the EU ETS. However, while shipping companies have mostly been able to pass these costs on via emissions surcharges on freight rates, some airlines—particularly those on competitive routes—have less pricing power and have been forced to absorb these costs.

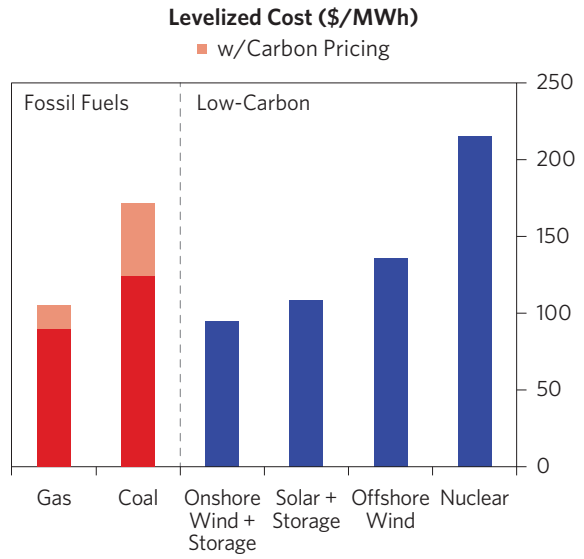


Source: ABN AMRO

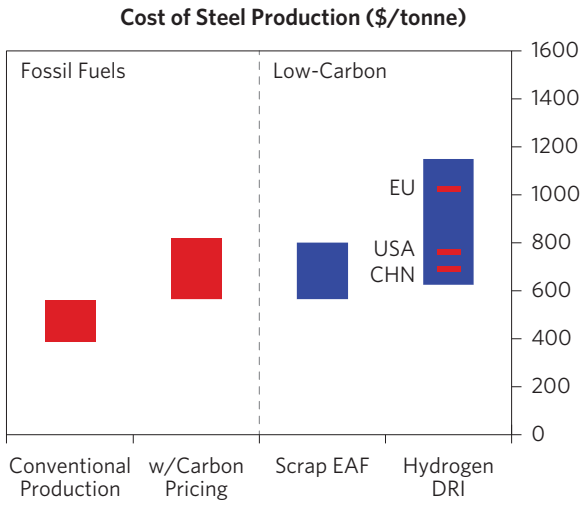


Carbon Pricing Is Already Shifting Corporate Investment Decision-Making

Separate from the direct financial cost to companies, even before carbon pricing schemes are fully enacted, **the expectation of future carbon pricing has already led to meaningful changes in investment flows as companies respond to signals from governments and plan for future policies**. Carbon pricing works by changing the relative economics of (and hence incentive to invest in) different technological options, such as renewables versus fossil fuels for power, electric arc furnaces versus blast furnaces for steel, or green hydrogen via water electrolysis versus gray hydrogen via steam methane reforming.

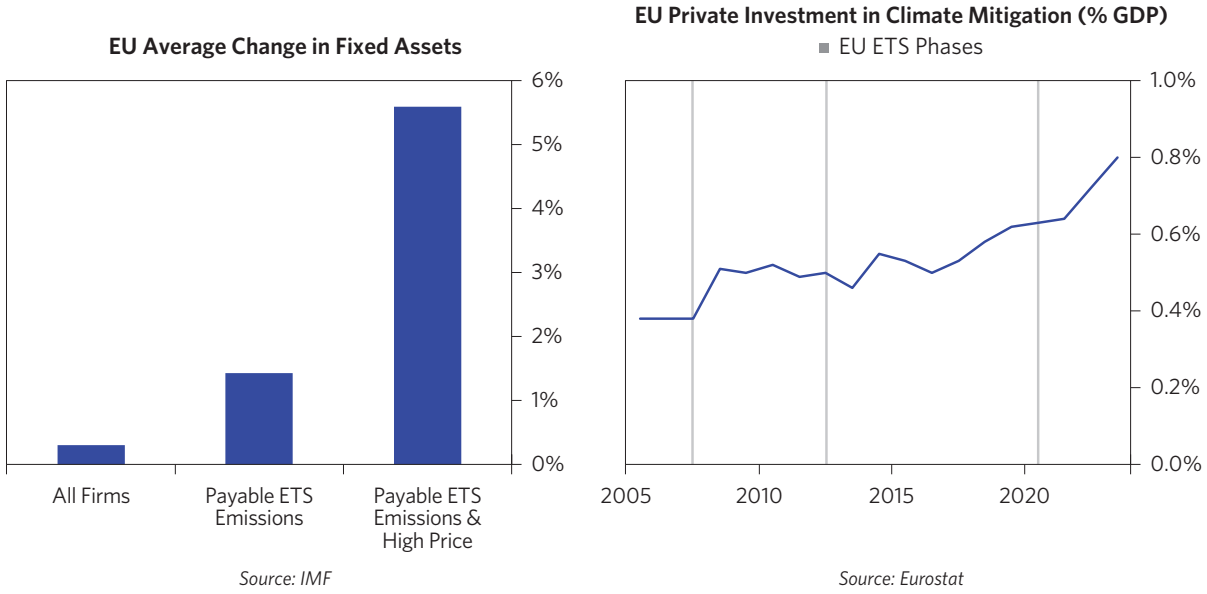


Source: Lazard



Source: IEA

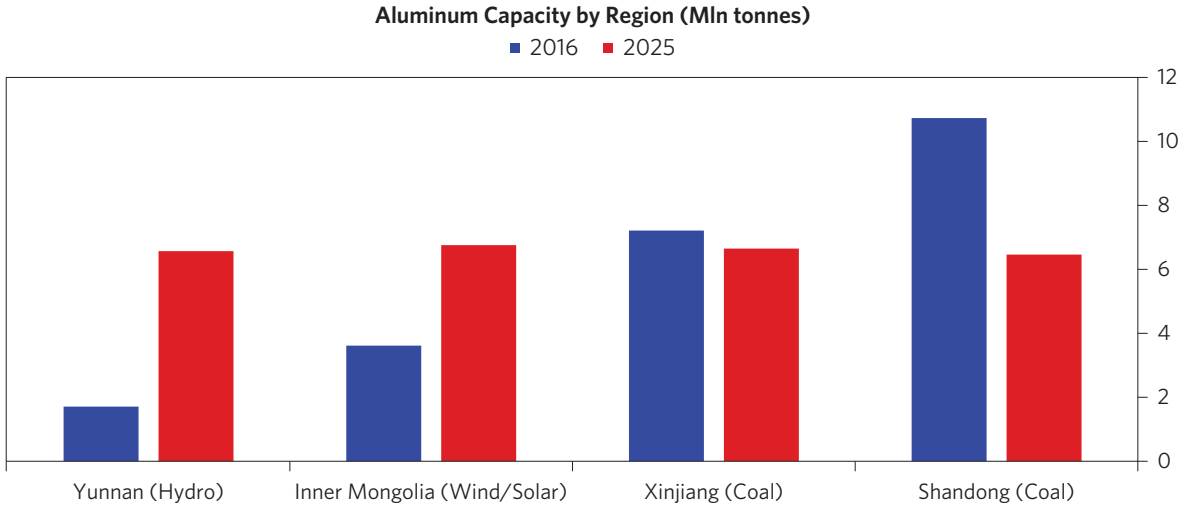
In Europe, carbon pricing has incentivized firms with payable emissions (i.e., those who face a deficit of carbon allowances under the EU ETS) to invest more in new fixed assets, particularly in years when the carbon price was high. And consistent with the policy signal and EU ETS benchmark tightening in each subsequent phase, **private sector investment in climate mitigation has noticeably increased, rising to almost 0.8% of GDP (or >5% of total EU business investment)**.



Source: IMF

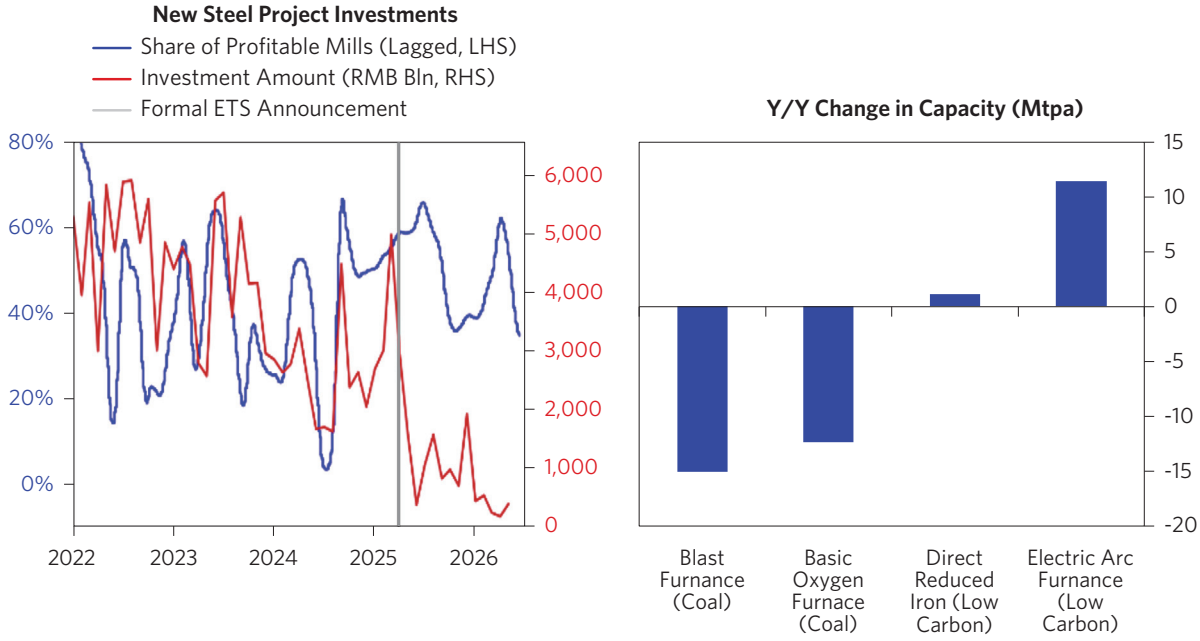
Source: Eurostat

Similarly, in China, the consolidation of the national ETS from regional pilots has helped to accelerate the ongoing shift in production of high-emitting, power-intensive sectors like aluminum, where capacity in coal-dominant regions like Shandong has steadily been replaced by hydro-powered smelters in Yunnan and wind/solar in Inner Mongolia. Note that while aluminum itself was only added to the national ETS in 2025, most of its costs come from power, which has been subject to carbon pricing in China since 2021.



Source: Financial Times

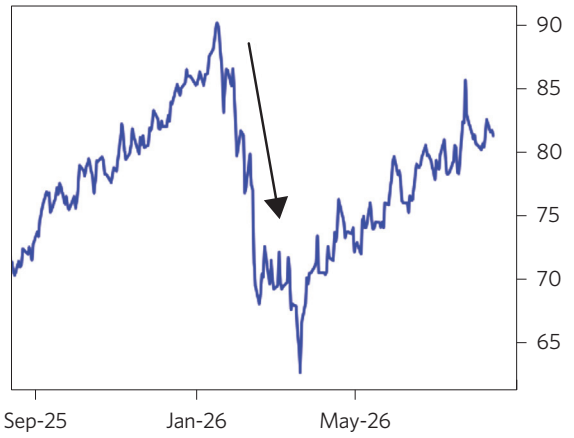
There are also early signs of a similar trend happening in steel, following its addition to the national ETS in 2025. For steel, carbon pricing represents an additional headwind for a sector already struggling with profitability amid declining property and construction demand—even though the Chinese government has provided generous free allowances to mitigate the short-term hit to earnings. Additionally, the dual-carbon rules introduced in April now hold local party officials personally accountable for carbon targets and add real approval friction to new fossil-based investment projects. Empirically, new steel capacity that is built is also shifting on the margin toward low-carbon electric arc furnaces and direct reduced iron, instead of traditional coal-based blast furnaces.

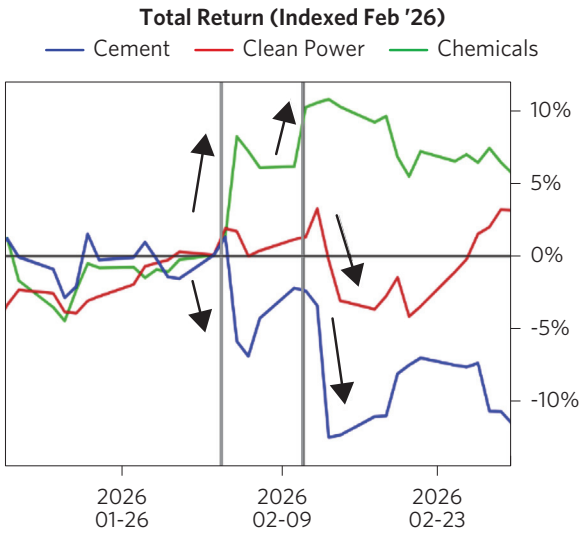


Source: Global Iron and Steel Tracker, Global Energy Monitor, June 2026 (V1) release

Put together, the direct financial cost from carbon pricing and impact on investment decisions mean that changes in policy likelihood or direction can have a noticeable effect on markets and the relative winners versus losers from carbon pricing. **For investors, the risks to individual companies depend on their exposure to carbon—and what they've done to mitigate this—and exist in both directions.** We saw a good example of how changes in the expected path of carbon pricing policy flowed through to individual names when the EU announced in February that it may delay or push back certain aspects of its ETS—and the cone of outcomes continues to widen along with political uncertainty, e.g., recent electoral momentum from the AfD party in Germany and National Rally in France, whose policy platforms include opposition to high energy costs and carbon pricing.

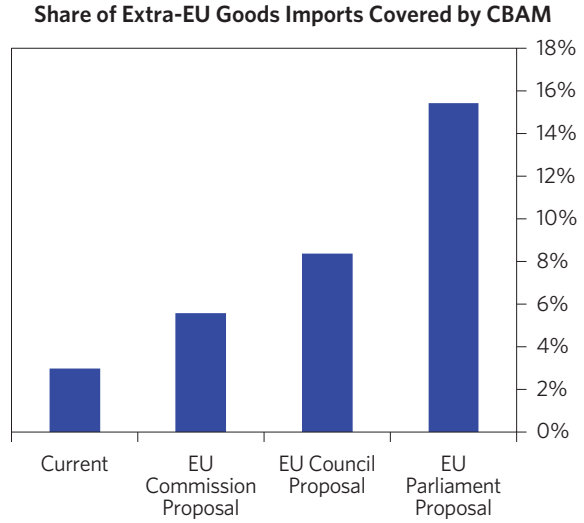
- At the start of February, reports that the EU Commission was considering extending the timeline of free allowances for heavy industry was accompanied by a **sell-off in cement companies that had already made significant decarbonization investments** (e.g., Heidelberg Materials, Holcim, Buzzi), and a **rally in chemicals that would have otherwise faced large carbon pricing costs** (e.g., BASF, Brenntag, Wacker).
- This was amplified later that month, when member states including Germany and Italy pushed openly for further reforms not just to heavy industry, but also to broader EU ETS and electricity market design. This triggered a **second round of market moves in cement and chemicals, and also extended the impact to clean power stocks**, which fell initially as the market assessed the risk of fossil power becoming more competitive but stabilized over the next few weeks as it became clear that any short-term changes would be limited.

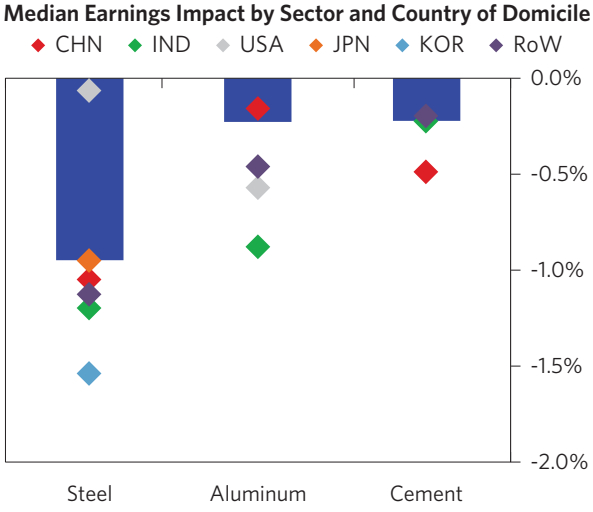




The EU Carbon Border Adjustment Mechanism Has Globalized These Dynamics

The introduction of the CBAM earlier this year has broadened the impact of these dynamics globally by transforming carbon pricing from a region-specific risk for a subset of investors (which has historically been concentrated in the EU) to a global one that is already affecting many of Europe's largest trading partners—including large steel, aluminum, and cement companies in China, India, and the United States. CBAM currently covers around 3% of all extra-EU goods imports, but this number could rise to as much as 17% under different EU proposals to expand coverage to additional sectors like autos and household appliances. And while the initial compliance cost (and hence earnings risk) that companies face is likely to be low, the scheme is expected to scale up rapidly over the next decade.





Source: Goldman Sachs

Apart from its direct effects, the CBAM has also triggered a wave of knock-on policy effects in other parts of the world, which amplifies the disruptions that companies could face. Some countries (e.g., India and Vietnam) have introduced or strengthened legislation on domestic carbon markets in response to CBAM, so they can collect revenues themselves instead of paying additional import duties to the EU; while others have pushed back against the CBAM's compatibility with global trade rules, with the aim of delaying or rolling back certain parts of the scheme. So far, however, even as the EU delayed the full rollout of ETS2 last year amid concerns around fuel and heating costs for European households, the core CBAM framework remained largely intact, and the policy debate has mostly focused on implementation, administrative burden, and potential downstream expansion.

> **Piyush Goyal, Indian Commerce and Industry Minister:** "There will be no additional CBAM levy if an exporting nation also taxes carbon emissions locally. So, **if we collect the tax in India itself and use it for our green energy transition**, it will help our exporters bring down our carbon footprint…As long as we keep the taxes at home, utilize it for our own clean energy transition, I think we won't have an uncompetitive edge in our exports to Europe."
>
> **China Ministry of Commerce:** "China stands ready to work with the EU to jointly address global climate change challenges, but **will resolutely take all necessary measures to respond to any unfair trade restrictions** to firmly safeguard its development interests, the legitimate rights and interests of Chinese enterprises, as well as the stability of global industrial and supply chains."

Looking ahead, regardless of how the EU CBAM plays out, the direction of travel of carbon pricing toward a globalized risk is clear. Outside the EU, the UK plans to launch its own carbon border adjustment mechanism in 2027, and Australia is evaluating a government-commissioned recommendation for a similar scheme. In the United States, while direct carbon pricing has not been a federal policy priority, the Republican-sponsored Foreign Pollution Fee Act of 2025 has suggested charging import duties "based on the pollution intensity associated with the production of such products," and the US has already introduced forced labor tariffs linked to "unfair competition" that "undermines the profitability of firms that do not use forced labor"—language that is broadly similar in spirit to CBAM. Finally, at the sector level, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is expected to enter its mandatory phase in 2027, which would add more international flights to its coverage, and discussions of a global carbon pricing mechanism for shipping remain on the International Maritime Organization (IMO)'s docket, despite opposition from the US, Russia, and certain Gulf states.

Appendix

Below, we share a quick user guide and potential applications of the tool we developed with the Capitals Coalition that calculates the potential financial impact of carbon pricing for individual companies, and which we have used for much of the analysis shown in this report. The tool is using Bloomberg data as input and is **available to all Bloomberg Terminal users via XLTP XTRC <GO>**.

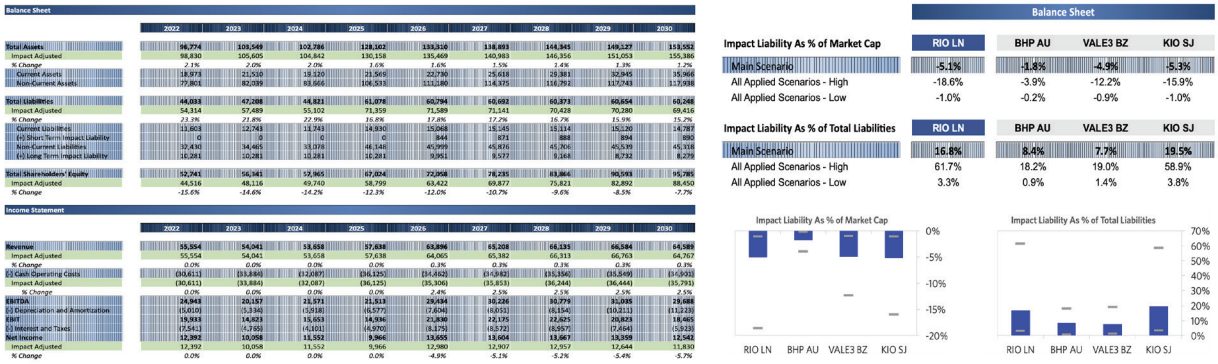
Within the input tab, users can select from a list of carbon pricing scenarios, company emissions scenarios, and additional financial parameters such as the discount rate or the share of carbon costs a company is able to pass on. For each category, users can choose one primary scenario and as many as three additional scenarios (which can either be off-the-shelf or fully customized). This flexibility matters because the range of possible carbon prices and company emissions pathways is so wide, and investors need a tool that allows them to **model the full distribution of potential outcomes**, rather than anchoring to a single view of the future that may or may not materialize.

Carbon Pricing Scenario					
Scenario Name		2025	2030	2035	Scenario Description
Main	NGFS NDCs	32.32	50.55	51.59	Nationally Determined Contributions (NDCs) includes all pledged policies even if not yet backed up by implemented effective policies.
1	NGFS Current Policies	10.19	9.45	8.84	Current Policies assumes that only currently implemented policies are preserved, leading to high physical risks.
2	EU ETS Current Prices	99.84	105.80	105.80	Most recent market price for each unit of carbon allowance under the EU Emissions Trading System (ETS).
3	(Leave Blank)	#N/A	#N/A	#N/A	--
(Optional) Add a custom scenario and select it in the dropdown menu above:					

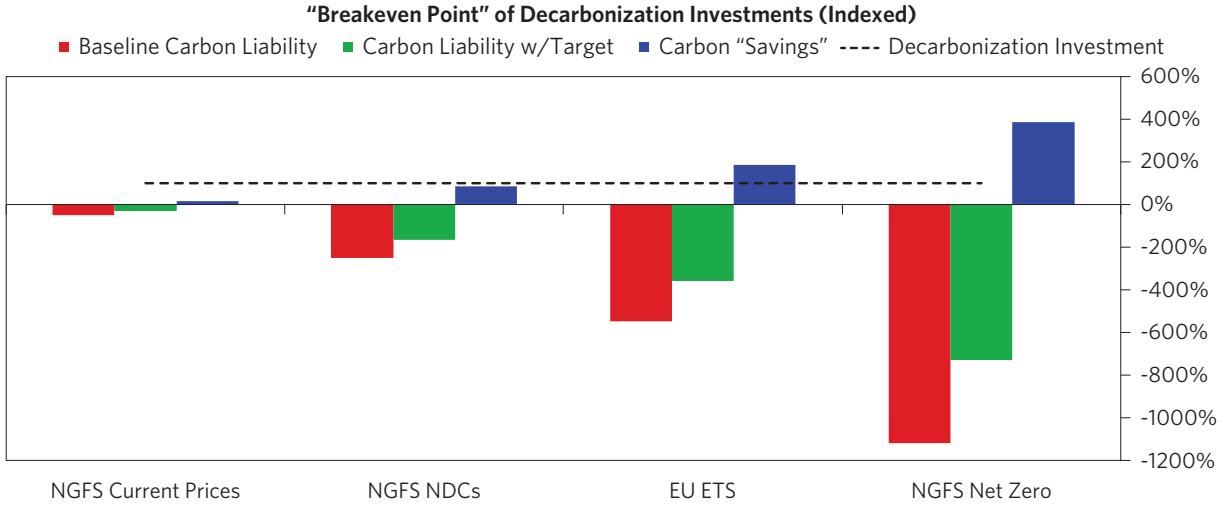
Company Emissions Scenario					
Scenario Name		2025	2030	2035	Scenario Description
Main	Target Reduction	31.51	17.60	17.60	Emissions trajectory based on stated company targets. If no company target is found, emissions are assumed to remain constant.
1	Trend Reduction	31.51	28.93	27.35	Emissions trajectory based on extrapolation of historical emissions reductions.
2	No Change	31.51	31.51	31.51	Emissions trajectory assuming no further emissions reductions.
3	(Leave Blank)	#N/A	#N/A	#N/A	--
(Optional) Add a custom scenario and select it in the dropdown menu above:					

Optional Parameters	
Discount Rate	5%
Years of Discounting	>10
% Emissions Covered by Carbon Price	100%
% Costs Passed On	20%

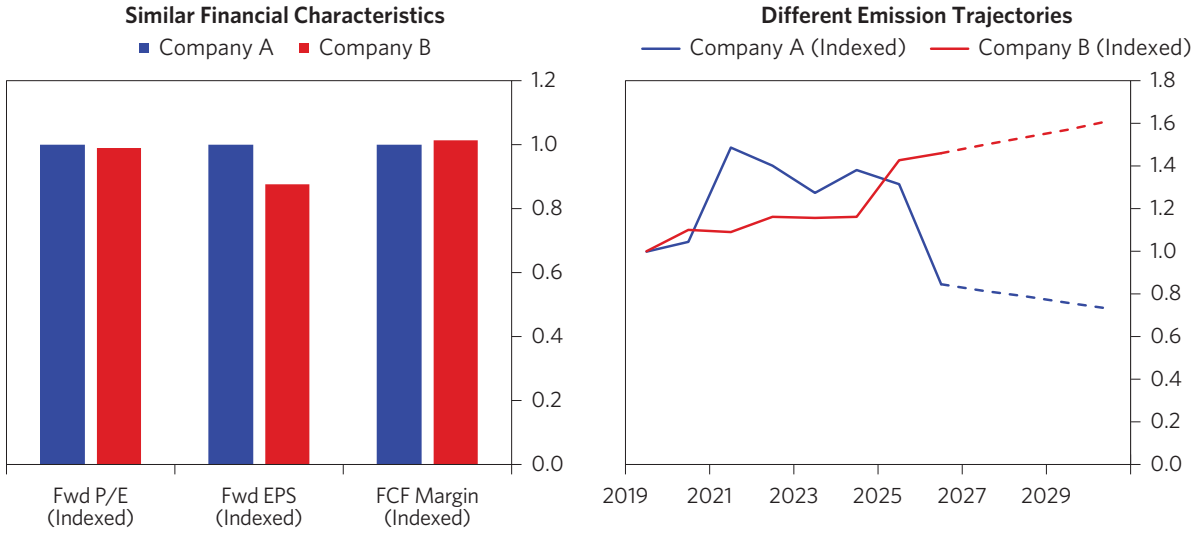
The tool then takes these inputs and produces two main outputs. The first is a set of **adjusted financial statements**, which show how individual line items on a company's income statement and balance sheet might change if future carbon costs were fully reflected. Under current accounting rules, companies generally do not need to recognize the full value of future carbon costs on their balance sheets because these emissions have not yet occurred. But from an investment perspective, calculating these costs can help investors better understand their long-term financial exposure to carbon pricing. The second is a **peer comparison tab**, which juxtaposes a company's financial exposure to carbon pricing with its peers to help investors identify relative winners and losers from policy changes.

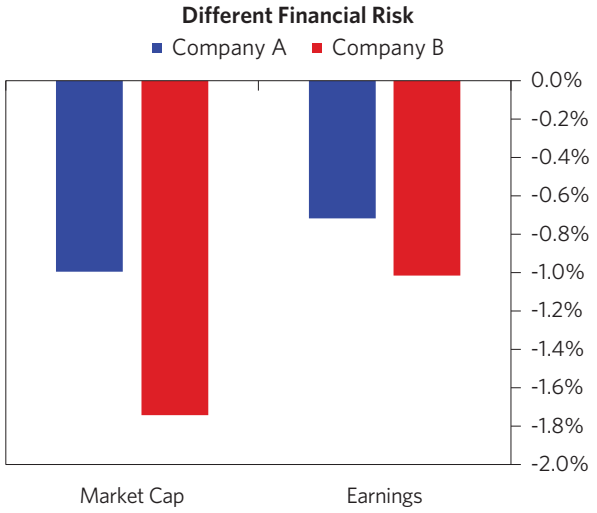


Investors can use the tool to analyze project-level investment decisions. Companies spend large sums of money each year on decarbonization and energy-efficiency projects, and while these investments may be beneficial for the climate, their financial value depends on how much they actually reduce emissions, and how valuable those reductions are under the prevailing carbon price. Our tool shows that while certain decarbonization investments offer relatively little direct financial benefit under current carbon prices, this could easily change if governments begin meeting their NDC commitments or if more of the world becomes exposed to EU carbon prices through mechanisms such as CBAM. In this way, our tool allows investors to **identify the assumptions under which a particular decarbonization investment breaks even or becomes profitable for a given company**.



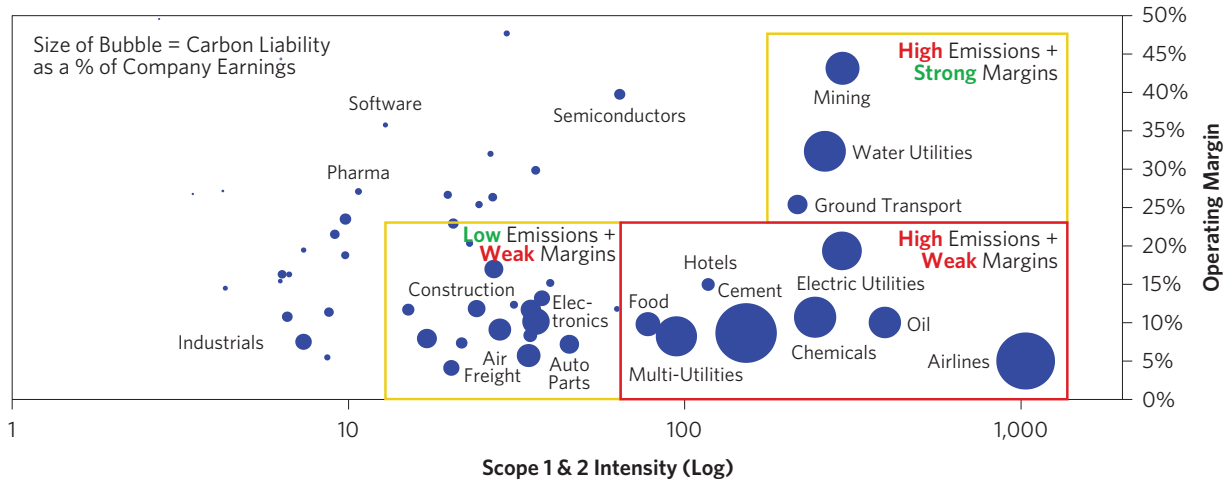
In terms of use cases, investors can also use the tool to evaluate **company-level financial risks** more holistically. As shown below, companies with similar financial characteristics can look very different once carbon costs are considered, and our tool allows investors to understand **the different levels of financial risk that peer companies are exposed to under different carbon pricing scenarios**.





Finally, analysis from the tool can be **aggregated across an entire investor portfolio**, similar to most of the analysis shown in this report. Our key takeaway here is that **carbon intensity alone is an incomplete measure of portfolio financial risk**, and investors must also consider the financial buffers a company has available to absorb higher carbon prices (e.g., margins, pass-through ability). For some companies, achieving their emissions targets could make the difference between maintaining profitability and rapidly losing competitiveness or market share.

Sector Breakdown of Carbon Costs by Emissions and Margins



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