

## **ADDRESS CLIMATE CHANGE WITHOUT CARBON PRICING**

Imposing carbon pricing in addition to the Environmental Protection Agency’s (EPA) current regulatory scheme would prove economically disastrous for the United States. Incentives to develop innovative technologies and policies which adapt to environmental realities are superior mechanisms to address climate change.

### **BACKGROUND**

Advocates of federal carbon emission restraints believe them to be necessary, above and beyond current U.S. policies, to mitigate the negative effects of climate change.

Carbon pricing is an effort to make fossil fuel use more costly by pricing an externality (i.e., carbon emissions)<sup>1</sup> for the purpose of discouraging its production. Pollution pricing’s main advantage over traditional emissions regulation is the ability of industry to exercise greater control over the means to avoid the financial penalties associated with emissions. Policies that place a price on carbon often take the form of cap-and-trade schemes, taxes, or other mandatory punitive standards.

U.S. emissions policies have produced significant progress in addressing climate changes. Current U.S. policies have led to a reduction in energy-related carbon emissions of “almost 1 [gigaton (Gt)] from their peak in the year 2000, the largest absolute decline by any country over that period.”<sup>2</sup> Since 2005, U.S. “national greenhouse gas emissions have fallen by 11 percent, and power sector emissions have fallen by 27 percent.”<sup>3</sup>

Americans should be encouraged to continue the trend of emissions reduction, instead of being financially penalized. Democrats hope to layer carbon pricing over existing regulations to effectively control energy generation. In fact, many Democrats aren’t bashful about their actual intentions for the energy sector. In an open letter to former Sen. Robert Stafford (R-VT), current Democratic presidential candidate Bernie Sanders advocated for the nationalization of the entire energy industry. “The oil industry, and the entire energy industry, should be owned by the public,” Sanders wrote.<sup>4</sup>

If proponents of carbon pricing—or any pollution pricing—truly believe this approach to be a superior method of pollution control, proponents should offer it as a replacement of the EPA’s current regulatory regime rather than a heavy-handed addition to it. Democrats are unwilling to do so.

### **Carbon Pricing Harms Consumers**

For the last century, roughly 80 percent of American energy has come from traditional fossil fuel sources such as coal, oil, and natural gas.<sup>5</sup> Any industry using fossil fuel energy would find their production costs increasing proportionally to the carbon price imposed. Those costs are directly passed on to consumers.

### **Quick Take**

The economic consequences of imposing a price on carbon are both substantial and regressive—impacting lower-income Americans the most.

Congress should address climate change by considering a wide range of policies that encourage the United States to adapt to such changes and protect America’s infrastructure.

Politically savvy carbon pricing proposals offer tax cuts, dividend payments, or some other form of compensation to offset energy price increases.

Unfortunately, the Americans most impacted are the least able to afford the change. A 2013 Congressional Budget Office carbon tax study found, “The higher prices resulting from a carbon tax would tend to be regressive—that is, they would impose a larger burden (relative to income) on low-income households than on high-income households.”<sup>6</sup>

### **Lack of Support for Carbon Pricing**

As of April 2019, only 30 countries and the European Union have implemented carbon restrictions accounting for less than ten percent of annual global greenhouse gas (GHG) emissions.<sup>7</sup> Carbon pricing schemes have been defeated both nationally and worldwide:

- **United States** - In 2009, Democrats with majorities in the House and Senate and a Democratic president failed to enact the American Clean Energy and Security Act,<sup>8</sup> which would have imposed a cap-and-trade scheme in the United States. The measure narrowly passed the House but failed in the Senate.
- **Washington State** - Ballot initiative I-1631 would have imposed a \$15-per-ton carbon emissions fee used to fund various environmental programs and projects. The measure failed with 56.56 percent of voters opposed. In 2016, I-732, a carbon tax that would reduce the state sales tax, was similarly unsuccessful.
- **France** - As the "yellow vest" protests railed against a fossil fuel tax, President Emmanuel Macron suspended the tax increase originally set to take place in 2019.
- **Australia** - Australia, one of the world’s top coal exporters, introduced a carbon pricing scheme in 2012 which reduced income taxes and slightly increased pensions and welfare payments to offset higher energy prices. The Australian government repealed the law in 2014.<sup>9</sup>
- **Alberta, Canada** - Alberta repealed its provincial carbon tax in June 2019 even in the face of threats from the national government to impose a backstop carbon tax.<sup>10</sup>

Even in countries which place a price on carbon, the price imposed on carbon emissions is insufficient to have a material impact on climate change. According to a 2017 World Bank report:

[H]alf of current emissions covered by carbon pricing initiatives are priced at less than \$10 per ton CO<sub>2</sub>e. This is far short of the level needed to drive transformational change: estimated at \$40-80 per ton by 2020 and \$50-100 per ton by 2030 according to the High-Level Commission on Carbon Prices, co-chaired by Joseph Stiglitz and Lord Nicholas Stern and supported by the World Bank.<sup>11</sup>

The economic consequences of imposing an “adequate” price on carbon are political non-starters in even the most liberal states in the U.S. For example, California’s policies aggressively set “a floor of approximately \$26 per metric ton in 2030,”<sup>12</sup> well below the mark suggested by the High-Level Commission on Carbon Prices.

More importantly, many carbon pricing regimes expect Americans to shoulder the economic burden of potential harm around the entire globe. The Trump administration recalculated Obama administration climate

models by restricting them to damages occurring within the borders of the United States. That one change reduced the social cost of carbon to \$7 per ton from as high as \$50 under the Obama regime.<sup>13</sup>

Many hardline Democrats find carbon pricing altogether insufficient — supporting instead more onerous government mandates and direct spending on green energy programs. This is precisely the perspective that led to the defeat of the carbon regulation efforts in a Democrat-controlled Washington State.<sup>14</sup>

## **CONSTITUTIONAL AUTHORITY AND REPUBLICAN PRINCIPLES**

The Constitution authorizes Congress to tax and spend in a manner that promotes the general welfare of the United States.<sup>15</sup> Free markets most effectively allocate goods, deliver services, and represent consumer preferences in the American economy.

## **POLICY SOLUTIONS**

Rather than substitute government mandates and taxes for consumer choices, Congress should address effects of climate change by considering a wide range of climate change adaptations and infrastructure investments:

- Incentivize efforts to harden America’s shorelines and engage in flood mitigation practices by reforming the National Flood Insurance Program.
- Ensure that the U.S. Fish and Wildlife Services’ coastal barrier resources system maps are regularly updated and that federal resources are not expended in environmentally sensitive areas prone to flooding.<sup>16</sup>
- Invest in improved short-term forecasting technology to better prepare for severe weather events because the United States lags Europe in short-term weather forecasting.<sup>17</sup>
- Support superior forestry management practices and more effectively monetize silviculture resources in areas prone to wildfires. Use generated revenues to support state and regional conservation projects.
- Incentivize innovation that is affordable and exportable and streamline regulation in low-emission technologies such as small modular nuclear power, improved energy storage for intermittent wind and solar power generation, and continued emission reductions for stable fuel sources like natural gas.

**Please contact Cameron Smith or Kelsey Wall with the Republican Policy Committee at (202) 225-4921 with any questions.**

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<sup>1</sup> External costs of carbon emissions generally refer to the costs imposed by a changing climate such as coastal property damage and health impacts of rising temperatures.

<sup>2</sup> International Energy Agency, *Global CO2 emissions in 2019* (Feb. 11, 2020), <https://www.iea.org/articles/global-co2-emissions-in-2019>.

<sup>3</sup> U.S. Environmental Protection Agency, *Draft Inventory of U.S. Greenhouse Gas Emissions and Sinks 1990-2018* (Feb. 12, 2020), <https://www.epa.gov/sites/production/files/2020-02/documents/us-ghg-inventory-2020-main-text.pdf>.

<sup>4</sup> Bernard Sanders, *Open Letter to Senator Robert Stafford*, Vermont Freeman, December 1973, [https://www.scribd.com/document/401621202/Vermont-Freeman?secret\\_password=Ivy3D7ovhCAPJI9TZdTb](https://www.scribd.com/document/401621202/Vermont-Freeman?secret_password=Ivy3D7ovhCAPJI9TZdTb)

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<sup>5</sup> U.S. Energy Information Administration, *Today in Energy: Fossil fuels have made up at least 80% of U.S. fuel mix since 1900* (July 2, 2015), <https://www.eia.gov/todayinenergy/detail.php?id=21912>.

<sup>6</sup> Cong. Budget Office, 44223, *Effects of a Carbon Tax on the Economy and the Environment* 8 (2013), [http://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44223\\_Carbon\\_0.pdf](http://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44223_Carbon_0.pdf).

<sup>7</sup> The World Bank, *Carbon Pricing Dashboard* (Data last updated Apr. 1, 2019), [https://carbonpricingdashboard.worldbank.org/map\\_data](https://carbonpricingdashboard.worldbank.org/map_data). Selected Year 2019, for the Status Implemented, for multiple Instruments, for National and Regional Jurisdictions.

<sup>8</sup> H.R. 2454, 111th Cong. (2009).

<sup>9</sup> Lenore Taylor, *Tony Abbott hails demise of 'useless, destructive' carbon tax*, *The Guardian*, July 17, 2014, <https://www.theguardian.com/environment/2014/jul/17/tony-abbott-hails-demise-of-useless-destructive-carbon-tax>.

<sup>10</sup> Bret Wells, *Alberta Repealed Its Carbon Tax. What Now?*, *Forbes*, June 6, 2019,

<https://www.forbes.com/sites/uhenergy/2019/06/06/alberta-repealed-its-carbon-tax-what-now/#4d446c705dd1>.

<sup>11</sup> The World Bank, *Result Briefs: Carbon Pricing* (Dec. 1, 2017), <https://www.worldbank.org/en/results/2017/12/01/carbon-pricing>.

<sup>12</sup> John Larsen, *The Footprint of US Carbon Pricing Plans*, Rhodium Group, May 23, 2018, <https://rhg.com/research/the-footprint-of-us-carbon-pricing-plans/>.

<sup>13</sup> Brad Plumer, *Trump Put a Low Cost on Carbon Emissions. Here's Why It Matters*, *The New York Times*, Aug. 23, 2018, <https://www.nytimes.com/2018/08/23/climate/social-cost-carbon.html>.

<sup>14</sup> David Roberts, *Washington votes no on a carbon tax — again*, *Vox*, Nov. 6, 2018, <https://www.vox.com/energy-and-environment/2018/9/28/17899804/washington-1631-results-carbon-fee-green-new-deal>.

<sup>15</sup> U.S. Const. art. 1, § 8.

<sup>16</sup> U.S. Fish & Wildlife Services, *Coastal Barrier Resources System: Overview* (July 2019), <https://www.fws.gov/CBRA/>. The CBRS maps were most recently revised by Public Law 116-9 on March 12, 2019.

<sup>17</sup> Diana Kwon, *Are Europeans Better Than Americans at Forecasting Storms?*, *Scientific American*, Oct. 1, 2015, <https://www.scientificamerican.com/article/are-europeans-better-than-americans-at-forecasting-storms1/>.