



# The Business Case for **Carbon Pricing**

## *Business supports climate action*

Climate change presents the biggest threat to America's economy. Unchecked, climate change threatens to reduce global GDP by over 20% by 2100, according to Brookings. GDP lost to climate change will likely reach \$44 trillion by 2060, says Citigroup. "Business as usual" is simply no longer an option.

*A price on carbon is the most efficient, business-friendly way to mitigate climate change. It will reduce emissions, create competition in the energy market, spur innovation, and create jobs. Businesses support pricing carbon because it provides the flexibility to adapt over time and plan for fixed costs.*

Many firms are already taking action to address climate change on their own. They consciously conserve resources, improve reuse and recycling, track and offset their greenhouse gas emissions, or put an internal price on carbon. But that's no longer enough. We need government action to limit further climate change impacts. The best solution is a market-based, federal policy that rewards companies who are already leading and prods those who lag behind.

### **Carbon pricing: Meaningful and Market-Based**

A carbon price internalizes the cost of greenhouse gas emissions by assigning a monetary value to each ton emitted. How a carbon price is implemented and how the revenues are used may vary, but the policy allows the market to provide accurate price signals. Such a carbon pricing policy offers each business the flexibility to adapt workable practices and plan for fixed costs, an improvement over coping with the unknown financial risks of future climate change impacts. It also uses market incentives to spur innovation and speed our transition to a clean-energy economy.

### **Benefits of a Market-Based Solution**

Historically, the U.S. energy market has failed to account for the costly environmental damage from consuming fossil fuels. What's more, government has long incentivized fossil fuel use through favorable tax treatments



and other generous taxpayer-funded subsidies. As a result, the U.S. energy market does not accurately reflect fossil fuel costs and has distorted competitive market forces. Implementing a carbon price would reduce emissions, correct this market failure, spur healthy innovation, and create jobs.

#### ★ **Reduce emissions**

Research has shown a carbon price is the most efficient and effective way to reduce greenhouse gas emissions. According to a study by Resources for the Future (RFF), an economy-wide carbon price could reduce emissions to 39% below 2005 levels and reduce electricity-based emissions by 65% below 2005 levels by 2030. This reduction is significantly greater than the United States' commitment under the Paris Climate Agreement (26-28% from 2005 levels by 2025). It would even be more effective than the Clean Power Plan, which RFF estimates would reduce emissions by 32% below 2005 levels by 2030.

#### ★ **Correct a market failure**

The global market for clean energy is already booming, despite large direct and indirect subsidies given to the fossil fuel industry. The Business Council for Sustainable Energy and Bloomberg New Energy Finance found U.S. renewable energy generation jumped from 15% to 18% in 2017 alone. A carbon price would allow renewables to compete fairly with fossil fuels. Once fossil fuel prices fully reflect their true cost, the market will naturally seek more competitive options.

#### ★ **Spur innovation and job creation**

By facilitating a market shift away from fossil fuels, a carbon price would increase demand in the clean energy sector.

If the revenues from a carbon price were invested in clean technology development, weatherization, and energy efficiency, demand would skyrocket in the fast-growing clean energy sector, which already supported 3.3 million American jobs in 2016. Even with a revenue-neutral carbon price, businesses and households receiving rebates would likely choose to maximize the value of their rebates by investing in efficiency.

### Carbon Pricing Works

Carbon prices are being successfully implemented around the world. Forty-one Organisation for Economic Co-operation and Development (OECD) countries and G20 governments have put a price on carbon, implemented a cap-and-trade system, or both. Together with state and local efforts, these programs cover 15% of the world's carbon emissions.

Data from participating countries show carbon pricing has not harmed competitiveness. In British Columbia, which implemented a revenue-neutral carbon price in 2008, a clean energy sector has developed with over 200 businesses generating almost \$2 billion in annual revenues. Additionally, between 2007 and 2014, British Columbia's real GDP increased by 12.4%, and it ranked first among Canadian provinces for GDP growth in 2016.

In the U.S., two carbon markets currently operate: California's cap-and-trade system and the Regional Greenhouse Gas Initiative (RGGI). All of the states covered by these programs have seen significant economic growth since their implementation. In 2016, California enjoyed job growth 50% higher than in the rest of the nation. A 2015 Analysis Group study found that, in three years, RGGI generated \$1.3 billion in economic benefits and 14,000 jobs. The study also found that the RGGI states that invested the most in energy efficiency saw the greatest return. From 2012–14, Massachusetts spent \$152 million and received \$243 million in benefits.

A price on carbon has both short- and long-term effects on energy prices. Short-term, when the true cost of fossil fuels is realized, prices tend to rise at a manageable rate. In California, when cap-and-trade program was extended to the transportation sector in 2015, the price of gas rose about 11 cents per gallon. But in FY17, the program was budgeted to raise \$3.1 billion in revenues, and the California Air and Resource Board estimates the program will save the average family \$200 per year by 2030.



RGGI-member states have actually reduced energy costs through carbon pricing. The Acadia Center found that, between 2008 and 2016, electricity prices in RGGI states have dropped by 6.4%. To date, RGGI has created \$2.3 billion in lifetime energy bill savings for over 160,000 households and 6,000 businesses. Short-term, moderate price increases are far outweighed by long-term, direct cost savings and by emission reductions that can mitigate future climate change impacts.

### Businesses Support Carbon Pricing

Business leaders understand climate change is a major, material risk to the bottom line. That's why so many are instituting internal carbon prices. The Climate Disclosure Project (CDP) states that almost 1,400 businesses worldwide have either already implemented a carbon price or will do so in the next two years. Combined, these companies represent about \$7 trillion in annual revenue.

Businesses from all sectors, including fossil fuel companies, have come out in support of a price on carbon. BP, Exxon Mobil, and Shell all endorsed the Climate Leadership Council's 2017 proposal for a national, economy-wide, revenue-neutral carbon price.

**However, even the biggest companies can't go it alone.** Wherever countries, states, and cities have a carbon price, business leaders see the benefits and speak up in support of the program, even calling for its expansion. When the carbon price in British Columbia hit its statutory maximum of \$30/ton in 2012, a group of over 160 businesses called for the government to increase the price per ton to continue helping the economy, growing the clean energy sector, and incentivizing business to reduce emissions. Clearly, business support is vital to advance a price on carbon. ★



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