



Ten Principles for Successful Carbon Pricing

Investment in new technologies and infrastructure is essential to reduce our dependence on fossil fuels, but it is not enough. Decarbonization also requires progressively raising the cost of fossil fuels until they are no longer competitive with clean energy. Otherwise, we will get the problem of *rebound*: when I use less coal or oil, that reduces the price and makes it more attractive for someone else to use.

Here are ten principles for doing carbon pricing right:

1. Cap emissions and set a floor price.

There are two ways to send the needed price signal. One is a schedule of gradually rising carbon taxes or fees. The other is a cap-and-permit system with a gradually declining cap. The most important difference is that setting a cap can guarantee that science-based carbon reduction targets will be met, whereas taxes alone cannot. (That is, we can't know if a given tax rate will be high enough to meet emission reduction targets.) But to ensure that the price doesn't fall too low, a cap-and-permit system should include a rising *floor price*, equivalent to a baseline carbon tax.

2. No price ceiling.

Setting a rising floor on the carbon permit price will help reduce price volatility and simplify business planning. (Businesses will understand that in the long run, carbon prices will only go up.) Setting a ceiling on the carbon price, however, would defeat the cap's purpose: to guarantee achievement of the carbon reduction targets. There should be a price floor, but no price ceiling.

3. Do it upstream.

The simplest way to price carbon is to apply the cap (and/or tax) to the *first sellers* of carbon-based fuels, not on the ultimate emitters. That's because there are millions of emitters and only a small number of first sellers (oil, gas, and coal companies), and the first sellers are easily identified. If we control how much carbon comes *into* our economy, we control how much goes out.

4. Auction permits.

Carbon permits are valuable goods. They should be auctioned rather than given away for free. Auctioning (e.g., quarterly) will ensure efficient allocation of permits, eliminating the need for trading—see #6 below. Moreover, the revenue from auctions can be used to fund dividends—see #8 below.

5. Use border adjustment fees.

To ensure a level playing field for U.S. companies, we should levy tariffs on imports from countries that don't have comparable carbon pricing, and rebate carbon revenues to support exports destined for those countries.





6. No trading!

When most people think of carbon capping systems they think of “cap and trade.” But allowing trading complicates the system unnecessarily and opens opportunities for gaming. A well-designed auction system makes secondary markets unnecessary.

7. No offsets!

Offsets are seemingly eco-friendly things that carbon users can do in place of buying a permit or paying a fee, like planting trees. However, experience has shown that offsets are rarely effective and are susceptible to abuse. This is not to say that planting trees is a bad idea. It’s just that activities like these should be undertaken *in addition to* reducing emissions, not *instead of* it.

8. Return 100% of revenue to households as dividends.

Raising the price of carbon will place a financial burden on households. The simplest and fairest way to ease that burden is to issue equal dividends from the revenues of the pricing system. This will ensure that carbon pricing doesn’t punish the poor or middle class, but rather lifts them up.

Dividends should be *visible* (i.e., send by check or electronic deposit), not buried in tax credits or utility bill rebates. Visible dividends are essential to sustain public support for carbon pricing until climate stability is reached.

Dividends should be taxable, to make carbon pricing more progressive and raise money for other programs.

9. Don't throw out other policies from the tool kit.

Carbon pricing is a *complement* to smart regulations, not a substitute.

10. Support environmental justice.

Carbon pricing alone can’t address the concerns of low-income and minority communities disproportionately affected by fossil fuel pollution. For this reason, the carbon pricing policy should include monitoring of co-pollutant emissions in overburdened communities, and provisions to ensure that these emissions decline at least as quickly as carbon emissions.

Advisors on sound carbon pricing policy, reachable at info@dividendsforamerica.org:

Peter Barnes, co-founder of CREDO mobile, is the author of *Who Owns the Sky?* (the first carbon dividend proposal) and *With Liberty and Dividends for All*.

James K. Boyce, an economist at the University of Massachusetts Amherst, is the author of *The Case for Carbon Dividends*.

Mike Sandler, Chair of the Board of Trustees at sustainability think tank Feasta.

Brent Ranalli, a Trustee at Feasta, is the author of *Common Wealth Dividends: History and Theory*.

