FINANCIAL TIMES

JUNE 20, 2017

Climate Progress is Not Dependent on Paris Accord

By TED HALSTEAD

President Trump's decision to withdraw the US from the Paris climate accord is disappointing, but obsessing over it risks distracting us from a more fundamental problem. The fact is that no major greenhouse-gas emitting country has a coherent and politically viable strategy to reduce emissions at the required scale or speed. Not even close.

This is obviously true in the US, but also in Europe, where climate progress is beginning to stall. The EU's Emissions Trading System has failed to reach or maintain a carbon price sufficiently high to alter business and consumer behaviour. Most European nations are saddled with overly complex and financially unsustainable climate mitigation approaches that are too reliant on subsidising renewable energy sources and too permissive in exempting energy-intensive industries.

New thinking is needed on both sides of the Atlantic. In each case, large majorities favour climate action, yet popular resistance to current approaches is growing due to increased costs that are not fairly shared. Rising populism and nationalism are only adding to the political challenges. In the US and Europe, a more straightforward, cost-effective, equitable and politically viable strategy is long overdue.

A broad coalition of top companies, opinion leaders and environmental NGOs are now offering just that. The companies whose involvement is announced today are notable for their sectoral diversity: BP, ExxonMobil, General Motors, Johnson & Johnson, PepsiCo, Procter & Gamble, Santander, Schneider Electric, Shell, Total and Unilever. Joining them, among others, are former US secretaries of state, Treasury and energy from both parties, and two leading environmental organisations.

These founding members of the Climate Leadership Council are proposing a new consensus climate solution based on carbon dividends. Their plan is built on four interdependent pillars: a gradually rising carbon tax; with revenues returned to citizens in the form of monthly dividends; border carbon adjustments to level the playing field on trade and maintain the competitiveness of domestic industry; and the rollback of regulations that are no longer necessary upon the enactment of a significant carbon tax.

Unlike many climate plans, this one has the potential to command broad bipartisan support. It is based on the conservative principles of free markets and limited government and its co-authors include two icons of Republican leadership: James Baker and George Shultz. At the same time, the plan is equitable because it returns the proceeds directly and equally to all citizens. According to the US Department of the Treasury, the bottom 70 per cent would come out ahead, meaning that 223m Americans would win from solving climate change. This transforms an otherwise unpopular carbon tax into a popular and populist solution.

The environmental benefits are no less substantial. The council's analysis found that a carbon tax starting at $40 per ton would achieve nearly twice the emissions reductions of all Obama-era climate regulations combined. Indeed, this plan — by itself — could meet the high end of America's commitment under Paris, all but guaranteeing support from the environmental community.

As any economist would agree, putting a price on carbon is more cost-effective than regulation. It follows that enacting a significant carbon tax justifies the elimination of carbon regulations that are no longer necessary. Simultaneously decreasing regulations while achieving greater emissions reductions is of particular appeal to Republicans and business leaders alike, and contributes to the plan's pro-growth credentials.

The plan is pro-business because it relies on a market signal to drive investment choices, offering companies greater flexibility and regulatory certainty. It is also pro-worker because it would incentivise job creation and protect workers from unfair trade competition. The latter would be achieved through a system of border carbon adjustments meant to level the playing field, promote competitiveness and end today's implicit subsidy of dirty producers overseas. Exports to countries without comparable carbon pricing would receive rebates, while imports from such countries would face tariffs on the carbon content of their products.

This upends traditional concerns that nations will freeride off the emissions reductions of their trading partners. Indeed, the combination of carbon dividends and border carbon adjustments offers a whole new strategy to reach a global price on carbon, creating a first-mover advantage for those who lead the way and compelling other nations to follow suit. Those who fail to go along would see their exports taxed based on carbon content, with the proceeds benefiting the citizens of their trading partners, rather than their own.

This consensus carbon dividends solution is well suited to break the longstanding climate stalemate in the US. Yet it also has considerable potential in Europe, China and India, among others. The key question is which country will be first to reap the benefits, and set in motion an international climate domino effect?

The author is chairman and chief executive of the Climate Leadership Council.