

Sierra Club Carbon Pricing Guidance

Our two biggest problems are climate change and income inequality. If we pit one against the other, neither will win.

Michael Brune, PBS Newshour Oct 20, 2016

There is broad agreement that putting a price on carbon can be an effective part of a climate response. There are other options too (see below). The Sierra Club's carbon pricing policy can be found [here](#). The Sierra Club's view has always been that effectiveness and equity are essential, design and implementation details matter a lot, and there are many different carbon pricing policy options that can potentially work. To achieve these goals we believe in engaging our allies early, especially those most adversely affected by climate change. This approach reflects our organizational commitment to the [Jemez Principles](#). Any carbon pricing mechanism must integrate environmental and economic justice principles and advance tangible outcomes.

In addition, experience is showing that carbon policy success is not contingent on a specific pricing mechanism. Carbon prices will make polluting sources internalize the cost of their pollution and thus reduce the incentive to burn fossil fuels. Carbon prices, however, must be part of a broader program that includes other policies needed to achieve the broader societal goals outlined below and fulfil the fastest and fairest move away from fossil fuels.

1. The outcome must be focused on measurable emissions reductions

When considering climate policy we should be guided by a need to meet and, if possible, exceed the emission reduction goals the Sierra Club has set. These include cutting pollution by a third from 2005 levels by 2025, one half by 2030 and at least 90 percent by 2050. Adoption of a CO₂ baseline and a declining emissions schedule that aim to achieve those goals and are consistent with the best climate science is extremely important.

2. Equity matters

Under the current fossil fuel-reliant energy system, frontline communities bear a disproportionate burden of the impacts of conventional air pollution and the climate impacts of greenhouse gas emissions. If designed appropriately, carbon pricing mechanisms will help tackle climate change and reduce conventional pollution, but they will also affect society at every level. The basic principle is that no one should bear an unfair burden, whether economic or environmental, from the effects of a carbon price. To the extent that a carbon price increases electricity rates, these costs will fall more heavily on low-income households, who spend a higher percentage of their incomes on energy and other goods whose prices would increase by the resulting increase in electricity prices. For workers and communities tied to the fossil fuel industry, a carbon price could result in job losses and economic impacts for those communities; in addition, in an effort to avoid the costs of a carbon pricing mechanism,

trade-exposed industries could shift production to jurisdictions that are not subject to carbon pricing policies.

Carbon pricing programs can be designed in a manner that addresses these concerns. To the extent that policy makers establish cap-and-trade programs to control greenhouse gases, such programs should incorporate stringent pollution caps, and carbon taxes should be set at a level that reduces incentives to burn fossil fuels. In addition, in a cap-and-trade program regulated sources should not receive carbon allowances, which are permits to pollute, for free. None of these options, however, eliminate the risk of localized emission increases of co-pollutants in frontline communities, or the risk that these communities will not benefit from the conventional pollution reductions associated to a carbon pricing program. This issue should be addressed by incorporating other policies designed to achieve reductions in conventional air pollution, with an emphasis on polluting sources that harm the health and environment of frontline communities.

In addition, revenues obtained from carbon pricing programs should be used to: (1) expand clean energy and energy efficiency to further reduce carbon emissions, and to invest in climate adaptation; (2) finance targeted investments in frontline communities affected by conventional air pollution from polluting sources; (3) provide financial assistance to workers affected by the transition away from fossil fuels, and for new economy job training and clean energy investments in frontline communities and communities where coal represents a significant part of the economy; and (4) offset the regressive effects of increased electricity prices in low-income households. In California, for example, auction revenues under AB32 have provided revenues for a variety of programs, including affordable housing, low-carbon transportation, transit capital and operations, weatherization and renewable energy, and urban forests. Under the Regional Greenhouse Gas Initiative (RGGI), states have invested the majority of auction revenues in energy efficiency, community-based renewable projects, credits on consumer bills, and bill assistance for low-income customers. Without using generated revenue to add multipliers like more clean energy or efficiency, the emissions impact of carbon pricing will be muted. And without addressing economic transition or inequity issues, any carbon pricing program will generate greater political pushback.

3. A stand-alone carbon price is hard to make effective

Carbon pricing is not a silver bullet for solving climate change. The majority of prices set under existing taxes and trading systems are well below the social cost of carbon, which the Obama EPA estimated at \$36 per ton, and other expert assessments suggest much higher levels. Although there is evidence that existing carbon pricing programs have resulted in emissions reductions, those reductions are nowhere near the targets set by the Sierra Club. For this reason, the Sierra Club advocates for a comprehensive approach that includes a carbon price as well as complementary policies such as renewable electricity standards, funding for clean energy measures, research, building standards and codes, etc.

Carbon pricing efforts work best alongside complementary policies. California's climate approach is successful because its carbon price is only one part of a comprehensive policy toolbox (which includes, for example, a renewable electricity standard and a Low Carbon Fuel Standard). The pricing program (cap-and-trade) produces less than a quarter of the emissions reductions.

4. Devoting carbon revenues to a single purpose is less than ideal

The Sierra Club supports using revenue from a carbon price for targeted refunds, clean energy and other solutions, mitigation of climate impacts, and transition assistance and investments in frontline communities. The best mix depends on the context, but without elements of several of these categories we believe a carbon price will be more difficult to enact, will achieve less from an environmental perspective, and will be less equitable.

Many advocates and some economists argue that carbon revenues should be returned to taxpayers as a dividend or to the government's general fund in order to reduce taxes (for example, the corporate income tax) and to fund other, non-climate related purposes. While the argument for a simple "revenue neutral" system is obvious, the real world isn't so simple, and these approaches warrant additional scrutiny, especially if they are not the product of a diverse coalition.

5. A strong carbon pricing mechanism should be inclusive of all stakeholders

The measure of success is not whether a carbon price is adopted but whether it is effective over the long run. Enacting and sustaining a carbon pricing program requires broad political buy-in. In the case of carbon taxes it also starts from a political disadvantage, as the mechanism involves new taxes. In the case of cap-and-trade, communities are concerned that trading may create, maintain, or prevent the reduction of pollution hotspots because polluting sources can purchase allowances instead of reducing their emissions. Therefore, any carbon pricing effort must involve all stakeholders in a genuine dialog if it is to achieve political viability and reflect a just approach. That means community members, labor, and others should be involved as equal partners in the design and dissemination of the proposed pricing approach.

6. Carbon pricing policies can be effective, but we should be open to other policy options

The Sierra Club is always open to other policy and legislative options to reduce climate pollution. Examples range from Renewable Portfolio Standards to regulatory decisions to move from coal, gas, and oil to clean energy. These and other options that provide certainty and speed the transition away from fossil fuels should be considered. Efforts to subsidize nuclear power should be opposed as well, due to the environmental and public health risks it entails, including nuclear waste disposal and the potential for disasters. Other policy options still need to address issues such as their impact on conventional pollution, equity, and inclusion. The Sierra Club is investing in efforts to ensure that the burgeoning clean energy industry delivers in

these areas through advocacy for good, family supporting clean energy jobs and to ensure that the benefits of cheaper clean energy are passed on to low income households.