



February 2021

POLICY BRIEF:

US CARBON PRICING: WILL BIDEN INTRODUCE A FEDERAL CARBON TAX AND BORDER CARBON ADJUSTMENT?

Our policy briefs offer insight and analysis to help inform ongoing policy development as relates to carbon pricing. This brief was written by Izzy Goldstein, Senior Campaign Manager at the Zero Carbon Campaign.

Introduction

In the United States, calls for a stronger and more ambitious approach to carbon pricing have been gaining rapid momentum since confirmation of President Joe Biden's victory last November. Advocacy has been largely domestic, with an increasing number of high level voices - including Treasury Secretary Janet Yellen,¹ Special Climate Envoy John Kerry² and even TESLA founder Elon Musk³ - coming out in support of a federal tax on the producers of greenhouse gas emissions.

There has also been intense speculation that the US is considering following the EU in levying a Border Carbon Adjustment (BCA) mechanism;⁴ a move which could go a long way to addressing the current misalignment between the US, EU and China on issues relating to trade in carbon-intensive products like steel, cement and chemicals.

However, whilst there is clearly strong appetite for Biden to make good on his Presidential campaign promise to ensure that "domestic polluters bear the full cost of their carbon pollution" and to "impose carbon tariffs, fees, or quotas on carbon-intensive goods from countries that are failing to meet their climate and environmental obligations,"⁵ a commitment to explicit federal and border carbon taxes looks unlikely in the immediate future.

Those hoping to chart a course toward an economy-wide carbon price will face challenges from both sides of the aisle. Not all Democrats are as pro-carbon pricing as Biden's cabinet; those on the party left have made no secret of their scepticism of market-based approaches, and a significant number of Democratic Congress people have voiced their preference for a system of clean energy standards and investments, as opposed to carbon prices.⁶

This is to say nothing of the challenge that those championing carbon pricing legislation in Congress face in securing the bipartisan backing of Republican senators who - despite backing a national cap-and-trade programme as part of their electoral platform as recently as 2008 - have become increasingly obstructionist on carbon pricing policy.⁷ Finally, there's the challenge posed by China, which has made it clear that it regards the EU's BCA proposals as protectionist; a similar move from the US could create further confrontation and even throw the three actors' multilateral engagement on climate progress into jeopardy.

Domestic developments

Speculation around the possibility of a federal US carbon pricing has largely been driven by the pro-carbon pricing stances of Biden's cabinet. Special Climate Envoy John Kerry has been repeatedly reported to have said that Biden should consider introducing bold carbon taxes to tackle climate change, emphasising his previous work trying to secure the passage of carbon pricing legislation, and the potential for carbon pricing systems to be designed in a way that mitigates against negative cost impacts:

*"Obviously I've been a longtime advocate of putting a price on carbon. That's what Lindsey Graham and I were trying to do in the Senate in 2009 and 2010. I credit the activists who have pushed to say any pricing would have to be progressive so it doesn't dump the costs on low-income workers and families. I also credit the voices from the private sector who are elevating climate as a priority in boardrooms, in general."*⁸

And Kerry isn't the only one in Biden's team with a history of support for carbon pricing. As a founding member of the Climate Leadership Council, Treasury Secretary Janet Yellen has long advocated a fee-and-dividend model of carbon pricing, and penned a Wall Street Journal op-ed last year with other financial regulatory leaders making the case for a carbon tax.⁹ She's also been optimistic about the potential for agreeing a way forward with bipartisan support for a carbon tax that charges polluters for their carbon emissions and redistributes the proceeds to Americans in quarterly payments, a move that would help low-income residents in particular as the world shifts to cleaner energy.¹⁰ She has even gone as far as to say "that climate change cannot be solved without effective carbon pricing."¹¹

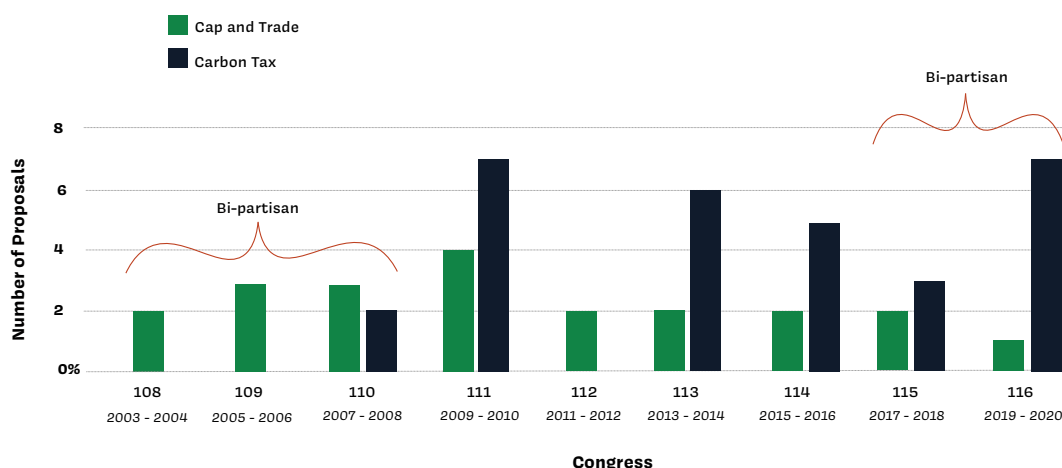
There has been progress on carbon pricing outside of Biden's top team too. On January 19th, Martin Durbin, the president of the Chamber of Commerce's Global Energy Institute, wrote in an email that the business group now "supports a market-based approach to accelerate greenhouse gas emissions reductions across the U.S. economy," marking a significant shift in strategy in response to the new administration's climate commitments.¹² The American Petroleum Institute has also made comments to this effect, endorsing a loosely defined "market-based" mechanism for dealing with emissions.¹³

Moreover, there are reports too that longtime Biden ally and New York business leader Dennis Mehiel and former Dow Chemical CEO Andrew Liveris have been consulting with business leaders across the US on proposals, including a new carbon tax, to pay for the country's \$2 trillion green infrastructure plan. The plan is expected to come together after a few months, while Biden focuses on the Covid-19 pandemic and economic relief.¹⁴

There's even been progress in Congress, despite the scepticism of some Democrats and the opposition of many Republicans. At the end of January, Democrats from the House Ways and Means Committee put forward a green energy bill that would extend several clean energy tax credits and also lay the groundwork for a carbon price.¹⁵ The bill, called the GREEN act, was first introduced last year but the impetus behind it has been revived now that Democrats control both chambers of Congress and the White House.

However, there's no guarantee that a national system of carbon pricing will come off the back of the act. Over 50 carbon pricing bills have been previously introduced to the U.S. Congress, but to date, none have passed.¹⁶ This is largely due to the breakdown in bi-partisanship between 2009 to 2017; which saw Republicans strongly oppose Democrats proposals for carbon pricing. There are high hopes that the 2021 Congress will see the return of co-operation and bi-partisanship on carbon pricing, but even if this historic polarisation is overcome, the support of Democratic Congresspeople is not a given.

FIG 1: NUMBER OF CARBON PRICING PROPOSALS TABLED IN THE US CONGRESS 2003 - 2020¹⁹



Source: Price on Carbon (February 2020). Carbon Pricing Proposals in the 116th Congress.

Indeed, several outlets are reporting that congressional Democrats are increasingly keen on pursuing a plan that eliminates greenhouse gas emissions from power plants while pouring money into green infrastructure to cut carbon dioxide from cars, buildings and factories. Many in the party believe they have found a politically popular substitute for a carbon tax — a clean energy standard — that can create a foundation for electrifying other segments of the economy.¹⁷

This change in direction is less a rejection of carbon pricing per say, and more of a reflection of the Democratic party's desire to ensure that climate policy is as broad in focus as possible. There is concern that previous policy proposals were approached as silver bullets for climate change, with the other complementary policies required to ensure the fairness and effectiveness of carbon pricing receiving insufficient attention. This sentiment was summed up by Congresswoman Alexandria Ocasio-Cortez on Twitter last year - "For far too long, ideas like a carbon tax or cap-and-trade were touted as the premier solutions to climate change. They are inadequate."¹⁸

This fear is legitimate, but so is carbon pricing advocates' observations that an approach centered around a clean electricity standard risks trading a policy that drives emissions reductions across the economy for one focused solely on power plants. Given that the US' track record on decarbonising power is better than in most other parts of its economy, it seems unlikely that the passage of the clean electricity standard will mark the end of the conversation around carbon pricing in the US.

Global developments

There has been less movement on the prospect of a US Border Carbon Adjustment - with the Financial Times reporting that, contrary to European Commission's professed hopes of deepening the EU's partnership with the US on "emissions trading, carbon pricing and taxation," carbon pricing is not high on the policy agenda for Democrats and Republicans.^{20 21}

Notwithstanding, the explicit reference to BCAs in Biden's pre-election climate plan²² suggests that the administration sees border tariffs as part of the long view once the US' climate alliances - badly damaged under the Trump administration - have been rebuilt.

This alludes to a wider challenge the US faces in balancing the imperative of resetting its international relationships with its stated intention to drive greater climate actions beyond its borders. In the context of four years of rising trade tension with China, a US Border mechanism is likely to be interpreted as part of a protectionist agenda, and could threaten the integrity of the Paris Agreement if not handled sensitively. This explains Washington's apparent approach of establishing a "common discourse" on BCAs with the EU - and focusing efforts on cutting its own emissions - before doing anything that might risk alienating China.²³

Conclusion

These challenges notwithstanding - the prospects for achieving a robust price on carbon at some point during the course of the Biden administration look promising. Once Biden has succeeded in breaking ground on other pressing areas of domestic policy, there will be more scope to engage across the aisle and reach an agreement on a policy model that can command support across the political spectrum. The administration's commitment to a BCA is also likely to remain on the backfoot, with the immediate focus being alignment with the EU. But even if it is a project for the long term, the US enacting its own form of domestic carbon pricing and adopting a similar border measure to the EU would have significant positive implications for global political economy; shifting the balance of favour of a transatlantic alliance that would truly be capable of holding the rest of the world to account on its net zero commitments.

Endnotes

- ¹ Forbes (2020). Treasury Pick Yellen Likes Carbon Taxes And More Pandemic Relief, But Not The TCJA. Available [here](#).
- ² Washington Times (2021). John Kerry supports 'bold' carbon taxes, calls on 'great deal more than that' for U.S. economy. Available [here](#).
- ³ CNBC (2021). Elon Musk: 'My top recommendation' for reducing greenhouse gas emissions is a carbon tax. Available [here](#).
- ⁴ Financial Times (2021). Global policymakers look for Biden reset on trade, tax and climate. Available [here](#).
- ⁵ Joe Biden (2020). The Biden Plan for a Clean Energy Revolution and Environmental Justice. Available [here](#).
- ⁶ E&E News (2021). Burned by carbon pricing, Dems chart new course on climate. Available [here](#).
- ⁷ Grist (2020). Priced Out: Both parties used to love the carbon tax. So why are they giving up on it? Available [here](#).
- ⁸ Bloomberg (2021). John Kerry's Climate Plan, in His Own Words. Available [here](#).
- ⁹ Wall Street Journal (2020). Former Fed Leaders, Economists Rally Around Carbon Tax. Available [here](#).
- ¹⁰ Economic Times of India (2021). Janet Yellen confirmed as first female US Treasury secretary - Here's what she can do about climate change. Available [here](#).
- ¹¹ Reuters (2021). Factbox: Yellen describes planned tax hikes, OECD negotiations, carbon pricing. Available [here](#).
- ¹² US Chamber of Commerce (2021). An Update to the Chamber's Approach on Climate. Available [here](#).
- ¹³ Politico (2021). Carbon tax meets new Washington politics. Available [here](#).
- ¹⁴ CNBC (2021). Joe Biden's business allies discuss ways to pay for infrastructure plan, including a carbon tax. Available [here](#).
- ¹⁵ The Hill (2021). House Democrats reintroduce green energy tax package. Available [here](#).
- ¹⁶ Price on Carbon (2020). Carbon Pricing Proposals in 116th Congress. Available [here](#).
- ¹⁷ Price on Carbon (2020). Carbon Pricing Proposals in 116th Congress. Available [here](#).
- ¹⁸ E&E News (2021). Burned by carbon pricing, Dems chart new course on climate. Available [here](#).
- ¹⁹ Grist (2020). Priced Out: Both parties used to love the carbon tax. So why are they giving up on it? Available [here](#).
- ²⁰ Financial Times (2021). Global policymakers look for Biden reset on trade, tax and climate. Available [here](#).
- ²¹ EU Commission (2021). Joint Communication: A new EU-US agenda for global change. Available [here](#).
- ²² Joe Biden (2020). The Biden Plan for a Clean Energy Revolution and Environmental Justice. Available [here](#).
- ²³ Climate Home News (2021). As US renews climate relations with EU and China, carbon pricing raises tensions. Available [here](#).