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# U.S. Climate Policy Driving Foreign Policy:

**Climate policy recommendations for 2021**

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*"The economics of a net-zero transition don't need to be zero-sum. Countries can collaborate with one another in ways that accommodate healthy competition while also recognizing that our shared efforts to accelerate innovation and a net-zero transition will increase the size of the total economic pie from which we will all prosper. […] Now, with humility and ambition, let's get to work to make it a reality on the road to Glasgow and on the road to net zero – the road to defeating climate change and leaving our kids a world that is prosperous, healthy, and secure."*

*John Kerry, Special Presidential Envoy for Climate*

The United States has a unique opportunity to enlist other nations in effective climate action by adopting a strong climate policy at home. This double play of domestic policy enabling U.S. international climate leadership is a powerful way for the U.S. to return to the global stage and help meet the United Nations' target for 2050 net-zero emissions.

**Domestic policy**. President Biden has elevated climate change to the top of his agenda and pledged that the U.S. will be net-zero by 2050. A crucial step in achieving this goal is for the Biden Administration to build national support for a bipartisan climate bill. Carbon pricing is the single most effective means of reducing carbon emissions and has support on both sides of the aisle. It is therefore an essential component of a comprehensive domestic climate policy. The recommended tax will start at $25/metric ton of carbon or carbon equivalent, increasing each year thereafter for ten years by $10/metric ton to reach $125/metric ton. This method of repricing carbon upward can reduce domestic carbon emissions by 50% by 2032 if implemented no later than 2022, as highlighted in our full policy report. Simultaneously, it will energize our economy by creating millions of jobs, provide health benefits through cleaner air, and ensure a fair energy transition for all. A carbon tax and dividend bill will increase the price of all carbon fuels and carbon-based goods over time, causing consumers and businesses to switch to alternatives with a lower carbon footprint. The Treasury collects the tax at the source of energy production (well or mine-head) and returns the revenue to all adult citizens in equal quarterly refunds.

The policy is fair. Wealthy households consume the most carbon-intensive goods, thereby dispersing the most earth-warming gases into the air. Thus, they would pay the largest part of the carbon tax bill. Because low-income households spend less on carbon fuel and goods, they pay less carbon taxes. Since dividends are the per person average of the collected carbon taxes,

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lower-income households receive dividends that exceed tax payments, providing cash benefits each quarter. Thus, they gain cash because they pollute less. In fact, around 70% of the population will receive enough in quarterly dividends to offset their increased costs, thereby ensuring that the cost of decarbonization does not fall on the poor and working classes.

As the country battles the economic fallout of Covid-19, the additional income would be a welcome aid to households. Raising the price of carbon has proven highly effective in reducing emissions, which is why over 40 countries, including major U.S. trading partners, have put a price on carbon. Its singular advantage is that it uses the myriad skills and knowledge of industry, including the talents of entrepreneurs, engineers, scientists, investors, and others, to choose the most cost-efficient and innovative routes to a carbon-free economy. Of all plans, this has the best chance to gain bipartisan support. Conservatives like it because it uses the free market to unleash American innovation and keeps government small, while liberals like it because it benefits low-income households by improving their net income.

Perhaps most importantly, the plan can contribute to restoring public trust. It is easy to understand, transparent, and designed to be grasped as a single idea – price carbon out of the market and press other countries to do the same. Once a bill is passed, it starts immediately and works without further congressional care – no lengthy debates and hearings associated with drafting many regulations with follow-on litigation and onerous enforcement. As the energy transition accelerates and dividends are received public confidence in government will grow.

**International Action.** Action by all countries is needed to forestall climate change. Moreover, strong climate legislation will not pass Congress without assurance that other countries are also putting their shoulders to the climate wheel. As John Kerry, President Biden's newly appointed Special Envoy for Climate Change, said recently, "the U.S. is back, but Paris is not enough; ambitions of all countries must be raised." Current carbon reduction commitments under the Paris Agreement do not come close to limiting the increase in global average temperature to 2°C, or preferably 1.5°C, to avoid dire consequences. To accomplish this, the U.S., China, and the E.U. must work together to forge a coalition or Compact of countries that pledge greater emissions reductions. Most of the world's largest economies, including China, already have some form of carbon pricing or are implementing such measures, including China, and would likely welcome bold U.S. action. Further, the U.S. has shared interests throughout the Americas, and one of its largest trading partners, Canada, has already implemented a carbon tax. Members of this global Compact would agree to raise their carbon tax rate or lower their carbon cap and place a tariff on imported goods from non-members. Carbon prices will increase production costs, however, tariff penalties on imports from countries outside the Compact will level the playing field and prevent "free riding" by nonmembers. Based on these incentives, in time, most major countries would join the Compact. Nobel Laureate Professor William Nordhaus and others argue this is the most effective way to encourage countries to rapidly decarbonize. And because the U.S. economy is more energy efficient than most, it gains comparative advantage by increasing the cost of carbon-based fuels.

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This is the time for the U.S. to commit to domestic carbon pricing and facilitate collaborative leadership among carbon reducing countries. President Xi recently announced China will seek to reach net-zero by 2060. This major effort by China is crucial because China produces 30% of global emissions. Global climate mitigation success depends on a partnership between China and America, especially in creating a global coalition of emission reducers. Although the U.S. and China will differ sharply on human rights and national security issues, they must be in lockstep leading the world to climate health.

U.S. climate leadership is crucial, but other countries will be skeptical of our commitment and ability to foster systemic change without durable and binding domestic climate legislation. Aggressive U.S. climate action will give the U.S. the credibility in its foreign policy to a) rebuild security and trade alliances; b) foster collaboration to manage and protect our global commons, such as oceans, freshwater systems and biodiversity; and c) energize industry and increase U.S. research and development to keep pace with surging Chinese technological advancement.

International trade rules that promote sustainability and openness are important. As countries raise their climate ambitions, they will want a level playing field for their exports. Domestic and international climate leadership therefore go hand in hand with the reforming of trade rules. Rather than penalizing countries that strive to reduce their emissions, these rules should promote a more sustainable international trade regime. The E.U. is considering the adoption of carbon border adjustments to protect the competitiveness of its industries and press other countries to increase their climate ambition. Biden has promised to impose a similar measure. As carbon pricing initiatives – and border carbon adjustments – continue to expand, a Global Compact becomes a superior method of leveling the playing field by using easy-to-administer, universal single rate tariffs. Western leadership is vital to defend and maintain fair and open rules for global trade.

**The Necessity of a Bold Plan**. The pandemic and climate change have demonstrated the need for cooperative international action to surmount global challenges. The failure of the U.S. and its allies to provide leadership and collaborate could lead to both climate catastrophe and the unwinding of the current open and rule-based global trading system. Both domestic and international action are equally important. Domestic climate mitigation action makes global leadership possible, and *vice versa*. This bold plan can restore the U.S. position among the world's leading nations to create a healthy climate and a safer and more just society for all.

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For the full report, please see *Addressing Climate Change Using a Carbon Tax and Dividend Plan within a Global Compact* at www.greenleafcommunities.org/climate-policy/.