Members of the Issues Management Working Group

Blueprint for Carbon Pricing Policy Design

Context and background

For the past 20 years BP has believed – and communicated publicly – that a carbon price is the best policy to limit GHG emissions. Until around 2012, we held a strong preference for cap and trade over taxation, developed detailed design and implementation principles for carbon trading systems, and advocated their integration into actual carbon trading systems that were under development in specific jurisdictions (EU, Australia, US, China, etc.).

Around 2012, recognising that there was growing political resistance to carbon trading in some jurisdictions, we shifted to a pragmatic position of agnosticism between carbon taxation and trading – providing both approaches were well-designed and flexibly implemented.

What we have not done, in respect of content, is:

1. Developed detailed design and implementation principles for carbon taxation that are equivalent to those we have for carbon trading.
2. Developed detailed but generic design and implementation principles that could be applied to either trade or tax.

What we have tended not to do, in respect of advocacy stance, is:

1. Proactively supported poorly-designed pricing proposals already on the table. In this situation we have either remained silent or, where necessary, sought to improve them.
2. Pre-emptively proposed our own alternatives where proposals on the table could not, for a variety of reasons, be sufficiently improved. In this situation, we have either remained silent or, where necessary, opposed them.

This advocacy stance may sometimes have placed us behind or outside important public debates and some stakeholders have perceived our positions in support of carbon pricing to be held in principle only.

Recommendation

Content

The blueprint for carbon pricing design attached to this note is intended to fill the second gap identified above under content – by providing a set of detailed design and implementation principles that could be applied to either tax or trade. If IMWG accepts these principles, it is recommended that they should then form the basis of further work to develop a more detailed blueprint focusing specifically on carbon tax design – to complement our pre-existing blueprint for carbon trading design.

Advocacy stance

The intent is that the attached blueprint be used immediately, in particular to fill the second gap identified above under advocacy stance – to enable us pre-emptively to propose alternatives to poorly designed pricing systems. For this purpose, we recommend that the communications sub-committee convert the blueprint into communications-friendly messages that can be shared publicly, on the website, as handouts, etc. The more detailed version attached would be retained as an internal guide for BP staff directly engaged in actual public policy design discussions.

The IMWG is asked to review and endorse the principles and the advocacy stance proposed.

Paul Jefferiss
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Appendix 1: Blueprint for carbon pricing policy design

- Policy objectives: Policies to reduce GHGs should aim to deliver socially desired environmental goals at least cost, carefully balancing economic and social goals, including providing access to affordable energy. Such policies should be simple, technology-neutral, market-based and economy-wide.

- Carbon pricing: The most comprehensive and economically efficient form of GHG reduction policy is an economy-wide carbon price. It encourages all parties, including producers and consumers in all sectors, to make economic choices that reduce carbon, for example by using less energy, using energy more efficiently, choosing lower carbon sources of energy, shifting to industrial and agricultural practices that emit less carbon, capturing and using or storing carbon that is emitted (CCUS), or developing negative emissions technologies and enhancing natural sinks.

- Double regulation: While carbon pricing systems are in development and until they are widespread, other forms of carbon regulation may initially be necessary. However, once a carbon pricing system has been introduced, additional, future carbon pricing regulation should be pre-empted and existing, non-price regulation reformed and reduced, wherever there is the potential for direct overlap with or duplication of the carbon price. Double regulation will undermine the economic efficiency and cost-effectiveness which carbon pricing is intended to provide. This does not rule out the need for the limited use of supplementary or enabling policies where there are clear market failures (see below).

- Tax or trade: A carbon tax or a cap and trade system can be equally effective, provided both are well-designed and flexibly implemented according to the principles described below. Hybrid approaches, in which cap and trade systems for large industrial emitters are combined with taxation or “linked fees” for smaller emitters, can also be effective if they are well-designed.

- Price/abatement level and trajectory: Advance signalling and then gradual introduction of carbon pricing are the most cost-effective approach, with the carbon price (abatement level) starting low and ramping up slowly before accelerating and then levelling off. The ultimate, long-term target price/abatement level should be signalled as clearly and early as possible, ideally at the start. This approach is important to enable industry to make necessary operational and investment decisions in a timely way, so that intended environmental benefits can be delivered with minimal social