

## API Policy Principles on Carbon Pricing to Evaluate Government Policy Proposals

Any government policies to price carbon should include complementary policies that support significant investments in innovation to develop technologies that lower the cost of GHG emissions abatement across the economy. API will engage policy makers so that the design of a potential approach would price carbon at the outset for all relevant GHG emissions from all relevant sectors and account accurately for the benefits, costs and amounts of GHG emissions, according to the following principles:

- Goal – The goal of policies to put a price on carbon should be to achieve GHG emissions reductions at the least cost to society, in order to meet the dual challenge of continued economic growth while addressing the risks of climate change.
- Scope of Coverage – Policies to put a price on carbon should be based on carbon-equivalent emissions only on a GWP100 basis and should cover the widest scope of GHG emissions US economy-wide as practically and economically achievable, including all emitters.
- Policy Duplication and Interoperability— If a price on carbon is introduced, it should minimize the burden of duplicative regulations: by *-either-* preempting other duplicative programs to reduce GHG emissions *-or-* being interoperable with these other policies, such that there is minimal duplication of the price on carbon that consumers or emitters pay.
- Setting the Ambition and Trajectory – API advocates that policy construct should be phased in over time and that, ultimately, the carbon price should not exceed the marginal cost of carbon emissions or the cost caused by an additional ton of carbon emitted into the atmosphere.<sup>1</sup>
- Rate or Cap Adjustments – The price on carbon or emissions cap should be adjusted periodically through a defined, rational, and transparent process to meet GHG emissions targets. Periodic rate adjustment should provide certainty for the economy and maintain the integrity of the carbon pricing policy.
- Uniform Treatment – A policy to put a price on carbon should ensure uniform cost of GHG emissions on a CO<sub>2</sub> equivalent basis throughout the economy.
- Transparency for Consumers – The carbon pricing system should be designed so that consumers have transparent incentives, based on actual GHG emissions if possible, to reduce GHG emissions efficiently. With respect to transportation fuels, a government policy-imposed carbon price should be disclosed at the point of retail sale.
- Baseline – As applicable, the point in time reference or baseline against which future targets for reducing GHG emissions are determined in the design of a policy to put a price on carbon should be 2005. This is already the baseline for which US economy-wide policy action has been determined in global climate negotiations.

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<sup>1</sup> If a carbon pricing government policy uses the Social Cost of Carbon (SCC) to set a boundary on either a carbon price or a cap on emissions, it should adhere to the following criteria:

- Determined through a Notice and Comment Process.
- Based on transparent analyses (models, assumptions and inputs) that are subject to peer review.
- Calculated with discount rates of 3% and 7%, consistent with OMB Circular A-4.
- Based on a time horizon consistent with those most widely-used in integrated assessment models
- Account for US benefits as a share of global benefits.

- Credits –
  - a. Accounting for net emissions. Credit should be provided for substances priced where GHG emissions are captured or sequestered downstream of the point where the price on carbon is assessed, such as for fossil fuels used as feedstocks in manufacturing activities where the carbon is permanently stored.
  - b. Participation of parties. Allow any parties to generate emission reduction credits and participate in the carbon pricing program to incentivize broad participation.
  - c. Credits. Allow for the trading of credits and their use in compliance.
  - d. Early action. Provide credit for early and/or voluntary actions.
  - e. Credit for other regulatory compliance. As applicable, credit should be granted for compliance with other non-climate related regulations that produce a corollary benefit of reducing GHG emissions.
- Global Carbon Markets – As applicable, allow for international trading in carbon mitigation through interoperability with other carbon pricing regimes outside the US.
- Avoidance of Carbon Leakage – A policy regime to put a price on carbon should include a WTO- compliant mechanism to prevent the movement, or “leakage,” of industry or trade from the US that may create economic competitive disadvantages – and to prevent the offshoring or outsourcing of GHG emissions that would negate overall global GHG emissions reductions. A policy to put a price on carbon should be globally integrated so that US entities have the incentive to reduce their carbon footprint on a worldwide basis without being competitively disadvantaged.