

ADDRESSING
Climate Change

Principles and Policies



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I. Introduction

There is scientific consensus that the climate is changing and that human activities are contributing to that change.¹ Unchecked, the changing climate poses significant environmental, economic, public health and security threats to countries around the world, including the United States.² The risk of unanticipated changes and impacts — some of which may be large and irreversible — will only increase as the Earth's system warms more quickly.³

Over the past decade, the United States has made significant progress toward reducing greenhouse gas (GHG) emissions, largely as a result of fuel-switching in the power-generation sector from coal to natural gas and renewables, private-sector innovation, and supportive state and federal policies. However, the existing patchwork of federal and state regulations, tax incentives, subsidies and other policies is inefficient and has negatively affected the long-term investment strategies of many U.S. companies by creating regulatory uncertainty. The existing fragmented policy approach is insufficient to meet the challenges posed by climate change. It is time for a new approach.

Representing the chief executive officers of America's leading companies, which combined have more than 15 million employees and generate more than \$7.5 trillion in annual revenues, Business Roundtable believes corporations should lead by example, support sound public policies and drive the innovation needed to address climate change. To this end, the United States should adopt a more comprehensive, coordinated and market-based approach to reduce emissions. This approach must be pursued in a manner that ensures environmental effectiveness while fostering innovation, maintaining U.S. competitiveness, maximizing compliance flexibility, and minimizing costs to business and society.

International cooperation and diplomacy backed by a broadly supported U.S. policy will be the key to achieving the collective global action required to meet the scope of the challenge and position the U.S. economy for long-term success. The consequences of climate change for global prosperity and socioeconomic well-being are significant; the world simply cannot afford the costs of inaction.⁴

II. Goals for Addressing Climate Change

Business Roundtable believes that to avoid the worst impacts of climate change, the world must work together to limit global temperature rise this century to well below 2 degrees Celsius above preindustrial levels, consistent with the Paris Agreement.* The United States and the international community must aggressively reduce GHG emissions and create incentives for developing new technologies to achieve this goal. Business Roundtable supports a goal of reducing net U.S. GHG emissions by at least 80 percent from 2005 levels by 2050, which should be achieved in a manner consistent with the key principles listed in the following section.

* In 2018, nearly three years after the introduction of the Paris Agreement and upon invitation of the United Nations, the Intergovernmental Panel on Climate Change (IPCC) reported that limiting warming to no more than 1.5 degrees Celsius compared to preindustrial levels will be necessary to avoid some of the most severe risks associated with climate change. According to the IPCC, meeting this goal would require a 45 percent reduction in global carbon dioxide emissions by 2030 as compared to 2010 levels and net-zero emissions by 2050, which would require significant innovation and global cooperation coupled with changes in behavior across society.

III. Key Principles to Guide Public Policy

Business Roundtable supports a comprehensive policy to reduce GHG emissions and ultimately stabilize atmospheric concentrations at levels that will avoid the worst effects and mitigate the impacts of climate change. The transition to a low-carbon future will require a significant evolution in the way businesses and consumers operate. Thoughtful policy design and implementation can deliver long-term environmental, social and economic benefits while creating new jobs and minimizing potential negative impacts on businesses, workers and households.

Business Roundtable believes that U.S. climate policy should be guided by these core principles:

- ▶ Align policy goals and GHG emissions reduction targets with scientific evidence.
- ▶ Increase global engagement, cooperation and accountability.
- ▶ Leverage market-based solutions wherever possible.
- ▶ Provide for adequate transition time and long-term regulatory certainty.
- ▶ Preserve the competitiveness of U.S. businesses, including avoiding economic and emissions “leakage.”
- ▶ Minimize social and economic costs for those least able to bear them.
- ▶ Support both public and private investment in low-carbon and GHG emissions reduction technologies along the full innovation pipeline.
- ▶ Minimize administrative burdens and duplicative policies while maximizing compliance flexibility.
- ▶ Ensure that U.S. policies account for international emissions reduction programs.
- ▶ Advance climate resilience and adaptation.
- ▶ Eliminate barriers to the deployment of emissions reduction technologies and low-carbon energy sources.

IV. Lead by Example

The United States has made significant progress toward reducing emissions over the past decade, due in large part to private-sector innovation and fuel-switching. However, domestic and international efforts are falling far short of what will be required to avoid the worst effects of climate change.⁵

As the largest economy, the second largest energy consumer and the second largest emitter of GHGs in the world, the United States should lead by example by adopting a credible, durable and comprehensive climate strategy that aims to reduce, avoid and mitigate emissions while increasing resilience and adaptation.

Such a strategy must be coupled with robust international engagement, cooperation and accountability to help ensure success. This includes leading the world in the development, demonstration and global deployment of low-cost, high-performing clean energy technologies and low-emissions energy sources. In particular, deploying these technologies and fuel sources in non-Organisation for Economic Co-operation and Development (OECD) and developing countries — which face upward emissions trajectories as their economies continue to grow and industrialize — will be a critical piece of solving the global climate challenge.⁶

American corporations must continue to lead the way in driving efficiency, advancing a spectrum of low to negative emissions technologies and reducing GHG emissions. Many companies seek to be transparent around their approaches and progress toward those goals. It is important for companies to continue to engage on, and disclose when appropriate, material risks that may be driven by climate change as well as the business opportunities associated with advancing low-carbon solutions. Effective disclosures should focus on the company's approach to risk management and its connection to the company's strategy and governance. These disclosures should be voluntary and industry supported and should consider leading disclosure frameworks.

V. A Portfolio of Complementary Policies

The U.S. economy is one of the most diverse in the world. Because of the size and complexity of the economy, Business Roundtable believes that a comprehensive climate agenda that is truly effective across the entire U.S. economy will leverage a portfolio of complementary policies that demonstrate a strong commitment to reducing GHG emissions, rapidly accelerating innovation and preserving business competitiveness. While there is more than one path to addressing the climate challenge in a manner that is consistent with the key principles in this document, Business Roundtable believes that the most successful portfolio of policies should contain the following elements, which taken together represent the preferred path for a comprehensive emissions reduction strategy.

Implement a Well-Designed Market-Based Mechanism

Business Roundtable supports a market-based emissions reduction strategy that includes a price on carbon where it is environmentally and economically effective and administratively feasible, but it does not endorse any specific market-based mechanism.

This approach would reduce the administrative complexity and uncertainty associated with a regulatory approach to limiting emissions and help ensure that U.S. companies remain competitive. It would also send an important market signal that would lead to greater efficiency; technological innovation; and deployment of the low-, no- and negative-GHG emissions technologies that will be necessary for reducing GHG emissions by at least 80 percent by 2050.

There are several ways to implement a market-based emissions reduction approach. Under any such approach, key components must include:

- ▶ **Placing a price on carbon.** A price on carbon would provide an effective incentive to reduce GHG emissions and mitigate climate change, including through the development and deployment of breakthrough technologies. The price-setting mechanism should be implemented in a manner that achieves desired environmental outcomes while minimizing administrative burdens and implementation costs. Establishing a clear price signal is the most important consideration for encouraging innovation, driving efficiency, and ensuring sustained environmental and economic effectiveness.
- ▶ **Preserving the competitiveness of U.S. businesses.** Policymakers must remain alert to the prospect of economic activity and associated emissions shifting to less-regulated jurisdictions (i.e., economic and emissions “leakage”) and design policy frameworks that mitigate the unique risks of leakage faced by energy-intensive, trade-exposed industries. Rebates, allowances and/or border adjustments — consistent with U.S. international obligations — could be considered as policy mechanisms to address these challenges. Policymakers must also ensure that U.S. companies are not at a disadvantage from carbon pricing policies that may be implemented abroad.
- ▶ **Using resulting revenues, if any, to maximize economic and environmental benefits.** If any government revenues are generated by a market-based mechanism, they should primarily be used for policies that support economic growth, reduce societal impact, and provide assistance for those

individuals and communities most negatively affected. This approach should be paired with at least a doubling of federal funding for research, development and demonstration (RD&D) of GHG reduction technologies.⁷

A market-based policy with these core components must be carefully designed and implemented in a way that gives businesses and consumers an appropriate transition period in which to plan, invest and adjust. Policymakers must also provide certainty and be sensitive to the economic impact of an initially high or sharply escalating carbon price. Appropriate and targeted incentives could help to ease the transition and ensure fair and equitable treatment. A well-designed policy can minimize the costs and disruption of such a transformation while maximizing GHG emissions reduction.

Recognize Unique Circumstances and Adopt Complementary Policies Where Appropriate

While a market-based climate strategy should apply broadly across the economy, no one policy or approach can fully address climate change across such a diverse economy and such diverse sources of GHG emissions. In unique circumstances, nonduplicative, tailored policies may be more effective or administratively feasible.

For example, some emissions sources may face unique technological challenges or are subject to separate international agreements to limit emissions, such as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Additionally, verifiable offsets represent an important complement to a market-based approach and can be an effective and efficient tool for taking advantage of the full range of GHG emissions reduction opportunities across the economy. For example, such opportunities could include cost-effective nature-based solutions with the potential to sequester carbon and improve soil health while also improving farmers' livelihoods.

Address Duplicative Policies

Existing federal and state climate regulations and policies often create an aggregation of uncoordinated requirements and compliance obligations for businesses. More often than not, a market-based mechanism is more cost-effective and efficient than regulations for reducing emissions. Increased regulatory uncertainty can also limit long-term decisionmaking and discourage investment. However, there may be unique circumstances in which a regulatory approach would be more effective. For example, when decisionmakers and affected parties are different (i.e., have a "split incentive"), a price signal would be less environmentally effective. Building energy codes are perhaps the best example of this situation.

With the adoption of a comprehensive federal climate strategy, some existing federal and state climate policies and regulations addressing GHG emissions may prove duplicative, inefficient or counterproductive. Enacting such a strategy would provide an opportunity to assess how to best handle the confluence of new and existing policies and regulations so that GHG emissions can be addressed in the most efficient, cost-effective manner. Further, additional regulations or policies should not be adopted without careful consideration of whether the desired outcome is already more efficiently achieved by a market-based mechanism.

VI. Essential Supporting Policies and Approaches

The following actions and approaches are necessary to meet the scope of the climate challenge. While they are not a comprehensive accounting of all potentially supportive policies, they represent established Business Roundtable policy positions that align with the key principles and preferred policy approach already articulated in this document.

Invest in Technology

The rapid deployment at scale of low-emissions and carbon-removal technologies will be critical to limiting global average temperature rise to well below 2 degrees Celsius above preindustrial levels while maintaining a robust and growing economy. While existing technologies and alternative fuels will continue to drive meaningful GHG emissions reductions across the U.S. economy, more innovation and investment in new and existing technologies is needed to cost effectively achieve the full scope of this goal.

The global transition to a low-carbon future is likely to take decades and will require the development and widespread adoption of cost-effective technologies, some of which are not yet proven or deployed at scale. During this transition, it will be important that U.S. technology and innovation lead the way in reducing the GHG emissions footprint of fossil fuel-based energy, thereby ensuring that a diverse spectrum of fuels and energy sources is available to meet growing global energy demand.

The United States remains a global leader in research, development and commercialization of energy efficiency; renewable energy; energy storage and battery technologies; advanced nuclear power; carbon capture, utilization and storage (CCUS); and a diverse array of other energy sources and technologies. The country must capitalize on these competitive advantages and accelerate the development and export of a portfolio of affordable, diverse and efficient technologies and solutions that support a global transition to low-carbon economies while providing affordable, reliable energy to consumers.*

The federal government has an important role to play in supporting the innovation pipeline of new low-, no- and negative-GHG technologies and in incentivizing private-sector investment. Business Roundtable believes that federal funding, particularly for basic research, must be increased substantially to levels commensurate with the magnitude of the climate challenge. Specifically, Business Roundtable supports at least doubling federal funding from current levels for advanced energy innovation and further supports doubling total climate-related research funding, including funding for adaptation, resiliency and mitigation research.⁸ In addition to stepping up funding, RD&D programs must be better coordinated across economic sectors and focused on technologies that are most likely to reduce GHG emissions on a life-cycle basis and to achieve global cost-parity with high-emissions competitors.⁹ Finally, RD&D

* Business Roundtable's *American Energy in the 21st Century* report assesses a number of underlying trends in energy development and usage, as well as emerging technologies, that will continue to drive the energy mix over time.

programs can play an important role in transitioning to a more environmentally sustainable economy, including investment in circular economy technologies that can reduce the need for carbon-intensive raw materials and resource usage.

Drive Energy Efficiency

Even as developing new, transformative technologies will be critical for addressing the climate challenge, the United States should continue to cost-effectively and reliably reduce emissions by improving the efficiency of energy production, distribution and use. Sustained advances in energy efficiency technologies, in combination with wider deployment of those technologies across the transportation, buildings, industrial and commercial sectors, have resulted in flattening energy demand in the United States since the mid-2000s, even as economic activity picked up after the 2008–09 recession.¹⁰ Maintaining this progress is important. Policies should encourage and incentivize continued improvement in energy efficiency in buildings, equipment, appliances, transportation and manufacturing as well as in the electricity sector. Governments and businesses should demonstrate leadership by committing to improve energy efficiency and low-carbon technologies in their supply chains, buildings and fleets.

Develop and Deploy Resiliency and Adaptation Measures

The effects of climate change are expected to continue to increase in severity even if the growth of GHG emissions is slowed. The likely effects of a changing climate should be incorporated into the planning, design and construction for new infrastructure. Existing infrastructure should be reinforced to withstand increasingly severe weather and rising sea levels. The federal government has a responsibility to lead by example given the great potential for damage to federal facilities and infrastructure, threats to national security, impact on the federal budget, and potential impact on the U.S. economy overall.

Invest in Energy Infrastructure and Improve Permitting Processes

The transition to a low-carbon economy will require massive public and private investment in new infrastructure not only to produce and more efficiently use energy but also to transport both energy and captured carbon to where it will be needed or stored. For example, as national-scale deployment of electric vehicles occurs, utilities and utility regulators should plan for future grid needs and efficient charging. Reforms in state and federal permitting processes that speed the transition to a low-carbon economy will be necessary.

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