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## Sustainable Energy

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# Surge of Carbon Pricing Proposals Coming in the New Year

The state measures could save hundreds of millions of tons in carbon emissions over the next decade.

by James Temple    December 4, 2017

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### **Early in the new year, Democrats in the Washington State**

**E** Senate intend to leverage their newly won majority to push hard on a climate policy that no U.S. state has managed to pass so far: a carbon tax.

“We fully intend to introduce a carbon tax and an investment strategy,” said Senator Reuven Carlyle, who became chairman of the energy committee following the November election, in an interview with *MIT Technology Review*. He hasn’t specified an intended fee yet, but said he’d like to see the tax revenue dedicated to renewable energy sources, grid modernization, transportation electrification, and climate mitigation for low-income communities, among other areas.



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#### Exiting Paris, Trump Cedes Global Leadership on Climate Change

Surprising no one, the president announced that the U.S. will withdraw from the Paris Accord.

Washington is just one of a growing number of states poised to introduce or advance new, stricter, or more expansive carbon fees or cap-and-trade programs in upcoming legislative sessions. Collectively, the measures could help to cut U.S. emissions by at least hundreds of millions of tons in the next decade, and provide critical counterpressure on the Trump administration’s efforts to unravel climate efforts like the Paris accords and Clean Power Plan (see “[Exiting Paris, Trump Cedes Global Leadership on Climate Change](#)”).

Some of these same states and legislators have proposed similar programs before, only to see them fail for lack of legislative or public support. But the White House’s regressive environmental policies, Democratic gains in the November election, and shifting public sentiments have improved “the prospects for actually passing some of these,” says Michael Wara, senior research scholar at the Stanford Woods Institute for the Environment.

Among other pending or forthcoming proposals:

- In Massachusetts, which is under a [judicial order](#) to increase emissions reductions, Mike Barrett, a state senator, introduced a carbon pricing proposal in the Joint Committee on Telecommunications, Utilities and Energy, which must make final recommendations on bills by February. Barrett’s [measure](#) would eventually charge \$40 per metric ton of carbon emissions or equivalent pollution, but return all of the funds to citizens and

businesses through subsequent tax rebates. It exempts the electricity industry, since that's already covered under the state's participation in the Regional Greenhouse Gas Initiative, a cap-and-trade program that includes nine eastern states.

- Meanwhile, Massachusetts state representative Jennifer Benson introduced a carbon pricing proposal in the House that would also eventually charge both consumers and business a fee of \$40 per ton of carbon emissions. The measure would return the vast majority of the funds to individuals and employers through rebates, but set aside **around 20 percent** for climate mitigation and adaptation measures.
- Legislators in Connecticut, Rhode Island, and Vermont have also been **considering** carbon tax bills.
- In August, the Regional Greenhouse Gas Initiative **announced** a draft plan to cut emissions another 30 percent between 2020 and 2030. That would eliminate at least an additional **130 million tons** of carbon pollution.
- New Jersey's **newly elected** Democratic governor, Phil Murphy, has **pledged** to "immediately restore New Jersey's place in the Regional Greenhouse Gas Initiative." Governor Chris Christie **withdrew** the state from the initiative in 2011.
- State regulators in Virginia also **approved** an emissions reduction proposal that would allow the state to join the Regional Greenhouse Gas Initiative.
- At the recent United Nations climate talks in Bonn, Germany, most of the RGGI member states and Washington, D.C., **announced** a similar regional carbon pricing effort to **cut emissions** from the transportation industry.
- This summer, several dozen legislators in Oregon **introduced** a statewide cap-and-trade program set to be heard in the 2018 legislative session. As proposed, it would be one of the few U.S. cap-and-trade programs to encompass sectors of the economy beyond the electricity industry. The system, which will apply to any entity that emits more than 25,000 tons of carbon dioxide or equivalent pollution per year, would feature an auction floor that ticks up over time coupled with emissions caps that steadily tighten.
- Also this summer, California **passed** a law to extend its cap-and-trade program, which was to set to expire in 2020. The state had already linked its carbon market with Quebec's, and Ontario officials **said** in April that the province will join as well. Meanwhile, Governor Jerry Brown has also discussed connecting California's market with those of the **European Union** and **China**, which plans to **roll out** the world's largest carbon market in the months ahead.

Many economists, including some **prominent conservatives**, argue that market-based mechanisms like cap-and-trade or carbon taxes are among the most effective means of lowering greenhouse-gas emissions.

Cap-and-trade systems allow companies to bid on a limited number of allowances for generating greenhouse gases, which decrease over time to reduce total emissions. Carbon taxes are direct fees levied on carbon-based products. In both cases, the impact can spill over to consumers in the form of higher prices. But the raised funds are generally funneled back to citizens, invested in climate projects, or spent on other government programs (see **“Canada Moves Ahead on Carbon Taxes, Leaving the U.S. Behind”**).

There are various trade-offs. Cap-and-trade programs create more certainty about the level of emissions cuts that will be achieved over time. Carbon taxes offer greater clarity about the price companies will have to pay, and are generally cheaper and simpler to administer.

Regardless of the particular approach, climate and energy observers say it's encouraging to see so much gathering momentum at the state level, stressing that the measures provide crucial benefits beyond local boundaries.

“Without federal leadership, state-level initiatives have become much more important, both for constraining carbon emissions and for discouraging other countries from following President Trump's lead of exiting the Paris Agreement,” said Robert Stavins, director of the Harvard Environmental Economics Program, in an e-mail. “The state initiatives are most significant as a signal to the rest of the world, because it would be disastrous if China, India, Brazil, and the other emerging economies decided to take on less ambitious commitments, rescind their commitments, or drop out.”

That said, it's still difficult for state measures to add up to the impact of federal policies, particularly since the states pursuing carbon pricing already tend to be among the nation's lowest emitters.

“You're not tackling the dirtiest states,” says Danny Cullenward, an energy economist and lawyer at Near Zero, an environmental research think tank.

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In addition, attacking the problem in a piecemeal fashion can create other complexities. Notably, carbon pricing policies can send companies or consumers into neighboring states to conduct their business, in what's known as leakage. Indeed, the carbon tax proposals in **Connecticut** and **Rhode Island** are both contingent on neighboring states passing their own measures, out of fear that residents will cross a nearby border to, say, buy cheaper gas.

Any carbon pricing program also needs to be designed and implemented carefully to meet its goals. California's cap-and-trade system "has not played a large role in driving emission reductions to date," because the relatively loose cap allowed unused allowances to pile up, according to a recent Near Zero analysis. The same problem plagued the European Union's pioneering emissions trading system, ultimately forcing an overhaul of the system earlier this year.

Still, the hope is that successful state programs will prompt other states and regions to follow their lead—perhaps someday even including the federal government.

Senator Carlyle argues that the Trump administration's policies and the mounting impacts of climate change on Washington's **forest fires**, salmon, and **orcas** have already altered public views as well as the electoral math. "I am optimistic that the momentum is genuine and compelling," he says. "I think we're going to make real progress this year."

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