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Beyond Carbon Pricing

Abstract:

Our economic infrastructure has been designed for fossil fuels as the main energy source, and the cost of climate action is ultimately a transition cost. Adjustments to marginal costs, such as carbon pricing, are not a silver bullet. The transition will create winners, losers and stranded assets. It will shift the geopolitical landscape as fossil fuel exports lose value, while ushering in competition for critical minerals essential to low carbon technologies. It has given rise to trade tensions between countries aspiring to carve out competitive advantages in new technologies.

Rather than argue about the optimal carbon price, we need to think about how to overcome regulatory capture by fossil fuel interest groups; avoid locking in more high carbon infrastructure; and achieve a low carbon transition which is as fast as possible while minimizing the cost to the most vulnerable.