THE U.S. BUSINESS CASE FOR A CARBON FEE AND DIVIDEND:

HOW SMALL AND MEDIUM-SIZED ENTERPRISES WILL BE AFFECTED

PREPARED BY
BUSINESS CLIMATE LEADERS

MARCH 2019
THE U.S. BUSINESS CASE FOR A CARBON FEE AND DIVIDEND:
HOW SMALL AND MEDIUM-SIZED ENTERPRISES WILL BE AFFECTED

WHAT TO EXPECT WITH A CARBON FEE AND DIVIDEND

- Product and service costs rise and are passed through to customers.
- Businesses in the same industry are impacted similarly, with all competitors’ costs rising in a similar fashion. As a result, there is little immediate competitive disadvantage between companies.
- Consumers have more to spend as a result of the dividend, which benefits companies in many sectors.
- Businesses have an incentive to pursue proven energy savings and other advantageous ways to reduce their carbon footprint. Organizations that do institute cost-effective, clean energy efficiency measures gain competitive advantage and reduce risk exposure.
- Cost increases will be low at first and rise gradually. For example, every $10 per ton of carbon emissions will raise the price of gasoline by approximately $.10.

CHANGES THAT COMPANIES MIGHT IMPLEMENT

Electricity

If a local energy supplier uses coal or natural gas to produce electricity, rates will increase under a CF&D policy. A small business owner could respond by investing in energy-saving opportunities. They could then explore solar or wind installations, or ask their local utility to increase its renewables portfolio, which would lead to lower costs. Another option would be to support local community choice efforts.
Changes That Companies Might Implement

Transport
A logistics or transportation company will need to consider lower-carbon options for car and truck transport. These include using hybrid or electric models or using route planning tools that make transportation more efficient. If a business operates large semi-trucks, they may also want to investigate truck-stop electrification opportunities. Manufacturers and shipping services can reduce transportation costs by adjusting the weight of items and packaging.

Heating and Air Conditioning
What if the small business is a bakery or other enterprise that requires a significant amount of heat, or is located in a region that requires a lot of air conditioning? The best course of action would be to invest in energy efficiency opportunities, including insulation and passive cooling.

Materials
Most materials have a carbon footprint associated with their manufacture, which means that under CF&D, their cost will increase. But this will not necessarily hurt small businesses. Companies can pass on increased material costs by raising the price of their own products. They should not see lower demand, because most Americans will receive extra money through the dividend. Businesses can also respond by transitioning quickly to materials made using renewable energy, which will become more cost-effective than those made with fossil fuels.
CHANGES THAT COMPANIES MIGHT IMPLEMENT

Competitive advantage and low-carbon substitution
Whether a manufacturer passes on increased costs to customers or retailers depends on its options for efficiency and substitution of alternatives, e.g., low-no-carbon alternatives. Increased costs can be offset by such substitutions. Retailers are always looking for cost reducing opportunities and a carbon fee will generate incentive for existing and new product suppliers that: (a) use clean energy and (b) produce the same or substitute products with cheaper low-no-carbon materials. That is how non-carbon based products become increasingly attractive and cost competitive over time. Early adopters of low-carbon substitutes will have an advantage.

THE BOTTOM LINE
Carbon Fee and Dividend will require adjustments and may compel business owners to rethink how they operate. But small businesses shouldn’t fear this policy. According to the REMI study, CF&D leads to increased GDP in most sectors of the economy and puts money in the pockets of most consumers, increasing the purchasing power of many small businesses’ customer bases. If they implement measures as described above, most business owners will find themselves better off. Companies can learn more about best practices, successes and challenges as they transition to low-carbon business models by joining organizations like the American Sustainable Business Council, which helps businesses be sustainable and profitable and advocates for government policies that help businesses transition to a sustainable future.