

Can fossil fuel companies really support a carbon tax?*



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Economists assert carbon taxes as a key climate change remedy. What's the stance of fossil fuel companies? I examine the communication of the top 100 oil and gas companies on carbon taxes. Surprisingly, 54% of those with policies on carbon taxes support them (78% among the 50 largest). This puzzles, as effective carbon taxes should dent fossil fuel firms' revenues and value. I introduce a trilemma model, showing how carbon taxes endanger these companies. To unravel this paradox, I propose potential reasons for their support. Firms may use carbon taxes to eliminate coal competition, establish a level playing field, and reduce regulatory ambiguity. They may also assume minimal impact, citing inelastic oil and gas demand or international coordination failures causing leakage. Alternatively, this support could serve as a PR move, shifting responsibility from firms to consumers, voters, and officials.

*This Policy Brief is based on [Banque de France Working Paper #923](#). Working Papers reflect the opinions of the authors and do not necessarily express the views of the Banque de France. The findings presented here have recently been published in an [article](#) in Ecological Economics.

Economists rarely agree on issues, but on carbon taxes, surprisingly they do. They agree so much that 3354 American economists, including many Nobel Prize winners, recently signed an open letter supporting the introduction of a carbon tax. You can get an updated list of signatories available [here](#). Note that the signatories are mostly US based economist and [RePec lists](#) that there are 12727 US economists. So we are talking about something signed by 25% of US economists, and the other 75% maybe simply did not bother or were not invited to sign.

That economist like carbon taxes is not too surprising. They are the best solution in town since their theorisation by Nordhaus in the 1970s. But what is more puzzling, is that fossil fuel companies seem to agree as well. Fossil companies are the most emitting companies on the planet, yet they seem to want their emissions to be taxed.

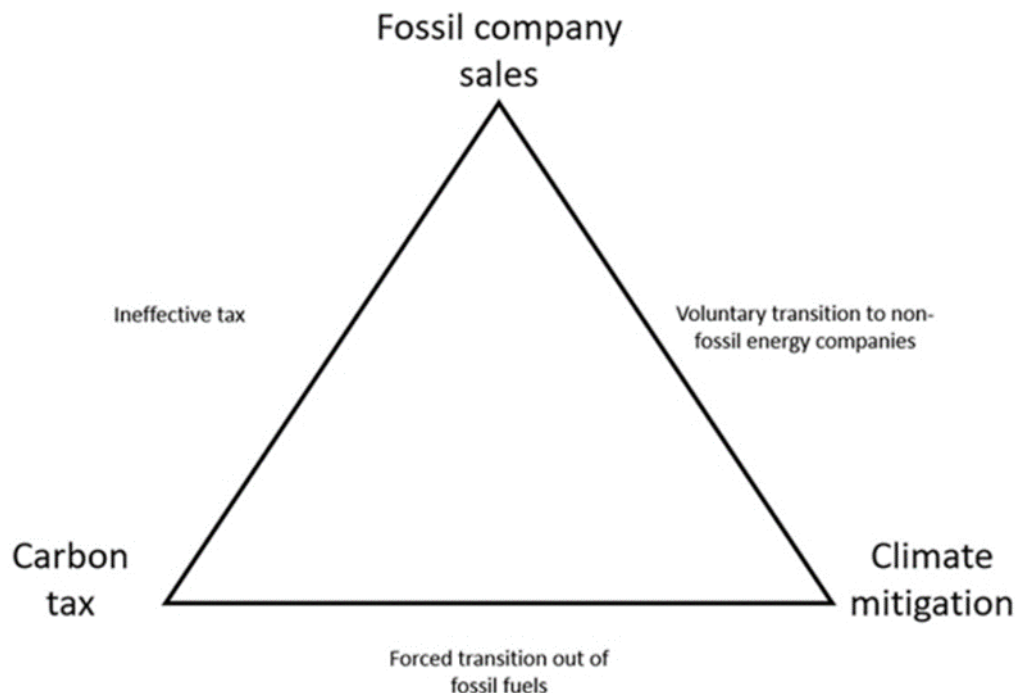
Large fossil fuel companies like to be taxed?

Building up a new [dataset](#), I find agreement rates as high as 78% when looking at the top 50 largest oil and gas companies who have expressed their opinion on the question. The table below shows that there is a broad consensus among large companies. While there remains a silent majority, the majority of large fossil fuel companies with an opinion on the question favour carbon taxes. But why?

	Overall 100 largest oil and gas companies	Top 50 largest oil and gas companies by reserves	Bottom 50 largest oil and gas companies by reserves
In favour of a carbon tax	23%	31%	13%
Unknown or no position	58%	60%	56%
Opposed to a carbon tax	19%	9%	31%

Why fossil fuel companies should not support carbon taxes?

Before finding out why, let us first make sure why they should not support carbon taxes. I build a conceptual trilemma model for the relationship of fossil fuel companies and carbon taxes (figure below). Economists love trilemmas, there is for example a trilemma making it impossible for a country to have fixed exchange rates, an independent monetary policy and free flows of capital. A trilemma means you have to choose only two options among three tempting ones. This model outlines three distinct possibilities. First, the implementation of an efficient carbon tax that effectively curtails emissions while also diminishing sales for fossil fuel companies. Second, an ineffective carbon tax that allows fossil fuel companies to sustain their sales. The third options is a pathway in which fossil fuel companies voluntarily transition into broader energy firms, thereby reducing emissions without necessitating a carbon tax. It is important to note that, like any conceptual model, this one comes with its own set of limitations, but it contributes to the ongoing discourse.



But why do they support carbon taxes?

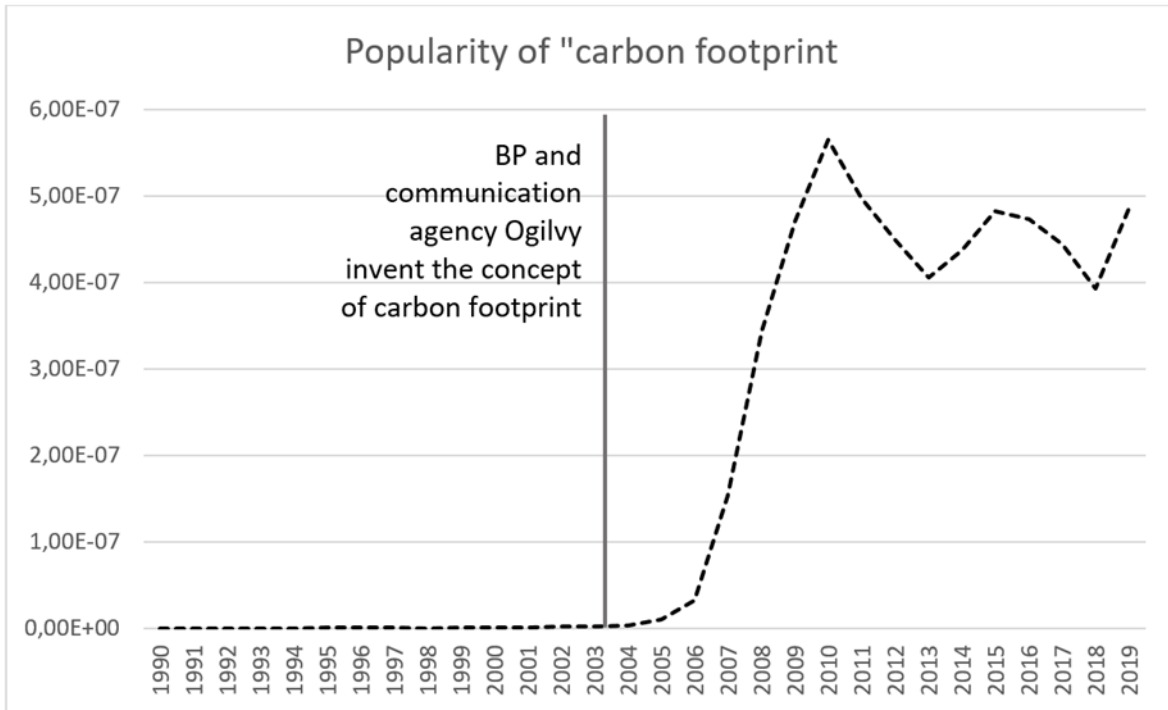
To understand this paradox, I offer non-mutually exclusive reasons why fossil fuel companies might support carbon taxes. Oil and gas companies could use a carbon tax to get rid of the competition from coal, which emits much more CO₂ and would be penalised. They could also want to create a level playing field and remove regulatory uncertainty, which always harms business. Or they think that these taxes will not affect them because demand for oil and gas is inelastic or that international coordination will fail and lead to leakages. Finally, it could be that this is simply a communication exercise and that a carbon tax helps them shift the responsibility from fossil fuel companies to customers, voters and elected officials.

Shifting responsibility to you, the consumer

Fossil fuel companies shifting their responsibility to someone else is not new. BP is an expert in that. They invented the idea of the carbon footprint. We have all [calculated our carbon footprint](#) and companies are progressively forced by lawmakers to do it. In a sense, it is good, as it puts responsibility on emitters.

BP launched a campaign in 2004 to remind that we, and not BP, emit CO₂ when we take our car. The campaign's catchy slogan, cooked up with the folks at the communication agency Ogilvy, was "What's your carbon footprint?". It aimed to remind people that when they hopped on planes or drove their cars, they were the ones burning fossil fuels, not just the big fossil fuel companies. The idea was to make consumers realise they shared responsibility for climate change with these companies and that they should take action, rather than relying solely on fossil fuel companies to curb emissions.

Before BP's campaign, the whole idea of a "carbon footprint" did not really exist like it does now – you hardly heard about it. But BP and Ogilvy are the ones who basically came up with the concept. The chart below shows how they managed to create the idea that people, and not fossil fuel companies pollute. The idea was non-existent before their marketing campaign.



So, should we believe fossil fuel companies when they want to introduce a carbon tax? Maybe there is some truth to it; it could help them reduce uncertainty and phase out coal, which is good. But we really need to keep in mind that stopping climate change goes through mostly getting rid of fossil fuel companies as they currently exist and replacing them with energy companies that do not rely on coal, oil or gas. It can also come as word of caution to economists: maybe the carbon taxes that they love so much are not the best solution. Not because they do not work in theory. In theory, they are fantastic. But in practice? The yellow vest was a reaction to carbon taxes and work by economists Douenne and Fabre (2020, 2022) shows that it might not be that simple. So what about finding other complementary solution that are not favoured by the largest polluters on the planet? ■

About the author

Alain Naef is an Assistant Professor at ESSEC Business School. He obtained his PhD from the University of Cambridge followed by a postdoc at UC Berkeley, and has taught at Sciences Po, LSE, Warwick, Berkeley and Cambridge. Alain was a Senior Economist at the Banque de France and a member of the [G20 sustainable finance working group](#). He is also the cofounder of [sustainable macro](#).

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