September 16, 2024

The Honorable Kathy Hochul
Governor of New York State
State Capitol Building
Albany, NY 12224

Dear Governor Hochul,

I write to offer my perspective on the question of the public cost impacts of the Climate Change Superfund Act (S.2129-B/A.3351-B). It is my understanding that your administration may have concerns about the potential effects on consumer gasoline prices of enacting the Climate Superfund.

To summarize, given that the assessment generated by the Climate Superfund is based on past pollution and therefore does not affect today's marginal cost of production, there should be *no* shifting of costs to consumers.

The Climate Superfund assessment would be placed on companies that engaged in the extraction of fossil fuels or the refining of petroleum during the covered period, which runs from 2000 through 2018, a period long after the dangers of greenhouse gases were recognized. These companies would be charged a pro rata share of a fixed amount of $3 billion annually if their products resulted in the emission of at least one billion tons of greenhouse gases during the covered period.

There is a longstanding scientific consensus that greenhouse gas emissions contribute to climate change. According to the National Climate Assessment prepared by the United States government, climate change has already caused a wide range of damages that have placed a burden on taxpayers across the nation, including in New York. These costs will continue to increase. Substantial adaptation expenditures at all levels of government, as well as by businesses and individuals, will be required to reduce exposure to these harms as well as to remediate damages.

In a market economy, companies can be expected to charge prices that maximize their profits. The profit maximizing price for any good will be a function of the cost of production and demand. Companies will increase the price of their goods up to the point at which the marginal increase in profits from the price increase is offset by a decline in profits due to a reduction in the quantity of the goods demanded.

Because the contemplated assessment would be based on historic contributions to the current stock of greenhouse gases in the atmosphere, it would *not* affect *future* production costs. It would therefore be treated as a fixed cost that would be borne by the *owners* of the relevant companies.

There are additional strong market forces that will deter any cost shifting by the covered companies. The Climate Superfund assessments imposed on companies will vary from zero (companies that did not exceed the threshold) to hundreds of millions of dollars annually. Even if a company hit with a large assessment (Company A) might wish to raise its prices to recoup the cost of the assessment, it won't be able to do so in a competitive market. If it does raise its price, however, and its competitors do not raise their prices, Company A will see demand for its product go down as consumers switch to a lower-priced competitor. To maximize its profits, Company A would abandon the price increase.

Further, the specific attributes of the global oil market preclude price increases resulting from the Climate Change Superfund assessments. The price of crude oil is set by the global market, based on the global balance of supply and demand. Individual companies cannot directly raise the price of crude even if it would be in their interest to do so. The price of gasoline at the pump, derived from crude oil, is set by a combination of global crude prices, refining costs, distribution and marketing costs, and local taxes and fees. The Superfund assessment does not impact any of those factors, as it is assessed too far upstream to impact local costs, and is far too small and affects too limited a universe of companies to impact global prices.

Finally, the companies likely to be covered by the Superfund assessment can easily afford these costs. The world's largest oil companies all enjoy significant operating revenue and significantly large profits. ExxonMobil, for example, made $36 billion in *profits* last year alone. Even a substantial assessment could be absorbed by these companies without causing disruptions in their operations.

Given the growing damages caused by a worsening climate, the expenses needed to shore up public protections from climatic changes (such as rising sea levels, more intense storms, and hotter temperatures), the Climate Superfund offers a unique way to shift the burden of at least some of those costs from the taxpaying public to the companies most responsible. It does so in a way that should protect the public from cost shifting by the impacted companies.

Concerns about the impact of the Climate Change Superfund on consumer prices are unfounded and should not affect your support for this critical legislation.

Sincerely,

Joseph E. Stiglitz
University Professor
Columbia University