

# “PRICELIST 2.0” FRAMEWORK

4/9/2011

A straightforward proposal to drive better alignment  
between Business and Society

# The “problem” as I see it...

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- We have debated for 15+ years about “climate change” and carbon-taxing. Over that decade-and-a-half, the conversations we have gone through (and are still going through...) include:
  - *Is this natural occurrence or is (at least some part of it) because of our industrialization?*
  - *If we share some part in it, what can we do about it?*
  - *If we must pay for it, who pays?*
  - *How do we tackle “global” problems like this where we have a highly integrated global economy?*
  - *If we all can’t agree as to “who pays and how much” then what do we do?*
  - *Etc, etc....*
- While we are still sorting through carbon, there is a long line of “next global problems” including environmental challenges like emerging water shortages, and rapidly evolving health issues like Type 2 Diabetes, Obesity, etc.
- I’m not convinced we have the luxury of trying to deal with each of these challenges in a sequential fashion, as a wholly independent issue
- ***I believe we could benefit from some sort of structured system-wide approach that recognizes the common aspects of our global institutions in each of these challenges, and provides a framework for leveraging them in a more holistic manner.***

# “Pricelist 2.0” objectives

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- To design an adaptive system that readily fits within the current way business, government structures work
- To describe an approach and step-wise methodology for implementing a first-order externality pricing scheme with global application
- To serve as a framework for pulling together and providing high level context for existing externality pricing research projects, special purpose advocacy organizations, etc.

# Beliefs, Assumptions

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- Businesses are essentially “**economic machines**” that are geared to react to pricing inputs to determine “lowest risk” paths to generating profit
- Business case assumptions drive business innovation; meaningful adjustments to pricing assumptions & inputs attract scarce “**management attention units**”
- “**What gets measured gets managed**”. Financial measurements are the only common and consistent measures across any company
- Governments world-wide desire structures that allow for **global agreements while retaining local ownership**, control

# What is Pricelist 2.0..?

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- A systematic approach to drive consistent pricing strategies of ***top environmental & societal externalities*** across ALL businesses in ALL regions.
- Key elements of system:
  - ▣ Non-zero price list of 10 to 15 inputs/outputs (eg: carbon, water, trans-fat, etc.) that are widely regarded to have direct traceability to key externalities
  - ▣ Non-zero pricing discount tables for regional (national) adjustments
  - ▣ Defined implementation timelines for incorporating pricing into government regulation
  - ▣ Collaborative, open membership research platform for ongoing deriving and adjusting of prices
  - ▣ Open simulation environment for exploring impacts of price changes on business, consumer, and societal behaviour

**Slide 5**

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user, 3/15/2011

# How does Pricelist 2.0 Concept Work?

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- At global level (possibly as output of G20 or related organization) there is a single agreed **Global Pricelist (GPL)**
- For each jurisdiction (typically at national level), there is a **Local Discount structure (LDS)** and an associated **Local Implementation Timeline (LIT)**
- All local businesses are charged by local government for inputs used (or outputs created) as per **GPL\*LDS\*ITL** pricing timetable
- For business, this fits within all existing business processes, becomes “cost of doing business” and ultimately gets built into business case modeling and standard gov’t remittance processes
- For businesses, this may/will require new **measurement systems** for actual metering of input usage, output creation
- For Government, this becomes part of existing revenue collection process and regulatory management framework

# Example #1: Carbon (CO2) pricing

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## □ Ex: Global Price (GBL) agreed by G20 @ \$50/T

- Jurisdiction A is aggressive on Carbon (possibly because not having many carbon intensive large companies) and sets following LDS (local discount), LIT (local timeline):

LIT	Yr 1	Yr 3	Yr 5	Yr 10	Yr 20
LDS	.50	.60	.75	.9	1.0
Act.Price	\$ 25	\$ 30	\$ 37.5	\$ 45	\$ 50

- Jurisdiction B is much less aggressive on Carbon (as they have many carbon intensive large companies) and sets following LDS (local discount), LIT (local timeline):

LIT	Yr 1	Yr 3	Yr 5	Yr 10	Yr 20
LDS	.10	.20	.30	.5	0.75
Act.Price	\$ 5	\$ 10	\$ 15	\$ 25	\$ 37.5



# Ex.#1 Continued...

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- What have we accomplished within this simple example?
  1. **Unequivocally set a non-zero global price** for a key externality over which we (globally) have major concerns
  2. Retained **local jurisdictional control** over pricing charged to local business participants
  3. Sent **clear pricing signal & related timeframe to all businesses** so they can plan their business investments based on their own local risk management concerns
  4. Created **revenue sources for local governments** for externalities clean-up (and/or general operations)
  5. Have made (currently opaque) **local industrial strategy visible and transparent**

# Ex.#1: What is net result?

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- **All businesses globally** have strong financial incentives – depending on what jurisdictions they operate in -- to investigate all opportunities to reduce their costs and innovate accordingly with:
  - Techniques for input reduction (eg: water pricing) and output reduction (eg: CO2) to reduce “cost of doing business”
  - Experimentation of new materials, new approaches to “re-envision” their business to create less of “priority” externalities
  
- **All governments globally** face balancing off of new revenue sources vs. “open for business-as-usual” stance and are under the ongoing influence of local, global peer-pressure due to transparency of approach
  
- **All consumers globally** will face new pricing realities as costs start to flow through to us over time... thus forcing us to re-examine our actual consumption habits and make our purchase choices accordingly

# Why Might this Work?

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- **Governments** want and need ability to sign-up to and follow global frameworks while maintaining local control to be able to appeal to local voters.
- **Businesses** respond to pricing inputs & planning horizons (timelines) – these two elements give them all the information they need to effectively and proactively manage their business risks. (Large multinationals have been using Global Pricelists with regional Discount structures for decades. This is nothing new to them.)
- **Consumers** already know how to make price vs. value tradeoffs. As new pricing comes through we constantly re-evaluate our needs/wants and make purchase and lifestyle decisions accordingly.

# This goes “with the grain”...

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- We don't have to design new approaches to how we run our institutions:
  - Businesses require no new processes. They already know how to respond to pricing signals. It's in their “blood”.
  - Governments know how to tax, and how to regulate.
  - Control over local pricing is understood in all jurisdictions, and they don't lose any control from what they have today.
  
- Everybody gets what everybody (say they) want.
  - Businesses get clarity, predictability, timeframes to respond within.
  - Governments get local control. Governments get extra sources of revenue.
  - Citizens get clear messages on what externalities we (globally & locally) are concerned about and are “taking action” on.
  - Citizens at local level have full visibility of priorities of their jurisdiction and can respond accordingly through standard “civil society” mechanisms.

# Reframing from “If” to “How Much?”

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- With this approach, in one structured move we have the ability to reframe the debate from a sequential series of... **IF?**
  - ▣ *Are we responsible (for global warming, lack of water, or obesity, or...), or is it natural? And if we are responsible, shouldn't the industrialized countries (or some group) subsidize the developing (or some other group) countries? And if we are going to do this, should we outlaw it, make it a tax, a cap & trade, or something else?*
- To.... **HOW MUCH & WHEN?**
  - ▣ *We are doing (no more and no less) than recognizing we pay for our own pollution/externalities. We have an agreed global system within which each government has the full ability to manage their own affairs.*

# Importance of this reframing

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- ***By moving the debate from “IF” to “HOW MUCH?” we put the focus on managing a pricing mechanism:***
  - In a market-based economy, EVERY PARTICIPANT understands, works with, and responds to pricing signals – the absence of a price means we ascribe no value to it
  - By publishing non-zero prices (and non-zero discounts) all market participants respond accordingly and manage their own perceived risk/value at known pricing levels;
  - Over time, market participants will either push prices up or down depending on perceives net (economic & social) value.
- ***Initially, the actual price agreed is less important than having a non-zero price for the market to respond to.***

# Some specific concerns

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## □ Concern:

1. What if someone “hijacks” the system?
2. Which elements belong in Pricelist 2.0?
3. Who can participate?
4. What if the global prices are “wrong”?
5. What if some jurisdictions set very (low) discount rates?
6. Should all global prices apply to all industries?

## □ Response

1. Structure as open, not-for-profit collaborative environment. Allow all interested parties to participate and make participation transparent.
2. Initial focus should be on (a) global relevance with (b) good data sets and (c) readily measureable.
3. Anyone who is (a) interested, (b) real, and (c) operates in the light (no anonymity)
4. Doesn't matter – in first instance, any price is better than no price
5. That is expected. Government peer pressure and local opposition will drive up discount rate values (towards 1.0) and shorten implementation timelines over time.
6. Conceptually it is straightforward to have separate global pricelists for specific industries. It is envisioned that some global prices would still flow across all industries.

# Ten Concrete Steps to make this real...

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- Step #1:** Agree small “working group” with X-functional membership to put together overall “straw-man” proposal
- Step #2:** Agree top global externalities (environmental, social) that should be focus of immediate activity, first “Pricelist 2.0”
- Step #3:** Agree single “element” (as input or output) that at 1<sup>st</sup> order “represents” the externality (eg: CO<sub>2</sub> = climate change, H<sub>2</sub>O = water shortages, NaCl = Type 2 Diabetes, HFCS55 = obesity, etc...)
- Step #4:** Review existing literature, research to determine 1<sup>st</sup> order approximation to price for each element
- Step #5:** Review existing knowledge base on current, evolving ability to effectively measure (in industry) use of these elements



# Ten Concrete Steps to make this real...

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- Step #6:** Research 15 – 25 representative large public corporations (across multiple industries) and re-estimate their current financials to see impact TODAY of moving to full “Pricelist 2.0”
- Step #7:** Using global leaders as “proxies”, extend results of study above to estimate total impacts (\$\$) on industries & estimates of government funds raised (at full implementation of Pricelist 2.0)
- Step #8:** Publish study results in various forms, arenas to raise profile of concept and to illustrate possible shifts in behaviour by all players (business, government, consumers) under this approach
- Step #9:** Sponsor/oversee adoption of continuing project into independent not-for-profit with open, free membership to researchers, business analysts, academics, government policy analysts, interested citizens, etc.
- Step #10:** Sponsor/oversee development of simulation environment (eg: like “SecondLife”) so that various pricing scenarios, implementation timeframes, can be modeled. Allow and encourage actual businesses to operate their own profiles, experimentations within the simulation environment.

# Pricelist 2.0 conclusions

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- While not a “small piece of work”, it is **very straightforward** and builds on all the work done to date on externality research & pricing levels, public policy advocacy, etc.
- It can serve as an **umbrella framework** which can reframe, focus, and prioritize much of the existing work in this area.
- It envisions **leveraging existing collaborative** technical solutions (wiki’s, simulation environments) to maximize participation, drive experimentation, and minimize ownership by any single vested interest group.
- It **readily aligns** with how markets, businesses, and governments already work, and can be **effectively implemented** by all market participants.
- Without requiring massive political will at a global government level, it could be **made real very quickly**.
- Within some **reasonably small funding envelope** it could be developed in much greater detail and actively advocated for as emerging public policy.

# Thank you.

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□ If you have any questions or would like to work with me on this initiative, please contact me at:

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# About Tim Ragan

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Tim Ragan is a seasoned business generalist, having logged over 25 years of experience in 11 functional capacities and 8 management and executive roles on 3 continents with 6 multi-billion dollar valued high technology corporations. Tim launched [C-View Strategies](#) to focus on helping CEO's and their teams survive and thrive in high-change environments in ways that produce powerful, positive, and lasting business results. Tim also owns and operates [Career Coaching International](#), which focuses on working with individuals to help them take control of their careers and discover and fulfill their true work-life passions.

Tim is passionate about “business done well” and is actively researching and developing various themes about how we might go about reforming business so that it is in better alignment with 21st century societal imperatives. While still very early in the exploration of this massive undertaking, the outlines of an approach to driving key changes are starting to be seen in [The Business Detox Project](#), which has been structured as a not-for-profit research and policy advocacy organization.

Tim has a B.Sc. (Electrical Engineering) from University of Alberta and an MBA from University of Ottawa, where he sometimes teaches “Business & Society”, a course that examines the ethical and moral implications of modern business and its interaction with government and civil society. He has previously taught marketing and BPR (business process redesign) courses at the undergraduate and graduate levels.

To follow some of Tim's other interests, you can [read his blog](#).

# FAQ's & Comments

## **These questions & comments – and my responses in blue – have been generated from the feedback thus far...**

- Who is the intended audience for these slides, or perhaps for the paper that these slides could become? The audience matters because of the language that you use. If the audience is economists or policy-makers or policy analysts, I think the language is quite a turnoff. There is a great deal of what might be viewed as business school speak in these slides, and that audience will, I think, close their minds pretty quickly to anything they see like this. The reason is that in their minds there is already a well-established language for the concepts you are addressing. If, however, the audience is mostly business types, then perhaps the language is OK. But since you are talking about implementing a fundamental change in the tax system, ultimately this scheme will have to make it past economists and policymakers.
  - *You are right. This is absolutely written in "business speak" and I am intending to push it first with business types. My belief is that if business names get behind it then it can get some momentum in the other fields... business wants "predictability" so they can plan long horizon capital investments and this framework attempts to provide that. I do envision that as the project gains momentum this framework would be reinterpreted into the language of politics, environmentalists, researchers, etc. to communicate best with each community.... I started with business because it is what I understand best and where I think the initial buy-in has to come from...*
- The idea of incorporating the costs of externalities into prices (through taxes or other means) is not at all new in economics. The essential idea for this is a Pigouvian Tax and the work was done between 80-100 years ago, with more modern stuff done by others in the 1960s. Indeed, this is now such a common idea in economics that we often no longer attribute the idea to Pigou. This is actually the ultimate sign of an idea that has become fully mainstream -- so much a part of our thinking that we often forget its origins. So no one really does research on this idea any more, just as nobody really does research anymore on the idea that a disruption in supply might cause a rise in price.
  - *Absolutely agree. I first studied "environmental economics" in 1981 in an undergraduate economics course. It amazes me that we have not managed to – in the 30 years since – move this very far forward in actual implementation. But that does seem to be the case. Calling it a price – rather than a tax – is more about packaging it and providing the signal to the broad society that there is a "price" that must be paid for externalities.*
- The "hot area" here, then, is not the idea itself, but whether we can do it in practice. But even here there is lots of experience with taxes on various products. Excise taxes on cigarettes or alcohol or gasoline were probably not initially put in place because of the logic of the negative externality, but in essence they are taxes of precisely this type. These "sin" taxes exist mostly because they are great revenue sources (applying as they do to products for which there is a quite inelastic demand, thus making them quite efficient taxes!), but we could easily view them as reflecting the inherent externalities associated with the consumption of these products.
  - *Again, this framework is intended to be relatively straightforward in practice. We do lots of this stuff already. The big difference is that I am somewhat counting on my personal belief that there is not an inelastic demand for these new taxed items and so that by setting visible prices we strongly incent business people to actively redesign their businesses to use less of the costly inputs – hence over time actually reducing those externalities...*

# FAQ's & Comments – continued (2)

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- I think the only "hot policy issue" is whether we can design an overall system -- which is what you are suggesting -- in which we identify a large list of externalities, including both environmental and social ones. Your concept of a "PriceList" is really a global agreement about a list of externalities and the associated marginal external costs (using the language of economics).
  - *I don't disagree. At this point I think the important thing is agreeing to price things and to set some sort of "global" price... as I say in the piece, getting a non-zero price set initially is far more important than the actual price (well, that is true as long as the initial price set is not stupidly low... but that is probably another debating point). Setting a non-zero price sends a clear signal to business that their cost structure has changed... and boy oh boy does business know how to respond to that...*
- This is where I think you have a new idea -- not the idea of a tax, but of splitting the tax into two parts. The first part is the agreed-upon price, which is the same across the globe. The second part is the country-specific price path that eventually gets to the full price. As you say, this offers a way (or at least the perception of a way) for each country to "own" their policy rather than have it imposed through an international body. Politics obviously matters, so this is no small thing.
  - *I believe this is the only thing that makes it at all palatable to individual countries to sign up to a global price list concept. As a politician, you now get the best of both worlds. You can agree at the global level that we must take these externalities seriously and hence agree to a global price, but still retain control over the actual price charged in your local jurisdiction. You are bang-on in suggesting this is the only "new" idea to economists in this externality debate – but in fact this is not a new idea at all to business people... large companies do global price lists all the time to reflect the idea of a list price and also regional differences...*
- You argue/state that this two-part approach makes it easier to implement this kind of tax/pricing system because we would then have a specific number in place and then peer pressure among countries combined with public pressure will induce countries to eventually get to the full-cost pricing. I am not convinced that this is true. Having seen a little of the discussions and negotiations at the G20 and UN forum, I can easily imagine what would happen: (a) when negotiating the "price list", there will be a huge debate about the science and economics behind the marginal external cost of the specific externality under discussion – some legitimate and genuine disagreement, however lots of posturing also.... (b) and then once there is some agreement on the price list, there will be an even larger disagreement about each country's negotiated price path -- with everyone arguing that they should be allowed to go slowly but that others should move more quickly slowly, as is currently the case in the UN discussions.
  - *The most important thing is to get G20/UN to agree to the CONCEPT that we must price our externalities, and those top level prices... I am under no illusions that governments will not continue to operate in completely self-serving ways (as will individuals and businesses) however by signing up to the concept we start to completely reframe the ongoing debate... away from IF and more towards WHEN.... This is where the logic of business kicks in and starts to drive the agenda by reallocating investment dollars based on how they perceive future risk... and if they see advantage in being seen as "industry leaders" in reducing externalities they will push for a faster move to global pricing levels to show consumers that they "care" and are good corporate citizens (in fact they are seeking to lock in their competitive advantage of being "first movers"...)*
  - *I believe that the reason the current G20/UN debates get bogged down is that once you sign up to a global price (in the current approach) you are locked in.... with this proposed framework any government can both support a global price list and still get to implement the price/timeframe they can "sell locally". The difference now is that it is public, transparent, and part of a global framework & agreed process, and readily open to ongoing influencing by businesses, the social sector, and peer governments.*

# FAQ's & Comments – continued (3)

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- You suggest that the G20 might be a good forum for such a thing. With regard to climate change (and thus carbon pricing), many members of the G20 currently refuse to talk about this issue because there is already a well-established process for this at the UN, although it is difficult to imagine a more dysfunctional process. That being said, I can't really imagine any "smoother" process that would get 197 countries together at a table to discuss quite complicated stuff.
  - *I don't disagree about the dysfunctional nature of our global forums... unfortunately we'll have to leverage them to the degree possible. Again I believe that if global businesses get behind this kind of thinking then they will help push their respective governments to arrive at global agreements... at this point I don't see any other alternative, however I am definitely open to some alternative approach...*
  - *Trying to be a realist, I have proposed a framework that allows today's politicians to sign up to a global pricelist (receiving accolades for being a good global citizen) but also promote local caution with a longer timeframe and discount rate... however no doubt they will show an acceleration towards closing the gap to full global pricelist in future years and future discount rate when – in the future – they personally will no longer be in power.... but these signals drive massive business re-investment and so proactive business will act as a backstop and will not want to see future governments backslide on previous commitments....so essentially today's business investment decisions will "ratchet" up the pressure on governments to not backslide on future price levels.... Or so I hope....*