BILL ANALYSIS

THE ENERGY INNOVATION AND CARBON DIVIDEND ACT OF 2018 (HR 7173)

On Nov. 27, Reps. Ted Deutch (FL-22), Brian Fitzpatrick (PA-08), Francis Rooney (FL-19), John Delaney (MD-06), and Charlie Crist (FL-13) introduced H.R. 7173, the Energy Innovation and Carbon Dividend Act of 2018 (EICDA).This is the first bipartisan carbon pricing bill of its kind and is an exciting advancement of Congressional efforts to price carbon emissions and reduce greenhouse gases.

BILL SUMMARY

The EICDA places a price of $15 per metric ton of carbon dioxide, starting in 2019. The price will increase by $10 per year and increases to $15 per year if the previous year's emissions goals are not reached. The fee is assessed "upstream," which means it is collected at the refinery, coal mine, or natural gas transmission system level.

The bill establishes a "Carbon Dividend Trust Fund" in the US treasury using 100 percent of the net revenue raised from this fee, which is distributed as a dividend back to households. Dividends are paid in a pro-rata share to each adult with a Social Security Number (SSN) or Tax payer Identification Number (TIN), with a half-share paid to each child (not exceeding two children). The dividends are not taxable as income and won't factor into the determination of other federal assistance programs.

Under the EICDA, the Environmental Protection Agency (EPA) is not allowed to regulate greenhouse gas emissions covered in the legislation on the basis of their greenhouse gas effects. However, the EPA can still regulate these emissions because of any adverse health impacts they have, and the legislation will not change the EPA's ability to regulate emissions from new motor vehicles. If the cumulative emissions reduction goals are not being met after 10 years, the regulatory authority is restored.

The bill exempts fuels used for farming from the carbon fee and specifies that the fee should not be levied on other agricultural greenhouse gas emissions, such as methane from livestock.

OUR PRINCIPLES

FCNL's carbon pricing principles help us evaluate carbon tax legislation. Here is how the EICDA aligns with our principles:

PRINCIPLE	DOES THE BILL DO THIS?	
Enact a Price on Carbon High Enough to Drive Reduction in Greenhouse Gas (GHG) Emissions The most important outcome for a carbon tax is the reduction of GHG emissions.	This bill sets an ambitious fee and is projected to reduce U.S. carbon pollution by 33 percent in 10 years below 2015 levels. Ultimately, the bill seeks to reduce emissions by 90 percent by 2050. This legislation exceeds our commitment to the Paris Climate Agreement and exceeds the Clean Power Plan reductions by three times.	✓
Prevent "Leakage" Leakage occurs when GHG producers move their operations to another country without a comparable carbon pricing system.	The bill includes a carbon border fee adjustment to keep the global competitiveness of U.S. manufacturers. Imported fuels and carbon intensive products that are covered by the bill pay an equalization tariff if the country of origin does not price carbon. This incentivizes other countries to price carbon. The bill is designed for World Trade Organization (WTO) compliance.	✓

PRINCIPLE	DOES THE BILL DO THIS?
Reporting and Transparency To ensure we reach emissions reductions goals, measuring, reporting, and verifying should take place at both the facility and national level.	Emissions reduction goals are clearly specified for each year through 2050. The Secretary of Energy and National Academy of Sciences will prepare an interim report no later than 10 years after enactment to review the program's impacts and efficacy.
Course correction If the set price is not sufficiently driving down emissions, then the price should increase.	The carbon fee increases from \$10 to \$15 per metric ton of carbon dioxide each year the goal is not reached.
Protect Vulnerable Communities The carbon tax should follow a "polluter pays" philosophy and ensure that the costs are not borne by vulnerable and low-income communities.	The money raised by the fee does not specifically designate funds for lower income communities, instead providing a dividend to each household. However, an analysis from the Department of the Treasury concluded that 53 percent of households would receive a net financial benefit from the bill. A study by Kevin Ummel, formerly with the International Institute for Applied Systems Analysis, found that nearly 90 percent of households living below the Federal Poverty Level are benefited by the policy. The income sector that would not receive a financial gain from the rebate is the top 1 percent of the population. We are pleased that the dividend does not factor into the determination of other federal assistance programs. Ultimately, more direct protections for low-income people, communities of color, and front-line communities will be needed.
Invest in An Affordable Clean Energy Future Revenue from a carbon tax should also be invested in renewable energy research, development, and efficiency.	The bill does not invest revenue into clean energy research. However, making fossil fuel use more expensive will stimulate investment in clean energy technologies, competition,and innovation.

WHAT ABOUT THE REGULATIONS?

At FCNL, we believe that regulations are a necessary tool to reduce U.S. GHG emissions. FCNL is concerned about the limitation of EPA regulatory authority included in the EICDA, though we are pleased that regulations will kick back in should the carbon fee not achieve the desired emissions reductions. Overall, FCNL remains committed to defending important environmental regulations that protect the environment for all people.

IN CONCLUSION

FCNL has worked for years to cultivate the space in Congress for meaningful, bipartisan action on climate change. We are pleased that the EICDA helps advance the conversation on carbon pricing between both political parties. We believe that more legislation beyond only a carbon tax will be needed to protect and benefit low-income, front-line, and communities of color. We also believe that emissions from the agricultural sector need to be reduced in order to fully address the problem. Overall, we believe that this legislation helps build an important foundation for robust dialogue and action on climate change in the 116th Congress.