BILL ANALYSIS

THE STEMMING WARMING AND AUGMENTING PAY (SWAP) ACT (H.R. 4058)

On July 25, 2019, Reps. Francis Rooney (FL-19) and Dan Lipinski (IL-03) introduced the bipartisan H.R. 4058, the Stemming Warming and Augmenting Pay (SWAP) Act.

BILL SUMMARY

The SWAP Act places a price of $30 per metric ton of carbon dioxide, starting in 2021. The price will increase by 5% plus inflation each year, and automatically increases by $3/ton every two years 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. It also covers large industrial emitters, reaching about 85 percent of U.S. greenhouse gas emissions in total.

Revenue funds a variety of purposes. Seventy percent of the gross revenue is used to reduce payroll taxes. Ten percent goes to social security beneficiaries. The bill establishes a "Carbon Trust Fund" with the remaining 20%, which funds state block grants to offset higher energy costs for low-income households, climate adaptation, energy efficiency, carbon sequestration, and advanced R&D programs.

The SWAP Act prevents the Environmental Protection Agency (EPA) from regulating greenhouse gas emissions from stationary sources (like power plants or refineries) based on their warming effect for 12 years. However, the EPA can still regulate these emissions to prevent adverse health impacts. The legislation will not change the EPA's ability to regulate emissions from new motor vehicles. The regulatory moratorium is lifted if emissions reductions do not meet the targets after four and eight years. The bill provides a refund for sequestering carbon emissions from taxed fuels.

OUR PRINCIPLES

FCNL's carbon pricing principles help us evaluate carbon tax legislation. Here is how the SWAP Act 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 seeks to reduce U.S. energy-related carbon pollution by 41 percent below 2005 levels by 2030. This legislation exceeds our commitment to the Paris Climate Agreement and would exceed the reduction requirements under the Clean Power Plan. Ultimately, we need to achieve net-zero emissions by 2050. This bill can be an important first step.	✓
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.	✓

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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 2031, and an annual report must be filed by the Treasury Secretary and EPA Administrator to disclose the emissions reductions levels that were achieved.	✓
Course correction If the set price is not sufficiently driving down emissions, then the price should increase.	The price will automatically increase by $3/ton every two years if emissions reductions are behind the goals.	✓
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 bulk of the revenue is used to reduce the payroll tax, which is a regressive tax. Payroll taxes, used to finance Social Security and Medicare, are paid by both employees and employers. On average, low and middle-income taxpayers pay a higher percentage of their incomes towards the payroll tax than wealthy individuals, according to the Center on Budget & Policy Priorities. While reducing the payroll tax would benefit many lower-income families, it would not benefit the very poorest or those not in the wage economy, who don't pay the tax. However, ten percent of the total gross revenue – half of the Carbon Trust Fund – funds state block grants to offset higher energy costs for low-income households. While this is a good start, ultimately more protections will be needed for the most vulnerable.	✓
Invest in An Affordable Clean Energy Future Revenue from a carbon tax should also be invested in renewable energy research, development, and efficiency.	Ten percent of the total gross revenue – half of the Carbon Trust Fund – funds climate adaptation, carbon sequestration, energy efficiency, and advanced R&D programs.	✓

WHAT ABOUT THE REGULATIONS?

At FCNL, we believe that regulations are a necessary tool to reduce U.S. GHG emissions. FCNL is concerned that the bill limits EPA's regulatory authority. However, we recognize that the regulatory moratorium ends if the carbon fee does not achieve the desired emissions reductions. Overall, FCNL remains committed to defending important environmental regulations that protect the environment for all people.

IN CONCLUSION

The SWAP Act continues to advance the conversation on carbon pricing between both political parties. We are pleased that there are now multiple bipartisan carbon pricing bills in Congress. While ultimately, we believe that legislation beyond a carbon tax will be needed to protect and benefit low-income, frontline, and communities of color, this bill makes an important contribution to the dialogue on climate solutions in Congress.