ELCA Carbon Pricing Principles and the Energy Innovation and Carbon Dividend Act

WHEREAS, in October 2019 ELCA Advocacy published a primer on "Carbon Pricing Basics" that provides an overview to the topic and identifies several principles rooted in ELCA social statements that "can move us toward the pressing goal of reduced GHG emissions and just application of that [carbon] pricing or policy";[1] and

WHEREAS, the "Energy Innovation and Carbon Dividend Act of 2019"[2] has received bipartisan support in the last two sessions in Congress and is broadly consistent with the following principles outlined in ELCA Advocacy's "Carbon Pricing Basics" primer:

- Any carbon tax must be structured to respect the jeopardy of vulnerable populations and those living in poverty.

  Each year for ten years, a rising annual fee is charged on carbon fuels at their source but 100 percent of the net revenue is returned to households in the form of a monthly dividend. Equal monthly per-person dividend payments shall be made to all American households (½ payment per child under 18 years old, with a limit of 2 children per family) each month. The total value of all monthly dividend payments shall represent 100% of the net carbon fees collected per month. For example, in year 10 a family of four would receive an annual dividend of $4,410 paid on a monthly basis. Several studies conclude that households in the lowest three quintiles will come out ahead and that households in the lowest quintile benefit the most from this carbon fee and dividend approach.

- Any carbon pricing mechanism must not be fiscally regressive but rather must respect vulnerable populations and those living in poverty.

  While carbon-based fuels will increase in price, the amount of the monthly dividend offsets the regressive impacts for the lowest three quintiles. To be eligible for the monthly dividend, individuals need either a Social Security Number (SSN) or an Individual Tax Identification Number (ITIN), which are available to some non-citizens and are required for most people who receive a paycheck from an employer. An individual's ITIN is protected under privacy laws and is not shared with Homeland Security/ICE.

- Emissions targets should be consistent with credible science and with the IPCC special report's directive that global warming be kept at 1.5 degrees Celsius or less.

  The bill sets a target of 90% GHG emissions reductions by 2050, with a set of interim targets that starts in 2025. While the IPCC report states that Annex I countries (which includes the US) need to achieve 25-40 percent emissions reductions relative to 1990 by 2020, the CCL bill language allows for adjustments in the rate of increase to meet science-based emissions targets. Starting in 2025, if the emissions cuts don't keep

[1] ELCA Advocacy, "Carbon Pricing Basics," October 2019.
[2] H.R. 763, Energy Innovation and Carbon Dividend Act of 2019.

up with the emissions reduction schedule described above, the annual increase in the carbon fee can be strengthened from $10 to $15 per metric ton.

To align US emissions with the physical constraints identified by the Intergovernmental Panel on Climate Change (IPCC) to avoid irreversible climate change, the yearly increase in carbon fees including other greenhouse gases, shall be at least $10 per ton of CO2 equivalent each year. Annually, the Department of Energy shall determine whether an increase larger than $10 per ton per year is needed to achieve program goals. Yearly price increases of at least $10 per year shall continue until total U.S. CO2-equivalent emissions have been reduced to 10% of U.S. CO2-equivalent emissions in 1990.

- An adjustment mechanism should be included in case the emissions targets are not being met.

In order to ensure there is no domestic or international incentive to relocate production of goods or services to regimes more permissive of greenhouse gas emissions, and thus encourage lower global emissions, Carbon-Fee-Equivalent Tariffs shall be charged for goods entering the U.S. from countries without comparable Carbon Fees/Carbon Pricing. Carbon-Fee-Equivalent Rebates shall be used to reduce the price of exports to such countries. The State Department will determine rebate amounts and exemptions if any.

- Federal agencies should not be prohibited from proposing new regulations on GHGs if such regulations are needed.

The bill only affects EPA regulations on greenhouse gases covered by the carbon price, and only as long as emissions targets are being met. It also only affects GHG regulations based on global warming potential. The EPA would still be able to regulate GHGs for negative health effects, air pollution, etc.

If, after 10 years, targets are not being met, the bill requires that the EPA implement additional regulations to meet those emissions reduction targets. This gives clear direction to the EPA from Congress that would prevent the type of court challenges that have hampered policies based on the current authority of the Clean Air Act — some of which have yet to be enacted over 10 years after that authority was confirmed by the Supreme Court.

The Energy Innovation and Carbon Dividend Act is designed in a way that EPA regulations shouldn't need to be reinstated after 10 years. Current modeling shows the legislation meeting its strong emission targets. CCL is fully confident that this bill will keep emissions in line with the reduction schedule through at least 2030. Further good news is that not only is regulatory authority restored to the EPA in the event of not meeting emission targets after 10 years, but EPA authority would be strengthened to "require" the EPA to institute regulations to meet emissions targets. This is stronger regulatory legislation than has ever existed in the US.

- An effective carbon tax must be applied to as many sectors as possible. Because of the global nature of the problem, border issues and trade policies must also be considered in designing the tax, so that problems aren't remedied through workarounds.

Upon enactment, the legislation will impose a carbon fee on all fossil fuels and other greenhouse gases at the point where they first enter the economy. The fee shall be collected by the Treasury Department. The fee on that date shall be $15 per ton of CO2 equivalent emissions and result in equal charges for each ton of CO2 equivalent emissions potential in each type of fuel or greenhouse gas. The Department of Energy shall propose and promulgate regulations setting forth CO2 equivalent fees for other greenhouse gases

including at a minimum methane, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons, and nitrogen trifluoride. The Treasury shall also collect the fees imposed upon the other greenhouse gases. All fees are to be placed in the Carbon Fees Trust Fund and be rebated to American households as outlined below.

- The process for identifying problems and implementing solutions in a carbon tax should be participatory and transparent for all stakeholders.

  CCL is honored to be actively working in outreach efforts with communities throughout the country, especially members of the congressional Black Caucus, Hispanic Caucus, and Asian Pacific American Caucus. 60 percent of the Energy Innovation Act's initial 80 cosponsors this past session were members of one or more of these caucuses. There is still much opportunity to work together and garner the input from stakeholder groups during the committee markup process in the House, reintroduction of the Senate bill and its markup process, and the eventual conference committee negotiations. Democracy is better when there are many and varied voices at the table, and CCL is working to enable this.

- The pricing mechanism itself should be transparent and accountable to government authority to ensure that goals are being met.

  Many economic studies have found that carbon fees on greenhouse gas emissions are the most efficient, transparent, and enforceable mechanism to drive an effective and fair transition to a domestic-energy economy.

- Portions of the revenue collected should be used to invest in worker transition, community resilience and renewable energy, with priority given to helping all communities adapt and become more resilient.

  As currently envisioned, the Energy Innovation and Carbon Dividend Act does not carve out portions of the fee revenue for worker transition, community resilience projects, or the installation of renewable energy systems in frontline communities. This is because a revenue-neutral approach to carbon pricing has achieved the highest level of bi-partisan support and thus has the best chance of being passed into law. There are many complementary policies to carbon pricing, however, that Congress could enact to address these very legitimate concerns.

- Transparency and accountability should be built into the pricing mechanism.

  As noted above, many economic studies have found that carbon fees on greenhouse gas emissions are the most efficient, transparent, and enforceable mechanism to drive an effective and fair transition to a domestic-energy economy.

- The mechanism for awarding rebates to individuals/households should reach the most vulnerable, regardless of income or citizenship.

  As currently proposed, the Energy Innovation and Carbon Dividend Act would provide annually increasing monthly dividends to those living in the United States with a Social Security Number or an Individual Tax Identification Number (ITIN). Several studies conclude that households in the lowest three quintiles will come out ahead and that households in the lowest quintile benefit the most from this carbon fee and dividend approach.

- Existing environmental and climate change protections should not be rolled back.

  The Energy Innovation and Carbon Dividend Act maintains the EPA's authority to keep our air and water clean and healthy by enforcing the Clean Air Act and the Clean Water Act. It also allows for the continuation of Corporate Automotive Fuel Economy (CAFE) standards, the Renewable Fuel Standard (RFS), and the ability to regulate methane leaks. The limits in this bill are minimal, and this policy will achieve much higher emissions reductions than any regulations proposed to date. In fact, it is designed to cut U.S. emissions in 2030 nine times as much as the Obama administration's Clean Power Plan would have if it had gone into effect.

  It is important to note that there are many complementary policies to carbon pricing that Congress could enact to help solve climate change. This bill is designed in a way that allows for other policies to work alongside it. That is why we support a strong price on carbon that can pass now with bipartisan support and can be in place and reducing emissions within nine months, which is much faster than new regulations could be implemented. Congress (as well as state and local governments) can also always enact further legislation addressing climate change as it sees fit or as the public demands.

Responses in light blue are drawn from Citizens Climate Lobby's resources including "Carbon Fee and Dividend Policy and FAQs" and the Energy Innovation Act Q&A. Follow-up questions about these resources can emailed to CCL's Director for Education and Engagement, Brett Cease at brett.cease@citizensclimatelobby.org.