Benchmarks for a Fossil Fuel Tax

Now that 17 Republican Members of the U.S. House of Representatives have publicly accepted that human activity is a primary contributor to global warming, the discussion can turn to realistic solutions. With senior Republicans George Schultz and Jim Baker joining libertarians like the Niskanen Center and democratic socialist U.S. Senator Bernie Sanders in endorsing a federal fossil fuel tax, this idea now has support across the American political spectrum as the best way for a free society and market economy to combat climate change. However, if our country is going to swallow the bitter pill of a new tax to achieve this policy goal, we should be sure to assemble it in a way that leads to success, and is not half-baked.

A carbon tax, which the R Street Institute has recommended be part of tax reform, will require bipartisan support in Congress. Republicans cannot pass an effective bill on their own. At least one Republican Senator from a coal-producing state is ready to filibuster any fossil fuel tax. Legislation to comprehensively and immediately repeal President Obama's bureaucratic Clean Power Plan is the only way to prevent a prolonged court battle over administrative repeal and its uncertain outcome. A bargain will avoid Democrats’ filibuster in defense of Obama's signature environmental deed. Including the following essential corollary steps, which align with President Trump's America First agenda, Republicans would be suicidal to go it alone without Democrats' sharing in the blame.

1. **Open the petroleum market to 100 percent pure plant oil diesel engine fuel**. American petroleum combustion now causes more greenhouse gas pollution than does coal. If the primary motor fuel that consumers can buy continues to remain petroleum, then all a fossil fuel tax will do is raise petroleum prices for everybody. Legislation must rescind federal policies that block lower carbon alternative fuels from coming into the market.

For instance, consider heavy duty engines that contribute one-quarter of U.S. greenhouse gas emissions from the transportation sector, and 5 percent of overall U.S. greenhouse gas emissions. Volvo Trucks reports that standards adopted by the Obama Administration disincentivize manufacturers from developing new engines to run on lower carbon alternative fuels, such as EPA-approved, 100 percent pure plant oil, commonly called "straight vegetable oil." These truck standards, like analogous car standards, count carbon dioxide emissions only at the tailpipe. Called the “Tailpipe Rule,” they also calculate fuel economy in the same way.

Petroleum combustion happens to generate less carbon dioxide at the tailpipe than pure plant oil does. Tailpipe emissions standards give petroleum and fuels that blend in subordination to it, such as 5 to 20 percent biodiesel manufactured from plant oil, a free pass on greenhouse gas emissions and fuel economy standards. The Tailpipe Rule wrongly penalizes 100 percent plant oil’s higher tailpipe carbon dioxide emissions, even though this fuel generates much lower net life cycle greenhouse gases than petroleum, biodiesel, and the other fuel processed from plant oil, called "renewable diesel" fuel (hydro-processed esters and fatty acids).

Life cycle, rather than solely tailpipe, greenhouse gas emissions tell a fuel's actual global warming impact. The extraction of fossil crude petroleum from inside the earth releases stored carbon to the atmosphere and does not sequester any in return. The growth of hydrocarbon oil-making plants on the earth's surface takes carbon out of the atmosphere. A life cycle comparison would take these differences into account.

With repeal of futile greenhouse gas and fuel efficiency standards for trucks and cars based exclusively on tailpipe emissions favoring petroleum and blocking pure plant oil diesel engine fuel, a fossil fuel tax will incentivize engine manufacturers to make engines that run on lower carbon alternatives to petroleum.

Fuel economy standards dating back to the 1970's are all based on the Tailpipe Rule favoring petroleum and punishing pure plant oil's higher tailpipe carbon dioxide emissions. Fuel-neutral standards replacing them would treat these competing fuels equally by measuring, instead of petroleum fuel consumption, engine efficiency: the amount of work an engine performs per unit of energy input, no matter what kind of fuel the BTUs are delivered in.

2. **Eliminate credits, subsidies and preferences for fossil fuels *and* renewables**. A shift away from the command regulations of the Obama Administration merits a true embrace of the power of the free market to solve the problem. This means eliminating all governmental credits, subsidies and preferences for biofuels and solar and wind electricity, as well as fossil fuels, all of which distort the market. To compensate, start with a fossil fuel tax that is higher than the $40 per ton of carbon, equivalent to 40¢ per gallon of gasoline, recommended by Schultz and Baker's Climate Leadership Council.

3. **Make the remedy as broad as possible**. Certain industrial processes, such as the calcining of lime to make cement, emit greenhouse gases beyond fossil fuel combustion. Tax them to encourage lower carbon alternatives. A credit or subsidy for the purchase of no-till plows, and a tax per head of cattle, will help reduce methane release and address what scientists tell us is the agricultural sector's 12 percent share of Americans' overall greenhouse gas emissions.

4. **Have the U.S. enforce foreign reciprocity**. A fossil fuel tax, increasing over time, is capable of bringing a perfect halt to atmospheric greenhouse gas accumulation, but only if it is imposed worldwide. Americans are understandably reluctant to surrender sovereignty, but we need not go that far. We can take the driver's seat by requiring foreign countries to adopt a fossil fuel tax package comparable to our own, or face import duties. The State Department already audits whether foreign countries comply with U.S. human rights law; the President can apply sanctions, if they do not. Countries that disregard our standards for banking transparency can be barred access to international banking. There is no better person in the world than former ExxonMobil CEO, now Secretary of State Rex Tillerson to examine the books of Saudi and Russian state-dominated petroleum companies and assay their compliance with the U.S.-led fossil fuel tax program. The requirement of a fossil fuel tax collected both at the domestic well-head and mine-mouth and on imports, enforced worldwide, has the additional benefit of encouraging U.S. consumption of domestic reserves and advantaging American manufacturers who fabricate goods using domestic-sourced energy.

5. **Put the burden of challenging the tax on foreigners, not U.S. businesses**. Current proposals envision an agency of the U.S. government, such as the Treasury, determining in a rulemaking the carbon content of various products in commerce, reimbursing American exporters the value of the tax levied, and assessing a duty on importers whose countries eschew a reciprocal tax. This border adjustment puts American businesses in the middle of prosecuting enforcement, either by challenging the Treasury's tax assessment of their products or pleading for a duty on a foreign competitor's imports. Better to leave American business out of the picture and, instead, force non-compliant foreign countries to challenge American import duties in the World Trade Organization.

6. **Set a retroactive audit date to avoid disadvantaging domestic producers**. Foreign countries' compliance with the fossil fuel tax regime should be calculated retroactive to, say, January 1, 2017. In other words, they would be required to add a carbon tax comparable in magnitude to the U.S. law on top of whatever taxes they already levied on their own fossil fuel producers, as of that retroactive audit date. This would counter any temptation by petroleum exporting countries to cushion their domestic producers by preemptively reducing their tax burden on fossil fuels in anticipation of a new, American-enforced, worldwide tax. Indeed, Saudi Arabia lowered its tax on Saudi Aramco petroleum extraction by 80 percent in March 2017, just as reports surfaced that senior aides in the White House were considering including a carbon tax in the President's tax reform proposal.

7. **Help hard-hit coal areas**. At today's prices, a 40 cent-per-gallon tax on gasoline will raise its price by 16 percent, but the equivalent tax on carbon residing in coal will impose a 167 percent levy on that fossil fuel. Therefore, phase-in the tax on coal. In addition, although coal-mining and -consuming states voted overwhelmingly for President Donald Trump, Democrats should be willing to accept some redistribution of fossil fuel tax revenue to these states in a political trade-off they will see as well worth making.

Then the invisible hand of the free market, as guided by the fossil fuel tax, will truly be able to work its magic.

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