

An America First, Comprehensive, Worldwide, Fossil Fuel Tax

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by Claude David Convisser

If our country is going to swallow the pill of a federal fossil fuel tax to curtail and eventually end the contribution of new man-made greenhouse gas emissions to the atmosphere, we should be sure to assemble it in a way that leads to success, and is not half-baked or subject to capture and undermining by the fossil fuel industry during any agency rulemaking. The following principles for adopting such a tax world-wide and making it subject to America-First enforcement can put this goal within reach, yet are sorely missing from bills currently circulating among think tanks and on Capitol Hill.

1. **Enact a certain, accelerating and complete tax schedule leading to no-net carbon emissions by 2050 and in exchange, revoke EPA carbon regulatory authority.** A fossil fuel tax rate defined in statute (rather than left to problematic agency rule-making) and gradually accelerating over time gives a clear signal to the market and can produce no net carbon emissions by 2050, the goal of most environmentalists. If the package is sound and secure, it is safe to sacrifice EPA authority to regulate for carbon, a key demand of conservatives in exchange for any carbon tax.

2. **Eliminate all credits and subsidies for fossil fuels *and* renewables.** A shift away from the command regulations of the past merits a true embrace of the power of the free market to solve the problem. Therefore, permanently eliminate all governmental credits, subsidies and preferences for renewable fuels and technologies, as well as \$26 billion worth of fossil fuel subsidies, all of which distort the market. Make it Congressional policy not to adopt any new ones. Pre-empt states from legislating in this area, for the same reason.

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. **Collect the tax upstream at the source of the energy.** The carbon mole fraction of a raw energy source, be it crude petroleum or wood then pelletized into biomass, gives a fair approximation of the carbon per unit of energy that the source will emit upon combustion. Levying the tax at the source renders the additional raw energy spent to then transport and process the material into usable energy also subject to the tax; it would be exempt if the tax were collected after refining. Thus, dirty bitumen held in Canadian tar sands would rightly pay a higher rate of tax than West Texas intermediate crude, and if sent for refining on the Gulf Coast, its final product subject to more of the tax. Carbon mole fraction is easy to measure by a simple lab test, therefore amenable to use in all countries around the globe, and obviates the need for complicated rulemaking to determine life cycle emissions downstream at the refinery. Requiring the miner to pay this tax at the mine mouth or well head would be easy to administer, since states already impose a severance tax there.

5. **America First: 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. There is precedent for the United States' exerting this kind of extra-territorial authority. 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. A big problem requires an unusual solution: Congress can require other countries to permit the Secretary of State to audit their books to ensure they are collecting the same tax it has imposed in the United States, or else face import duties that all other participating countries will also agree to enforce.

The requirement of a fossil fuel tax collected both at the domestic well-head and mine-mouth and on imports, uniformly 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, since foreign energy imports would be taxed both domestically in their country of origin and at the U.S. border. Article IX of the World Trade Organization Agreement would permit U.S. enforcement of such a regime, with the consent of three-quarters of the WTO membership (as compared to the WTO's normal requirement of consensus), since that Organization has already recognized the exceptional challenge posed by global warming.

6. 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, administering a Border Carbon Adjustment ("BCA"), by which American manufacturers in industries making carbon-intensive products, such as steel and glass, would have the tax reimbursed for all goods they exported to other countries who had not affixed at least the same price on carbon as American law had. Imports of comparable goods from carbon-intensive industries in those countries would have the tax imposed at the border.

However, this mechanism defeats the very purpose of a carbon tax. By applying a uniform tax rate on all products exported and imported from a high-polluting industry, it would disregard the efforts particular businesses within that industry had made to switch their own manufacturing processes to rely on renewable, rather than fossil, fuels and to make their particular products in a less carbon-intensive way. In so doing, it would dis-incentivize individual actors in the economy from being able to benefit by choosing to avoid the carbon tax, and thus, it would dis-empower the free market from solving the problem. To determine whether imports from carbon-intensive industries of a foreign country would be subject to the tax, a BCA would require the U.S. government to engage in the difficult task of comparing the apples-and-oranges efficacy of a cap-and-trade program adopted in another country, such as the EU's, with the American carbon tax. Better to leave it to the Secretary of State to evaluate apples alone by way of evaluating reciprocal foreign adoption and implementation of the same tax and regulatory reform package passed by Congress.

7. Set a retroactive audit date to defeat a rush to the bottom. Foreign countries' implementation of the America First fossil fuel tax program 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.

8. **Swap the tax for all cap-and-trade programs.** A comprehensive, reciprocally-adopted, American-enforced tax package meeting the above strictures should also eliminate all cap-and-trade programs in the United States and around the world. Addressing the problem by the tax alone achieves optimal efficiencies, freeing the market from potentially conflicting and less comprehensive cap-and-trade regulations, and permits easier analysis and auditing by the Secretary of State, and thus, American enforcement of the uniform tax. This means pre-empting California's and the European Union's cap-and-trade laws, and abandoning the Renewable Fuel Standard in favor of uniform, international safeguards governing biomass cultivation and harvesting.

9. **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. The Tailpipe Rule gives 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.

As a replacement, standards could measure, instead of petroleum fuel consumption, fuel-neutral 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.

10. Help hard-hit coal areas. A tax of \$36 per metric ton of carbon dioxide is the equivalent at today's prices of a 36 cent-per-gallon tax on gasoline, or a 16 percent tax on gasoline. The equivalent tax on carbon residing in coal would amount to a 167 percent levy. Therefore, phase-in the tax on coal over a 15-year period and devote some of the revenue to helping hard-hit coal areas. A tax of this magnitude will generate \$2 trillion in revenue over a decade. Reducing the payroll tax and boosting Social Security benefits for retirees may be the fairest and most direct way to return this revenue to carbon taxpayers' wallets and thereby buy public support. Of course, there are many other possible uses for this money.

Then the invisible hand of the free market, as guided by the fossil fuel tax, will truly be able to work its magic where it needs to at both a national and global scale.

Claude David Convisser is the Chief Executive Officer of Plant Oil Powered (POP) Diesel, Inc. and the Managing Director of POP Diesel Africa Limited. With creation of the even playing field described above, POP Diesel's supply of plant oil extracted from the inedible fruit seeds of the tropical jatropha tree can, within 25 years, reach a big enough scale to replace all of the petroleum diesel fuel consumed in the United States, 22 percent of worldwide supply. The same agricultural program that the Company is spearheading in West Africa in partnerships with impoverished smallholder farmers is capable of generating enough food to feed 500 million people. Thanks are due to the jatropha tree's fast-growing, deep and extensive root network, which permit it to draw water and nutrients from below the topsoil, transpire this moisture to the atmosphere, survive a long dry season, and regenerate depleted soils.