HR 763 Fact Sheet

OVERVIEW

The Energy Innovation and Carbon Dividend Act (HR 763) will drive down America’s carbon pollution and bring climate change under control, while unleashing American technology innovation and ingenuity.

EFFECTIVE—This policy will reduce America’s emissions by at least 40% in the first 12 years. It’s supported by economists and scientists as simple, comprehensive, and effective.

GOOD FOR PEOPLE—This policy will improve health and save lives by reducing pollution that Americans breathe. Additionally, the carbon dividend puts money directly into people’s pockets every month to spend as they see fit, helping low-and middle-income Americans.

GOOD FOR THE ECONOMY—Will create 2.1 million new jobs, thanks to economic growth in local communities across America.

BIPARTISAN—Republicans and Democrats are both on board, cosponsoring this bill together. The majority of Americans support Congress taking action on climate change, including more than half of Republicans. Solving climate change is too urgent to get caught up in partisan politics.

REVENUE NEUTRAL—The fees collected on carbon emissions will be allocated to all Americans to spend any way they choose. The government will not keep any of the fees collected, so the size of the government will not grow.

DETAILS

FEE—The carbon fee is assessed on coal, oil, and natural gas at the first point of sale. The fee starts at $15 per metric ton (mt) of potential carbon dioxide equivalent (CO2-e) emissions and increases by $10/mt each succeeding year, adjusted for inflation. Making this adjustment brings the carbon fee within the range of carbon prices recommended in the IPCC SR1.5 report to hold global temperature below 1.5°C. The fee increases until covered fossil fuel emissions have been reduced by 90 percent. Fluorinated greenhouse gases like HFCs are covered using a special carbon fee rate.

COVERED FUEL DETAILS—Biofuels are not a covered fuel. If a fossil fuel is purchased but its use creates no emissions, the purchaser gets a rebate. Fossil fuels purchased as feedstocks for processes that don’t result in GHG emissions can be rebated. For example: polymers, asphalt, and carbon fibers. Only the fossil fuel portion of blended fuels containing both fossil and biofuels is covered fuel.

Fugitive (leaked or vented) methane—Since there are no widely accepted methods at this time to accurately measure methane leakage, this policy is not expected to assess a fee on it, but explicitly preserves federal authority to regulate fugitive methane from oil and gas operations.

EMISSION REDUCTIONS—The basis year for emissions reductions is 2016. The emissions reduction schedule aims for 90% reduction of covered emissions by 2050.
EMISSION REDUCTION SCHEDULE— HR 763 mandates an annual reduction of covered greenhouse gas emissions starting in 2025. Starting that year, each year’s emissions must hit a target that declines by 5 percent of 2016 emissions. That continues until 2034, after which the annual drop in the emissions target is reduced to 2.5 percent of 2016 emissions until covered emissions drop to 90 percent below 2016 emissions, which is projected to happen in 2050.

ANNUAL FEE INCREASE ADJUSTMENTS— The bill sets a target of 90% GHG emissions reductions by 2050, with a set of interim targets that starts in 2025 as described above. Starting in 2025, if the emissions cuts don’t keep up with the emissions reduction schedule, the annual increase in the carbon fee can be strengthened from $10 to $15 per metric ton.

This provision increases confidence that the carbon fee can activate innovation as intended. It not only gives additional assurance of the effectiveness of the policy, but also gives businesses an additional incentive to move decisively on climate-friendly investments, knowing that their customers will be inclined to spend their dividend cash on the lowest-emitting goods and services.

FEE ADJUSTMENT FOR FLUORINATED GASES— Because hydrofluorocarbons (HFCs) have global warming potential (GWP) many thousands of times greater than that of CO2, HR 763 multiplies the carbon fee levied on HFCs by a factor based on their GWP; the effective carbon fee multipliers for fluorinated gases is 10 percent of their GWP.

DIVIDEND—All net revenue is paid to American households, with adults getting a full share and minors under 19 years old getting a half-share. The carbon dividend is counted as regular income for federal taxation but not to determine eligibility for mean-tested social programs.

To ensure the public receives funds to absorb initial cost increases before prices actually rise, dividend payments will begin in advance of the first carbon fee collection. This “advance payment” will be deducted from the fund over the following 36 months so the program remains revenue-neutral. In essence, the fund would “borrow” from future carbon fee receipts to finance that first month’s dividends.

SPECIAL PROVISIONS FOR AGRICULTURE— HR 763 provides a refund of carbon fee costs for fuels used on farms. This is considered an extension of a fuel tax exemption that is already in place for agricultural fuels.

Non-fossil fuel emissions that occur on a farm are not subject to the carbon fee. HR 763 does not cover emissions like methane from livestock and manure and nitrous oxide from farming operations.

Although there are no specific provisions addressing fertilizer, the Carbon Capture and Sequestration refund provision in HR 763 gives fertilizer manufacturers an opportunity to reduce their embedded carbon fee costs by sending their waste CO2— which is normally produced in the process— to a sequestration site instead of into the atmosphere.

FEE REBATE FOR THE MILITARY— HR 763 provides a refund of carbon fee costs in covered fuels used by the military. This would include gasoline, diesel, or other fuels used for ships, planes, and ground transport, plus domestically purchased coal, oil, or natural gas used to generate electricity on military bases and in field operations.
**CARBON BORDER FEE ADJUSTMENT**— A border adjustment is applied to emissions-intensive, trade-exposed goods that are imported or exported. Imported goods will pay a carbon border adjustment, and goods exported from the United States will receive a refund under this provision.

**Adjustment for exported fossil fuels**— Depending on carbon pricing (or lack thereof) in the destination country, exporters of fossil fuels may get a refund under the carbon border fee adjustment. Specifically, the bill stipulates that the U.S. exporter would get a refund equal to the difference between the U.S. carbon fee and the destination country’s carbon price, with the caveat that no exporter would ever get a refund of more than the embedded carbon fee.

**ADJUSTMENT OF EPA GREENHOUSE GAS REGULATIONS** — HR 763 includes narrow limits on regulations related to greenhouse gas emissions covered by the carbon fee, so that those emissions are not subject to both the fee and regulation for the first 10 years. This policy preserves effective current regulations, like auto mileage standards and mobile emissions, but pauses the EPA authority to regulate the CO2 and equivalent stationary source emissions covered by the fee. If emission targets are not being met after 10 years, Congress gives clear direction to the EPA to regulate those emissions to meet those targets. The pause does not impact EPA regulations related to water quality, air quality, health or other issues. This policy’s price on pollution will lower carbon emissions far more than existing and pending EPA regulations.

The regulatory limits in this bill affect only three existing mechanisms: (1) the Clean Power Plan (CPP), which never went into effect and is being replaced by the Affordable Clean Energy rule (ACE) proposed by the Trump Administration; (2) permitting rules referred to as ‘New Source Performance Standards’ (NSPS) for new industrial plants that emit greenhouse gases; and (3) permitting rules for plant modifications under the same NSPS provisions. These three mechanisms would be put on hold as long as emissions targets were being met. NSPS provisions that do not regulate GHGs would not be affected.

This bill explicitly preserves federal authority over greenhouse gas emissions from vehicles that are part of the Corporate Average Fuel Economy (CAFE) Standards, including California’s waiver to apply more stringent emission standards.

EPA rules that don’t directly regulate covered greenhouse gases will remain untouched and still in effect: pollutants like NOx, sulfur, ozone, particulates, and mercury. Also preserved is the EPA authority over non-road vehicles and aircraft GHG emissions; the Renewable Fuel Standard for GHG reduction in gasoline; and the methane abatement program that applies to leaked and vented methane from oil and gas operations. Additionally, states would retain authority to pass GHG regulations.

**PROVISION FOR CO2 CAPTURE AND SEQUESTRATION REBATES**— HR 763 provides a refund for companies that collect and sequester CO2 produced by a covered fuel in a manner that is “safe, permanent, and in compliance with any applicable local, State, and Federal laws,” as determined by consultation with the EPA. There is no **volume threshold of eligibility for the rebate.** The refund would be equal to the carbon fee that was in place when the emissions were created. The refund would be modified by any amount of “likely” escape into the atmosphere, as determined by the EPA.
STATE POLICIES— HR 763 doesn't change or otherwise impinge on any state level laws or regulations. Any state level Low Carbon Fuel Standards (LCFS) or Alternative Fuel Standards (AFS) are not affected.

MANDATED NATIONAL ACADEMY of SCIENCES STUDIES— The bill stipulates that the EPA must engage the National Academy of Sciences (NAS) to conduct two studies once the bill has become law.

The first study, to be completed and made public within 10 years, will analyze the effectiveness of the carbon fee in meeting the law’s emissions reduction schedule, forecast the emissions out to 2050, and make recommendations on whether the carbon fee increases should be adjusted. The report will also detail the effectiveness of the carbon fee for different sectors of the economy, and recommend any further actions to be taken, including regulations, to improve performance if necessary.

The second study, to be completed and made public within 18 months, will analyze how the carbon fee is affecting the use of biomass for energy and the resulting impacts on ‘carbon sinks’ and biodiversity. The term ‘carbon sinks’ refers to the removal of CO₂ from the atmosphere through natural processes in plants and soil. Biomass energy is theoretically carbon-neutral as long as the CO₂ released by its use does not exceed the amount that would have been released through natural processes, and that it does not result in land use change that increases emissions. The study aims to ensure that expansion of biomass energy does not upset this balance or increase threats to biodiversity. As with the first NAS study, this one will also make recommendations to mitigate any adverse impacts that are revealed.

ENVIRONMENTAL INTEGRITY MECHANISMS— HR 763 includes three provisions aimed at ensuring that implementation of the bill maintains environmental integrity and sustainability.

1. If emission reductions fail to keep up with the reduction schedule, the annual increase in the carbon fee can be ‘ratcheted up.’
2. if the emission targets, are not met, EPA regulatory authority over covered GHG emissions would be restored.
3. The bill stipulates that the EPA must engage the National Academy of Sciences (NAS) to conduct two studies once the bill has become law.

WHEN THE PROGRAM WOULD START AND END— The year of enactment is 2020. The carbon fee enacted by HR 763 will stop rising when U.S. greenhouse gas emissions have fallen 90 percent below 2016 levels. Additionally, the bill has a provision for ending the program entirely when the 90 percent reduction target is achieved and the monthly adult carbon dividend is less than $20/month for three consecutive years.