EICDA 2021 Fact Sheet

OVERVIEW

The Energy Innovation and Carbon Dividend Act 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 45% in the first 12 years and to net zero by 2050. 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—A majority of both Republican and Democratic voters support Congress taking action on climate change by requiring fossil fuel companies to pay a fee for pollution.

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 is adjusted for inflation based on the Consumer Price Index (CPI) and increases until net fossil fuel emissions have been reduced by 90 percent.

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 2010. The emissions reduction schedule aims for 100% reduction of net emissions by 2050.

EMISSION REDUCTION SCHEDULE—The Energy Innovation and Carbon Dividend Act mandates an
annual reduction of covered greenhouse gas emissions starting in 2023. Starting that year, each
year’s emissions must hit a target that declines by 5 percent of 2010 net emissions (meaning total
emissions minus emission sinks, per EPA accounting). For instance, 2023 emissions must end up 5
percent lower than 2010 emissions, 2024 emissions must end up 10 percent lower, and so on.
That continues until 2030, after which the annual drop in the emissions target is reduced to 3
percent of 2010 emissions until 2050, when net emissions must drop to 100 percent below 2010
net emissions. This is essentially the “net zero” target that IPCC concluded is necessary to bring the
global temperature increase below 1.5°C by 2100.

ANNUAL FEE INCREASE ADJUSTMENTS— The bill sets a target of 100% GHG emissions reductions
by 2050, with a set of interim targets that starts in 2023 as described above. Starting in 2023, 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.

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— EICDA 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. EICDA 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 EICDA 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— EICDA 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.

**PROVISION FOR CO₂ CAPTURE AND SEQUESTRATION REBATES**— EICDA 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 equal 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.

- Multiple facilities can aggregate CO₂ that ends up sequestered by a separate party. This is mainly about CO₂ pipelines where several facilities capture CO₂ and send them via pipeline to a common sequestration site.
- Facilities that collect CO₂ originating in biomass, but also burn fossil fuels for heat or power, can now claim a CCS refund for the biomass-generated CO₂ up to the amount they vent from their boilers, heaters, or on-site power (i.e., ”qualified carbon dioxide.” This is mainly for ethanol plants, who typically burn natural gas for steam and heat. CO₂ from the fermenters is pure and easy to collect, so this allows biofuel plants to get payback for at least a portion of that CO₂ if it goes to permanent sequestration.

This provision in the bill allows CCS-equipped facilities to compete on a level playing field with low-carbon energy technologies like wind, solar, hydro and nuclear energy. This allows companies to determine for themselves if they judge the carbon price to be sufficient to justify investing in CCS.

A new provision in the 2021 bill also allows facilities like ethanol plants to get a CCS refund for CO₂ collected from their process, as long as they can balance it against an equivalent amount of CO₂ coming from equipment like boilers that burn a covered fuel.

**STATE POLICIES**— EICDA doesn’t change or 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**— EICDA stipulates that the EPA must engage the National Academy of Sciences (NAS) to conduct two studies once the bill becomes law.

The first study, to be completed and made public within 5 years, will analyze the effectiveness of the carbon fee in meeting the law’s emissions reduction schedule, forecast emissions out to 2050, and make recommendations on whether 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, 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— EICDA 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. 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 2022. The carbon fee enacted by EICDA will stop rising when U.S. greenhouse gas emissions have fallen 100 percent below 2010 levels. Additionally, the bill has a provision for ending the program entirely when the 100 percent reduction target is achieved and the monthly adult carbon dividend is less than $20/month for three consecutive years.