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EXPLANATORY NOTES TO ACCOMPANY THE RAISE WAGES, CUT CARBON ACT OF 2009

INCIDENCE OF TAX ON COAL

The tax on coal under Section 4692 should be calculated assuming that coal is combusted in the most efficient manner. For example, the most efficient lignite combustion cannot combust all carbon present. Therefore, the combustion rate of the most efficient lignite boilers would be used as a baseline to determine the CO_2 emissions of those grades of coal. For more information, see forthcoming white paper on Upstream vs. Downstream Application of Carbon Tax.

Taxing based on most efficient burning should ensure that 100% of possible carbon emissions are taken into account for each grade of coal, as well as provide a disincentive for less-efficient technology. At the same time, energy producers would not be penalized for CO_2 they could not possibly be emitting.

INCIDENCE OF TAX ON PETROLEUM

The tax on petroleum under Section 4692 should fall on refined products after they leave the refinery at an appropriate point of taxation. This will enable taxation based on the grade of the refined product, and will eliminate taxes on the heavier petroleum molecules that will not be combusted.

EXPORTS FROM PETROLEUM REFINERIES

The USE TREATED AS SALE provision Sec. 4694 (b) implies that carbon emissions generated from refineries during the refinery process would also be taxed, and would be refunded for exports. We are seeking feedback about the most efficient mechanism to account for these emissions and account for trade competitiveness concerns.

SEQUESTRATION REBATE

The refund or credit under Section 4693(a) should be applied to any non-emissive form of fuel use. Refunds or credits are available for a variety of activities, including carbon sequestration and storage and fuels used as a feedstock in industrial processes (including polymer resins, other plastics, chemicals, etc.).

SEQUESTERED CARBON ALREADY ACCOUNTED FOR AT EXPORT

The export adjustment (Section 4693(c)(2)) should be reserved for the portion of the cost attributable to combusted fuels. Any exporter that uses a combustible fuel as a feedstock should use Section 4693(a) to claim a credit or refund for the non-emitted CO_2.

APPLYING THE CARBON TAX TO IMPORTS

The border adjustment for imported goods (Sections 4695-4696) is consistent with the destination principle, applying a tax of equal value to imports as to like domestic goods.

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Applying the Carbon Tax to Imports (Cont'd)

We assume that the default case will be importers that do not supply any information, in which case they would be taxed at the same rate as the average of US industries, according to Sec. 4695 (b) (2). Though not specified in the bill because of questions of jurisdiction and process, we propose that EPA would work with ITC to determine the rates according to headings in the Harmonized Tariff Schedule.

Importers will have the option to supply emissions information to diminish their tax liability if their production methods are cleaner than the average domestic producer, according to Sec. 4695 (b) (1).

For a detailed treatment, see forthcoming white paper on Border Adjustments.

Provision to Challenge Importer Information

In order to keep importers honest about their emissions data, interested persons will be able to examine the information provided by an importer and point out any errors in the data or calculations. This is provision is designed to enhance quality control of import data by harnessing the private sector; this is not meant to serve as a trade barrier to block goods from entry.

Preserving Revenue Neutrality

The Raise Wages, Cut Carbon Act of 2009 leverages the double dividend, pursuing an increase in economic efficiency by reducing taxes on something we want more of (income) and taxing something we want less of (carbon). If tax revenue is diverted to other programs, we will lose the economic efficiency of the tax reduction and put downward pressure on our economy. The Super Majority provision is essential to gain bi-partisan support and ensure that the tax is successful at reducing emissions without causing substantial harm to the economy.