

An America First, Comprehensive, Worldwide, Fossil Fuel Tax

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by Claude David Convisser

Seventy percent of the worldwide economy rests in private hands. In the United States, discretionary governmental spending comprises a mere 11 percent of GDP. This fraction is all already committed to defense spending and existing social programs. This leaves scarce money available from the United States, or other sovereign governments, to pay for a Green New Deal to solve the problem of global warming. In contrast, a comprehensive, worldwide fossil fuel tax will weigh on consumers and businesses to marshal the resources necessary from the world's private sector to shift private funding to convert from fossil fuels to renewable energy on a global scale within the time required.

If our country is going to swallow the pill of a federal fossil fuel tax to curtail 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 does not leave the task incomplete or subject to capture and undermining by the fossil fuel industry during any agency rulemaking. The following principles underlie a worldwide fossil fuel tax in place of the Paris Climate Accord. America-First enforcement can guarantee Zero Net Carbon Emissions by 2050. Bills currently circulating on Capitol Hill sorely miss these points.

1. Enact a certain, accelerating and complete tax schedule leading to no-net carbon emissions by 2050 and in exchange, revoke all EPA carbon regulatory authority.

A fossil fuel tax schedule defined in statute, rather than left to problematic agency rule-making, and accelerating exponentially over time gives a clear signal to the market. If accompanying reforms open the petroleum market to new, renewable competition, it will be safe to eliminate all EPA authority to regulate for carbon, not only over stationary sources, but also over the mobile sources that consume the lion's share of American petroleum.

2. Eliminate all credits and subsidies for fossil fuels *and* renewables. A shift away from the command regulations of the past that have failed to solve the problem merits a true embrace of the power of the free market. Therefore, phase-out and 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. (For an example, see Section 9 below.). Make it Congressional policy not to adopt any new ones. Pre-empt states from legislating in this area. Otherwise, state credits, subsidies and credits will undermine the level playing field created by this federal law.

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 say constitute 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 any 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 mine-mouth or wellhead renders the energy spent to then transport and process it also subject to the tax; a tax collected after refining fails to count

the cost of transportation and processing energy, thus giving a perverse incentive to use dirtier but cheaper energy sources. Thus, the Carbon Mole Fraction would assign to bitumen held in western Canadian oil sands, requiring a lot of energy to purify, a higher rate of tax than cleaner, West Texas intermediate crude. If the bitumen were transported for refining from Canada to the Gulf Coast, its final product would rightly incur more of the tax per unit of energy delivered. Carbon Mole Fraction is easy to measure by a simple lab test, making it possible for EPA to retire from conducting complicated and subjective life cycle greenhouse gas emissions analysis ("LCA") downstream at the refinery. Paying the tax at the mine-mouth or wellhead would be easy to administer, since states already collect a severance tax there.

5. America First: have the U.S. enforce foreign reciprocity. A comprehensive fossil fuel tax increasing strictly over time is capable of bringing a perfect halt to human greenhouse gas contributions to the atmosphere, 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 schedule and regulatory reform package comparable to our own, or face import duties. There is precedent for the United States' exerting this kind of extra-territorial authority in the areas of human rights law and banking transparency. Countries that fail to comply with American standards can suffer penalties. 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 have adopted and are collecting the same tax it has imposed in the United States. If they were not, the United States would impose import duties that all other participating countries would also agree to enforce, following the American lead.

Fossil fuel taxed doubly, both at the domestic mine-mouth and wellhead *and* on imports, would advantage United States for its uniquely strong, paired domestic fossil fuel production and refining capabilities. Fossil fuel both produced and refined in the U.S. would avoid imposition of the tax on fossil fuel collected at the border. American manufacturers fabricating goods using domestic-sourced and -refined energy would pay half the tax on the energy embodied in their goods as would goods coming from countries lacking their own domestic fossil fuel reserves. Article IX of the World Trade Organization Agreement would permit U.S. enforcement of such a regime, with the consent of only three-quarters of the WTO membership (as compared to the WTO's normal requirement of consensus), since that Organization has already recognized the exceptional circumstances 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, which is to incentivize individual actors in the economy. 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 relying on renewable, rather than fossil, fuels and to making their particular products in a less carbon-intensive way. This would prevent 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 monitoring reciprocal foreign adoption and implementation of the same tax and regulatory reform package as the one 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 around the world, including California's, the Northeastern and Mid-Atlantic States', and the European Union's, and the American Renewable Fuels Standard ("RFS"). Addressing the problem by the tax alone achieves optimal efficiencies by freeing the market from potentially conflicting and less comprehensive cap-and-trade regulations. It also permits easier analysis and auditing by the Secretary of State, and thus, American enforcement of the uniform tax. Uniform, international safeguards governing biomass cultivation, harvesting and land use, put into the statute, can replace RFS regulatory protections, and the lab test for Carbon Mole Fraction can replace RFS LCAs around the world.

9. **Open the petroleum market to 100 percent pure plant oil diesel engine fuel.** American petroleum combustion, in aggregate, now causes more than twice the greenhouse gas pollution of coal. If the primary motor fuel that consumers can buy continues to remain petroleum, then all that a fossil fuel tax will do is raise petroleum prices for everybody. Legislation must rescind federal policies that block lower carbon alternative fuels from entering 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 agreed with POP Diesel 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, rather than the full life-cycle impact of a fuel. Called the "Tailpipe Rule," these Standards measure fuel economy in the same way, by calculating petroleum consumed by the engine from tailpipe carbon dioxide emissions.

Life cycle, rather than solely tailpipe, carbon dioxide emissions can more accurately tell a fuel's actual global warming impact. The extraction of fossil crude petroleum from inside the earth releases stored carbon into the atmosphere and does not sequester any in

return. In contrast, hydrocarbon oil-making plants grown on the earth's surface take carbon out of the atmosphere, mitigation factored into any Life Cycle Analysis (“LCA”). However, any LCA, like the Tailpipe Rule, is subjective, as compared to the precise and objective measure of carbon mole fraction.

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).

Following legislative repeal of futile Fuel Efficiency and Greenhouse Gas Emissions Standards for Cars and Trucks that are 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 true, 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 for the Tailpipe Rule’s yardstick of petroleum fuel consumption, Congress could require standards measuring 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 \$1.5 trillion in revenue over a decade. Reducing the payroll tax and boosting Social Security, unemployment, and SNAP benefits may be the fairest and most direct way to return this revenue as Carbon Dividends to taxpayers’ wallets and thereby buy public support. Of course, there are many other possible uses for this money.

In the foregoing way, the invisible hand of the free market, as guided by the fossil fuel tax, will truly be able to work its magic on 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, nature’s best carbon-sequestration device, can, within 22 years, reach a big enough scale coming from West Africa alone to replace all of the petroleum diesel fuel consumed in the U.S., 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 pervasive root network, which permits it to draw water and nutrients from below the topsoil, survive a long dry season, transpire moisture to the atmosphere, and regenerate depleted soils.