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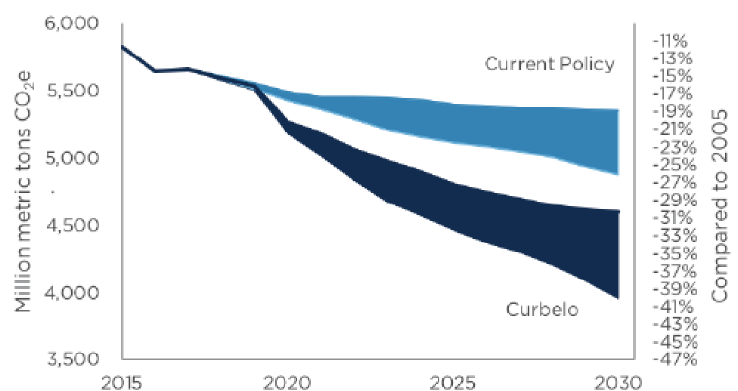
MJB&A Summary ■ July 24, 2018

Modernizing America with Rebuilding to Kickstart the Economy of the Twenty-first Century with a Historic Infrastructure-Center Expansion Act (MARKET CHOICE Act)

On July 23, 2018, Representative Curbelo (R-FL) introduced the H.R. 6463, the MARKET CHOICE Act, which would amend the tax code to add a tax of $24 per metric ton (MT) of carbon dioxide equivalent[1] (CO_2e) starting in 2020 and eliminate the federal gas and diesel tax. Representatives Fitzpatrick (R-PA) and Rooney (R-FL) are the current co-sponsors of the bill.

Based on modeling released by Columbia's Center on Global Energy Policy, the bill is expected to achieve a 27 to 32 percent greenhouse gas emission reduction by 2025 compared to 2005 levels and a 30 to 40 percent reduction below 2005 levels by 2030. This compares to the expected 18 to 22 percent reduction expected under current policy in 2025 and 19 to 26 percent by 2030. Thus, the tax is projected to achieve reductions of 3 to 10 percent beyond business as usual (BAU) by 2025 and 11 to 14 percent beyond BAU by 2030. The analysis also concludes that more than two-thirds of the emission reductions would occur in the electric sector. This issue brief summarizes the key provisions of the bill.

Figure 1: US economy-wide net GHG emissions by Rhodium Group



Source: Columbia Center on Global Energy Policy Working Paper. Available at: https://energypolicy.columbia.edu/sites/default/files/pictures/CGEP_CurbeloCarbonTaxBillAnalysis_0.pdf.

Price and Price Adjustment

Emissions from the covered source categories would be taxed in 2020 at $24 per MT CO_2e, and this price would increase automatically each year by two percent plus the Consumer Price Index (CPI) for the prior year.[2] Every two years, the bill would require the Secretary of Department of Energy to determine whether a price adjustment is necessary if the cumulative emissions exceed the levels specified in the table below in 2022 and every two years thereafter. If so, the next calendar year's tax would increase an additional $2 per MT CO_2e. In other words, the tax

[1] The bill covers greenhouse gas emissions including carbon dioxide, nitrous oxide, methane, hydrofluorcarbons, perflurocarbons, and sulfur hexafluoride.

[2] As written, the bill states the annual tax would be calculated as the "sum of (i) the previous calendar year's tax rate plus (ii) the sum of: (I) 2 percentage points plus (II) a percentage increase in the previous year's tax rate equal to the increase in the Consumer Price Index for the previous calendar year." MJB&A is confirming the intent.

(not including CPI) could be as high as $37.92 by 2030 if the cumulative emission levels specified in Table 1 are exceeded.

Table 1. Emission Level Targets

Calendar Year	Cumulative Emission Level Targets (MMT CO_2e)	Equivalent Annual Emissions (MMT CO_2e)
2020	5,177	5,177
2021	10,353	5,176
2022	15,472	5,119
2023	20,532	5,060
2024	25,592	5,060
2025	30,594	5,002
2026	35,596	5,002
2027	40,540	4,944
2028	45,484	4,944
2029	50,370	4,886
2030	55,255	4,885

Point of Taxation

The bill lists the sectors for which the tax would apply. These include:

- Coal mine mouth or for washed coal, the exist from the coal preparation and processing plant;
- Refinery output;
- Gas processing plant or for gas not treated as such a processing plant, the point of sale for combustion or incorporation it into a product that is not intended for combustion;
- Industrial process at facilities that emit more than 25,000 metric tons of CO_2e in a calendar year from the following initial list of sectors (though the bill would authorize EPA to review, remove, or add sources to this list if such new sectors met certain emission thresholds):
    - Iron and steel production and metallurgical coke production;
    - Underground coal mining;
    - Coal preparation and processing plans;
    - Refineries;
    - Cement production;
    - Petrochemical production;
    - Lime production;
    - Ammonia production;
    - Aluminum production;
    - Soda ash production;
    - Ferroalloy production;
    - Phosphoric acid production;
    - Glass production;

- Zinc production;
- Lead production;
- Magnesium production and processing;
- Nitric acid production;
- Adipic acid production;
- Semiconductor manufacture; and
- Electrical transmission and distribution.

- Owners and operators of facilities that make or import certain products from the following list (though the bill would authorize EPA to remove or add a product if certain emission thresholds are met):
  - Fuel ethanol;
  - Industrial carbonates;
  - Carbon dioxide urea;
  - Soda ash;
  - Nitrous oxide;
  - Ozone depleting substances unless the U.S. ratifies the Kigali Amendments to the Montreal Protocol and is subject to its Article 2J, paragraph 1;
  - Biodiesel; and
  - Solid biomass fuels.

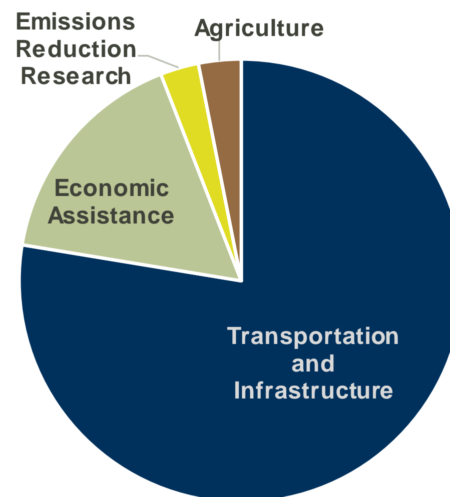
The bill includes certain exemptions for manufacturers that incorporate a fossil fuel that has been transformed so that the emissions will be "reduced or eliminated over the product's life-time" as well as for anyone who implements CCS.

Revenue Uses

The large majority (70 percent) of the revenue associated with the tax would be directed to the Highway Trust Fund.

The remaining revenue would be directed as follows:

Figure 2. Revenue Uses



- Additional Transportation and Infrastructure Funding: 5% to chronic coastal flooding mitigation and adaptation programs under the Coastal Zone Management Act; 2.5% Airport and Airway Trust Fund; 0.1% Leaking Underground Storage Trust Fund
- Economic Assistance: 10% to low income households through grants; 3% displaced energy workers; 2% Abandoned Mine Reclamation Fund; 1.5% Weatherization Program under Energy Conservation and Production Act
- Emissions Reduction Research: 0.5% Advanced Research Projects Agency-Energy under America COMPETES Act; 0.7% carbon capture research; 0.5% carbon storage research; 0.5% direct air capture technologies; 0.5% battery storage; 0.1% for assistance through cooperative

agreements to decrease the environmental impacts of renewable energy projects under section 931 of the Energy Policy Act of 2005

- Agriculture: 0.1% Reforestation Trust Fund; 2.5% for Environmental Quality Incentives Program under the Food Security Act of 1985; 0.5% Regional Conservation Partnership Program under the Food Security Act of 1985 that address specified activities targeting conservation and increased carbon sequestration or reducing greenhouse gas emissions.

Existing Greenhouse Gas Regulations – Moratorium

The bill would impose a moratorium on finalizing and enforcing Clean Air Act regulations on greenhouse gas emissions from stationary sources covered by the tax. The moratorium would not apply to any standards for motor vehicles and engines, nonroad vehicle and engines, or aircraft emission provided the aircraft emissions are not more stringent than standards adopted by the International Civil Aviation Organization.

The stationary source moratorium would expire in 2025, if total emissions from 2020 through 2024 exceed the levels specified in Table 1 for 2024. If not, the moratorium continues through 2029. If in 2029, emissions from 2020 through 2028 continue to not exceed the level specified in Table 1, the moratorium continues until 2033 when it would expire.

The bill would allow the methane emissions performance standard regulations for the oil and gas industry to continue (under to subpart OOOO and OOOOa or 40 CFR Part 60 that were in effect on January 1, 2018 or if those subparts apply to such facilities regardless of date of construction, modification or reconstruction).

State Programs

For state programs that require payment on emissions, the bill would provide a declining credit to owners and operators of those sources. The credit starts at 100 percent in 2020, 80 percent in 2021, 60 percent in 2022, 40 percent in 2023, and 20 percent in 2024. In 2025 and thereafter, the bill would not provide any credit for payments on emissions pursuant to state programs.

Border Adjustment

The bill would impose a border tax adjustment on imported products based on the increased cost paid for comparable products in the U.S. Exporters would receive a rebate equal to the tax.

National Climate Commission

The bill would establish a National Climate Coalition that would prepare a report to Congress in 2026 and every six years thereafter examining existing policies, evaluating whether such policies are on pace to achieve the emission reduction goals, and providing recommendations to reduce greenhouse gas emissions. Membership would include 10 appointees including appointees by the President and majority and minority leaders in the House and Senate.

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