U.S. Climate Task Force

Principles for a Carbon Tax and Rebate Program to Address Climate Change:
What the U.S. Congress Can Do

The goal of the program is to secure necessary reductions in greenhouses gases (GHG) in the most cost-effective way, protecting average Americans and the U.S. economy.

A carbon-based tax and rebate program should:

- Be the primary mechanism for controlling greenhouse gas emissions,* with the following basic features: Maximize the use of price signals, ensure a knowable and stable cost path for GHG emissions that encourages the development and broad application of low-carbon energy and low-energy technologies, and make no distinctions between forms of energy;

  ** For the purposes of these principles, "greenhouse gases" cover the four main gases -- carbon dioxide, methane, nitrous oxide, and sulfur hexafluoride – as well as the 21 other greenhouse gases identified by the U.N. climate change panel. The targeted emissions include those emitted by both fossil fuel combustion and other sources.*

- Apply the tax to the carbon content of fossil fuels as far upstream as practicable, and cover non-fossil fuel GHG emissions as broadly and efficiently as possible. Also, strictly limit the use of offsets to those which verifiably involve actual emissions reductions or sequestration of emissions, allow for the recovery of the tax for non-emitting uses of fossil fuels (such as asphalt);

- Put the U.S. on an emissions path consistent with an effective global response to the risks of climate change, as agreed to by Congress, with appropriate milestones;

- Begin with an initial tax rate and an initial path of adjustments in the tax rate, set by Congress to achieve the desired path of emissions reductions, and provide for an independent body authorized to review the record of emissions and adjust the tax rate accordingly. If actual reductions fall short of (or exceed) the targets by a specified degree over a four-year period, that body will adjust the tax as required to return to the agreed-to path for emissions reductions;

- Address the effects of state utility rate regulation on the price signals created by the tax, in order to preserve the incentives for utilities and customers to prefer low-carbon fuels;

- Focus regulatory approaches only where the tax does not send a clear price signal that results in consumers making economic major purchase and use decisions, such as building codes, appliance energy-efficiency standards, and vehicle standards;

- Recycle the majority of the revenues raised by the tax to American households, taking into account such factors as family income, family size, geographic location (population density and weather), and the source and consequent direct and indirect price of their energy. The recycled amount should eventually reach 90%;

- Dedicate the remaining share of the revenues to support low-carbon and energy-efficient R&D and technology deployment, and adjustment programs for coal communities;

- Use the existing revenue collection system to administer the program in ways that minimize compliance and enforcement costs and maximize transparency;

- Allow for and encourage coordination with the emissions-reduction approaches used by other countries, including China and India, and as necessary incorporate border adjustments or other WTO-compliant mechanisms to reduce the leakage of emission-producing activities to nations that impose low or no costs on their carbon emissions.

Rob Shapiro, September 8, 2009