

Carbon Import Fees: Active and Proposed Policies

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INTRODUCTION

Carbon import fees are gaining traction around the world. This novel policy tool would impose a charge on imported goods based on their emissions intensity, the greenhouse gases (GHGs) associated with the production of a set value or volume of a good.

Proposals for carbon import fees vary significantly in terms of how they approach policy design decisions. This piece compares notable design differences in policy proposals from the EU and UK markets, the Biden-Harris administration, and the U.S. Congress in the years 2023 and 2024. This paper does not discuss emerging approaches that remain obscure or tenuous. For example, Taiwan’s proposed Carbon Border Adjustment Mechanism (CBAM),ⁱ Canada’s ongoing CBAM consultations,ⁱⁱ Australia’s carbon leakage study,ⁱⁱⁱ internal consultations in South Korea,^{iv} and Japan,^v and a variety of policy concepts in India.^{vi}

Important carbon import fee design parameters that differ across proposals include:

- Covered products: Describes the product categories that will face a carbon charge under the proposed policy.
- Domestic treatment: Indicates whether the carbon charge would apply only to importers or also to domestic firms.
- Carbon charge: Describes the rate at which emissions are priced under the policy design. These charges can be designed to use a specific greenhouse gas price (dollars per ton of emissions), a product-specific charge (dollars per ton of product), or an ad valorem structure (a percentage of the value of the imported product).
- Covered Emissions: For each product category, a policy will clarify the gases and the types of emissions that must be monitored and reported (direct emissions, indirect emissions, emissions from material inputs).
- Revenue usage: Explains how collected revenue may finance specific projects or funds.

Additional design elements may provide fee exceptions for developing nations, countries engaged in international partnerships, or countries that have already adopted carbon pricing tools of their own.

Across all policy proposals, some design decisions have been deferred to future deliberations. Table 1 summarizes the key design elements of the carbon import fee proposals that we understand at the time of this guide’s release.

This piece will be updated as new policies and details emerge.

KEY TERMS:

- **Ad-valorem charge:** a fee that is assessed based on the value of the good. For example, a 30% ad valorem charge on a good worth \$100 would come out to \$30.
- **Carbon advantage:** exists when a firm or country produces the same quantity of goods with fewer emissions than its competitors.
- **Carbon leakage:** a phenomenon in which carbon-intensive industries shift abroad to avoid higher environmental regulation and associated costs.
- **Carbon loophole:** refers to the 25% of global emissions that are embodied in goods traded internationally.
- **Default values:** substitute values, either calculated or drawn from secondary data, that can represent the embodied emissions of a good when real data is not available.
- **Direct emissions:** the emissions associated with the manufacturing of covered goods resulting from fuel combustion, electricity generation, heating, and cooling within a facility.
- **Embodied emissions:** the greenhouse gas emissions that are associated with the production of a covered good.
- **Emissions trading system (ETS):** a market-based carbon pricing approach in which producers buy and surrender allowances to match their emissions output in a given period. The government sets a cap on the total amount of permitted emissions, and the market determines the allowance price.
- **Foreign entity of concern:** a terrorist organization, sanctioned individual, or company owned or controlled by the governments of China, Russia, Iran, or North Korea.^{vii}
- **Free allowance:** a certificate granted to facilities within an ETS that can be used instead of purchased allowances for their annual emissions.
- **Greenhouse gas (GHG):** a gas that traps heat in Earth's atmosphere and contributes to planet warming. The U.S. Greenhouse Gas Reporting Program (GHGRP) and many other international systems presently consider the following six GHGs: CO₂, CH₄, N₂O, HFCs, PFCs, SF₆.
- **Importer:** the entity that submits a customs declaration for an imported good.
- **Indirect emissions:** emissions from purchased electricity and energy sources that are used to manufacture a covered product.
- **Material inputs:** also referred to as *precursors*, these are goods that are incorporated or transformed into a covered product in the manufacturing process. The emissions associated with the production of these upstream products are distinct from direct and indirect emissions and are often a significant portion of a product's total embodied emissions. Production of pig iron, for example, can be responsible for up to 70% of the emissions associated with iron & steel manufacturing using the blast furnace production route.^{viii}
- **Non-market economy countries:** countries that do not operate on market principles of cost or pricing structures, such that domestic sales and exports do not reflect the fair value of the good, as determined by the Secretary of Commerce.^{ix}
- **Product-specific charge:** a fixed fee applied to a unit of a good.
- **Transportation emissions:** emissions associated with the international transport of covered products.

TABLE 1: POLICY PROPOSALS FOR CARBON INTENSITY IMPORT FEES

| <u>Policy</u> | <u>Covered Products</u> | <u>Domestic Treatment</u> | <u>Carbon Charge</u> | <u>Covered Emissions</u> | <u>Revenue Usage</u> |
|---|--|-----------------------------------|---|---|--|
| European Union CBAM | 4 energy-intensive products & 1 fuel, and electricity | Yes | Based on EU ETS allowance price (\$72/ton CO ₂ e as of Q3, 2024) ^x | CO ₂ , PFCs, N ₂ O | 25% to member states, 75% to the EU budget |
| United Kingdom CBAM | 4 energy-intensive product categories & 1 energy product | Yes | Based on UK ETS allowance price (\$53/ton CO ₂ e as of Q3, 2024) ^{xi} | CO ₂ , other gases TBD | TBD |
| Global Arrangement on Sustainable Steel and Aluminum | Iron & steel, aluminum | N/A | TBD | CO ₂ , other gases TBD | TBD |
| Foreign Pollution Fee Act of 2025 | 1 fuel, 5 energy-intensive products & 2 energy goods | No | <i>Ad valorem</i> “variable tariffs” based on emissions intensity relative to U.S.- made products | CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ , other gases TBD | TBD |
| Clean Competition Act of 2023 | 5 fuels and 5 energy-intensive products | Yes | \$55/ton CO ₂ e (2025), rising annually by 5% plus inflation | CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | 75% to domestic industrial decarbonization; 25% to assist climate and clean energy programs abroad. |
| MARKET CHOICE Act of 2025 | 3 fuels, 7 energy-intensive products & 3 energy goods | Yes | \$40/ton CO ₂ e (2027), rising annually by 5% plus inflation | CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | 75% to infrastructure, low-income households, and climate adaptation; 25% to Treasury. |
| Energy Innovation and Carbon Dividend Act of 2023 | 3 fuels and 7 energy-intensive products | Yes | \$15/ton CO ₂ e (2023), rising annually by \$10/ton plus inflation | CO ₂ , CH ₄ , N ₂ O | Unused revenue goes to UN’s Green Climate Fund (domestic pricing revenue handled separately). |
| America’s Clean Future Fund Act of 2024 | 3 fuels and 7 energy-intensive products | Yes | \$65/ton CO ₂ e (2026), rising annually by \$10/ton plus inflation | CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | 75% to low- and middle-income individuals through rebates, 25% to climate change adaptation and mitigation projects. |
| Honorable Mention: PROVE IT Act of 2024 | 7 fuels, 7 energy-intensive products & 4 energy goods | Studies U.S. and foreign products | Purely a study, no fee | CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | N/A |

ACTIVE: EUROPEAN UNION'S CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

The EU launched the world's first carbon import fee on October 1, 2023.^{xii} The CBAM was introduced as a part of the EU's Fit for 55 package, which aims to cut the bloc's emissions 55% by 2030 and achieve net-zero emissions by 2050.^{xiii} The EU CBAM is now in its transitional phase, during which importers of covered products must share emissions information related to the manufacturing of their goods.

Covered Products

Beginning in 2026, importers will be charged a fee on the carbon emissions associated with the production of the following covered goods.

Energy-Intensive Products

Iron & steel
Aluminum
Cement
Fertilizers

Fuels and Electricity

Hydrogen
Electricity

By the time the CBAM's transitional period ends on December 31, 2025, the European Commission will have compiled a report for the Council and Parliament that will review the mechanism. This report will explore potential amendments to the CBAM's scope, including an expansion to cover emissions from transportation and other sectors. Early indications suggest that organic chemicals and polymers could also be on deck for coverage under the CBAM.^{xiv}

Domestic Treatment

The EU already has a domestic carbon pricing measure in place, and the EU CBAM is meant to complement it. The EU plans to phase in the CBAM while gradually replacing the current practice of providing free allowances to specific covered industries within the EU ETS. Originally introduced to mitigate domestic costs associated with carbon leakage, these allowances are slated to be phased out by 2034. By that time, all industries covered by the EU ETS are also expected to be included within the CBAM framework.

Carbon Charge

The EU CBAM will require importers to purchase certificates equivalent to the total embodied emissions of the covered good. The price of these certificates will be determined by the weekly average auction price of the EU Emissions Trading System (ETS). This domestic carbon pricing scheme sets a cap on emissions and requires facilities to buy allowances to cover their emissions for the previous year. Importers will also be required to file an annual CBAM declaration, which will include the

overall quantity of imported goods, the total embodied emissions, the total CBAM certificates surrendered, the carbon price paid in the country of origin, and proof of verification.

With these reforms, covered imports and domestically produced goods will face the same carbon prices when selling into the EU market. This translates to \$70/ ton CO₂e based on the average ETS allowance price from 2024.^{xv} The mechanism will allow for carbon prices already paid in the country of origin to be subtracted from the CBAM fee for imports.^{xvi} Additional delegating acts that have yet to be released will presumably clarify which carbon pricing schemes will be accepted and to what degree.

Covered Emissions

The CBAM transitional period requires reporting of direct emissions, indirect emissions from purchased electricity and energy services consumed during the production of covered goods, and both direct and indirect emissions associated with the manufacture of certain material inputs. The CBAM primarily covers CO₂ emissions, but also covers PFCs for aluminum products and N₂O for some fertilizers.^{xvii}

Our September 2023 white paper compiles additional details on compliance requirements.^{xviii} Based on the procedures outlined in the implementing regulation for the CBAM transitional phase, importers will need to report the embodied emissions of covered goods.^{xix} Additionally, their emissions reports must undergo independent verification. If measured or calculated emissions data is unavailable, importers will have the option to rely on predefined default values based on the average emissions intensity associated with the exporting country for that specific product category. When reliable data from exporting countries is unavailable, the European Commission will establish a default value based on the emissions data from the poorest-performing EU installation producing that product.

Revenue Usage

The European Commission estimates that annual revenues from the CBAM will reach €9.1 billion by 2030.^{xx} This revenue will be appropriated to cover the CBAM's operational expenses. Member states will retain 25% of the remaining CBAM revenues, and 75% will be made available to the general EU budget.

PROPOSED: UNITED KINGDOM'S CBAM

The United Kingdom intends to be the second jurisdiction to implement a CBAM. Although the exact design and execution of the UK CBAM will be subject to further consultation, it appears likely that the UK CBAM will be similar in design to the EU CBAM.^{xxi}

Covered Products

Following extensive consultations, the UK government announced that it will impose a levy on imports of the following products starting in 2027.^{xxii}

Energy-Intensive Products

Iron & steel
Aluminum
Cement
Fertilizers

Fuels

Hydrogen

A recent update dropped ceramics and glass from the list despite their inclusion in an earlier proposal.^{xxiii} The UK CBAM will therefore cover the same initial list of goods as the EU CBAM, except that the UK CBAM will not cover electricity.

Domestic Treatment

The UK already has a domestic ETS system, which requires British facilities to pay for allowances to cover their emissions in energy-intensive industries, the power sector, and aviation.

Carbon Charge

The price of the fee will match the price of the UK's own ETS, with deductions for any carbon price applied in the country of origin. One divergence from the EU CBAM, however, is that the UK CBAM will impose its fee as a direct levy. The EU CBAM will mirror the EU ETS by requiring importers to purchase certificates to cover their emissions. The UK CBAM will similarly set its emissions fee based on the ETS allowance price, but it will be imposed as a direct fee on importers based on the embodied emissions of the good.

Another important difference between the UK and EU CBAMs is that the UK CBAM will not feature a reporting-only transitional phase. The UK CBAM will kick in simultaneously with mandatory emissions reporting.

Covered Emissions

The UK CBAM will cover direct and indirect emissions, as well as certain material inputs to ensure comparable coverage with the UK ETS. It is unclear whether the UK CBAM will diverge from the EU CBAM's carbon accounting methodologies.^{xxiv} The UK government is working with industry to "develop a framework which measures the carbon content of goods."^{xxv}

Revenue Treatment

Yet to be determined.

PROPOSED: GLOBAL ARRANGEMENT ON SUSTAINABLE STEEL AND ALUMINIUM (GASSA)

Coordinated tariff approaches are also being considered to leverage the combined power of developed economies. On October 31, 2021, the U.S. and the EU announced their intention to negotiate the terms of a Global Arrangement on Sustainable Steel and Aluminum (GASSA) that would address the carbon intensity of steel and aluminum production as well as global non-market excess capacity (NMEC).^{xxvi}

If this envisioned arrangement is successfully implemented, it has the potential to reduce trade in the most carbon-intensive forms of steel and aluminum while discouraging the kind of state investments that have contributed to overcapacity in these sectors. The parties originally agreed to a two-year timeline for the negotiations; that deadline was revised to March 31, 2025.

Covered Products

This international agreement would apply initially to just two energy-intensive sectors: 1) iron & steel and 2) aluminum.

Domestic Treatment

There is no domestic component to this agreement.

Carbon Charge

The GASSA negotiators have been exploring several different policy design options. These include:

- A tiered tariff structure based on carbon intensity
- A design similar to the EU CBAM
- Targeted tariffs imposed on production from NMEC sources

Covered Emissions

To be determined.

Revenue Usage

To be determined.

Additional Details

While the U.S. and the EU are the sole participants in this round of negotiations, they have indicated their interest in inviting “like-minded economies to participate in the arrangements.”^{xxvii} Other major manufacturers including Canada, Japan, and the UK appear well positioned to join the agreement, which could lead to the

formation of a sectoral carbon club.

The Council highlights the opportunities available to the U.S. and the EU if the GASSA negotiations are successful in our December 2023 white paper.^{xxviii}

ACTIVE: FOREIGN POLLUTION FEE ACT OF 2025

On April 8, 2025, Senators Bill Cassidy (R-LA) and Lindsey Graham (R-SC) reintroduced the Foreign Pollution Fee Act of 2025.^{xxix} The bill was originally introduced in 2023, but the 2025 version has significant differences in the design of the carbon charge, covered goods, and international partnerships.

Covered products

The bill would establish a “foreign pollution fee” on imports of the following fuel, energy-intensive industrial products, and energy goods:

| Fuels | Energy-Intensive Products | Energy Goods |
|----------|---------------------------|----------------|
| Hydrogen | Aluminum | Solar products |
| | Cement | Battery inputs |
| | Fertilizer | |
| | Glass | |
| | Iron & steel | |

Domestic Treatment

No fee would apply to any domestic activities.

Carbon Charge

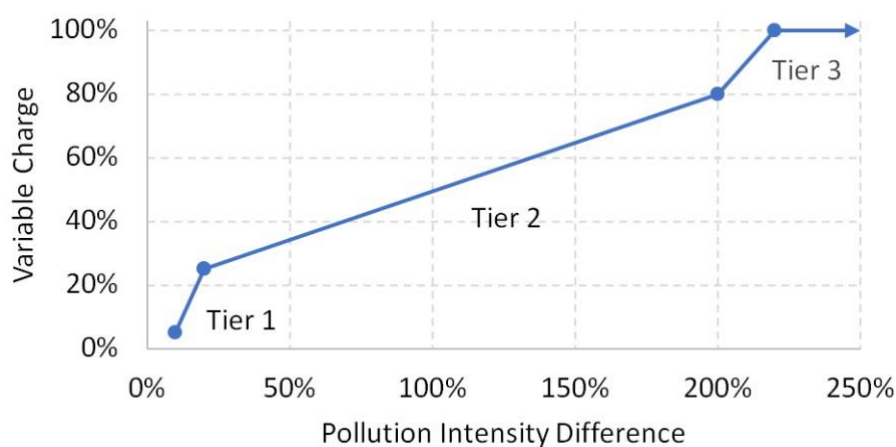
The Foreign Pollution Fee imposes an import charge beginning 6 weeks after the legislation is enacted. The import charge is based on three key concepts:

1. Pollution intensity difference, or the difference between the emissions intensity of production in the country of origin and the U.S. (measured in tons CO₂e / ton of product). The pollution intensity difference is calculated based on the weighted average emissions intensity of production in the country of origin, but facility-specific data can be used under certain conditions.^{xxx} A “variable charge” that increases with the pollution intensity difference. The variable charge is doubled on imports from non-market economy countries and from firms identified as foreign entities of concern.
2. An *ad valorem* rate calculated by multiplying the variable charge by the customs value of the imported covered product.
3. An *ad valorem* rate calculated by multiplying the variable charge by the customs

value of the imported covered product.

Imports of covered products are sorted into tiers based on pollution intensity differences. Each tier is assigned a range of variable charges so that more pollution-intensive imports face a higher charge (see **Figure 1**). This design encourages marginal improvements to the pollution intensity of overseas production and large improvements that may allow a country to move to a lower tier of pollution intensity differences.

Figure 1: Under the Foreign Pollution Fee Act, imports are assigned a variable charge based on their placement within tiers of progressively higher pollution intensity differences.^{xxxi}



To expedite implementation, the bill publishes a table of initial variable charges for covered goods by country. Rulemakings will determine administrative processes and the variable charges in future years.

Covered emissions

The FPFA determines pollution intensity differences based on emissions of the six greenhouse gases studied under the Greenhouse Gas Reporting Program: CO₂, CH₄, NO₂, PFCs, HFCs, and SF₆. It allows the Secretary of Treasury to add emissions of additional gases, like criteria pollutants, if reliable data becomes available.

The calculation of pollution intensity differences accounts for direct emissions, indirect emissions, emissions from material inputs, and transportation emissions. The bill also accounts for negative emissions from carbon capture and storage or direct air capture.

Additional details

The Foreign Pollution Fee catalyzes international collaboration and expands international market opportunities for U.S. manufacturers of covered products. It offers countries that negotiate international partnerships with the U.S. access to lower foreign pollution fees and

creates a pathway for firms to provide facility-specific data to reduce their foreign pollution fee liability. For low and low-middle-income countries that negotiate international partnerships with the U.S., the bill also opens access to more forms of foreign assistance.

To enter into an international partnership under this bill, foreign economies will need to introduce interoperable trade measures to lower global pollution levels, among other requirements. Nonmarket economies are not eligible for international partnership agreements.

PROPOSED: CLEAN COMPETITION ACT OF 2023

The bicameral Clean Competition Act of 2023 was introduced by Senator Sheldon Whitehouse (D-RI) and Representative Suzan DelBene (D-WA-1). It would impose a carbon import fee on imports of certain products that would mirror a domestic carbon price.^{xxxii} The bill was first introduced by Senator Whitehouse in the 117th Congress.

Covered Products

The bill would apply to goods made at facilities that are required to report their GHG emissions under the GHGRP or that make or import the following fuels and energy-intensive industrial products (along with certain material inputs).

| Fuels | Energy-Intensive Products |
|----------------------------|----------------------------------|
| Coal | Aluminum |
| Hydrogen | Cement & asphalt |
| Natural gas | Chemicals & fertilizers |
| Petroleum | Iron & steel |
| Refined petroleum products | Pulp & paper |

Domestic Treatment

This bill includes a domestic carbon charge on manufacturers that emit above a determined benchmark, discussed further below.

Carbon Charge

From 2025 onwards, importers and domestic manufacturers of covered goods would be charged a carbon import fee on the fraction of emissions that exceed a U.S. performance benchmark in the specific sector. This U.S. benchmark would decline over time: 2.5% annually from 2025 to 2028, then 5% annually thereafter, to encourage producers to reduce the carbon intensity of their goods.

The fraction of emissions exceeding a U.S. benchmark would be determined by calculating the difference between the U.S. carbon intensity benchmark and the carbon intensity of:

- The general economy of the country of origin.
- The sector-specific average from the country of origin, if the Treasury Department determines that emissions data from the country of origin is “transparent, verifiable, and reliable,” and that the country operates as a “transparent market economy.”
- The specific facility where the good was manufactured, if the entity successfully files a petition with the Treasury Department to use their own monitored and calculated emissions.

The initial carbon price is set at \$55 per ton in 2025, rising annually by 5% plus inflation. Exporters of covered primary goods in the U.S. subject to the fee would be eligible for a rebate determined by the carbon intensity of the covered facility.

Starting in 2027, importers of finished goods containing more than 500 pounds of any combination of covered primary goods would also be subject to the carbon import fee. By 2029, the threshold for inclusion would decrease to 100 pounds. Starting in 2030, the Treasury Secretary has the option to further reduce this threshold to less than 100 pounds. This would have the effect of expanding coverage to goods that incorporate covered products, like automobiles, industrial machinery, home appliances, and other manufactured products.

Covered Emissions

This policy would cover direct emissions of gases consistent with the GHGRP.^{xxxiii} The charge would also consider indirect emissions from electricity used during production.

Revenue Usage

75% of revenues generated from the carbon import fee would finance grants intended to help domestic industries invest in and adopt the new technologies needed to reduce their carbon footprints. The remaining 25% would be used by the State Department to support climate and clean energy programs abroad.

Additional Details

The legislation allows for exemptions for products originating from countries that have implemented “materially similar” policies that impose “explicit costs” on emissions. The bill would also provide an exemption for least-developed countries, unless they produce more than 3% of total global exports by value of any covered good.

PROPOSED: MARKET CHOICE ACT OF 2025

In the House, Representatives Brian Fitzpatrick (R-PA-1) and Salud Carbajal (D-CA-24) reintroduced the Modernizing America with Rebuilding to Kickstart the Economy of the Twenty-first Century with a Historic Infrastructure-Centered Expansion (MARKET CHOICE) Act.^{xxxiv} The legislation was initially introduced in 2018 by former Representative Carlos Curbelo (R-FL-26).

The MARKET CHOICE Act imposes a fee on specific domestic facilities as opposed to specific products. It also imposes a carbon border fee on goods from facilities that would face the fee if they were located domestically.

Covered Products

The MARKET CHOICE Act describes its scope of coverage by focusing on facilities rather than products. Even so, this bill would impose a fee on facilities that manufacture the following fuels, energy-intensive industrial products (along with certain material inputs), and energy goods. Foreign goods are subject to a fee if they come from facilities that would face the fee if they were located domestically.

| Fuels | Energy-Intensive Products | Energy Goods |
|--------------------|----------------------------------|-------------------------------|
| Coal | Aluminum | Electrical transmission goods |
| Natural Gas | Cement | Semiconductors |
| Petroleum products | Chemicals & fertilizer | |
| | Glass | |
| | Iron & steel | |
| | Lead | |
| | Petrochemicals | |

Domestic Treatment

The MARKET CHOICE Act imposes a fee on domestic and foreign facilities that manufacture the covered goods listed above.

Carbon Charge

The proposed carbon price is set at \$40/ton CO₂e in 2027, rising annually by 5% plus inflation. U.S. exporters of covered goods would be eligible for a rebate based on the carbon tax paid prior to export.

Covered Emissions

The act covers the same gases as the GHGRP. For the purposes of calculating emissions intensity, it considers direct emissions from fuel combustion and chemical processes, as well as indirect emissions from electricity generation.

Revenue Usage

Revenue from the domestic charge and the carbon import fee would go into a Rebuilding Infrastructure and Solutions for the Environment Trust Fund (75%), which would invest in American infrastructure, issue payments to eligible low-income households, and support climate adaptation. The remaining funds (25%) would be given to the Treasury.

Additional Details

Least developed countries, and countries determined to be responsible for less than 0.5% of total global GHG emissions and less than 5% of global production in the eligible industrial sector, would be exempt from the carbon import fee.

The legislation would simultaneously repeal existing federal excise taxes on the sale of motor vehicles and aviation fuels.

PROPOSED: ENERGY INNOVATION AND CARBON DIVIDENDS ACT OF 2025

The Energy Innovation and Carbon Dividend Act of 2023 was introduced by Representatives Salud Carbajal (D-CA-24) and Scott Peters (D-CA-50).^{xxxv} It was first introduced in 2018 with bipartisan support.

Covered Products

The bill would impose a fee on imports of covered fossil fuels and energy-intensive products.

| Fuels | Energy-Intensive Products |
|--------------|----------------------------------|
| Coal | Aluminum |
| Crude oil | Cement |
| Natural gas | Ceramics |
| | Chemicals |
| | Glass |
| | Iron & steel |
| | Pulp & paper |

Domestic Treatment

This carbon import fee would operate alongside a domestic carbon fee on fuels and energy-intensive products. Like the Clean Competition and MARKET CHOICE Acts, U.S. exporters of covered goods would be eligible for a rebate equal to the carbon fees accumulated before export of the good.

Carbon Charge

The charge is set at \$15/ton CO₂e in 2023, rising annually by \$10/ton above inflation. The bill also establishes a procedure for industry to petition the government regarding the determination of the imposed carbon import fee. Consideration of these petitions shall be “fair, timely, impartial, and as necessary confidential,” but it is unclear how secondary review would work in practice.

Covered Emissions

To calculate the charge, the legislation considers emissions from CO₂, CH₄, and N₂O, while allowing for the Environmental Protection Agency (EPA) Administrator to add additional GHGs if warranted. For imported fuels, the act clarifies that it would consider production and process emissions.

Revenue Usage

The revenues generated from the carbon import fee would first be used to cover administrative costs, and any remaining funds would be allocated to the United Nations’ Green Climate Fund, which assists developing countries with climate change adaptation and mitigation activities.

Additional Details

The act encourages the Secretary of State to negotiate treaties designed to lower global emissions. The Secretary may adjust the border charge if a treaty requires it or if they determine that the exporting country’s mitigation efforts are “sufficient” to contribute to net-zero emissions by 2050. The legislation also authorizes the Secretary of State to alter elements of the carbon import fee if deemed necessary to satisfy the United States’ obligation to the World Trade Organization.

PROPOSED: AMERICA’S CLEAN FUTURE FUND ACT OF 2024

Senate Majority Whip Dick Durbin (D-IL) re-introduced America’s Clean Future Fund Act of 2024 in September 2024 after initially introducing it in 2021.^{xxxvi}

Covered Products

This policy would impose a carbon import fee on the following product categories:

| Fuels | Energy-Intensive Products |
|--------------|----------------------------------|
| Crude oil | Aluminum |
| Natural gas | Cement |
| | Ceramics |
| | Chemicals |
| | Glass |
| | Iron & steel |
| | Pulp & paper |

Domestic Treatment

This bill would introduce an economy-wide domestic carbon price and would instate a carbon import fee on fuels and certain energy-intensive goods.

Carbon Charge

In 2026, the fee would begin at \$65/ton CO₂e in 2023 and rise annually by \$10/ton above inflation. This fee rate would be increased beginning in 2029 if emissions targets are not achieved, but it could also be dropped to \$0 if the average annual emissions over the preceding three-year period are no more than 10% of 2018 emissions levels.

This legislation allows for two different types of industry reimbursement. First, U.S. exporters of covered fuels and products will be reimbursed for the amount they pay to ensure that U.S. exporters can remain competitive in foreign markets that do not impose domestic carbon prices. Second, any person who captures CO₂ and disposes of it via geological storage, utilization, or another approved method will be paid by the metric ton according to the fee rate.

Covered Emissions

This carbon import fee takes into account all gases included under the GHGRP.

Revenue Usage

Three-quarters of the collected revenue would be returned to U.S. low- and middle-income individuals through quarterly rebates. The rest would go to climate change adaptation and mitigation funds, grants providing transition assistance to impacted communities, and payments to help decarbonize the agricultural sectors. A new federal agency called the Climate Change Finance Corporation would also help finance and encourage private investment in clean technologies, energy efficiency, and other decarbonization-related projects.

HONORABLE MENTION: PROVE IT ACT OF 2024

Though not a proposal to impose a carbon import fee, the bipartisan PROVE IT Act is often cited in climate and trade discussions. The “Providing Reliable, Objective, Verifiable Emissions Intensity and Transparency Act” was introduced by Senators Chris Coons (D-DE) and Kevin Cramer (R-ND) and passed out of the Senate Environment and Public Works Committee in the 118th Congress on a robust bipartisan vote.^{xxxvii} Congressmen John Curtis (R-UT-3) and Scott Peters (D-CA-50) introduced a House version of the bill in July with 19 additional co-sponsors.^{xxxviii}

PROVE IT would direct the Department of Energy (DOE) to study the emissions intensity of manufacturing for various products in the U.S. and major international markets. Covered countries include G7 nations, free trade agreement partners, foreign countries of concern, and countries that control a significant global market share of a covered product. DOE will update the data every five years, working in collaboration with the EPA, the U.S. Trade Representative, and the Commerce and State departments.

The bill would further substantiate America’s carbon advantage by requiring DOE to provide verifiable, high-quality emissions intensity data for fuels, energy-intensive products, and some energy technologies for the U.S., trade partners, and competitors.^{xxxix}

Covered Products

| Fuels | Energy-Intensive Products | Energy Goods |
|----------------------------|----------------------------------|-----------------------|
| Biofuels | Aluminum | Critical minerals |
| Crude oil | Cement | Lithium-ion batteries |
| Hydrogen | Fertilizers | Solar cells |
| Natural gas | Glass | Wind turbines |
| Refined petroleum products | Iron & steel | |
| Uranium | Petrochemicals & plastics | |
| | Pulp & paper | |

Covered Emissions

DOE would consider the gases covered by the GHGRP resulting from the extraction, production, processing, manufacture, assembly, and transport of a covered product.^{xl} Industry may voluntarily participate by sharing data or proposing measurement methodologies.

Additionally, international partners are encouraged to actively engage in information and data sharing, contributing to the accuracy of the study while fostering global

cooperation on emissions measurement.

The study would seek to identify data gaps, support informed policymaking, foster collaboration on climate and trade issues across international borders, and give U.S. officials and industry the best case to defend their environmental performance as carbon import fees proliferate internationally. We take a closer look at the details of the PROVE IT Act in our Climate Perspectives blog series.^{xli}

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- ⁱ “Taiwan passes a climate law that includes a carbon border tax,” African Climate Wire, January 17, 2023, <https://africanclimatewire.org/update/taiwan-passes-a-climate-law-that-includes-a-carbon-border-tax/>.
- ⁱⁱ “Exploring Border Carbon Adjustments for Canada,” Government of Canada, 2021, <https://www.canada.ca/en/departement-finance/programs/consultations/2021/border-carbon-adjustments/exploring-border-carbon-adjustments-canada.html>.
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