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Principles for Well-Designed Carbon Intensity Import Fees in the United States

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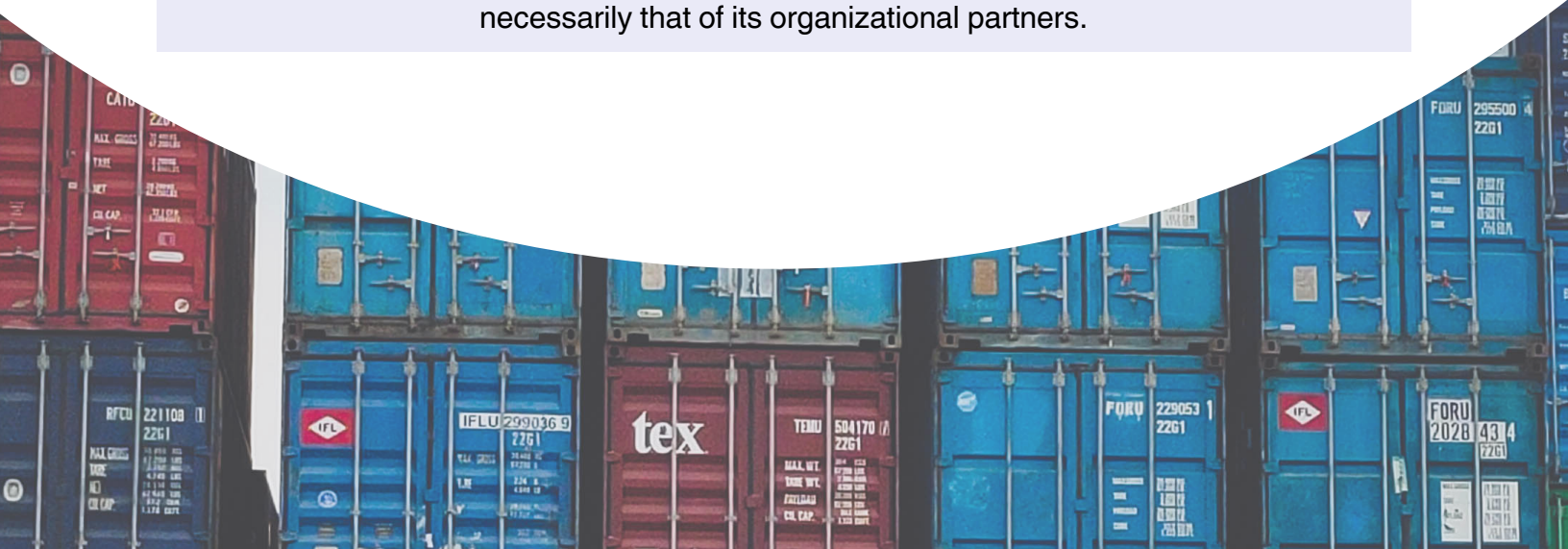
OVERVIEW

Principles for Well-Designed Carbon Intensity Import Fees in the United States

Adequately addressing climate change requires leveraging the power of market forces. Trade, which is responsible for a quarter of global carbon emissions, presents a promising opportunity for aligning global market incentives with international climate goals. Interest is growing around a set of policies designed to favor the most carbon-efficient manufacturing, accelerate trade in technologies and goods necessary to a low-carbon future, and create incentives that elevate climate ambition by countries and companies alike.

One set of tools under consideration by larger economies would begin charging imported goods based on their emissions intensity. Carbon intensity import fees have the potential to reward decarbonization efforts and ensure that imported products are aligned with national climate ambition. As with all major policies, the design and details matter greatly.

Research and work products are that of the Climate Leadership Council and not necessarily that of its organizational partners.



PRINCIPLES

A Well-Designed U.S. Carbon Intensity Import Fee Should:

1 **Recognize and Incentivize Environmental Performance**

Carbon intensity import fees should promote a level playing field for companies around the world to compete based on lower carbon emissions. To the greatest extent possible, the fees should be applied based on emissions performance consistently measured against the most reliable, transparent, and comparable data available.

2 **Harness International Cooperation**

Carbon intensity import fees and other climate-and-trade policies should be designed and implemented to deepen international climate cooperation, enable countries to meet globally agreed upon climate targets, strengthen America's international trade relationships and agreements, and facilitate trade in low-carbon products and technologies and the critical supply chains necessary to produce those technologies. The U.S. should work closely with like-minded countries and key trading partners toward common approaches for carbon intensity import fees and toward negotiated arrangements like "carbon clubs" to better align trade, development, and climate goals.

3 **Appropriately Balance Coverage and Administrability**

Appropriately scoping the goods and emissions covered by a carbon intensity import fee is critically important. Broader coverage of both goods and emissions will limit market distortions and emissions leakage and ensure more complete and durable market signals to encourage decarbonization. However, existing limitations to data transparency and availability would suggest that carbon intensity import fees should apply to a narrower subset of goods and emissions at the start. Appropriate simplifications, like data aggregation and averaging, may also ease implementation until more reliable and auditable data is available. A phased approach in which coverage expands over time may best balance the interests of practicality and ideal policy design.

4 Establish Clear Fee Structures

Policymakers should design carbon intensity import fees to support U.S. climate ambition and long-term market certainty by establishing clear and fair import fee structures. Important considerations in establishing import fees include the status and evolution of domestic climate policies, the economic costs of decarbonization, and the relative environmental performance of U.S. industries.

5 Include Procedural Best Practices to Support Fairness and Transparency

Carbon intensity import fees should be underpinned by consistent, fair, and transparent rules based on international best practices. Providing certainty and ensuring fairness across countries and companies will reduce disruptions and lock in clear international market signals that incentivize cleaner production and more trade in carbon efficient products and services.

6 Considerations for Different Levels of Development and Participation

Carbon intensity import fees should be developed with our broader climate, geopolitical, and economic interests in mind. Accordingly, in designing potential border measures and their application to imports from developing countries, policymakers may find it appropriate to explore considerations for different levels of economic development and good faith decarbonization efforts. If considerations for developing countries are ultimately determined to be appropriate, they should not materially impact the global emission reduction benefits nor economic incentives of the policy. Similarly, policies should consider approaches to improve international emissions data and encourage transparent, rigorous data sharing.