CENTER FOR CLIMATE AND ENERGY SOLUTIONS

CLIMATE-ALIGNED TRADE

Developments in Border Carbon Adjustments in the 119th Congress and Abroad

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There has been a surge in interest in the relationship between international trade and climate policy since the implementation of the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM). The EU CBAM has occupied the center of discourse in climate and trade policy, driving expanded interest in developing national carbon pricing policies. As more countries implement carbon pricing policies, accompanying border carbon adjustments (BCAs) are similarly increasing in prominence, driven by the desire to decarbonize and to preserve the competitiveness of emissions intensive, trade exposed (EITE) industries. BCAs facilitate national climate action, allowing implementing countries to take more ambitious steps to decarbonize their heavy industries while preventing carbon leakage—in other words, the undercutting of domestic industry by international competitors not subject to a similarly stringent carbon pricing policy.

The climate and trade policy landscape continues to evolve as more countries take action to align their trade policies with their climate objectives. BCAs occupy a central position in these conversations. This factsheet examines and compares the structure of existing and proposed BCAs, beginning with international policy developments before turning to the range of relevant U.S. legislative proposals.

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HIGHLIGHTS

Global momentum grows. Border carbon measures are moving from theory to practice. The European Union is pricing emissions in traded goods, others are close behind, and more countries are exploring similar tools. Climate and trade policy are becoming intertwined, shaping how goods move across borders.

Congress tests options. U.S. lawmakers have proposed multiple approaches to address emissions in trade, from standalone carbon tariffs to border measures tied to domestic climate policy. While designs differ, the shared goal is to level the playing field between U.S. producers and producers in jurisdictions with lower environmental standards.

Design choices matter. Differences in policy design can have big impacts on costs, competitiveness, and global cooperation. Decisions about which products are covered, how emissions are measured, and how trade partners are treated will determine the impact of these policies.

Introduction

Border carbon adjustments (BCAs) are trade measures intended to level the playing field between domestic producers subject to relatively strong climate regulations and foreign (i.e., exporting) competitors operating in jurisdictions with weaker or no climate regulations. By imposing a price on the carbon emissions embedded in imported goods, BCAs aim to prevent carbon leakage, which is the relocation of emissions-intensive production to jurisdictions with less ambitious climate policies. Without BCAs, countries with robust climate policies risk losing economic competitiveness and market share in strategic sectors, while their emission reductions may be offset by rising emissions abroad. BCAs enable countries to pursue effective climate action, protect domestic industries, and incentivize trading partners to adopt stronger climate policies, specifically carbon pricing mechanisms.

This factsheet summarizes and compares BCA-related international policy developments and proposals introduced in the 119th Congress (2025–26).

International Border Carbon Adjustments

This section details the development and policy design of international BCAs in the order of their introduction, including changes implemented over time.

Since the EU enacted the first BCA, the EU CBAM, interest in pricing the emissions embedded in traded goods has expanded, leading several countries to take steps toward implementing their own BCAs.[1] For example, Canada and Australia have conducted public consultations on possible BCAs.[2] Thailand, Türkiye, and Chile are similarly investigating implementing their own BCAs.[3] While these developments are notable in the continued expansion of border carbon adjustments, this comparison is limited to jurisdictions that have taken concrete legislative or regulatory steps toward BCA design or implementation.

EU CBAM

The EU proposed its CBAM in 2021, with the European Commission asserting that the policy would allow the EU to meet its ambitious decarbonization goals while preventing carbon leakage in emissions-intensive, trade-exposed (EITE) industries that damages the competitiveness of European industry.[4] Prior to the introduction of the EU CBAM, the EU mitigated the risk of carbon leakage by granting EU-based EITE industries free allowances under the EU Emissions Trading System (ETS), the EU-wide cap-and-trade system that places a price on emissions. These allowances reduce the financial liability for EU-based emissions to ensure that firms remained competitive against products from jurisdictions without carbon pricing policies and did not offshore production to jurisdictions with less stringent climate policies.

However, decarbonization of these industries is essential to meeting the EU's long-term climate targets. Therefore, the EU CBAM will gradually replace the system of free allowances under the EU ETS, incentivizing EU industries to decarbonize while ensuring they are able to compete on a level playing field against producers in jurisdictions with less ambitious climate policies. The European Commission has stated that the EU CBAM is also intended to encourage emission reductions from industry outside the EU.[5]

The EU enacted CBAM legislation in May 2023, followed by implementing regulation for the EU CBAM's transitional phase in August 2023.[6] During the transitional phase (2023–25), importers of covered goods had to comply with a reporting program by registering as authorized declarants and gathering and submitting required emissions data, but without having to pay the associated financial liability. The stated objective

of this transitional phase was to provide a predictable adjustment period for EU and non-EU businesses impacted by the CBAM.

In December 2025, the European Commission published the results of its review of the EU CBAM and released a package of implementing regulations for its definitive regime.[7] The European Commission also released proposed legislation that would expand the range of products covered by the EU CBAM to cover some downstream goods, launch a decarbonization fund for EU industry, and introduce additional methods to prevent circumvention.[8]

The EU CBAM's definitive regime took effect on January 1, 2026, meaning that importers of CBAM covered products are financially liable for the emissions embedded in these goods. However, they are not required to purchase and surrender CBAM certificates until February 1, 2027.[9] These provisions allow importers additional time to adjust to the EU CBAM's definitive regime and any changes made during its implementation.

Product coverage

The EU CBAM covers goods from sectors at significant risk of carbon leakage: cement, electricity, iron and steel, aluminum, fertilizers, and hydrogen. The European Commission has proposed to extend the range of products covered by the EU CBAM to include products down the value chain from covered industrial sectors, like products containing steel and aluminum for example, beginning in 2028.[10] The European Commission has justified this proposed expansion as necessary to address carbon leakage. It states that steel and aluminum are used as inputs in downstream products and that European producers of these downstream goods face cost increases resulting from the EU CBAM and EU ETS, which could push them to relocate production and thereby export EU emissions abroad if the EU does not include them in the EU CBAM. The EU has previously stated its aim to extend the EU CBAM to cover all goods included in the EU ETS, leaving the door open to further expansion.[11]

In February 2025, the European Commission revealed a CBAM Simplification Package that included a revised de minimis threshold, in other words the amount of imported covered goods below which the regulation will not apply. Entities who import less than 50 tons of net mass of covered products per year will not have to surrender CBAM certificates.[12] Even so, importers shipping covered products in quantities below the threshold will be required to register as occasional CBAM importers so that their imports may be monitored to ensure they do not exceed the limit.

The intention of this change is to exempt small importers for whom the regulatory burden would outweigh the potential climate benefits. The de minimis threshold does not apply for electricity or hydrogen, meaning that all imports of these products are liable under the EU CBAM. According to the European Commission, this change will exempt 90 percent of importers from CBAM requirements, while retaining coverage for 99 percent of the emissions associated with imports of covered goods. The European Commission is able to review and change the de minimis threshold to ensure the EU CBAM continues to cover 99 percent of embedded emissions in imported covered goods.

Price

In 2026, the price of CBAM certificates is based on the quarterly average auction price of EU ETS allowances, weighted by the volume of auctioned allowances.[13] From 2027, the CBAM price will be based on the weekly average. As the EU CBAM phases in, the existing system of free allowances under the EU ETS will be phased out for sectors covered by the CBAM. While free allowances are being phased out gradually, importers of covered products will face a reduced financial liability to reflect the value of free allowances provided to EU producers.[14]

Importers that can show that covered goods have already been subject to a carbon price on embedded emissions may deduct that fee from their CBAM liability, reducing the number of CBAM certificates they must purchase and surrender.

Emissions scope

Importers must determine their CBAM liability based on the product-level emissions data for covered imports. They must also ensure the actual emissions data they submit is verified by an approved independent verifier. Importers must report both direct emissions from on-site combustion of fuels and industrial processes and indirect emissions from purchased electricity. However, indirect emissions from goods under the EU ETS that currently receive additional compensation for high electricity use (i.e., aluminum, iron and steel, and hydrogen) are not included when calculating the CBAM liability.

The EU CBAM in some cases also extends to embedded emissions from precursors, or input materials used in the production of complex CBAM covered goods (e.g., hydrogen used in ammonia-based fertilizers or clinker used in Portland cement). The implementing regulations provide emissions measurement methodologies with product and sector-specific guidance for attributing emissions to specific covered goods.[15]

Where actual embedded emissions data is not available, importers may use default values for reporting emissions in covered goods. Default values for each covered product are based on the average emissions intensity of the country of export, with a "proportionately designed mark-up" to account for deviations of individual facilities from the country of origin's average emission intensity and to ensure the environmental integrity of the EU CBAM.[16] Where there is not reliable data for the exporting country and goods in question, the default value will be based on the average emission intensity of the 10 exporting countries with the highest emissions intensities.[17] Default values of indirect emissions are calculated based on the emission of factor of the country of origin's electricity grid, based on the simple average of the five most recent years for which reliable data is available.[18]

Imports of electricity are required to use default values except when declarants meet strict conditions. Default values for electricity are based on the emission factors of the exporting country based on the average of the five most recent years for which reliable data is available. Where the emission factor for an exporting country cannot be calculated, the default value will be based on the EU's emission factor.

Treatment of other countries

Non-EU countries participating in the EU ETS or with an emissions trading program linked with the EU ETS will be excluded from the CBAM.

Revenue use

Revenue generated from the EU CBAM will be divided, with 75 percent allocated to the EU budget and 25 percent to the member states.[19]

UK CBAM

The British government confirmed in October 2024 that the UK will enact a CBAM, which will take effect on January 1, 2027.[20] Like the EU CBAM, the UK CBAM's stated goal is to facilitate the acceleration of the UK's industrial decarbonization goals while mitigating the risk of carbon leakage and resource shuffling (i.e., the practice manipulating trade flows to export low-carbon goods to a select destination, while diverting high-carbon goods to less regulated markets) for highly traded emissions intensive goods.[21] It further intends to balance the playing field between UK industry and foreign producers that are not subject to a carbon price or covered by a carbon pricing policy with lower carbon prices than the UK ETS.

Prior to the UK CBAM's introduction on January 1, 2027, the British government will have to pass legislation confirming a multitude of related details, including specific reporting requirements and the use of revenue generated by the UK CBAM.

Product coverage

The UK CBAM will initially cover imports from industries at risk of carbon leakage including aluminum, cement, fertilizer, hydrogen, iron, and steel.

The UK CBAM will also apply a de minimis threshold of £50,000 in covered goods per annum, meaning that entities importing less than this amount will not be required to comply with the UK CBAM. The government states that this reduces the burden on small and medium enterprises, while maintaining coverage of 99 percent of emissions through goods covered by the UK CBAM.

Price

The UK CBAM price will be set quarterly, based on the average UK ETS price, inclusive of free allowances provided to facilities covered by the UK ETS, from the preceding quarter. While reporting obligations will begin in 2027, payments for the first quarterly period will be due at the end of May 2028. Importers of covered goods whose products have been subject to an explicit carbon price in another country will be able to reduce the financial liability imposed by the UK CBAM.

Emissions scope

Importers of covered goods will be required to report the direct, indirect, and select precursor emissions embedded in covered goods. Importers will be able to use default emissions values or submit verified actual emissions data to determine their CBAM liability. Starting in 2027, a single default value will be established for each product, but the method used to calculate default values may be subject to change.

Treatment of other countries

The British government has confirmed that products subject to a carbon price under an ETS linked with the UK will be exempt from the UK CBAM, requiring neither the submission of a CBAM return nor counting toward the de minimis threshold.[22] The EU and UK have announced they will work toward linking their respective ETSs, reducing the risk of trade disruptions.[23]

Taiwan CBAM

In June 2025, Taiwan's Climate Change Agency released a statement regarding the Ministry of Environment's plan for a Taiwanese CBAM.[24] Acknowledging that the Climate Change Response Act of 2023 empowers the government to enact carbon fees on imports, the Ministry of Environment has stated that is has been monitoring and studying developments in international carbon pricing systems and BCAs and plans to follow the model of the EU CBAM. The Ministry began discussions with industry regarding carbon leakage and industrial competitiveness in 2024 and plans to implement a trial product-level emissions reporting system as a first step before establishing a BCA. The Ministry is undergoing work to finalize reporting targets, product coverage, calculation methods, and related requirements by the end of 2025. Taiwan is currently prioritizing trial reporting for the steel and cement industries.

According to the government's plans, the legal framework underpinning this reporting system will be introduced in 2026, followed by an official launch in 2027. The government has stated that designing and implementing a BCA is a complex process, and that until such a policy is implemented industries at risk of carbon leakage will receive a 20 percent reduction on their domestic carbon price to maintain international competitiveness. As the Ministry notes, this is similar to the EU's approach of granting free allowances under the EU ETS until the EU CBAM comes into full effect.

Norway CBAM

On October 24, 2025, the Norwegian Ministry of Climate and Environment submitted its proposal for a Norwegian CBAM.[25] While Norway is not an EU member state and not covered by the EU CBAM in its initial rollout, Norway does participate in the EU ETS. The proposed legislation involves enacting the EU's CBAM regulations into Norwegian law. Like the EU CBAM, the Norwegian government cites combating carbon leakage as its primary objective for extending the CBAM to cover Norway, noting that the EU asserts the CBAM will be compliant with the bloc's World Trade Organization (WTO) obligations.

119th Congress

In the United States' 119th Congress (2025–2026), five proposals have been introduced related to border carbon adjustments: a border carbon adjustment, a pollution tariff, two border adjustments included in carbon pricing proposals, and a methane border adjustment.

The Methane Border Adjustment Mechanism Act is not summarized in this document as it was based on the now defunct Waste Emissions Charge (WEC) established under the Clean Air Act's Methane Emission Reduction Program. In March 2025, Congress passed, and President Trump signed, a joint resolution of disapproval nullifying the 2024 WEC Final Rule, rendering it without legal force or effect. Although the rule was voided, the underlying statutory authority for the charge remained in place. In July 2025, the One Big Beautiful Bill Act (H.R. 1) delayed the effective date of the statutory charge until 2034.

Foreign Pollution Fee Act of 2025

The Foreign Pollution Fee Act (*S. 1325*), introduced in April 2025 by Sens. Bill Cassidy (R-La.) and Lindsey Graham (R-S.C.), would establish an import fee—in effect a tariff—based on the pollution intensity of a good compared to a U.S. baseline. The proposal explicitly states that it would not "authorize the creation" of a domestic carbon price.

Product coverage

The tariff would apply to covered products classified under six-digit Harmonized Tariff Schedule (HTS) codes, including aluminum, articles of aluminum, cement, articles of cement, iron and steel, articles of iron and steel, fertilizers, glass, hydrogen, solar products, and battery inputs.

Price

The charge is structured as an ad valorem fee —a percentage of the product's customs value—determined by multiplying that value by a variable charge that reflects the difference in pollution intensity between producing the good domestically and internationally. The fee would be implemented in two phases. Phase 1 begins six weeks after enactment and uses an interim variable charge schedule. Phase 2 begins upon final rule issuance and applies a three-tiered structure. The variable charge within each tier is calculated using a method that establishes a linear correlation between the charge and the pollution intensity differences of the products assigned to each tier (see **Table 1**).

TABLE 1: POLLUTION INTENSITY TIERS AND VARIABLE CHARGE STRUCTURE

Tier	Pollution Intensity Difference	Variable Charge
Tier 1	>10% and ≤20%	5% to <25%
Tier 2	20% and ≤200%	25% to <80%
Tier 3	>200%	80% plus 1% for every additional percentage point above 200%, capped at 100%

The variable charge would be further modified depending on origin and ownership. If a product comes from a non-market economy or is produced in a facility owned or controlled by a foreign entity of concern, the charge is doubled. If both conditions apply, the charge is quadrupled.

Emissions scope

The pollution intensity difference is defined as the percentage by which the total greenhouse gas emissions associated with the production of a good in its country of origin exceed the emissions associated with producing that same good in the United States. It captures direct emissions from manufacturing, as well as indirect emissions from electricity, heating, and cooling. It also includes emissions from precursor materials used in production and cross-border transportation. Recycled materials are treated as having zero emissions, and carbon capture or offset projects can reduce a product's intensity. If U.S. data is more granular than that available for a foreign product, the foreign pollution intensity is increased by 20 percent to account for uncertainty.

The Treasury Secretary, in consultation with a committee, would determine the pollution intensity of each product. Emissions are calculated based on production-weighted averages at the six-digit HTS level, though four-digit or 10-digit codes may be used when appropriate.

Treatment of other countries

The proposal would establish a framework for international partnerships that allows countries to qualify for reduced fees on their covered exports if they meet certain criteria. Agreements must include policies to reduce pollution through trade mechanisms, interoperable emissions measurement, reporting, and verification systems, and collaboration on countering market distortions caused by non-market economies. High- and upper-middle-income countries must fulfill these obligations within three years of entering an agreement, while low- and lower-middle-income countries have five years and may receive financial and technical assistance.

Under these partnerships, or for countries that have a U.S. free trade agreement (FTA), the proposal would permit facility-specific treatment in place of default countrywide emissions averages for facilities whose pollution intensity is lower than the country's average for that product. To qualify, facilities would have to meet strict criteria. Facilities must be located in a partner or FTA country or be owned or -operated by a U.S. firm. Facilities must use real-time pollution monitoring, grant the United States access to their emissions data, and not be government owned.

Revenue use

The proposal does not specify how the revenue should be used.

MARKET CHOICE Act

The Modernizing America with Rebuilding to Kickstart the Economy of the Twenty-first Century with a Historic Infrastructure-Centered Expansion (MARKET CHOICE, *H.R. 3338*) Act, introduced in May 2025 by Reps. Brian Fitzpatrick (R-Pa.) and Salud Carbajal (D-Calif.), would repeal federal fuel excise taxes and establish a carbon tax and a border tax adjustment.

Product coverage

The proposal would also impose a border tax adjustment on imports of covered goods. Covered goods fall into two categories. The first category consists of manufactured items for consumption designated by the Treasury Secretary. The second category includes products from eligible industrial sectors that meet both a greenhouse gas intensity threshold of at least five percent and a trade-intensity threshold of at least 15 percent. The intensity metrics are defined as the following:

- $\text{greenhouse gas intensity} = \frac{(\text{metric tons of } CO_2e \text{ emissions of the sector}) \times (\text{carbon tax rate})}{\text{value of the shipments for the sector}}$
- $\text{trade intensity} = \frac{\text{value of imports} + \text{value of exports}}{\text{value of shipments} + \text{value of imports}}$

Sectoral coverage would be updated annually. Producers within an industrial sector could petition the Treasury Secretary to designate their sector as eligible for the border adjustment. To qualify, the petition must be submitted by an entity or group of entities that collectively account for at least 80 percent of the sector's average annual value of shipments and produce similar products.

Price

The fee on imports would equal the domestic tax, which would begin in 2027 at $40 per metric ton of carbon dioxide equivalent and increase annually by five percent plus inflation. An additional $4 would be added biennially if cumulative emissions from the covered sources exceed specified reduction benchmarks through 2038. Refunds would be available for carbon captured and sequestered, as well as for fossil fuels used as feedstock so that the associated emissions are reduced or eliminated. U.S. exports of the same goods would receive rebates.

Emissions scope

The border tax adjustment would cover direct emissions from fuel combustion, process emissions, and indirect emissions from the generation of electricity used to produce the output of the sector. The exact emissions accounting methodologies shall be determined through rulemaking.

Treatment of other countries

Exemptions would be granted for least developed and low-emitting countries, defined as those responsible for less than 0.5 percent of global greenhouse gas emissions and less than five percent of global production in a given sector.

Revenue use

Revenues generated from the domestic carbon tax and border adjustment would fund the newly established Rebuilding Infrastructure and Solutions for the Environment (RISE) Trust Fund. This fund would allocate 75 percent of annual revenues to a range of projects, with a primary focus on infrastructure. The fund would also support initiatives that advance climate resilience, provide assistance to low-income households, offer support for displaced energy workers, and promote research and innovation.

America's Clean Future Fund Act

The America's Clean Future Fund Act (S. 2712), introduced in September 2025 by Sen. Dick Durbin (D-Ill.), would establish a domestic carbon fee, as well as a carbon border fee adjustment.

Product coverage

Starting on January 1, 2027, the proposal would impose a carbon border fee adjustment on imports of carbon-intensive products and covered fuels. Carbon-intensive products include those from the following industries: iron, steel, steel mill products, aluminum, cement, glass, pulp, paper, chemicals, industrial ceramics, and any manufactured good determined to be energy-intensive and trade-exposed. The fee would also apply to covered fuels, including crude oil, natural gas, coal, and derivative products used to emit greenhouse gases into the atmosphere.

Price

Importers of covered goods would be subject to a fee equivalent to the domestic carbon price, starting at $75 per metric ton of carbon dioxide equivalent and increasing annually by $10, adjusted for cost-of-living. If national cumulative emissions targets established by the proposal are not met, the annual price escalation may increase. If the imported good was already subject to a carbon fee in its country of origin, the border adjustment would be reduced by the amount of that fee. U.S. exporters of the same goods would be eligible for a rebate reflecting the domestic carbon costs they incurred. Refunds would be provided for carbon capture, sequestration, and utilization projects, excluding enhanced oil or natural gas recovery.

Emissions scope

For imported covered fuels, the fee would apply to the carbon dioxide equivalent emissions associated with their use, sale, or transfer. For imports of covered carbon-intensive products, a fee would be assessed on the product equal to the cost it would have incurred if the product's inputs or manufacturing processes been subject to the domestic carbon fee. This includes "noncovered fuel emissions"—in other words, carbon dioxide and methane emissions resulting from the production, processing, transport, or use of any product or material within the energy or industrial sectors beyond direct fuel combustion or use.

Treatment of other countries

The Treasury Secretary may determine that certain foreign policies that achieve comparable emissions reductions qualify as equivalent to a carbon price, thereby lowering the importer's liability under the border adjustment.

Revenue use

Revenue would be directed into the newly established America's Clean Future Fund. The Fund would be distributed across four key purposes: direct payments to low- and middle-income households, agricultural decarbonization, financing clean energy and climate-resilience projects through the newly created Climate Change Finance Corporation (C2FC), and transition assistance to communities affected by shifts away from carbon-intensive industries or by climate impacts.

Clean Competition Act

The Clean Competition Act (CCA, *S. 3523* and *H.R. 6787*), introduced in December 2025 by Sen. Sheldon Whitehouse (D-R.I.) and Rep. Susan DelBene (D-Wash.), would create an emissions performance standard covering the domestic production of covered primary goods as well as imports of those primary goods and select finished goods. Covered facilities and imports with emissions intensities above the benchmark set by the standard would pay a carbon intensity charge.

Product coverage

The proposal would cover primary goods produced within 20 covered emissions-intensive national industries identified by six-digit North American Industry Classification System (NAICS) codes (e.g., petroleum and natural gas extraction, iron and steel, cement). Covered primary goods are classified using the relevant six-digit subheadings of the U.S. HTS and are initially assigned to covered national industries based on the Census Bureau's most recent HTS–NAICS concordance table. The proposal would also cover imported finished goods (e.g., automobiles) containing large amounts or high-value shares of covered primary goods, with coverage phasing in gradually beginning in 2028.

Price

Starting in 2026, domestic producers and importers of covered primary goods would pay a charge based on the good's carbon intensity relative to a baseline, defined as the national industry's carbon intensity in 2025. The baseline would fall over time, reaching zero by 2048. Eligible facilities include those covered under the Greenhouse Gas Reporting Program (GHGRP) as of January 1, 2025.

The charge would be calculated by multiplying the amount by which a good's carbon intensity exceeds the baseline by the quantity of the good and the cost of pollution. For imported finished goods, the charge would reflect the sum of the charges attributable to each covered primary good input. The cost of pollution would be set at $60 per ton in 2026 and would rise each year by inflation plus six percent. The Treasury Secretary may waive all or part of the border charge to the extent a foreign country imposes explicit, verifiable, non-rebated carbon fees that are economically similar.

Entities could reduce the charges they face by removing emissions via direct air capture. Exporters of covered primary goods would receive a rebate except when the covered good is exported to a jurisdiction covered by a BCA or when receipt of a rebate would contribute to resource shuffling In order to prevent resource shuffling, the rebate would be calculated using the exporter's average emissions intensity across its eligible facilities.

Emissions scope

For domestic facilities, CCA-covered emissions would include all Greenhouse Gas Reporting Program (GHGRP)-reported process and onsite emissions associated with producing covered primary goods, plus electricity-related emissions. Electricity emissions would be based on the average carbon intensity of the facility's regional grid in the prior year. For facilities subject to power purchase agreements (PPAs), emissions would instead be calculated from the average intensity of the electricity supplied under that agreement, if electricity is generated within the same regional transmission zone and in the same hour it is used.

For imported covered primary goods, the default for calculating emissions would be at the economy-wide level. Where high-quality industry data exists for transparent market economies, Treasury may instead use the carbon intensity of the country of origin's national industry than the economy-wide figure. Importers may petition to use manufacturer-level averages—aggregated across all commonly controlled facilities—if they submit an environmental product declaration with GHGRP-equivalent data that

meet U.S. quality, verification, and completeness standards and there is no evidence of inter-firm resource shuffling.

Treatment of other countries

Imports from least-developed countries would be exempt from the policy unless the country-of-origin accounts for at least three percent of global export value for the relevant good. The proposal would also authorize the President to negotiate carbon club agreements. The core requirements of these agreements would include aligned, interoperable emissions monitoring, reporting, and verification (MRV) methods, mutual verification of industry carbon intensities, robust labor standards, domestic policies that reduce industry carbon intensity by more than border fees alone would induce, trade preferences for lowerintensity goods, policies to cut non-greenhouse gas pollutants, and safeguards against trans-shipment.

Negotiations would prioritize, in order: (1) reducing global emissions; (2) securing U.S. access to critical lowcarbon inputs; (3) strengthening competitiveness of lower-intensity goods; and (4) advancing U.S. national security and diplomatic interests. Benefits would include waived border charges, provided partner countries have policies that result in emissions reductions in covered national industries equivalent to those that would result from the carbon intensity charge. Lower, lower-middle, and upper-middle income economies would also receive prioritized access to assistance.

Revenue use

The revenue generated by the fee would be used to create a competitive program to provide grants, rebates, or low-interest loans to support investments in advanced industrial technology. The revenue would also fund a program to provide contracts for difference on a competitive basis for the payment of costs associated with the production of covered primary goods. Lastly, revenue would be used to fund bilateral and multilateral assistance to support climate and clean energy programs.

Climate Pollution Standard and Community Investment Act of 2025

The Climate Pollution Standard and Community Investment Act (*H.R. 6918*), introduced in December 2025 by Rep. Paul Tonko (D-N.Y.), would establish a domestic economy-wide cap-and-trade program and a border carbon adjustment.

Product Coverage

Starting on January 1, 2028, the proposal would impose a border carbon adjustment, called an International Reserve Allowance Program, on imports from energy-intensive, trade-exposed industrial sectors, excluding petroleum refining, defined at the six-digit NAICS level. A sector would qualify for coverage if it has either an energy or greenhouse gas intensity of at least five percent and a trade intensity of at least 15 percent.[i] Sectors with very high energy or greenhouse gas intensity—defined as 20 percent or greater—would qualify regardless of trade exposure. In addition, coverage would include products that contain more than 100 pounds of goods produced in a covered sector.

Price

Importers of covered goods would be required to submit international reserve allowances, priced at the average of the prior four auction clearing prices for the domestic cap-and-trade program. Importers would be exempt from this requirement if the goods meet a sector-specific emissions-intensity benchmark based on U.S. emissions.

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i Energy intensity calculated as the cost of purchased electricity and fuel of the sector divided by the value of shipments of the sector. Greenhouse gas intensity calculated as tons of greenhouse gas emissions of the sector multiplied by 20 divided by the value of the shipments of the sector. Trade intensity calculated as the value of imports and exports of sector divided by sum of the value of the shipments and the value of imports of the sector.

Emissions scope

The proposal would direct the EPA to establish a methodology for determining the quantity of international reserve allowances that an importer must submit. The EPA would require independent, third-party verification of emissions data for all relevant stages of production, including "attributable" emissions, of the covered imported good.

When verifiable data are unavailable EPA would apply default values calculated based on the best available emissions and production data from all facilities which produce similar goods in the country of origin, the greenhouse gas intensity of the general economy of the country of origin, and other relevant factors.

Treatment of other countries

Importers would not be required to submit allowances if the good originates from a least-developed country or a country that is responsible for less than 0.5 percent of global greenhouse gas emissions and less than five percent of U.S. imports of covered goods in that sector.

EPA would also be directed to establish procedures to prevent circumvention of the program.

Revenue use

Revenue would be directed to the clean energy rebate program (rebates for low-income households) and to cover administrative expenses, with remaining funds supporting other programs, including worker and community assistance, support for communities experiencing increased emissions as a result of the domestic program, agricultural and forest-based emissions reduction or sequestration projects, and clean energy innovation.

TABLE 2: BORDER CARBON ADJUSTMENT-RELATED PROVISIONS IN CONGRESSIONAL & INTERNATIONAL PROPOSALS

Policy	Import Fee	Domestic Fee	Product Coverage	Emissions Scope	Treatment of Other Countries
EU CBAM	In 2026, price per ton of emissions equal to the quarterly average EU ETS price (weekly average from 2027), inclusive of free allowances. Recognition of foreign carbon price paid.	EU ETS.	Cement, iron, steel, aluminum, fertilizers, electricity, and hydrogen.	Cement and fertilizers: indirect, direct, and precursor emissions. Iron, steel, aluminum, hydrogen, electricity: direct emissions.	Exemption for countries participating in or with ETSs linked to the EU ETS.
UK CBAM	Price per ton of emissions equal to the average UK ETS price from the preceding quarter, inclusive of free allowances. Recognition of foreign carbon price paid.	UK ETS.	Cement, iron, steel, aluminum, fertilizers, and hydrogen.	Direct and indirect emissions, and emissions embodied in relevant precursor goods used in the production of complex CBAM goods.	Exemption for countries participating in or with ETSs linked to the UK ETS.
Foreign Pollution Fee Act of 2025 (S. 1325)	Tiered ad-valorem fee based on emissions intensity difference.	No domestic policy.	11 product categories including EITE products, hydrogen, solar products, and battery inputs.	Direct, indirect, precursor, and transportation emissions.	Provision for the formation of international partnerships.
MARKET CHOICE Act (H.R. 3338)	Equivalent to the carbon tax on domestically manufactured goods.	$40/metric ton of emissions in 2027. Annual increase of 5% above inflation; additional $4/metric ton biennially if cumulative emissions targets not met.	Industrial goods meeting GHG & trade intensity metrics; specified manufactured items.	Fuel combustion, process, and indirect emissions.	Not specified.
America's Clean Future Fund Act (S. 2712)	Equivalent to the domestic carbon fee. Recognition of foreign carbon price paid.	$75/metric ton of emissions in 2027, increasing by $10/year, adjusted for cost-of-living.	Covered fuels and carbon-intensive products.	Covered fuel and noncovered fuel emissions.	Provision to recognize foreign policies with comparable emissions reductions as a carbon price.
Clean Competition Act (S. 3523 and H.R. 6787)	Equivalent to the domestic carbon intensity charge. Recognition of foreign carbon price paid.	$60/metric ton of emissions on emissions above baseline in 2026, annual increase of 6% above inflation.	Imported primary goods from 20 industries; imported finished goods containing large amounts or high value shares of covered primary goods.	GHGRP reported process and onsite emissions, and electricity emissions.	Provision for a carbon club.
Climate Pollution Standard and Community Investment Act of 2025 (H.R. 6918)	Equivalent to the average of the prior four auction clearing prices for the domestic cap-and-trade program.	Domestic cap-and-trade program. Auction floor set at $15/metric ton of emissions in 2027, annual increase of 5% plus inflation.	Goods produced in eligible industrial sectors based on energy, emissions, and trade intensities.	Methodology to be determined by EPA.	Exemption for goods from least-developed countries, or from countries with <0.5% of global emissions and <5% of U.S. imports in that sector.

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