



## Carbon Dumping Fees: A Tool to Close the Climate Loophole

**The Problem:** To date, none of our trade deals make any mention of climate change, much less include binding climate standards. This climate loophole in our trade policies has cost jobs for U.S. workers and undercut our climate goals by making it easier for corporations to shift their most polluting plants to countries with lower wages and weaker labor and environmental standards. These corporations then make steel, auto parts, and other products with a high degree of climate pollution and send them back to the U.S. for our consumption. For example, manufacturing an average ton of steel in China causes [more than twice as much climate pollution](#) as in the U.S. As a result, today the amount of carbon that goes into the goods we import is so large ([1.4 gigatons](#)) that it equals [the total carbon emissions of all U.S. factories combined](#). Unfair trade accounts for literally half of our industrial climate pollution problem.

**The Solution:** We need a new, climate-friendly trade model. [Click here for our proposal for 15 specific changes to status quo trade policies that could help close the climate loophole](#) so as to support good jobs, manufacturing renewal, clean air, and climate action. One tool in the toolbox is a carbon dumping fee (also called a Carbon Border Adjustment Mechanism): a fee on imported goods made with a high degree of climate pollution. A carbon dumping fee could help slow the global race to the bottom. Corporations may think twice about outsourcing a factory to a country with weak standards if they know that they are going to have to pay a carbon dumping fee to sell the products back in the U.S. Properly designed, a carbon dumping fee could even help reverse the race to the bottom, encouraging a race to the top. The fee could serve as a strong incentive for countries around the world to meet their climate goals in order to ensure duty-free access to the world's largest markets.

### The Design:

- **How should we design a carbon dumping fee?** The design of a carbon dumping fee should be a joint project between unions, environmental groups, frontline communities, and other key stakeholders across borders, working alongside legislators and administration officials. Civil society groups and governments in different trade partner countries should work together in an effort to align carbon dumping fee policies. Such coherence would create a clear incentive for corporations to reduce their emissions so as to export goods duty-free to multiple countries. To feed the policy design discussion, below are some specific ideas.
- **What goods would be covered?** We can address the lion's share of industrial climate pollution by focusing on just several energy-intensive, trade-exposed goods. Just five sectors: cement, iron and steel, aluminum, chemicals and petrochemicals, and pulp and paper account for [a large majority](#) of global climate pollution from industry. By focusing on trade in those materials and the finished goods that use them, a carbon dumping fee could efficiently take on the brunt of industrial climate pollution.
- **How can we determine the fee amount?** While some analysts have envisioned a carbon dumping fee at the border as a companion for a domestic carbon tax, an explicit carbon price policy is not a prerequisite for a carbon dumping fee. Instead, we could impose a fee on the additional carbon that goes into a given imported good, compared to the carbon that would have been produced in the U.S. to make that good. Say that we're concerned with the fee that should be placed on one ton of electric arc furnace steel that the U.S. imports from China. We could start by determining [how many more kilograms of carbon](#) went into the average ton of

steel in China (1400 kilograms) versus the average U.S. ton of steel (600 kilograms). We could then impose a consistent price, such as [the social cost of carbon](#), on the additional carbon (800 kilograms), resulting in the fee that a corporation would need to pay to send the steel from China to the U.S. The firm could reduce or eliminate the fee if it could prove, via an [environmental product declaration](#) verified by a third party, that the steel was manufactured in China with lower-than-average emissions. This would encourage both manufacturing firms and exporting countries to more consistently report and reduce industrial emissions. To support greater global equity, countries that have contributed a miniscule amount of global emissions should be exempt from fees.

- **Why should we consider this approach?** This approach has the advantage of being comprehensive. The core metric -- the carbon that goes into a good, or its “embodied emissions” -- represents the totality of a country’s policy interventions to reduce emissions, rather than narrowly hinging on one specific policy (such as a carbon tax). The approach directly targets the actual degree of additional carbon dumping rather than using a policy as an indirect proxy. In addition, by assessing the outcome of each country’s policy measures instead of requiring countries to adopt one particular policy, this approach gives each country the latitude to bring down emissions however it sees fit, so long as the result is low emissions. Each country’s policy space remains intact.
- **Who should calculate the fee?** The calculation of embodied carbon should be the task of an independent panel -- one not subject to political influence. Those sitting on the panel should be subject matter experts, including climate economists. Ideally, multiple trading partners would use the same embodied emissions calculations of a shared plurilateral panel, boosting the legitimacy and consistency of those numbers. If such cross-border agreement is not possible, the U.S. could create its own carbon dumping fee panel similar to the U.S. International Trade Commission, which is an independent, quasi-judicial body that helps the U.S. government in determining tariffs. The panel should regularly review its calculations of the embodied carbon content of target goods in each exporting country, giving countries the opportunity and incentive to cut emissions so as to reduce the carbon dumping fees they face.
- **Does the Biden administration have the authority to do this?** The Biden administration has multiple options for establishing a carbon dumping fee under existing executive authority. For example, the administration could use a trade law known as Section 232, which allows for restrictions on imports that threaten national security. The administration would be on [firm legal ground](#) in doing so, as it is established U.S. policy that climate change is a national security threat and reliance on high-emissions imports only exacerbates that threat. Alternatively, the administration could use another trade law known as Section 301 as the legal basis for a carbon dumping fee on the grounds that the dumping of climate pollution in other countries is “unjustifiable,” given the costs are borne globally.
- **What about the WTO?** People often ask whether such a carbon dumping fee would comply with World Trade Organization rules. The short answer is that virtually no version of a carbon dumping fee offers immunity from WTO challenges. Too often, policymakers shortchange their ambition or scrap good policy ideas for fear of a WTO challenge (despite the fact that the institution is currently dysfunctional and [cannot issue any binding rulings](#)). This is not the way to go. We have less than a decade to turn the corner on climate change. We simply do not have time for countries to be challenging each other’s climate policies on the basis of decades-old trade rules that predate broad awareness of climate change. Instead, the U.S. and its trading partners should take a proactive, collaborative approach to reduce the risk of WTO challenges in response to carbon dumping fees. Specifically, they should work to establish a climate “peace clause” at the WTO. Under this peace clause, countries in the WTO would agree not to use WTO rules to challenge policies directly related to achieving climate goals, including carbon dumping fees. If a WTO panel would find that a challenged policy fell under this climate peace clause, the case would be swiftly dropped. There is precedent for this solution. A WTO peace clause already exists for food security measures, and [India invoked that peace clause](#) just last year. The gravity of the climate crisis begs the question: Can we not afford similar protection for climate-friendly trade policies?