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A Resolution of the City Commission urging the United States Congress to enact the Clean Competition Act, S. 4355.
(Sponsored by Commissioner Anderson)

On June 7, 2022, the Clean Competition Act (S. 4355) was introduced by U.S. Senator Sheldon Whitehouse and others to amend the Internal Revenue Code of 1986 to create a carbon border adjustment based on carbon intensity. The Clean Competition Act would impose a carbon border adjustment on energy intensive imports, while incentivizing decarbonization of domestic manufacturing. Starting in 2024, the adjustment would apply to energy intensive industries such as fossil fuels, refined petroleum products, iron and steel, aluminum, glass, and ethanol, and would later be expanded to include additional goods and products.

American manufacturers are on average less carbon intensive than most of their foreign competitors, for example, the U.S. economy is almost 50 percent less carbon intensive than its trading partners, whereas the Chinese economy is more than three times as carbon intensive as the U.S., and India is almost four times as carbon intensive. A foundational premise of the Clean Competition Act, is that U.S. climate policy should reward more efficient U.S. manufacturers and penalize high carbon polluting imports as nearly every U.S. sector enjoys a carbon advantage over most key trading partners.

In addition to being sound economic policy designed to give American companies a leg up in the global marketplace, a carbon border adjustment would help address climate change and lower carbon emissions worldwide. According to conservative estimates, the world's climate scientists state that to achieve climate stabilization and avoid cataclysmic climate change, emission of greenhouse gases (GHGs) must be brought to 80-95% below 1990 levels by 2050.

For imports manufactured in opaque economies, the levy would be calculated based on the ratio of the country of origin's economy-wide carbon intensity to the U.S. economy-wide carbon intensity. For imports manufactured in transparent economies with reliable, verifiable data, the levy would be calculated based on the extent to which the country of origin's relevant industry-specific average carbon intensity exceeds the comparable U.S. industry-specific average carbon intensity; foreign manufacturers in such economies could use their own carbon intensities. Importers would only pay the levy based on the fraction of emissions that exceeds the comparable U.S. carbon intensity baseline. During the period from 2025 through 2028, the applicable U.S. carbon intensity baselines would be reduced by 2.5 percentage points each year from the initial average. Starting in 2029, the baselines would decrease by 5 percentage points per year. The levy would begin at $55/ton and increase at 5 percent above inflation per year. Covered imports from least developed countries would be exempt from any charges.
Covered domestic manufacturers include any facilities producing the same energy intensive primary goods covered under the initial phase of the border adjustment that are also required to report GHG emissions under EPA's Greenhouse Gas Reporting Program (GHGRP). Such facilities would be required to report GHGRP data to Treasury, as well as their annual electricity consumption and annual production of any covered primary goods by weight. Treasury would then calculate the average carbon intensity (covering scope one and two

emissions) for each energy intensive industry covered under the initial phase of the border adjustment.

Starting in 2024, covered facilities whose carbon intensity is calculated to be at or below the applicable industry carbon intensity baseline would pay nothing; covered facilities whose carbon intensity is above the applicable industry carbon intensity baseline would pay the levy only on the fraction of emissions that exceeds the industry average carbon intensity. As for imports, each industry baseline would start at the industry average and then decline first by 2.5 percentage points a year for four years and then by five percentage points per year.

Similarly, the European Union ("EU") adopted a Carbon Border Adjustment Mechanism ("CBAM") which targets imports of carbon-intensive products, in full compliance with international trade rules, to prevent offsetting the EU's greenhouse gas emissions reduction efforts through imports of products manufactured in non-EU countries, where climate change policies are less ambitious than in the European Union. The EU's CBAM will require reporting to begin in 2023 with full implementation in 2027.

The City Commission has taken legislative action related to climate change and the U.S. economy in the past. For example, on February 23, 2021, the City Commission passed Resolution 2021-30, urging Congress to pass the Carbon Dividend Act, which included a recommendation for a border adjustment to help discourage businesses from outsourcing resources and jobs to countries that emit more carbon dioxide. The City Commission also passed Ordinance 2016-30, establishing the City's "Buy American" procurement preference. The City Commission now seeks to build upon its climate advocacy, commitment to reducing carbon emissions, and support of the U.S. economy by urging Congress to support the Clean Competition Act.