Clean Competition Act

This bill creates a U.S. carbon border adjustment linked to a new domestic industrial performance standard—initially set at the average carbon intensity of the respective U.S. industry. Importing foreign producers or domestic manufacturers that exceed the standard (i.e., worse than average) must pay a carbon intensity charge for any process emissions (i.e., burning coke in a blast furnace or using electricity from a coal-fired power plant) in excess of the standard. Direct air capture is credited up to the bottom 25th percentile of an industry's carbon intensity, allowing residual emissions to be offset but requiring direct decarbonization where it's feasible.

All revenues raised by the carbon intensity charge are reinvested in industrial decarbonization: 75% domestically by DOE and 25% as foreign assistance by State. $100 billion of this is pre-appropriated, and additional amounts are made available once that is recouped. Domestically these funds support a grants, rebates, and loans program, as well as contracts for difference, providing both supply-side and demand-side support.

The President may negotiate carbon clubs to drive down global greenhouse gas emissions and expand markets for low-carbon industrial goods. In exchange, countries may receive a reduction in foreign carbon intensity charges and first preference for the bill's foreign assistance funding.

Section 4691 – Calculation of Carbon Intensity

This section creates the framework for collecting the emissions and production data necessary to derive the average U.S. industry carbon intensities need to establish the initial performance standards ("baseline carbon intensity") and to assess carbon intensity charges on emissions-intensive global imports and domestic producers. It focuses on data that is already collected by EPA (GHG emissions), EIA (electricity use), and Census (production volumes) to facilitate ease and speed of compliance. It creates an architecture for estimating foreign emissions where the data is lacking (or not trustworthy) and for splitting industries into smaller subsections to facilitate fairer comparisons of emissions intensity.

Subsection (a) – Domestic Reporting Requirements

- Covered Entities: Based on the Greenhouse Gas Reporting Program (GHGRP) as in effect on January 1, 2025—facilities that emit at least 25,000 metric tons of CO2e, as well as those that produce fuels, industrial gases, aluminum, ammonia, and cement, regardless of total emissions. Of these, only facilities that make goods that fall within a "covered national industry" (defined in Section 4695, subject to Section 4691(b)) are considered "covered entities" and are thus required to report under this program.
- Reported to: Treasury, DOE, EPA
- Data Required to be Reported:
    - Direct GHG emissions (as would be required under the GHGRP).
    - Electricity use, including PPAs, and the GHG emissions associated with it.
    - Total quantity of primary goods produced.
    - Any other info Treasury needs to determine carbon intensity.

- Timeline: Reporting begins June 30, 2026, and is required annually thereafter.

Subsection (b) – Calculation

- Carbon Intensity: The total greenhouse gas emissions associated with the production of a good from a facility (including those from electricity use) divided by the "relevant quantity" of the goods produced.
    - For determining emissions from electricity use, PPAs are credited if they hourly match with a facility's power use.
    - By default, the "relevant quantity" of a good or industry is measured in metric tons. Since some products are traded in terms of other physical units (e.g., gas is either measured in volume [cubic feet] or energy content [BTU]), the Treasury Secretary may elect to use other units of physical measurement as the "relevant quantity" from which carbon intensity is measured to facilitate ease of administration and compliance.
- Covered National Industry: The carbon intensity of an industry is the aggregate emissions associated with the production of covered primary goods in that industry divided by the total quantity of products in that industry.
    - Covers most industrial emissions: petroleum extraction, petroleum refining, natural gas extraction, coal mining, pulp mills, paper mills, asphalt manufacturing, petrochemical manufacturing, adipic acid manufacturing, hydrogen production, ethyl alcohol manufacturing, fertilizer manufacturing, glass production, cement production, lime and gypsum manufacturing, iron and steel manufacturing, and aluminum production.
    - Based on existing industry classification system (NAICS), but Treasury may determine which processes and facilities are covered by which covered national industry to ensure fair treatment and a 1-to-1 concordance between industries and products.
    - Companies may petition Treasury to move a set of goods into its own covered national industry if those goods are sufficiently distinct from others in the same industry.
- Imported Goods: A tiered system is used to estimate the carbon intensity of foreign imports based on the availability and trustworthiness of foreign emissions data—
    - Economy-Wide Default: The difference in carbon intensity (from U.S. industry average) is estimated by comparing the country of origin's economy-wide carbon intensity (total national production emissions divided by national GDP) to U.S. economy-wide carbon intensity and adjusting this based on observed variability in an industry's carbon intensity.
    - Industry Data: If the country of origin has trustworthy emissions data for the relevant industry and is a transparent market economy, this emissions data may be used to determine industry-wide carbon intensity.
    - Manufacturer Data: If the country of origin has trustworthy emissions data for the relevant industry and is a transparent market economy and there is no evidence of inter-firm resource shuffling (i.e., the purposeful regrouping of all lower-carbon

facilities in a country under a single firm for purposes of exporting to the U.S.), the manufacturer may submit a petition (and the necessary data) to have the carbon intensity of their goods determined on the firm-wide carbon intensity for such good.
    - Estimates for Significant Imports: If over 10% of U.S. imports in a given industry come from a single country of origin, or if the Economy-Wide Default fails to provide adequate estimates in a particular instance, the Treasury shall prepare and use its best estimate of the relevant foreign industry's carbon intensity.
- Country of Origin: For purposes of this policy, a covered primary good's country of origin shall be the country where an energy- or emissions-intensive process transformed its inputs into the covered primary good.
- Relevant Parties: Throughout the legislation, EPA, DOE, Commerce, Homeland Security (who oversee CBP), USTR, and USITC are invoked as the "relevant parties" to support Treasury's implementation of this policy. The first two are necessary for their expertise on greenhouse gas emissions and energy-intensive processes; in fact, EPA and DOE are at times invoked separately when it is solely a matter of emissions calculation. The others all play a key function in the U.S. trade system.
- Exclusion of Least Developed Countries (LDCs): Imports from LDCs are exempted, except for any goods where they control more than 3% of global export share.
- Trading Partners: For countries with which the U.S. has trade agreements with high labor and environmental standards, Treasury shall make best efforts to ensure that the carbon intensity of their imported products is determined using national data.

Subsection (c) – Publication

- To facilitate more transparent and fair competition for producing the lowest-carbon goods, Treasury shall maintain a database of carbon intensities that have been determined under this section, and a list of which covered primary goods are contained in each covered national industry and which goods qualify as "finished goods" (see Sec. 4692).

Section 4692 – Imposition of Carbon Intensity Charge

This section imposes a carbon intensity charge on industrial imports and domestic manufacturers for greenhouse gas emissions in excess of the "baseline carbon intensity". It creates a framework for handling industrial products imported as component parts of more complex "finished goods" (e.g., a car) and a schedule for ratcheting down the baseline carbon intensity (the "applicable percentage"). This section also sets up a framework for crediting imports that have already paid a penalty on their related greenhouse gas emissions, as well as direct air capture.

- Baseline Carbon Intensity: The carbon intensity of imports and domestic manufacturers will be evaluated against their industry average U.S. carbon intensity from the year 2025. Starting in 2027, the baseline carbon intensity drops 2.5% per year (the "applicable percentage"); starting in 2031, it drops 5% per year, until reaching 0% in 2048. The carbon intensity charge is levied only on emissions in excess of this.

- Cost of Pollution: The penalty for excess greenhouse gas emissions starts at $60 per metric ton CO2e. It increases annually by 6% above inflation.
- Charge Due: To allow ample time for calculating carbon intensity and administering charges, any amounts owed under this section are due not later than September 30 of the next calendar year.
- Finished Goods: Starting in 2028, Treasury shall identify which products (defined by 6-digit HTS code) typically contain 1,000 pounds of covered primary goods (e.g., a car) or that are comprised of material inputs that are more than 90% (by value) covered primary goods (e.g., certain chemicals), the covered primary goods that are contained in these imports shall be treated as if they were themselves imported.
    - In 2030, these thresholds drop down to 500 pounds (e.g., a motorcycle) and 75%, and starting in 2032, the Secretary may elect to lower them further.
- Foreign Carbon Prices: Any foreign policies that impose penalties on the emission of greenhouse gases shall be credited against the amount of the carbon intensity charge owed on imports.
- Direct Air Capture: Greenhouse gas emissions captured directly from the ambient air and either sequestered or utilized (other than for enhanced oil recovery), in accordance with 45Q regulations, may be credited against the carbon intensity charge, up to the lesser of:
    - The full amount owed, or
    - The 25th highest percentile carbon intensity of facilities in that covered national industry.

Section 4693 – Rebate

This section establishes rebates of carbon intensity charges for exports of covered primary goods for domestic manufacturers. It extends these rebates to exports of finished goods, calculated in the same manner for imports of finished goods. The rebate is limited in cases where destination countries credit the U.S. charge against similar policies that tariff imports for their associated greenhouse gas emissions. To prevent domestic resource shuffling, where companies manipulate production to maximize rebates by selectively exporting from higher-emitting facilities, export rebates are calculated using firm-wide carbon intensity rather than facility-specific.

Section 4694 – Carbon Clubs

This section authorizes the President to negotiate international carbon club agreements to coordinate on data and internation climate negotiations with other countries implementing carbon border adjustments or similar policies, with the core goals of accelerating the pace of global decarbonization and broadening the global market for low-carbon industrial goods. This section creates a system for aligning the emerging network of carbon border adjustments with the principles and dynamics of international climate diplomacy, leveraging the former to foster greater greenhouse gas emissions reductions.

- Requirements: To be part of the climate club, countries must meet the following minimum standards:
    - Align on procedures for GHG accounting, measurement, and verification;

    - Uphold core labor protections (mirrors USMCA language);
    - Implement or maintain:
        - Domestic decarbonization policies that achieve greater emissions reductions than what is induced by foreign carbon tariffs or carbon border adjustments;
        - Trade policies, like a carbon border adjustment, that give preference to imports of lower-carbon goods;
        - Policies that address non-greenhouse gas pollution; and
        - Policies that prevent transshipment through their countries.
- Benefits: Parties to the climate club—
    - That are not high-income countries, receive preference for any international decarbonization assistance provided under Subchapter E;
    - That are not contributing to global industrial overcapacity, may have carbon tariffs waived, provided that they implement domestic climate policies targeting industrial emissions with commensurate effect as those created by this bill.
- Phase-In: Countries may initially join the carbon club for only a subset of their industries, but must become a full party to the club within 10 years.

Section 4695 – Definitions

In this document, the most pertinent definitions contained in this section are explained in the sections where they are first used.

Subchapter E – Carbon Intensity Charge

The last part of the bill creates a system for investing all revenues raised by the carbon intensity charges back into industrial decarbonization. It establishes two new decarbonization programs at DOE: (1) a dedicated industrial decarbonization facility that provides supply-side support in the form of grants, rebates, and low-interest loans; and (2) a contracts for difference program that augments the demand-side incentives created by the industrial performance standard. It also creates a bilateral and multi-lateral decarbonization assistance program at the Department of States that supports the development of low-carbon industrial supply chains as well as the negotiation of Carbon Clubs in Section 4694. Revenues raised are split between 75/25 between DOE and State for these programs. $100B is appropriated at the start, and additional amounts are made available once that is recouped by the carbon intensity charges.

Subsection (c) – Investing in Industrial Competitiveness

- Investments in Advanced Industrial Technology: DOE will administer grants, rebates, and loans to operators of industrial facilities either to reduce their carbon intensity (by at least 20%) or to construct a new facility whose carbon intensity is at least as low as the lowest carbon intensity facility operating in that industry.
    - Application: Based on the application process for the Diesel Emissions Reduction Act (DERA).
    - Cost Share: The federal cost share shall not exceed 50%

- Contracts for Difference: DOE will administer, through an auction process, contracts for difference: agreements to cover the difference between the cost of producing a low-carbon good ("strike price") and the market rate for that good ("fair market value").
    - Auctions: DOE will select a set of goods whose decarbonization needs additional economic support and will solicit proposals for the low-carbon production of those goods; contracts will be awarded based on which proposal achieves the greatest number of emissions reductions for the lowest cost.
    - Requirements: Awardees must:
        - Achieve at least a 20% reduction in carbon intensity relative to average carbon intensity in that industry domestically;
        - Pay prevailing wages; and
        - Establish a community benefits agreement.
- Allocation: DOE shall allocate funding in general proportion to the industries with the greatest share of greenhouse gas emissions (and thus greatest incidence of the carbon intensity charge)
- Emissions Reduction Goal: In awarding funding, DOE shall aspire to keep aggregate U.S. carbon intensity in each industry below the baseline carbon intensity standard.
- Appropriation: $75B will be appropriated from the start; once the carbon intensity charge has generated $100B in revenue, 75% of the revenues raised going forward will be appropriated for these programs.

Subsection (d) – Economic Support Fund of Department of State

- Bilateral and Multilateral Assistance: State shall provide assistance to foreign states to support climate and clean energy programs.
- Preference:
    1. The first priority of this assistance will be to facilitate the establishment of carbon clubs (as per Section 4694) and maximizing global GHG emissions reductions.
    2. The secondary goal will be fostering the supply chains necessary for low-carbon industry (e.g., critical minerals, recycling).
    3. Tertiary are our broader humanitarian goals and national security interests.
- Appropriation: $25B will be appropriated from the start; once the carbon intensity charge has generated $100B in revenue, 25% of the revenues raised going forward will be appropriated for these programs.