

Frequently Asked Questions

Why a Foreign Pollution Fee (FPF)?

The Foreign Pollution Fee allows the U.S. to address economic, geopolitical, and national security all at once. It makes the best use of American advantages—namely our ability to produce and manufacture natural resources in an environmentally friendly way. It brings our allies and other desired partners along and counters the negative practices of adversaries like China. The Foreign Pollution Fee turns these advantages into a tool to achieve better economic opportunities for Americans, advance geopolitical relationships, and strengthen national security.

How does the Foreign Pollution Fee work?

The legislation imposes a fee on products imported into the U.S. that are dirtier than their American-produced counterparts. There is no domestic fee for American production. The fee increases as the difference in pollution between a foreign country and the U.S. grows.

Does the EU Carbon Border Adjustment Mechanism relate to the Foreign Pollution Fee?

The EU CBAM undercuts domestic producers with a carbon tax-like system. China can game the CBAM easily by shifting cleaner exports to the EU and dirty products elsewhere. Meanwhile, the FPF addresses negligent foreign actors by judging a country's industry as a whole and supports U.S. industry by expanding access to global markets through international partnerships.

Where does permitting reform fit in?

Permitting reform is a complementary piece to the FPF. The FPF makes clear that more U.S. production is a global benefit. The fee shifts manufacturing and critical supply chains to cleaner producers. To capitalize on this realignment, the U.S. needs permitting reform.

How are Free Trade Agreements (FTA) treated?

Products from a country with a ratified FTA will not face the FPF if it is (1) produced in the FTA country and (2) within 50% of U.S. pollution intensity. If the FTA country is a pass-through for products created in other countries, the FPF applied is based on the product's country of origin.

What is an International Partnership?

International Partnerships are agreements between the U.S. and a participating country to establish an FPF-like system for imports from non-participating countries. They eliminate most fees between the partner countries and lower other foreign trade barriers for products covered within the legislation. This is a key driver of economic opportunity for U.S. producers and provides an avenue to displace Chinese production in global markets.

What safeguards are included to prevent Chinese circumvention of the FPF?

Using national pollution intensities instead of manufacturer-specific values helps prevent circumvention. The legislation also ensures that circumvention attempts through price manipulation, ownership of production in other countries, or using other countries as a pass-through are identified and addressed.

What products are covered?

Aluminum, batteries, biofuels, cement, crude, glass, hydrogen, iron/steel, minerals, natural gas, petrochemicals, plastics, pulp/paper, refined petroleum products, solar cells, and wind turbines.

Can products be added to the covered product list?

Yes. Fifty percent of domestic producers of a particular product may petition to add a new category. The ability to add new covered products undercuts any advantage of investing in dirtier Chinese production. It makes domestic economic opportunities more attractive.

Who counts as a domestic producer?

A domestic producer is a company incorporated in the U.S. If a company located in the U.S. is a subsidiary of a foreign company incorporated in a nonmarket economy like China or Russia, they are not a domestic producer.

Are products judged by the country of production or by the company that produces them?

Products are judged by their country of production. This ensures China cannot circumvent the FPF by exporting clean products to the U.S. while shifting dirty products elsewhere. Cheap, environmentally irresponsible overproduction and dumping by China are discouraged as such manufacturing would raise China's average pollution intensity.

Can foreign producers be treated differently than the country they are located in?

Producers who can verify production in a manner consistent with U.S. environmental standards can receive manufacturer-specific treatment. This does not apply to state-owned or financed enterprises.

Where does the pollution information come from?

Pollution intensity calculations draw from existing reporting by domestic companies to the U.S. Environmental Protection Agency (EPA). International information is compiled from existing, verifiable sources or modeled as necessary.

What is included in the pollution intensity calculation?

Pollution calculations tally the pollution created at the source of the production and from the upstream sourcing of materials or energy. The pollution intensity is determined by the ratio between the pollution created and the amount of product manufactured.

Who performs the calculations of pollution intensity and the rate setting?

National Laboratories with participation from industry members draw information from the EPA and other agencies to perform the pollution intensity calculation. The labs utilize this data to set the rate of the fee. The Secretary of Treasury finalizes the recommendations.

How is the rate of the Foreign Pollution Fee set?

The rate is set to shift a product's procurement to domestic suppliers or cleaner foreign producers. Over time, the goal for the pollution intensity of imports scales down from no more than 50% more pollution-intense than the U.S. to 25% and 10%.

How does the Foreign Pollution Fee deal with very high-pollution intensity partners?

The only case in which an International Partnership does not fully eliminate the FPF is when a product is greater than 50% more pollution-intense than the U.S. In this case, the product fee is associated with how far outside the 50% window the pollution intensity is. For partner low- or lower-middle income countries, the FPF only applies if new development is greater than 50% dirtier than the U.S.

Do International Partnerships require coverage of all products?

No. An International Partnership can be based on one, multiple, or all covered products. Similarly, an International Partnership can be created on a bilateral or multilateral basis.

Does the Foreign Pollution Fee hurt free trade efforts?

No. FTAs lead to special treatment under the legislation providing an incentive to pursue such an agreement. Combined with the lower overall trade barriers from International Partnerships, the legislation encourages trade between participating countries. Because trade is done in a manner that favors responsible production and cracks down on FPF circumvention, it quickens foreign decoupling from China to the benefit of the U.S.

Is World Trade Organization (WTO) considered in the policy design?

The FPF equalizes the environmental performance of our imports with our production. This fits into acceptable WTO practices for environmental policies. Previous WTO case law is also incorporated by providing the ability for countries to prove U.S. calculations of foreign countries' pollution-intensities wrong.

What is the outlook for retaliation?

Because the FPF is WTO compliant, the U.S. is protected from retaliation. If countries like China want to see a lower fee, they need to expand purchases from cleaner suppliers—like the U.S.—to clean their supply chain. This makes China more reliant on the U.S. production and retaliation difficult.