Foreign Pollution Fee

An American plan to address the nexus between energy, economic development, supply chains, national security, and the environment at the expense of China and Russia.

Outlook

The Chinese Communist Party (CCP) and other foreign governments have ignored international norms and agreements regarding environmental protection and pollute the world without consequence. Instead of rewarding the U.S. for its stellar environmental record, the existing trade system allows the CCP to exploit loopholes in the WTO and compensates them for their poor pollution record. This combination undercuts U.S. manufacturing domestically and abroad causing the loss of millions of U.S. jobs and dependency on problematic supply chains. The CCP meanwhile, has funneled its economic gain into military expansion and predatory debt financing (i.e. Belt and Road Initiative and String of Pearls). The Foreign Pollution Fee reverses this trend by utilizing our environmental performance advantage to rein in CCP state industries and weaken their control of supply chains. In turn, it will reduce the CCP's ability to cheat and cement the U.S. position as the world leader in clean energy production and manufacturing.

Key Facts

1. The U.S. has lost roughly 5 million jobs in the last 20 years and half of those losses are a result of the U.S. trade deficit with China.
2. A total of $900 billion in Chinese predatory investment through Belt and Road and other initiatives has undercut the U.S. energy and agricultural producers.
3. The U.S. needs every tool to address the China issue. The Foreign Pollution Fee expands the toolbox while increasing partnership opportunities and access to other markets.
4. The U.S. has eliminated more emissions than any other country in the last fifteen years, and our economy is 44% more carbon efficient than the world average.
5. China, the world's largest polluter, accounts for approximately 30% of global emissions and the growth in Chinese emissions has more than offset U.S. and European reductions.
6. Products made in China, on average, generate three times the emissions of the same products made in the U.S. In addition, goods produced in Russia emit four times the emissions.
7. The emissions intensity of Chinese-mined minerals is 100% higher than U.S. minerals. Russian natural gas is 60% more emission intense than U.S. gas and oil is at least 33% more intense.

Proposal in Brief

The **Foreign Pollution Fee** ensures the pollution intensity of products imported into the U.S. is no dirtier than the production of similar domestically produced goods. It is designed to expand into **International Partnerships** that encourage trade between participating countries, provide growth opportunities for U.S. manufacturers, and secure supply chains while further isolating bad actors like China.

Carbon Intensity Comparisons

	USA	China	Russia
Aluminum Iron & Steel Refined Critical Minerals	1.0	1.8	3.7
Petrochemicals Hydrogen	1.0	2.6	5.5
Cement Glass	1.0	1.6	2.7
Pulp & Paper	1.0	1.7	2.4
Refined Petroleum Products	1.0	1.6	1.7

Foreign Pollution Fee Design

1. No fee on any U.S. producer. No fees on foreign products within 10% of the U.S. pollution intensity.
2. Pollution intensity calculations are based on a national average related to a covered product to prevent bad actors from only exporting their cleanest products.
3. U.S. pollution intensity is calculated by National Laboratories from the U.S. Environmental Protection Agency's greenhouse gas data.
4. Pollution intensity of foreign countries is calculated or modeled by National Laboratories based on the formulas established to calculate U.S. pollution intensity. Data provided by foreign entities is not used unless it is able to be thoroughly verified.
5. The fee is expressed as a percentage of the value of the imported good based on the difference between the pollution intensity of the good produced in a foreign country vs. the U.S.
6. The fee is calculated by the National Laboratories to ensure the imports of a given product are initially, on average, no more than 50% more pollution-intense than the U.S. The acceptable level of pollution intensity difference ramps down to no more than 25% and then 10% over time.
7. The target percentages of pollution intensity may be advanced to the next level if the import of a product is already meeting the previous one.

8. The Foreign Pollution Fee can be waived or reduced under the following exceptions:
    a. Products within 50% of U.S. pollution intensity if originally created in a ratified Free Trade Agreement country;
    b. There are national security needs tied to sourcing a product from a specific country; or
    c. If the U.S. produces less than 5% of domestic need for a product in clearly defined cases.

9. Covered products facing the Foreign Pollution Fee include:
    a. Energy products like natural gas, oil, hydrogen, minerals, solar panels, and wind turbines; and
    b. Industrial products like aluminum, cement, glass, iron, steel, petrochemicals, and paper.

10. New products can become a covered category via petition that includes 50% of domestic manufacturers of said product.

11. All pollution intensity values, rates, and covered products are reassessed every three years.

12. Maintains existing duty drawback laws, rules, and applications for products imported, refined, and then exported.

13. Authority is provided to the U.S. Trade Representative and Department of the Treasury to address circumvention by China or other bad actors. This includes raising rates or adjusting pollution intensity rates, if efforts to avoid the Foreign Pollution Fee occur via:
    a. Subsidizing costs to deflate export prices;
    b. Owning, operating, or majorly financing manufacturing in other countries; and
    c. Shipping products through other countries to shift country-of-import or origin.

14. Final rulemakings are completed by Treasury based on National Laboratory recommendations and the Foreign Pollution Fee is collected by U.S. Customs and Border Patrol in alignment with existing practices.

International Partnership Requirements

1. International Partnerships can be negotiated bilaterally, multilaterally, as part of a broader international accord, or via Free Trade Agreements. They can include all or some of the covered products.

2. Partnerships must maintain the ability of each country to determine its own policies to address domestic pollution intensity.

3. Establishment of a partnership requires:
    a. Similar trade policy that discourages market access to high pollution-intensity countries;
    b. Elimination of the Foreign Pollution Fee on products within the partnership that are within 50% of the pollution intensity of the U.S.;
    c. Lowering of trade barriers for U.S. exports to partner countries; and
    d. Pollution data sharing and verification.

4. Low- and Lower-Middle Income Countries that join a partnership (i.e. India, Vietnam, etc.) are:
   a. Judged based on manufacturing built after the passage of the Foreign Pollution Fee;
   b. Provided preferential treatment by U.S. development and trade agencies; and,
   c. Offered preferred market access to sell into the U.S. and other partner markets at the expense of high-polluting, non-partner countries.

5. Treatment of Low- and Lower-Middle Income Countries can be extended to Upper-Middle Income Countries under specific national security conditions.

6. Foreign manufacturing facilities can qualify to be treated individually if the manufacturer:
   a. Proves compliance with U.S. environmental laws and regularly reports verifiable pollution data;
   b. Is as clean as American production or is using American technology to reduce pollution; and
   c. Is not financed by a non-market economy state-owned enterprise or subsidiary.

Additional Notes

1. The rate of the Foreign Pollution Fee is set to correlate to the environmental performance of U.S. production and U.S. imports to qualify for the WTO's environmental policy exception.

2. When the European Union's (EU) Carbon Border Adjustment is fully implemented, there is an expanded risk China will seek to undermine U.S. manufacturers by dumping Chinese products disadvantaged in the EU into unprotected U.S. markets. The Foreign Pollution Fee protects U.S. manufacturers from this expected scenario.

3. Because of the U.S. lead in clean production, the Foreign Pollution Fee incentivizes new export opportunities as high-pollution intensity countries, like China, will require more U.S. inputs, feedstocks, and technologies to lower the pollution intensity of their manufacturing.

4. Permitting reform is an inextricable piece of the Foreign Pollution Fee as more American production is needed to establish secure supply chains.

Appendix

Figure 1. Progression of Leading Trade Partners

Description: China has become the primary supplier of goods globally at America's expense.