

ADDRESS UNFAIR CARBON-INTENSIVE TRADE

ISSUE	Border adjustments to address concerns around unfair “carbon leakage” by other countries are increasingly being considered as a tool to level the economic playing field among trading partners and enhance competitiveness for business. Generating accurate and comprehensive data on the carbon intensity of traded goods is a critical first step.
SIGNIFICANCE	U.S. manufacturing has a carbon advantage—on average, goods produced in the United States are 44% more carbon efficient than those made in other countries. Introducing a carbon border adjustment mechanism (CBAM) that accounts for the differences in the carbon intensity of manufacturing between trading partners can protect industrial competitiveness and support industries—and jobs—remaining in the United States. U.S. leadership toward building an effective CBAM and climate-aligned trade policies should start with benchmarking emissions data for traded goods in line with U.S. business interests.
EXPECTATIONS IN THE REGION	The EU’s CBAM is the most advanced of such carbon-focused trading measures. While some Indo-Pacific countries have vocally opposed it, they are still preparing for it to emerge full force in 2026. For exporters like the emerging economies of the Indo-Pacific, having common standards is particularly helpful. U.S. support for the collection and standardization of emissions benchmarking data would be welcomed.
DOMESTIC CONSTRAINTS/ CONSIDERATIONS	The Providing Reliable, Objective, Verifiable Emissions Intensity and Transparency Act (PROVE IT), introduced in 2023 in the U.S. Senate and now with a companion bill in the House, is a pragmatic, bipartisan initiative that requires further study on the energy intensity of goods manufactured from certain sectors. Still, some sectors may be concerned that a study will reveal that their production is more (rather than less) carbon intensive than those of their competitors.
RECOMMENDED COURSE OF ACTION	The administration should prioritize and build on initial efforts to generate reliable and transparent emissions intensity data for products. A good option would be to work with Congress to advance and swiftly pass the bipartisan PROVE IT Act. In doing so, Congress should ensure that support is provided to Indo-Pacific partners to collect data and align with standards, while creating opportunities for U.S. businesses to provide key technologies to Indo-Pacific countries as they work toward improving their own emissions-intensity performance.