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# Can we have a carbon border tax without a national carbon price?

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President-elect Biden will likely enter the White House in January with a Republican Senate and a Democratic House, depending on the **two Senate runoffs** in Georgia. A potentially divided government could delay the prospects of carbon pricing. Can we have a carbon border tax without a national carbon price? Possibly. However, without a national carbon price in the United States, carbon border taxes charged on imported goods are tariffs, not border adjustments.

Mr. Biden has proposed applying "a carbon adjustment fee" in his "Made in America" **campaign**, although his climate plan does not mention a carbon tax or carbon price. According to his proposal, the carbon adjustment fee is intended to be levied "against countries that are failing to meet their climate and environmental obligations to make sure that they are forced to internalize the environmental costs they're now imposing on the rest of the world." Limited detail on the proposal is available. It remains to be seen whether the proposed carbon adjustment fee will be implemented.

Border adjustments and tariffs are often confused for one another since an import tax is a border adjustment component. But they are different policies. **Border adjustments** are used to level the playing field between local and foreign producers, whereas tariffs are enacted to discourage imports. A standard **border adjustment** is a **tax policy** that is implemented with a domestic tax. A border adjustment's goal is to equalize the tax burden on imported goods and locally produced goods. It works by levying a tax on imported goods and giving a rebate for exported goods.

If Republicans maintain control of the Senate, the Biden administration will **likely** rely on regulations rather than a carbon tax legislation to cut carbon emissions. Without a national carbon tax, taxes levied on imported products are tariffs, no matter what the policy is called. A potentially divided Congress likely won't pass a carbon tariff legislation. Some researchers have **proposed** that a U.S. president could use **Section 232** of the Trade Expansion Act of 1962 to authorize tariffs bypassing Congress, as President Trump **did** with his tariffs. But others **argue** that tariff authority should rest with Congress and Section 232 should not be abused to serve purposes beyond protecting national security.

From a legal perspective, levying carbon tariffs in isolation could violate World Trade Organization (WTO's) non-discriminatory rules. Jennifer Hillman, a former member of WTO's Appellate Body, commented on a **POLITICO online event** that carbon border taxes would need to be equivalent to the ones domestic producers are facing to be compliant with the WTO rules. Michael Smart, a managing director at Rock Creek Global Advisors LLC commented at a Cato Institute **event**: “I think it’s really important to remember the whole concept and justification for a carbon border adjustment, which is to impose on imported goods a price on carbon, that is comparable to the price encountered by domestic producers of like products.” Smart added: “Too often, I think this is talked about, as [the carbon border adjustment], something that can be done in isolation. It needs to be combined with a domestic regime, and then it can be justified.”

Additionally, imposing new tariffs on imported goods might risk **escalating** trade tensions with the United States’ trade partners. If we do not have a national carbon price, taxes on imported goods based on their carbon content might be perceived as protectionist tariffs in disguise.

Levying carbon border taxes on imported goods without a national carbon price is equivalent to imposing tariffs. As President, Biden will need to keep in mind that a significantly better policy to combat climate change would be implementing a domestic carbon tax with a well-designed border adjustment mechanism. It would be unwise to pursue stand-along tariffs as they would reduce imports, lead to higher prices, and ultimately reduce economic efficiency.