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A VOLUNTARY EXPORT FEE (VEF) ON POLLUTION

RECOVERING FOREIGN TAX REVENUE TO SUPPORT US CLEAN MANUFACTURING

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Key takeaways

- U.S. businesses risk losing hundreds of millions of dollars annually to the EU's new Carbon Border Adjustment Mechanism (CBAM), which taxes emissions embedded in imports
- A U.S. voluntary export fee (VEF) on carbon emissions would allow firms to redirect these payments to the U.S. government, aligning with CBAM rules while generating funds for clean manufacturing at home
- If paired with broader trade measures, the VEF could offer a bipartisan path to strengthen U.S. climate and industrial policy
- The policy's success hinges on several factors including EU acceptance, feasibility under U.S. law, and participation incentives for exporters

Editor's note: This post is the first in a two-part series on the U.S. response to EU foreign pollution fees. It will be updated when part II is published.

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DISCLOSURES

Introduction

Increasingly, tariffs and trade policy are becoming popular tools for climate change mitigation. In 2023, the European Union adopted a Carbon Border Adjustment Mechanism (EU CBAM) to tax emissions from imports, setting off a wave of similar proposals internationally. By some estimates, this first-of-its-kind border fee will raise nearly €15 billion annually while supporting the EU's climate goals. However, the policy also has major implications for the U.S. and other trading partners. CBAM-related compliance costs, as well as EU importers passing the fee through to their suppliers, may affect trade flows, profits, and supply chains, even if some of the economic burden is ultimately borne by EU importers or consumers.

With the EU CBAM still in its infancy, U.S. lawmakers are considering how best to respond. One option would be to implement our own fee on emission-intensive imports, as members of both major parties have proposed. Senator Cassidy's (R-LA) proposal, the Foreign Pollution Fee Act of 2023, would establish a foreign pollution fee on U.S. imports. Meanwhile, Senator Whitehouse's (D-RI) Clean Competition Act of 2022 would establish a similar fee, applied to domestic goods and imports alike. While these bills have important differences, the bipartisan support for a foreign pollution tariff is striking at a time of deep polarization, signaling that such a policy may have a feasible path in the U.S.

Building on these legislative discussions and the growing need for a coherent U.S. response to foreign border fees, in this two-part series, we outline complementary proposals to align U.S. trade policy with the EU CBAM. In part II—to be released later—we offer detailed policy blueprint for a foreign pollution tariff. Unlike most domestic climate policies, a foreign pollution tariff would incentivize broad, international cooperation on climate policy, encouraging firms to adopt cleaner manufacturing practices rather than simply shift their emissions to other countries.

After a brief overview of the EU CBAM, this article presents a proposal for a voluntary export fee (VEF) on carbon. This novel proposal aims to align the U.S. with the EU CBAM while providing funds for making our manufacturing cleaner.

WHAT IS THE EU CBAM, AND HOW DOES IT WORK?

Passed by the European Parliament in 2023, the CBAM taxes goods imported into the EU based on the amount of carbon emitted during their production. The goal is to encourage clean manufacturing practices—not just in the EU, but around the world. Domestically, EU manufacturers face a carbon tax as part of the Union's Emissions Trading System (ETS). The EU CBAM effectively extends this tax to foreign goods, eliminating an incentive to shift production to non-EU countries with lower emissions standards, a phenomenon known as carbon leakage. It is therefore mainly intended to level the playing field between EU firms (who have faced a carbon tax since 2005) and non-EU manufacturers that do not face a carbon tax at home. For manufacturers in countries that do tax carbon, their goods may be exempt from CBAM liabilities, as we discuss below.

The CBAM principle is straightforward: each year, EU companies will calculate and declare the emissions "embedded" in (i.e., required to manufacture) the goods they brought into the Union. They will then surrender CBAM certificates—emissions allowances purchased from a national registry based on a weekly auction price—in an amount equal to the emissions declared. Though EU importers formally pay for these certificates, the cost will ultimately be shared with EU consumers (through higher prices) and suppliers outside the EU (through lower margins to remain competitive).

After a multi-year transitional period, the CBAM entered its "definitive regime" in January 2026, meaning emissions can no longer be imported tax-free. Initially, the CBAM only applies to a few sectors—cement, iron, steel, aluminum, fertilizers, electricity, and hydrogen—which collectively account for more than half of the emissions covered by the EU's Emissions Trading Scheme (the ETS). However, the EU has signaled that it will expand the list to cover all ETS-covered sectors by 2030. At the same time, recent reforms have sought to simplify compliance, exempting firms that bring in less than 50 tons of CBAM-covered goods per year. Despite the exemption, which affects more than 90% of EU im-

porters, the policy would still cover more than 99% of emissions in CBAM sectors.

Internationally, the CBAM has received mixed reactions. Countries including India and Brazil have derided CBAM as a discriminatory trade barrier, threatening retaliation at the World Trade Organization (WTO). Meanwhile, several countries including Australia, Canada, and the U.S. have begun designing carbon border measures of their own. Notably, CBAM support correlates with exposure—countries who will be worse off under the policy (e.g., because they export emissions-intensive goods to the EU) are generally less likely to support it.

WHAT DOES THE EU CBAM MEAN FOR THE US?

By international standards, the U.S. has an enviable position when it comes to CBAM exposure. Due in part to clean and efficient manufacturing practices, estimates suggest that imports from the U.S. under the EU CBAM will only be charged around $300 million to $400 million annually[1]—approximately 2-3% of the CBAM's total projected annual revenue.

This implies that the CBAM may raise the competitiveness of some U.S. exports. Under the policy, EU importers will seek to minimize the number of certificates they must purchase. One way to accomplish this would be to import cleaner, less carbon-intensive goods—precisely the kind that U.S. companies excel at producing. In the U.S., emission intensive and trade exposed (EITE) sectors—the sectors that matter most for CBAM—are about half as emission intensive as those outside the U.S. For example, U.S. steel producers use highly efficient furnaces that require less than half the energy of traditional steelmaking methods. This means that, to pay less under CBAM, EU companies should import more steel from the U.S. and less from China, where steel production is roughly twice as emissions-intense on average. The result would be a higher market share for American steelmakers.

Still, U.S. companies have expressed concerns about the CBAM. Some of these concerns relate to new requirements for data collection and reporting, which U.S. producers will provide to EU importers. If these producers fail to provide such data, their goods will be charged at default rates under CBAM, which may be higher than what would have been paid otherwise—eliminating any potential competitive advantage.

Other concerns relate to uncertainty around how the CBAM will impact U.S. firms' profits. While U.S. production is generally cleaner than most countries, it is not uniformly the cleanest, and some foreign producers—countries and individual firms—have lower emissions profiles. As a result, EU importers may shift toward these relatively cleaner suppliers, putting pressure on certain U.S. exporters to cut prices to remain competitive and preserve customer relationships. Such a move, however, would negatively affect U.S. producers' bottom line.

This follows the logic of a U.N. analysis, which stated, "Most producers will simply absorb the cost of the EU CBAM […] lowering the price of EU-destined products to account for the EU CBAM costs." Most economic analyses, however, find the opposite—that costs are borne by companies in the tariff-imposing country. For example, in an analysis of the Trump administration's 2025 tariffs, the Federal Reserve Bank of New York found that 90% of the costs were borne by U.S. companies. Ultimately, we won't know the precise effects on U.S. profits until the CBAM is in place and markets have had an opportunity to respond.

The performance of U.S. companies under the EU CBAM also depends on the U.S. government's response to this policy. One notable CBAM feature is the option to deduct import liabilities for carbon taxes "effectively paid" in another country. In other words, if the U.S. decided to tax domestic carbon emissions, the EU would discount our CBAM fees—offering a way out of CBAM exposure. This feature helps avoid double taxation, which would punish countries who already tax emissions. It also raises an important question for U.S. policymakers: How can we align U.S. policy with the CBAM, supporting American producers while recovering revenue that would otherwise go to the EU?

Novel proposal for how to align US policy with EU's CBAM

The EU CBAM is projected to raise as much as $400 million annually from fees on American exports. While there is some uncertainty on who will bear the burden of these fees (as discussed above), it will likely impact profits for U.S. companies to some degree. Meanwhile, the EU may channel a portion of CBAM revenue into a Temporary Decarbonization Fund to support EU producers—effectively using fees paid on U.S. products to bolster the global competitiveness of European firms.

As U.S. policymakers consider how to adapt to the landscape as altered by the EU CBAM, we propose a policy that can recapture some portion of this $400 million in revenue for the U.S., to be used for new infrastructure, decarbonizing manufacturing, or other worthwhile policy objectives here at home.

While the U.S. could retain this revenue by implementing a domestic carbon price, this option is not politically feasible in the short term. As we've written before, carbon prices—taxes on domestic carbon emissions—are an effective tool to mitigate climate change. Under the CBAM, EU importers could deduct this carbon price from liabilities on U.S. goods, preventing them from passing these costs onto U.S. companies. However, as numerous past attempts have shown, carbon pricing proves politically challenging in Congress—especially in today's political environment. If policymakers want to optimize U.S. outcomes under EU's CBAM, they need an alternative to carbon pricing.

INTRODUCING A VOLUNTARY EXPORT FEE

To avoid paying CBAM fees on exports to the EU, a more surgical and politically feasible approach would be to implement a voluntary export fee (VEF). Put simply, the VEF would allow U.S. companies to pay a fee on goods they export to the EU, qualifying these goods for CBAM deductions. As the name implies, the fee would be optional, designed to comply with U.S.'s constitutional prohibition against mandatory export taxes (more on this later).

Unlike the CBAM, which will collect revenue from EU firms, the VEF would collect revenue from U.S. firms who opt into the program. The VEF's mechanics would mirror the CBAM itself: American exporters could submit declarations to U.S. authorities with the same information required by the CBAM, including data on export volumes and embedded emissions. If their goods are subject to the CBAM, they could pay an optional U.S. carbon fee equivalent to the CBAM price. Upon arrival of the goods in the EU, the importer could declare payment of this fee, receiving a credit against CBAM liabilities. As the CBAM's scope expands to cover more goods, so too would the VEF's.

In short, if designed and implemented effectively, the VEF would redirect tax revenue from U.S. exporters—which they would otherwise have to pay to the EU anyway—to the U.S., where it can be deployed to help further decarbonize CBAM-covered sectors domestically.

The primary barrier to such a policy is the EU's willingness to accept it. That is, the EU must be willing to deduct CBAM liabilities for goods covered by the VEF. We discuss this issue at length below. For now, please note that the VEF is intended as a complementary measure to a U.S. foreign pollution tariff, the subject of part II of this series. While the VEF alone may not qualify for CBAM deductions, a holistic policy response—incorporating both the export fee and a pollution-based tariff—would be far more likely to garner EU acceptance, as it would signal the U.S. willingness to reward cleaner and less polluting producers.

Key considerations and challenges

PARTICIPATION OF US EXPORTERS

If the VEF is voluntary, why would U.S. companies choose to pay it? To answer this question, it is best to think of the VEF not as a new fee but as a reallocation of an existing fee. Under the CBAM, some U.S. exporters will "pay a fee" to EU importers by lowering their prices. Though this "fee" is technically optional, some U.S. exporters may find it essential to preserve business relations with their EU buyers. Under the VEF, U.S. companies could instead remit this fee directly to the U.S. Treasury.

Therefore, any "new" costs associated with the VEF would likely be in the form of additional paperwork and reporting requirements. While U.S. exporters already report some information to European importers under the CBAM, the VEF would likely exacerbate this workload. Policymakers could mitigate this burden by designing forms to match the ones already required under the CBAM, but exporters may still be reluctant to perform these additional steps, even if doing so reduces their overall CBAM exposure.

To encourage participation, policymakers could channel the VEF revenue toward a "clean manufacturing fund" available only to the pool of companies who pay the fee. Managed by the U.S. government, this fund could finance clean technology investments through competitive grants or loan guarantees that reduce the emission intensity of CBAM-covered industries. Such a mechanism could provide a meaningful incentive for firms to participate despite the administrative requirements.

Revenue from a U.S. foreign pollution fee (see part II of this series) could also be directed to this fund, increasing potential payouts for participating firms.

A clean manufacturing fund financed by VEF and foreign pollution tariff revenues could yield benefits beyond participation support. By tying fund access to participation in the VEF, the policy would not only reduce firms' CBAM-related costs but also strengthen incentives for sustained development of clean manufacturing in the U.S.—underscoring the policy's potential for advancing both trade and environmental objectives.

EU ACCEPTANCE

Success of the VEF ultimately hinges on the EU Commission's willingness to accept it. If the EU does not allow its importers to deduct VEF payments by U.S. exporters, the policy falls apart: Exporters would have no reason to pay the VEF, and the clean manufacturing fund would be depleted.

How then can we be sure the EU will accept the VEF? There is no guarantee. As of April 2026, the EU is preparing an implementing act to weigh in on this question—specifically, the act seeks to establish "clear eligibility rules" regarding who can deduct CBAM payments in exchange for carbon prices paid in another country. Adoption of the act is expected sometime in early 2026, potentially settling the question of the VEF's viability.

For now, with the implementing act not yet released, we do have some evidence of how the EU may treat the proposed policy. First, EU authorities have explicitly stated that the CBAM is a climate policy, not a revenue policy[2], suggesting that they are unlikely to reject VEF just because it would mean losing revenue that the U.S. would recapture. Second, EU Regulation 2023/956—the regulation establishing the CBAM—sets two broad requirements about CBAM deductions:

1. Importers can deduct "only if the carbon price has been effectively paid" in another country (in this case, the U.S.).
2. If that country provided "any rebate or other form of compensation … that would have resulted in a reduction of that carbon price," importers cannot deduct the rebate amount.

Addressing these requirements in order, would the VEF represent a "carbon price" that has been "effectively paid" in the U.S.? While the VEF is not a traditional carbon price, it will indeed have been effectively paid by

participating U.S. exporters. To calculate the fee, the VEF copies the CBAM price, which in turn tracks the EU's ETS—which is a traditional carbon price. Therefore, the VEF effectively operates as a carbon price, and U.S. policymakers can credibly argue as much in negotiations with EU regulators.

The second point—prohibiting "any rebate or other form of compensation"—could prove another hurdle for the VEF. This provision aims to close a loophole in which exporters to the EU overstate the carbon price actually borne on their products domestically. For example, a firm in Country A might pay a carbon tax of €50 per ton, but Country A later returns a portion of that tax through a rebate or export subsidy. This provision in EU CBAM prevents the firm from deducting the full €50—it can only deduct the net carbon tax it paid, accounting for the rebate it received.

Would the VEF's clean manufacturing fund count as such a rebate? EU regulators will demand an answer to this question, as the fund would certainly "compensate" U.S. exporters for VEF participation. And this is not the only question U.S. policymakers will face. For example, EU Regulation 2023/956 prohibits discounts for policies that "would have" lowered the carbon price. (See point 2 above.) This phrasing—"would have"—is complicated. Technically, one could argue that U.S. shipments to the EU "would have" been VEF-exempt if they had been sold domestically or to another non-EU country, or if the exporter had simply declined to participate. Even if no formal "rebate" is paid, is one inherently implied by the VEF's design?

Questions like these will hopefully be resolved by the forthcoming implementing act. If not, ultimate resolution may come via negotiations with EU regulators. During these negotiations, the U.S. will have to justify and defend the policy—arguing, for example, that the clean manufacturing fund is not a direct rebate but rather a collection of loan guarantees and grant competitions that, in line with CBAM, preserve the incentive for U.S. producers to decarbonize. Arguments like these will no doubt require an expansive and lenient interpretation of the CBAM's rules around deductions. Promisingly, as part of the July 2025 EU-U.S. trade agreement, the EU pledged "to provide [the U.S.] additional flexibilities in the CBAM implementation"—flexibilities that could potentially come in the form of VEF acceptance.[3]

LEGALITY IN THE US

As mentioned earlier, the VEF would be optional for exporters—a defining feature of the policy arrived at after careful consideration of U.S. laws around export taxes. According to Article I, Section 9 of the U.S. Constitution (the "Export Clause"), "No Tax or Duty shall be laid on Articles exported from any State." Considered an absolute prohibition on Congress' tax authority—and historically interpreted quite strictly by the courts—the Export Clause makes most export taxes and fees unconstitutional and almost impossible to implement in the U.S.

Despite this absolute prohibition on export taxes, there are reasons for optimism. First, because the VEF is optional, it may avoid the pitfalls of typical export tax proposals. Because participation in the program is voluntary, the VEF does not impose a mandatory injury on any exporter, potentially limiting who would have standing to challenge it in court. Beyond the question of legal standing, it's hard to imagine who would have any incentive to challenge the policy, as it simply shifts revenue collection of an existing tax from the EU to the U.S.

Take, for example, the Trump administration's recent deal to tax artificial intelligence chip sales to China—a clear export tax. The policy has nonetheless stood so far because chip makers—the parties with theoretical legal standing to sue—benefit from the deal relative to earlier restrictions that sharply limited or effectively halted such sales. Similarly, parties that find it in their interest to pay the VEF would not have the incentive to sue, and parties that choose not to pay the fee would likely have no standing.

If the VEF's legal challenges prove insurmountable, one alternative may be to restructure the policy as a user fee. Historically permitted under the Export Clause, user fees are paid to the government in exchange for public services. For example, exporters might pay a mandatory user fee in exchange for government maintenance of critical port infrastructure. While this restructuring would seem to put the VEF in safer legal territory, it would also come with downsides. Specifically, the re-

quirement that user fees be "proportional to the government services or benefits received" would complicate compliance with EU's prohibition against rebates and other compensation. The policy cannot be both a user fee and a carbon price, providing "services or benefits" to U.S. companies but not a "rebate or other form of compensation."

COMPLIANCE WITH INTERNATIONAL TRADE RULES

As with the EU's CBAM, the VEF could attract scrutiny under international trade agreements. The WTO prohibits export restrictions under Article XI of the General Agreement on Tariffs and Trade (GATT), but it explicitly allows "duties, taxes or other charges." In this respect, the VEF falls within the scope of WTO-permitted measures, distinguishing it from the kinds of trade restrictions that have historically triggered disputes.

A more challenging issue arises with respect to the use of revenues. If VEF proceeds are channeled into a domestic clean manufacturing fund, questions may emerge under the WTO's Agreement on Subsidies and Countervailing Measures (ASCM), which prohibits countries from subsidizing exports. However, under the VEF, participation in the fund would be contingent on fee payment, and exporters would not receive direct reimbursements, distinguishing the policy from a traditional export subsidy.

For any related objections—for example, that the VEF is "export contingent" under the ASCM or that it is an "actionable" subsidy—an argument could be made that it qualifies for the GATT environmental exception. This exception allows for policies that would traditionally violate WTO rules but are "necessary to protect human, animal, or plant life or health . . . or relating to the conservation of exhaustible natural resources." The EU may use this argument to defend its proposed Temporary Decarbonization Fund, providing a useful test case for the VEF given the similarities between these policies.

POLITICAL FEASIBILITY

Even if the policy complies with U.S., EU, and broader international requirements, an important question remains: Can it secure congressional approval? Given the country's long history of unsuccessful carbon pricing initiatives, skepticism might seem warranted. However, there are several reasons to be optimistic about the VEF's political viability.

First, the VEF is narrower in scope than a national carbon price. Whereas a carbon price would impose mandatory costs across the U.S. economy, the VEF is an opt-in policy whose real costs target the EU and bring back revenue to the U.S.

Second, the VEF would be combined with a foreign pollution tariff—proposals for which have already attracted bipartisan interest in Congress, even amid broader resistance to carbon pricing. (For more information on how this would work, see part II of this series.)

Lastly, the VEF offers potential benefits for both major parties. For Democrats, the clean manufacturing fund aligns with the party's platform, which emphasizes investments in climate change mitigation and clean energy innovation. For Republicans, the VEF provides a way to recover revenue that would otherwise accrue to a foreign government, reinforcing a broader "America-first" trade strategy. This bipartisan appeal not only improves the VEF's chances of passage but also enhances the policy's durability across future political cycles.

Conclusion

With the EU's CBAM recently entering full implementation and several other countries moving forward with similar proposals, the time is now for U.S. policymakers to consider the optimal response. While a domestic carbon price would address U.S. losses under the CBAM, political constraints make such a measure unlikely in the near term.

A bipartisan, voluntary carbon fee on CBAM-covered exports could retain revenue that would otherwise accrue to the EU while supporting clean manufacturing initiatives at home. Climate policy and industrial policy need not be at odds. Though questions remain regarding EU acceptance, the United States can use this window to advance its economic and trade priorities while also shaping its role within emerging international carbon policy frameworks.

Endnotes

1 Note the $400 million estimate was converted from euros using the April 3, 2026 exchange rate

2 For example, see CBAM Questions and Answers: "Will CBAM generate revenues and, if so, how will they be used?... CBAM is not designed to generate budgetary revenues."

3 At the time of writing, this agreement has not yet been ratified. After freezing the agreement in January 2026, EU representatives agreed in February on a new set of conditions for ratification, none of which would alter the promised CBAM implementation flexibilities.

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