Recommendation 2 [Approved 10/14/21] on Impacts of Carbon Border Adjustments and Potential Mitigation through Expanding ENERGY STAR or Similar Certification Programs

We recommend that the Secretary direct Department staff to study the potential impacts on U.S. clean energy supply chains of proposed foreign and domestic carbon border adjustments and whether negative impacts can be mitigated through expanding existing certification programs.

Sub-Committee(s): Clean Energy Supply Chains

Background Information:
Foreign nations, representing large U.S. trading partners, are considering levying border taxes on goods that reflect discrepancies in national taxes on carbon emissions.[1] U.S. clean energy manufacturing, even though its products may result in carbon negative outcomes, may become subject to these taxes in the absence of a U.S. carbon tax as a result of production and transportation processes that may emit carbon. In fact, renewable energy and energy efficiency products may have carbon negative lifecycle impacts that should be considered in any carbon policy discussion. They may also become subject to these taxes if they cannot demonstrate low or no carbon emissions in manufacturing or transportation, a potentially significant burden for small businesses in the absence of U.S. certification assistance.

Similarly, discussions of a domestic carbon border adjustment have accelerated as a possible element of a comprehensive U.S. decarbonization strategy.[2] Enactment of such a regime may impact the supply chains of domestic renewable energy and energy efficiency equipment manufacturers and affect the international competitiveness of U.S. clean energy exports.

Since 1992, the EPA and Department of Energy (DOE) have administered the ENERGY STAR labelling program.[3] The program promotes energy efficiency by providing consumers with information on the energy consumption of products using standardized methods and certifying products that meet certain efficiency thresholds. Rather than create a new low or no carbon certification program from scratch, program administrators, if directed by Congress, may be able to expand ENERGY STAR to fulfill the carbon labelling needs of new carbon border adjustment programs, cost-effectively scaling this existing program to take a view of carbon emissions broader than end-use energy consumption through carbon intensity indexing. As a basis for requesting the budget authority, the Department of Commerce could, in coordination with the Administrator of the Environmental Protection Agency, the Secretary of Energy, and the Secretary of Transportation, study whether such expansion of ENERGY STAR would limit the impact of foreign carbon border adjustments to U.S. renewable energy and energy efficiency supply chains.

[1] https://www.reuters.com/business/sustainable-business/eu-proposes-worlds-first-carbon-border-tax-some-imports-2021-07-14/
[2] https://www.nytimes.com/2021/07/19/climate/democrats-border-carbon-tax.html
[3] https://www.energystar.gov/about/origins_mission/epas_role_energy_star

Furthermore, manufacturing is energy-intensive, and greater public understanding of carbon emissions from product manufacturing may drive market demand toward products manufactured with low carbon, renewable energy resources.

As the U.S. works to comply with its Paris Agreement climate obligations and maintain competitive trade in an increasingly climate-aware world, domestic carbon border adjustments and low or no carbon product certification may be viable tools. However, their benefits to the nation's clean energy supply chains are speculative in the absence of federal study.

Expected Effect on U.S. Export Competitiveness:
Understanding the impact of foreign and domestic carbon border adjustments on U.S. clean energy supply chains will help U.S. manufacturers proactively adjust their practices to remain competitive and/or provide policymakers with the information needed for responsive policy action.

For example, a foreign carbon border adjustment levied on exports from the U.S. may reduce the ability of U.S. products to compete in foreign markets. Similarly, a domestic carbon border adjustment may enhance the ability of U.S. products to compete for market share within the U.S. However, these impacts are hypothetical and unquantified, demonstrating the need for comprehensive analysis as manufacturers consider how and where to manufacture products and policymakers consider whether and how to design carbon border adjustments.

The application of an ENERGY STAR label or certification program may help protect qualified U.S. products from foreign carbon border adjustment programs, ensuring continued export in the presence carbon adjustment fees. However, this effect is unverifiable without further study. Furthermore, to the extent that other nations do not implement similar programs, qualified U.S. products will outcompete nations that do not as come into some form of standardizing reporting compliance as rapidly. In addition to the label or certification program, domestic U.S. industries will be better protected from low-or-no carbon-certified foreign imports as domestic buyers increasingly demand such products. A robust U.S. program will allow low carbon interested domestic buyers to shop domestically as well.

Specific Agencies Responsible for Implementation:
U.S. Department of Commerce, assisted the U.S. Environmental Protection Agency, the U.S. Department of Energy, and the U.S. Department of Transportation

Measures of Success:
This recommendation will be a success if a report outlining specific likely outcomes is produced within one year.