The 2025 U.S. Clean Competition Act: Economic and Climate Impacts

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The 2025 U.S. Clean Competition Act (CCA) is designed to address the twin challenges of accelerating industrial decarbonization and maintaining U.S. industrial competitiveness. It does so by pairing a U.S. domestic carbon performance fee applied to dirtier than average U.S. firms with a carbon import tariff in carbon-intensive, trade-exposed (CITE) sectors. The CCA also contains "climate club" provisions that waive carbon tariffs for trade partners implementing comparable domestic climate policies.

This brief analyzes the CCA's economic and climate impacts in the U.S. and around the world. It uses a general-equilibrium global trade model designed for analyzing climate and trade policies, calibrated to disaggregated sectoral data. We analyze the initial year features of the CCA as applied to the aluminum, iron and steel, cement, chemicals, glass, nitrogen-based fertilizers, paper and pulp sectors. Our modeling yields three key results.

RESULT 1: CCA lowers emissions and raises U.S. revenue

- **CCA lowers U.S. CITE emissions by 8%**. Through its trade impacts, CCA lowers global CITE emissions by 44.9 million tons (mtons) of GHG, of which 16.3 mtons are U.S. and 28.6 mtons are foreign reductions.
- **CCA raises $7.1 billion in performance fee revenue and $3.5 billion in tariff revenue** for the U.S. government on an annual basis.
- While CCA slightly lowers CITE output, it has essentially no effect on U.S. GDP; if anything, GDP rises slightly. Both the tariffs and domestic policy improve the U.S. terms of trade, offsetting higher CITE production costs. Since the CCA lowers emissions without decreasing GDP, it slightly increases U.S. welfare.

RESULT 2: A domestic performance fee is critical to CCA benefits

- If CCA were implemented as a carbon tariff without a domestic performance fee, global emissions reductions would load entirely on foreign countries, with U.S. GHG emissions increasing by 1.5 mtons while emissions elsewhere decrease by 30.4 mtons. **Global GHG reduction would be two-thirds that of the full CCA.**
- **CCA without a domestic performance fee only raises one-third the revenue of the full CCA.**
- Without revenue from the domestic performance fee and smaller global emissions reductions, CCA without a performance fee leads to smaller U.S. welfare gains, relative to the full CCA.

RESULT 3: CCA's climate club provisions amplify global emissions reductions

- CCA climate club provisions, which encourage foreign countries to adopt similar domestic policies, dramatically magnify global emissions reductions.
- For example, when clubs require domestic policies, global CITE emissions:
  - Decrease by 1.5% in a U.S. + E.U. + U.K. club.
  - Decrease by 3.2% in an OECD club.
  - Decrease by 24.2% in an OECD + Brazil + China + Indonesia + India club.
- By contrast, when clubs do not require domestic policies, global CITE emissions:
  - Decrease by 0.8% in a U.S. + E.U. + U.K. club.
  - Decrease by 1% in an OECD club.
  - Decrease by 1.2% in an OECD + Brazil + China + Indonesia + India club.
- **In the case where all countries join a climate club, the full CCA reduces emissions by 31.6%.** By contrast, a global club without domestic policy requirements does not reduce global emissions as it brings the world back to where it is today: no carbon tariffs and no additional domestic policy.

These modeling results suggest that the CCA can jointly achieve U.S. industrial decarbonization and competitiveness goals. Moreover, the climate club provisions in the CCA could serve as a foundation for large-scale global GHG reductions. For both unilateral and multilateral CCA results, the domestic performance fee is critical: without the domestic fee, CCA's economic and climate benefits are significantly dampened.

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