How U.S. States Can Engage Global Carbon Markets Without a Federal Carbon Price

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I. INTRODUCTION

In 2026, the global architecture for compliance carbon markets began to take firmer shape. The European Union's Carbon Border Adjustment Mechanism (CBAM) entered its compliance phase, and eleven other jurisdictions have advanced their own plans for border carbon adjustments. The European Union, China, and Brazil launched the Open Coalition on Compliance Carbon Markets (OCCCM) to coordinate on carbon market design and interoperability.

At the federal level, the U.S. government opposes the EU CBAM and does not participate in the OCCCM. By contrast, 13 U.S. states representing about one-third of U.S. economic output operate carbon pricing programs and could engage constructively in coordinating and advancing global carbon markets. If these states continue to develop carbon markets in isolation from global coordination efforts, however, it could complicate trade and make future U.S. engagement with those efforts more difficult. This research finds that the EU CBAM is unlikely to give states enough incentive before 2028 to adopt measures that reduce their industries' exposure, such as establishing a carbon price or product-level emissions reporting infrastructure that meets EU standards. Under current EU and state policies, U.S. industries will be less prepared for a global economy increasingly shaped by carbon pricing, subnational governments will forego potential revenue as their firms bear CBAM costs, and the EU will miss an opportunity to leverage positive policy development that could inform federal U.S. climate policy down the road. This brief makes three recommendations:

1. **California and Washington** should apply to be subnational observers of the Open Coalition by 2027.
2. **The EU Commission** should establish a process for crediting subnational default carbon prices and emissions by 2027.
3. **Leading U.S. states** should establish a CBAM-compatible facility-level emissions reporting framework by 2028 that can be adopted across the U.S.

II. THE CHALLENGE: LACK OF REGULATORY ALIGNMENT ACROSS U.S. SUBNATIONAL CARBON MARKETS

Carbon pricing is one of the most politically difficult climate policies to enact in the United States, and at least a half-dozen national and subnational attempts have failed. Federal lawmakers recently proposed bills to produce national emissions intensity data and tax covered imports, but neither would establish a domestic price. States have instead built carbon markets independently, shaped by local political constraints, economic profiles, and the choices of neighboring states.

Two approaches are emerging. On the West Coast, the Western Climate Initiative (WCI) provides the registry and auction platform used by California, Washington, and Québec that facilitates cross-jurisdictional allowance trading between California and Québec, with Washington expected to link in 2027. Oregon lawmakers are discussing linkage proposals. On the East Coast and Mid-Atlantic, the Regional Greenhouse Gas Initiative (RGGI) operates a shared allowance market for 11 states but remains limited to power-sector emissions.

The foundation of compliance carbon markets is a robust Monitoring, Reporting, and Verification (MRV) framework, and instability in federal emissions-reporting infrastructure risks exacerbating regional fragmentation. The power sector is the most interoperable, as California, Washington, and RGGI all draw on federal EPA monitoring methodologies still active through the Clean Air Act, yet

differ in verification and scope. California and Washington also cover electricity imports and Washington is lowering the reporting threshold for electric power entities in 2027. Comparable measurement in other sectors faces greater challenges. The EPA stopped publishing the annual GHG inventory in 2025 and has proposed rescinding facility-level reporting requirements for most source categories. Without a common MRV baseline, states risk developing parallel systems that reduce emissions comparability across jurisdictions. State officials interviewed for this research agreed that interoperability across carbon markets would benefit businesses, but that external incentives would be needed to overcome the pull toward market-specific approaches.

III. U.S. SUBNATIONAL ACCREDITATION IN THE EU CBAM

The EU CBAM subjects EU imports to the carbon price paid by EU producers under the EU Emissions Trading Scheme (ETS). Only 0.07% of U.S. trade is exposed to the EU CBAM, and estimated annual fees across covered sectors total roughly $415 million, most of it in iron and steel ($254 million) and fertilizers ($153 million).

There are over 40 subnational carbon pricing compliance schemes in operation around the world. CBAM rules do not exclude subnational carbon prices from recognition, and exporters can, in theory, seek credit through two routes. In practice, both are difficult to maneuver.

- **The effective route** credits the carbon price actually paid at the facility level and requires production quantities to calculate product-level emissions intensity. Many U.S. manufacturers have never had to trace exported goods to a specific installation, and comments from U.S. firms during CBAM's transitional phase describe supply chains that cannot provide verified installation-level data.
- **The default route** credits conservative national benchmark emission values and carbon prices. The EU Commission plans to publish default carbon prices for third countries by 2027, and is unlikely to incorporate subnational instruments in these default prices.

Even when firms document subnational compliance costs, the resulting discount likely covers at most half of the EU liability, since the headline EU carbon price is roughly twice that of California and Washington. The gap in effective carbon cost faced by facilities may be even greater, as the EU is gradually phasing out free allocation, while California and Washington maintain substantial free allowance allocations. Given how limited and uncertain this credit is, it's unsurprising that climate advisors in states without carbon markets report that CBAM is not yet factoring into their decisions.

National exposure obscures where CBAM is likely to matter most and how much that could grow. A facility-level analysis of iron and steel, the most exposed sector, finds that exposure is heavily concentrated in states that neither price carbon nor have mandatory emissions reporting frameworks. The exposure will grow as CBAM's scope expands. From January 2028, CBAM is proposed to cover additional downstream goods, including machinery and appliances, where the United States is the third-largest exporter. If CBAM is eventually aligned with the full ETS, U.S. exports would account for the second-largest share of CBAM imports, behind only China. Additionally, the penalty mark-up applied to default emissions will rise to 30% in 2028.

IV. RECOMMENDATIONS

1) California and Washington should apply to be subnational observers of the Open Coalition by 2026.

The Open Coalition on Compliance Carbon Markets gives members a platform to coordinate on carbon market design. Membership is open to countries with a compliance market, and subnational governments operating a carbon pricing scheme can technically participate as observers, but none joined by the first meeting in September 2026. The Coalition has not publicly resolved whether it will accept observers from jurisdictions whose national governments are not members.

California and Washington have economic and emission profiles large enough to matter in a Coalition focused on real-world convergence and market credibility. Both operate mature programs that have explored linkage with international jurisdictions, and both could translate emerging Coalition norms into the WCI infrastructure that other states may later adopt.

This approach carries political and administrative tradeoffs, as subnational observers could create friction if they take positions conflicting with their national government's approach. The Coalition could manage this by clarifying that observers are technical contributors. Leading Coalition countries appear politically open to this approach: the EU and Brazil are both signatories of the Coalition for High Ambition Multilevel Partnerships (CHAMP) for Climate Action which reflects a commitment to working with subnational governments, and China expressed interest in engaging U.S. state governments on climate action. The Carbon Pricing of the Americas initiative already includes both national and subnational governments as precedent for mixed membership.

2) The EU Commission should establish a process for crediting subnational default carbon prices and emissions by 2027.

Use of default emission values is not the long-term goal of CBAM, but many companies will need time to meet the effective pricing route's reporting requirements. It's not yet clear if national default carbon prices will consider an average price across the country, incorporating subnational prices, or solely consider schemes at the national level. Either approach penalizes states with carbon pricing by effectively requiring producers to pay a carbon price twice.

The Commission should allow default carbon prices and emissions values by state or province, not just at the country level, for companies that cannot yet report direct emissions. Eligibility criteria could avoid a carve-out limited to the United States by applying across federal systems, for example to jurisdictions meeting specified MRV conditions above a defined economic threshold. This approach carries tradeoffs: it would add a new rulemaking step to the forthcoming act on recognizing carbon prices paid abroad, and it could risk incentivizing countries to ring-fence emissions-intensive, trade-exposed industries within specific jurisdictions.

3) Leading U.S. states should establish a CBAM-compatible facility-level emissions reporting framework by 2028 that can be adopted across the U.S.

States, including those without carbon prices, should establish GHG monitoring and reporting processes that incentivize exporters to document actual emissions rather than face CBAM default values ahead of the 30% mark-up in 2028. An initiative led by California, Washington, and RGGI states could leverage existing subnational networks and reporting platforms to develop a standard that other states can adopt. CDP already runs voluntary emissions disclosure processes with state governments and companies and could adapt this into a standardized form for facility-level data. A nonprofit such as WCI or the U.S. Climate Alliance, or a private platform such as Xpansiv, could host the shared infrastructure. States could offer tax incentives and MRV training to help facilities meet these standards, and companies would benefit from lower border charges in return. States could preempt potential federal pushback by developing joint analysis with major U.S. producers on the cost savings from reporting effective emissions. This approach also paves the way to expanded carbon pricing, as most national ETSs begin with a MRV phase requiring all companies to report emissions before pricing takes effect.

VI. CONCLUSION: TOWARD A NATIONAL CARBON PRICE

The federal government has not advanced meaningful strategies to prepare U.S. industries for a global economy where carbon pricing is proliferating. The Foreign Pollution Fee Act would tax covered imports without offsetting the CBAM costs U.S. exporters face, and the PROVE IT Act prompted a

national emissions intensity study but will not address the reporting gap at the facility level or the intensity variation across states.

This paper's recommendations are not a substitute for federal action, but they could lay the groundwork for it. Subnational carbon pricing in the United States is still less than two decades old. With no federal price and uncertainty around federal emissions reporting, states are building regulatory architecture without an external framework nudging them toward a common approach. As one senior official in the Washington State Department of Ecology put it, "If more North American jurisdictions are linking into the WCI market that's operating on a different set of standards than EU ETS, the center of gravity gets farther away and it gets harder to align over time." Countries trying to build a common center of gravity around carbon market standards should treat U.S. states as core partners in this mission.