What to watch out for in the EU's new legislative term 2024-2029



CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

Regulation (EU) 2023/956 establishing a carbon border adjustment mechanism

The CBAM's objective is to indirectly reduce emissions outside of the EU by creating a level playing field for EU companies on the one side, and on the other side, non-EU companies whose production is not subject to a carbon pricing scheme such as the EU Emissions Trading System (ETS). The CBAM compensates for this difference. Its scope is currently still limited to certain goods, but the aspiration is to expand the scope progressively to increase the incentive for climate-friendly production.

WHAT'S IN IT?

OBJECTIVE

Climate ambition

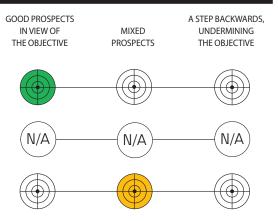
In view of respecting the limit of 1.5°C global warming under the Paris Agreement

Biodiversity

Preserving biodiversity in the EU and beyond

Zero pollution

Achieving zero pollution and a circular economy in the EU and beyond



WHAT'S NEXT?

STATUS

Entered into application and in its transitional period



MILESTONES

26 February 2025

European Commission's Omnibus Package 1, including a proposal amending the CBAM to reduce its scope, through the implementation of a de minimis threshold of 50 tonnes per product.

31 March 2025

Launch by the European Commission of the application procedure to become authorised CBAM declarant.

Second half of 2025

Regulation review: potential scope expansion to downstream products and implementation of export rebates.

1 January 2026

Start of complete application of CBAM (obligation to not only declare emissions but buy CBAM certificates).

WHAT TO WATCH OUT FOR?

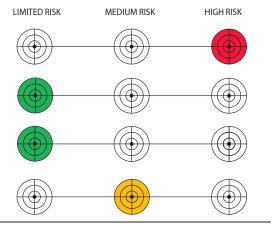
RISKS

Speed. Slowing down the EU law's progress or implementation.

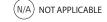
Money. Conflict on distributional effects or lack of finance for making this EU law impactful.

Licence for polluters. Undermining the polluter-pays principle, increasing global pollution.

Inequalities. Allowing for practices that deepen global inequality.









WHAT'S IN IT?

Climate ambition

The Regulation applies a price to embedded CO₂ (direct emissions) of EU imports of steel, cement, aluminium, fertilisers, electricity and hydrogen, equivalent to the price paid by EU-based producers under the ETS, and factoring in the level of free allowances received by EU producers.

The calculation of CBAM certificates to be surrendered at the EU border factors in the explicit CO₂ price already paid in the jurisdiction of origin.

(N/A) Biodiversity

Not directly relevant for the protection of biodiversity.

Zero pollution

CBAM contributes to reducing air pollution by putting a price on CO₂ emissions embedded in steel, cement, aluminium, fertilisers, electricity and hydrogen produced in third countries and imported into the European Union. However, under the current ETS legislation, EU producers will continue to receive high amounts of their ETS allowances for free, making the CBAM price relatively low until 2030. Its contribution to tackling air pollution globally will therefore be largely limited.

WHAT TO WATCH OUT FOR? RISKS





Money



Licence for polluters Inequalities



Some EU industries have criticised the fact that the legislation entails administrative complexity: implementing CBAM requires tracking and verifying the carbon intensity of imported goods, which is administratively burdensome. Moreover, it is potentially challenging for industries based in Global South countries. CBAM is perceived there either as an incentive to develop local or national CO₂ pricing systems, or as a punitive instrument. CBAM may shift carbon-intensive production to countries or sectors not covered by the mechanism, indirectly causing carbon leakage. If other major economies do not adopt similar mechanisms, CBAM may have a limited impact on global emissions. The policy could isolate the EU economically while failing to address emissions comprehensively. CBAM is perceived as a shift of responsibility for emissions reduction onto trading partners, especially poorer nations. This raises questions about fairness and equity in global climate governance. Finally, to maintain their competitiveness in export markets, EU industries have advocated for export rebates – a reimbursement of the CO₂ costs paid in Europe for the portion of their production exported to countries without CO2 pricing schemes. Depending on how it is designed, this option poses the risk of contradicting the climate

'The Carbon Border Adjustment Mechanism (CBAM) should be put on hold for at least two years.'

European People's Party (EPP) leaders retreat statement, 17/18 January 2025

FURTHER READING

rationale of CBAM.

IEEP: Summary for decision-makers: Four guiding principles for CBAM design and implementation

WHAT'S NEXT?



STATUS

Entered into application on 31 October 2025

and in its transitional period (importers report the embedded emissions of their imports without financial charges); definitive application starts on 1 January 2026 with the mandatory purchase of CBAM certificates. The European Commission's Omnibus Simplification Package 1 of 26 February 2025 proposes a de minimis threshold exempting importers of small quantities of certain goods, excluding ca. 90% of importers from CBAM while still covering ca. 99% of emissions. It also proposes simplified compliance for the remaining importers, e.g. by streamlining emissions calculation methods with default values.

Revision clauses and reporting duties

Since 1 January 2025, a new portal section of the CBAM Registry allows installation operators outside the EU to upload and share their installations and emissions data with reporting declarants in a streamlined manner, instead of submitting it to each declarant separately. In addition, CBAM declarants have been able to apply for the 'authorised CBAM declarant' status via the CBAM Registry since 31 March 2025

Delegated acts and other related legislative action

In 2025, the Commission will publish delegated acts presenting CBAM's updated default values for the next phase following the transitional period. Default values provide a standardised method to estimate emissions from foreign producers, facilitating compliance. Until the end of the transitional period (31 December 2025), for complex goods, importers may continue using default values, but since Q3 2024, such estimations have been limited to 20% of the total embedded emissions reported. Before the start of the definitive regime in January 2026, the Commission is expected to issue delegated acts on indirect emissions, verification, accreditation of verifiers, carbon price paid, customs-related information, continental shell, average ETS price, CBAM declaration, methodology and free allocations.

HOW TO IMPROVE IT? OPPORTUNITIES

To ensure the effectiveness of the law, it is important to create a recycling scheme for CBAM to direct resources towards low-income and highly climate-exposed countries (making CBAM resources participate in growing international climate finance).

It is also key to engage proactively with the concerned industry sectors and with international organisations to reach sectoral agreements towards globally decreasing embedded industrial CO2 emissions. In addition, to enhance the level of fairness and acceptability of this policy tool, several critics recommend exempting Least Developed Countries from the Regulation.

Finally, a targeted expansion of CBAM to additional sectors, such as polymers (initially included in the European Parliament's proposal), or to downstream sectors, would allow for greater impact and CO2 emissions coverage. Sectoral expansions should always be assessed in light of clearly quantified risks of CO2 leakage.

> Authors: Pierre Leturcq, Irene Chiocchetti, Mattia Bonfanti (IEEP), May 2025 designbysoapbox.com • Joan Lanfranco (Heinrich-Böll-Stiftung EU)