Review of EU Carbon Border Adjustment Mechanism (CBAM)

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European Commission launches review of Carbon Border Adjustment Mechanism (CBAM) (not for agricultural products imported to the EU)

Proposal for a Regulation amending Regulation 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism

Update

The European Commission is proposing to change certain parts of Regulation 2023/956 that establishes a Carbon Border Adjustment Mechanism (CBAM) for **iron and steel, aluminium, cement, and fertilisers** imported to the European Union (EU). CBAM does not apply to imports of agri-food products.

The two main aims of the revision are to:

- remove 90% of companies currently impacted by the CBAM obligations, while still covering 99% of the CO2 emitted in non-EU countries when producing goods exported to the EU
- facilitate compliance with CBAM for the EU importers that remain in the scope of the Regulation.

CBAM will apply from 2026. This follows a transitional phase (2023–2025) during which EU importers of goods covered by CBAM must report the number of (direct and indirect) greenhouse gas emissions involved in producing the goods, but do not have to pay any fee. From 2026 onwards, EU importers of goods covered by CBAM will have to register with national authorities of EU Member States, where they can also buy CBAM certificates based on their declaration of the amount of greenhouse gas emissions in their imports.

Impacted products

Aluminium, cement, electricity, fertilisers, hydrogen, iron and steel; CBAM does not apply to agricultural products.

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What is changing?

Focus on large importers

The European Commission proposes to exclude occasional importers of small quantities of **iron and steel, aluminium, cement, and fertilisers** from CBAM requirements. The current rules require all EU importers of these products to obtain an authorisation before import, to submit an annual declaration of emissions created by the production of the imported goods, and to purchase CBAM certificates. The Commission now proposes that only importers of more than 50 tonnes of the concerned goods per year will have to undertake these administrative steps. Imports of iron and steel, aluminium, cement, and fertilisers above 50 tonnes per year are estimated to account for more than 99% of the total associated emissions in non-EU countries.

Under the proposal, occasional importers of small quantities of CBAM products should self-identify as “occasional CBAM importers” when lodging their customs declarations with an EU national authority. This reduction will mainly benefit small and medium-sized enterprises (SMEs) and individuals. They will have to monitor that they do not exceed the threshold during the year.

The proposal does not change rules for imports of electricity and hydrogen (even in relation to small quantities).

Simplified rules for large importers

The Commission also proposes new rules to facilitate compliance for importers that remain in the scope of CBAM. The simplified rules will apply to:

- obtaining authorisation
- emission calculation
- reporting requirements
- financial liability.

From 2026 onwards, importers will have to register with national authorities of EU Member States, where they can also buy CBAM certificates based on their reported emissions. The price per tonne of greenhouse gas emitted will be based on the weekly average price for greenhouse gas emission allowances traded in the EU.

Why?

The proposed changes aim to boost EU competitiveness by reducing the regulatory burden and potential negative economic impacts on companies.

The proposed new rules for CBAM are based on feedback collected since the start of the transitional phase (2023–2025) during which importers only had to report the number of

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greenhouse gas emissions linked to production, but did not have to pay any fee. The transitional period showed the need to simplify how CBAM is applied while maintaining its environmental objectives.

Timeline

The Council of the EU (Member States) and the European Parliament will review and amend the proposal, a process that can take 2–3 years. The Commission has requested accelerating the negotiations to reach an early agreement.

What are the major implications for exporting countries?

Agricultural products are not within the scope of CBAM, which in its current form is generally considered to have limited direct trade implications for agriculture.

Background

CBAM was introduced in 2023 to avoid "carbon leakage", which occurs when companies operating in the EU in high greenhouse gas-emitting sectors avoid complying with EU sustainability rules by moving their production to non-EU countries with less strict climate policies, or by importing more of these products from non-EU countries. CBAM goods are aluminium, cement, electricity, fertilisers, hydrogen, and iron and steel. For more information see: Carbon border adjustment mechanism (CBAM).

Following publication of the Draghi report on EU competitiveness, the European Commission has set new priorities and aligned strategies for 2024–2029, including A Competitiveness Compass for the EU. The new EU growth strategy aims to boost EU competitiveness while ensuring a sustainable transition towards carbon neutrality by 2050, and sets priority actions in the areas of climate and competitiveness.

The proposed changes to CBAM accompany other measures to create a more favourable business environment: see Review of Corporate Sustainability Due Diligence Directive (CS3D) and Review of Corporate Sustainability Reporting Directive (CSRD). This is part of the Commission's efforts to reduce administrative burdens by 25%, and by 35% for SMEs, by 2029.

CBAM puts a carbon price on certain goods (not agricultural products) from carbon-intensive production when they are imported from non-EU countries to the EU. It aims to ensure that companies operating in the EU comply with the Union's increasingly strict sustainability rules, including on greenhouse gas emissions (Emissions Trading System, ETS). The ETS limits the total annual amount of greenhouse gas that can be emitted by installations and operators in the

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sectors of electricity and heat generation; industrial manufacturing; aviation; and maritime transport. Relevant operators annually receive a certain number of free allowances that allow them to emit greenhouse gases. They have to make sure that they have as many allowances as their annual emissions, otherwise they have to pay fines. Allowances can be traded between operators who do not use all their emission allowances and those who need additional allowances, aiming to create an EU carbon market that will incentivise operators to reduce their emissions. However, the EU is concerned that the ETS and resulting higher production costs can result in EU-based operators moving their carbon-intensive production to non-EU countries, or importing products produced to lower emissions standards outside the EU (known as "carbon leakage"). CBAM aims to ensure that the emission price of imports from high greenhouse gas-emitting sectors to the EU is equivalent to the emission price of production within the EU.

A review of how CBAM has been applied during the 2023–2025 transitional period will be undertaken in 2025. The European Commission plans to submit a legislative proposal in early 2026.

Resources

Online resources from the European Commission:

- A Competitiveness Compass for the EU
- Carbon Border Adjustment Mechanism
- Commission work programme 2025 – Moving forward together: A Bolder, Simpler, Faster Union
- EU Emissions Trading System
- Questions and Answers on Simplification Omnibus I and II
- The Draghi report on EU competitiveness (2024)

Commission Staff Working Document Accompanying the document Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism

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

Sources

Proposal for a Regulation amending Regulation 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism

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