



# SESSION A5 FUTURE SHOCKS

## Navigating carbon border adjustments

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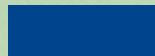
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# Navigating the Carbon Border Adjustment Mechanism



# CBAM: tackling carbon leakage and driving decarbonisation

Mirroring EU **ETS** through new mechanism for imports into the EU

Addressed to companies, not countries, based on **actual carbon content** of imported goods



Aligning with **EU's international policies** and **legal commitments**, including WTO compatibility

Focusing on **carbon-intensive sectors**

Taking into account **carbon price effectively paid by third-country operator**

# What are the sectors in the scope of the EU CBAM?



**IRON & STEEL**



**ALUMINIUM**



**CEMENT**



**FERTILISER**



**HYDROGEN**



**ELECTRICITY**

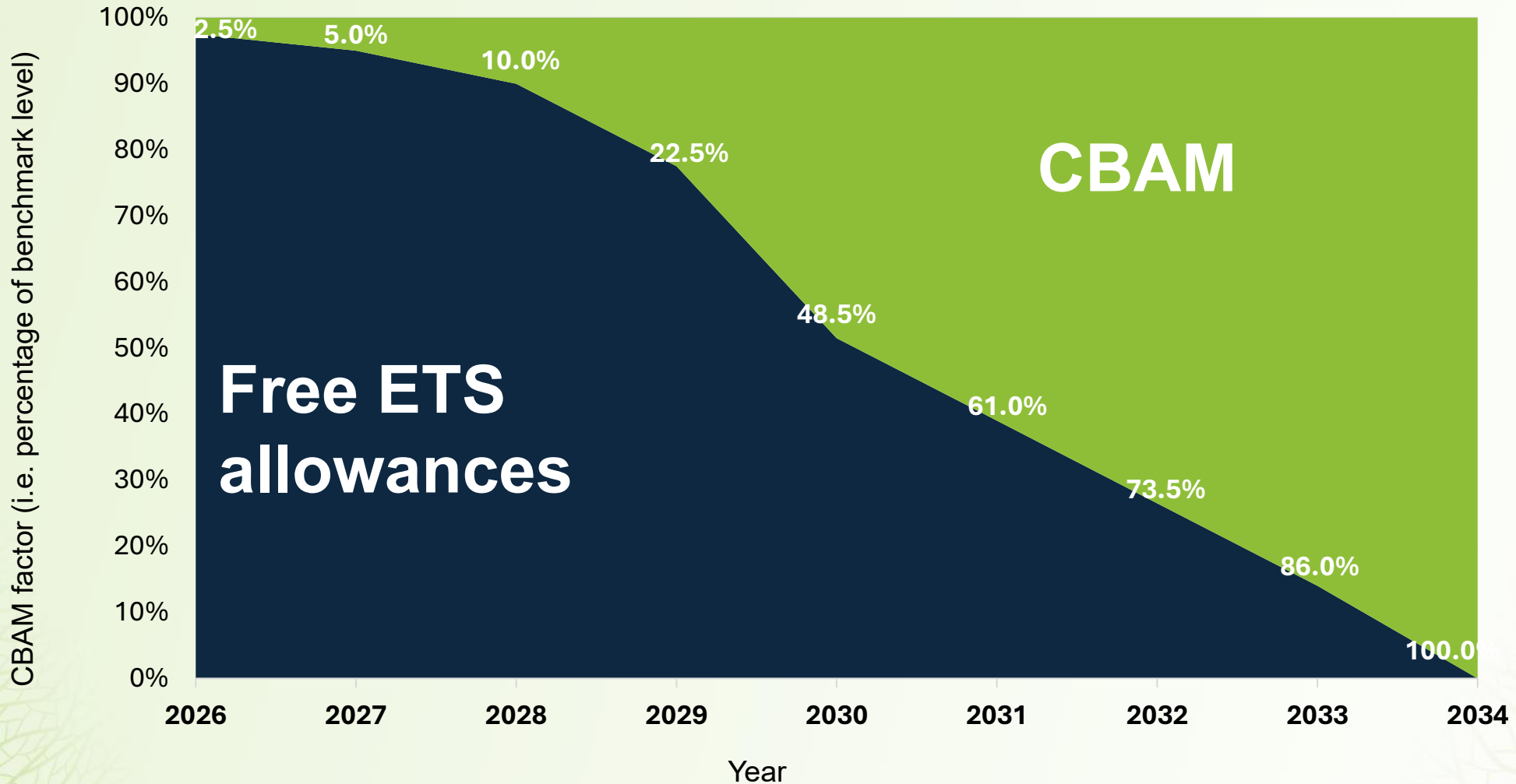
**6 sectors selected on the basis of 3 criteria:**

- ✓ *High risk of carbon leakage (high carbon emissions; high level of trade)*
- ✓ *Covering large share of greenhouse gas emissions of EU ETS sectors*
- ✓ *Practical feasibility*

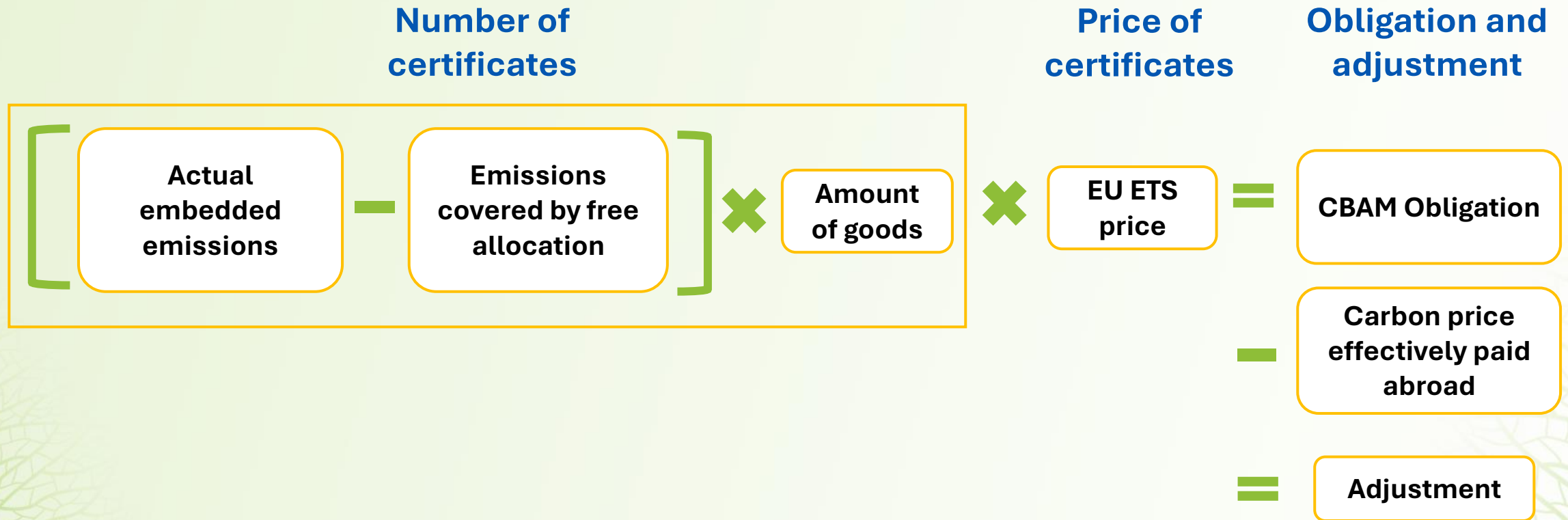
**Exclusions (50 tonnes per importer/year / countries linked with the EU ETS)**

- Emissions scope:** (Scope 1) Direct emissions + (scope 2) indirect emissions from electricity (only for Cement and Fertilisers)

# Phasing-out of free allocation and phasing-in of CBAM



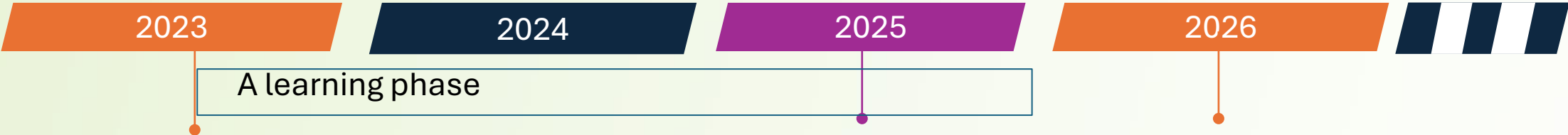
# Calculation of the adjustment



# Gradual implementation of CBAM

**Transitional period**  
**October 2023 - December 2025**

**Post-transitional period**  
**January 2026 onwards**



**Monitoring and reporting**

- Total quantity of goods imported during the preceding quarter
- Total embedded direct and indirect emissions
- The carbon price due in the country of origin for the embedded emissions
- No verification

**CBAM Simplification – February 2025**

**Communication** on carbon leakage – Q2 2025

**Review Report – December 2025**

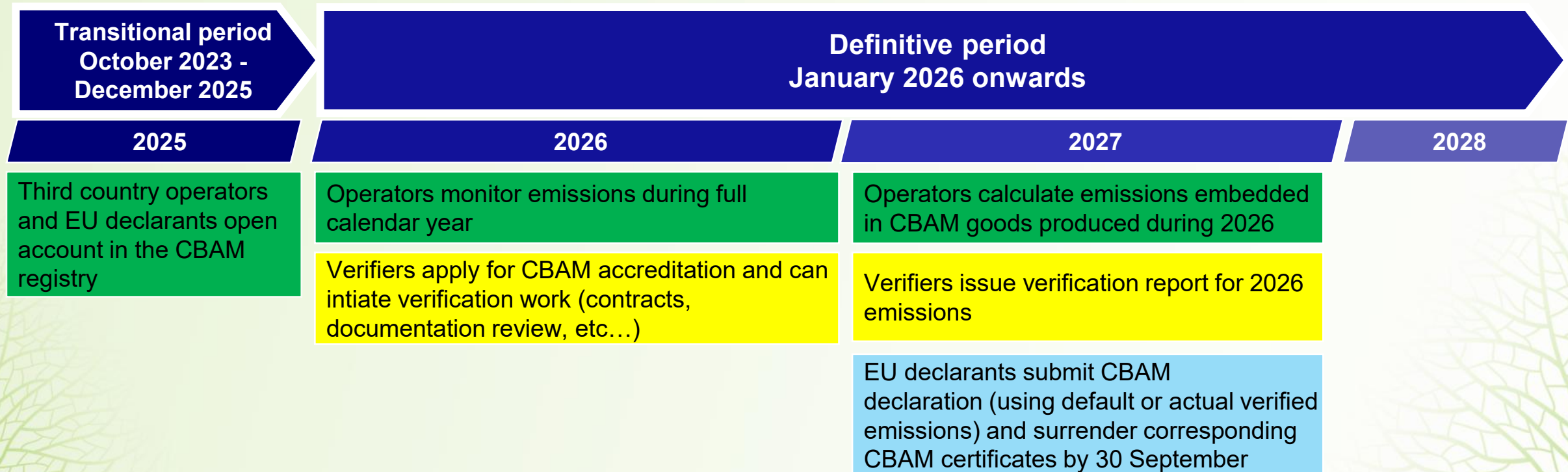
- Experience with CBAM’s application in the two-year transitional period
- Assessment of scope extension post 2026
- Impact on LDCs

**Legislative proposal** to extend CBAM to certain downstream goods, strengthen its anti-circumvention effectiveness and clarify rules for electricity. Temporary Decarbonisation Fund

Start of **gradual phase-in** of CBAM/phase-out of free ETS allocation.

CBAM fees paid yearly; annual reporting; verification

# State of play of the CBAM implementation



# October 2025 - Simplifications to the CBAM Regulation

**Simplifications** with legal proposal under **Omnibus Simplification Package**, tabled on 26 February adopted in October 2026. Included:

- A new **CBAM de minimis threshold to exclude small EU importers with low emissions** and reduce overall compliance cost
  - A new **de minimis ensuring that at least 99% of emissions** remain in scope → threshold set at **50 t mass** of imported goods (iron and steel, aluminium, cement and fertilisers) per importer per year.
- Allow to use **default carbon prices** to facilitate the claim of a reduction for an effective carbon price paid in a third country (as alternative to evidencing an actual payment)

# Downstream extension: New goods to be added

Downstream good category	Number CN codes
Industrial Machinery & Machine Tools	34
Vehicles & Chassis	39
Metal Hardware & Fabrications	28
Vehicle Components & Systems	21
Domestic Appliances & Consumer Goods	18
Construction & Lifting Equipment	17
Engines, Motors & Power Generation	7
Electrical & Electronic Components	6
Medical, Laboratory & Safety Devices	5
Agricultural & Lawn Equipment	5
<b>Total</b>	<b>180</b>

- In terms of value, the current CBAM scope of **571 CN codes accounts for EU imports of about EUR 100 billion** (out of which EUR 80 billion comes from iron and steel and aluminium)
- The extension would add **180 CN codes** around **55 billion** in value add another **55% in value terms by increasing the scope by 30%** in CN code terms.
- **The vast majority, 94%, of these downstream goods concerned are industrial supply chain products with a high (on average 79%) steel and aluminium content, used in heavy machinery and specialised equipment, such as base metal mountings, cylinders, industrial radiators, or machines for casting.**
- **A small share, 6%, of the downstream goods concerned are also household goods, such as washing machines.**
- Use of actual emissions remains the priority in the determination of embedded emissions
- In case of use default value, **no mark-up**

# Principles of the Carbon price deduction

- What qualifies as a **carbon price** under the CBAM Regulation? (Art. 3(29) and Art.9 CBAM Regulation)
- The carbon price must be paid under a carbon emissions reduction scheme, in the form of:
  - A tax, levy or fee
  - Emission allowances under a greenhouse gas emissions trading system
- Calculated on greenhouse gases covered by the scheme, and released during the production of the CBAM goods.
- Must be **effectively paid**. Any rebate or other form of compensation that would have resulted in a reduction of the carbon price will be taken into account.
- Public consultation on the draft implementing act.



# Thank you!

If you have any questions, please contact us:

[TAXUD-CBAM@ec.europa.eu](mailto:TAXUD-CBAM@ec.europa.eu)

# Framework for Quantifying EU CBAM Exposure, Costs, and Opportunities



# 01

**Developing economies are exposed to transition risks**

Relatively limited capacity to respond to global shifts resulting from a push to decarbonize



# 02

**Border Carbon Adjustments are a tangible example of a transition risk**

BCAs are an emerging policy tool to address carbon leakage



# 03

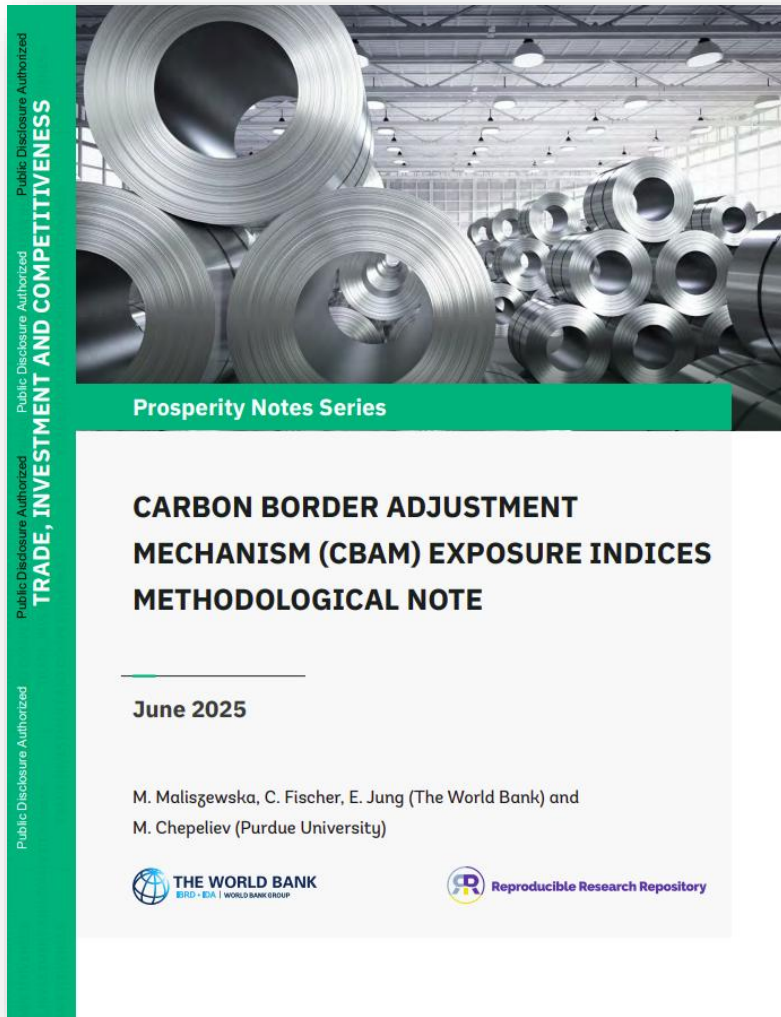
**EU CBAM is the first transnational example of a BCA**

Financial costs are imposed on imports made from 2026



# Developing a framework to assess CBAM exposure

Building on existing efforts to provide a comprehensive framework to assess exposure and impacts



## 1 Indicators

A **suite of indicators** are introduced—including total certificate costs, trade intensity metrics, and competitiveness measures



## 2 Compare data sources

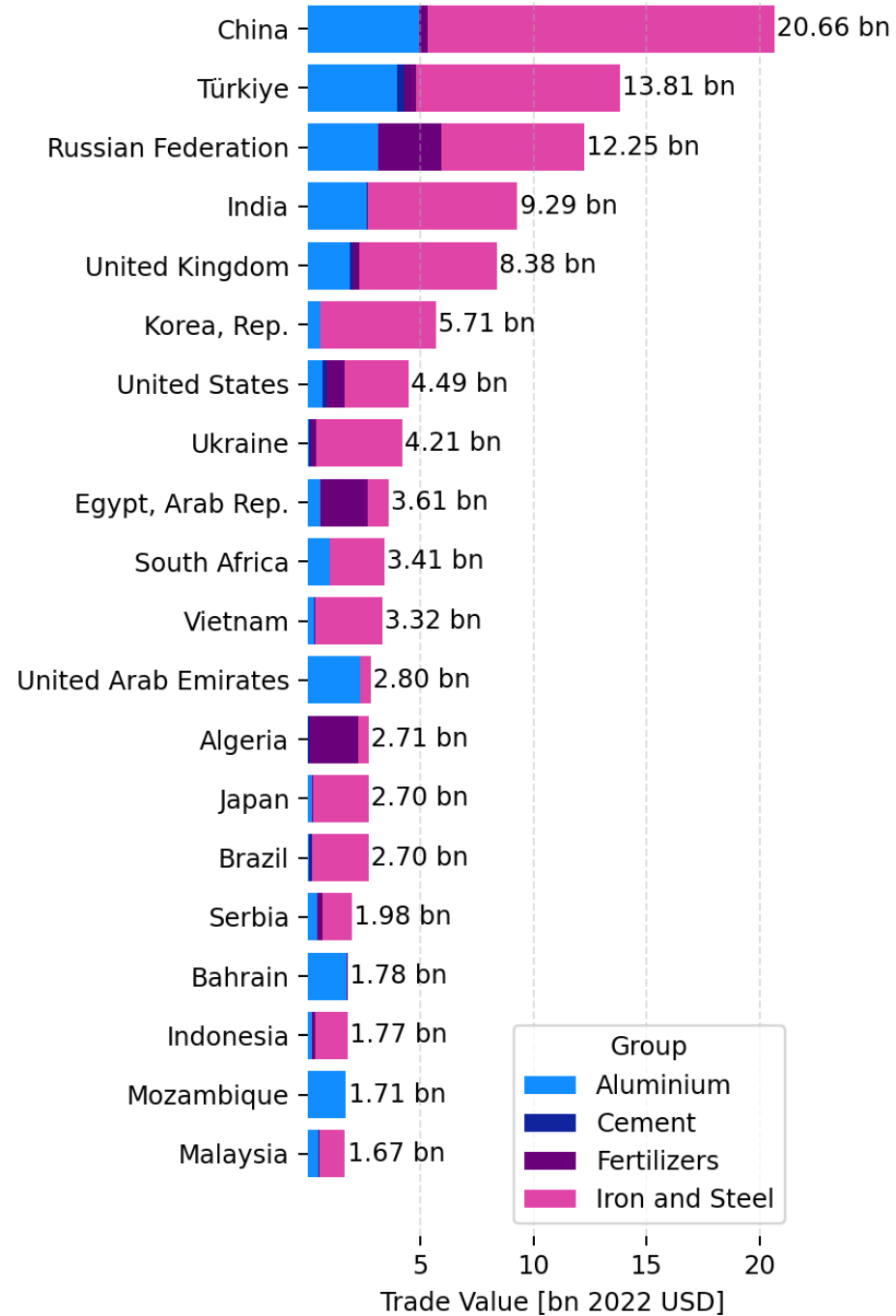
Comparing results across data sources, contrasting **value-based** emission intensities with **mass-based** default values



## 3 Practical responses

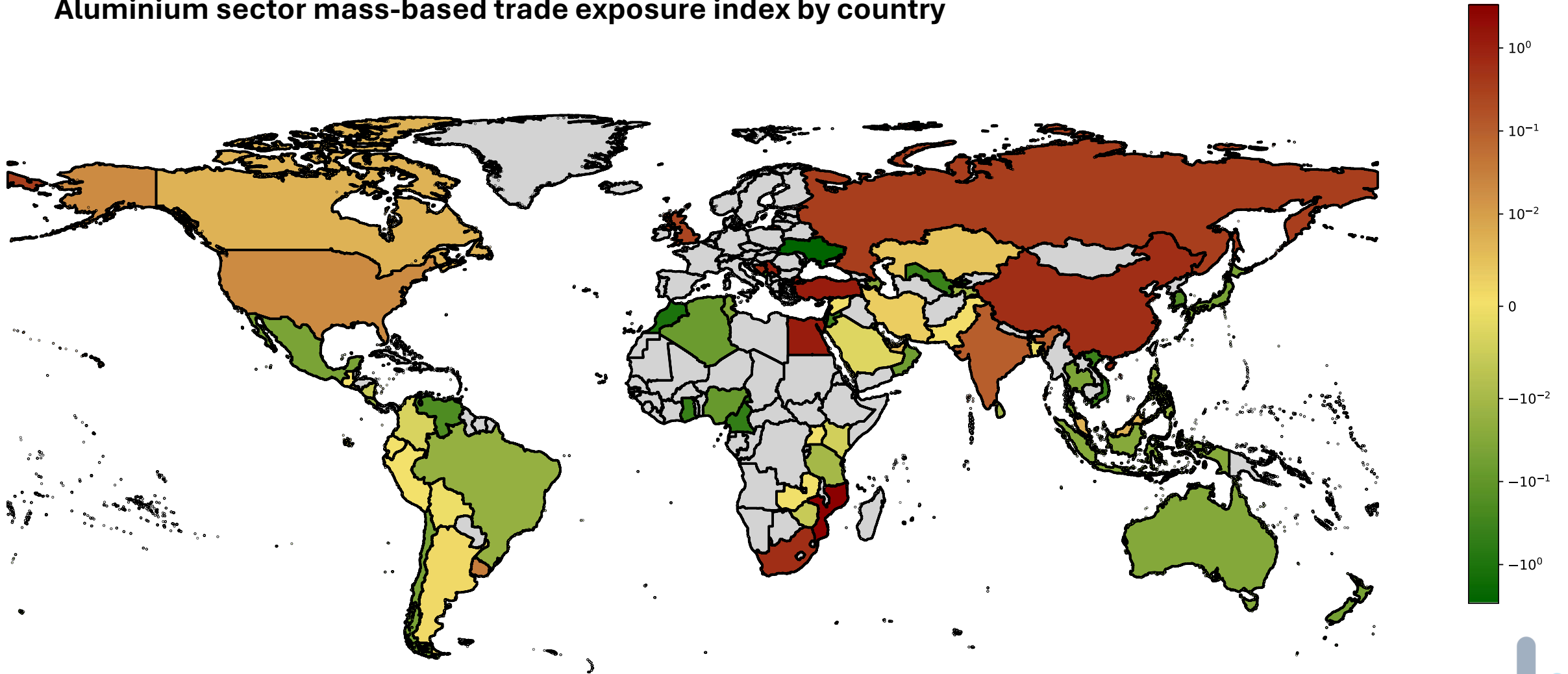
Discusses **practical opportunities** for governments to help reduce exporters' costs

# Top 20 exporters of CBAM goods to the EU by trade value (2022)



# Global comparisons: Aluminium

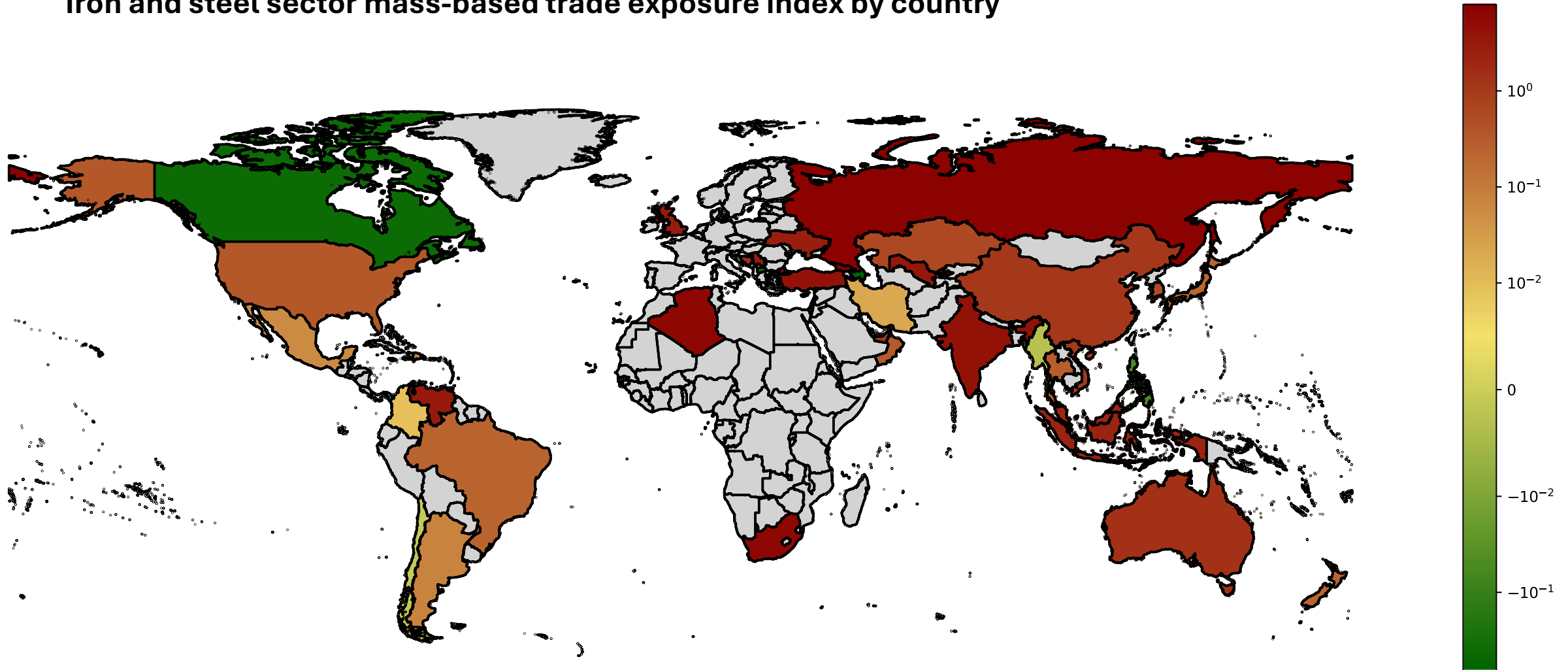
## Aluminium sector mass-based trade exposure index by country



*The Trade Exposure Index (TEI) estimates the exposure of a trade partner to the EU CBAM, calculated at the sector-level. It provides an indication of relative competitiveness and market share, at the sector level. A positive value indicates an intensity higher than the EU (and the potential loss of competitiveness).*

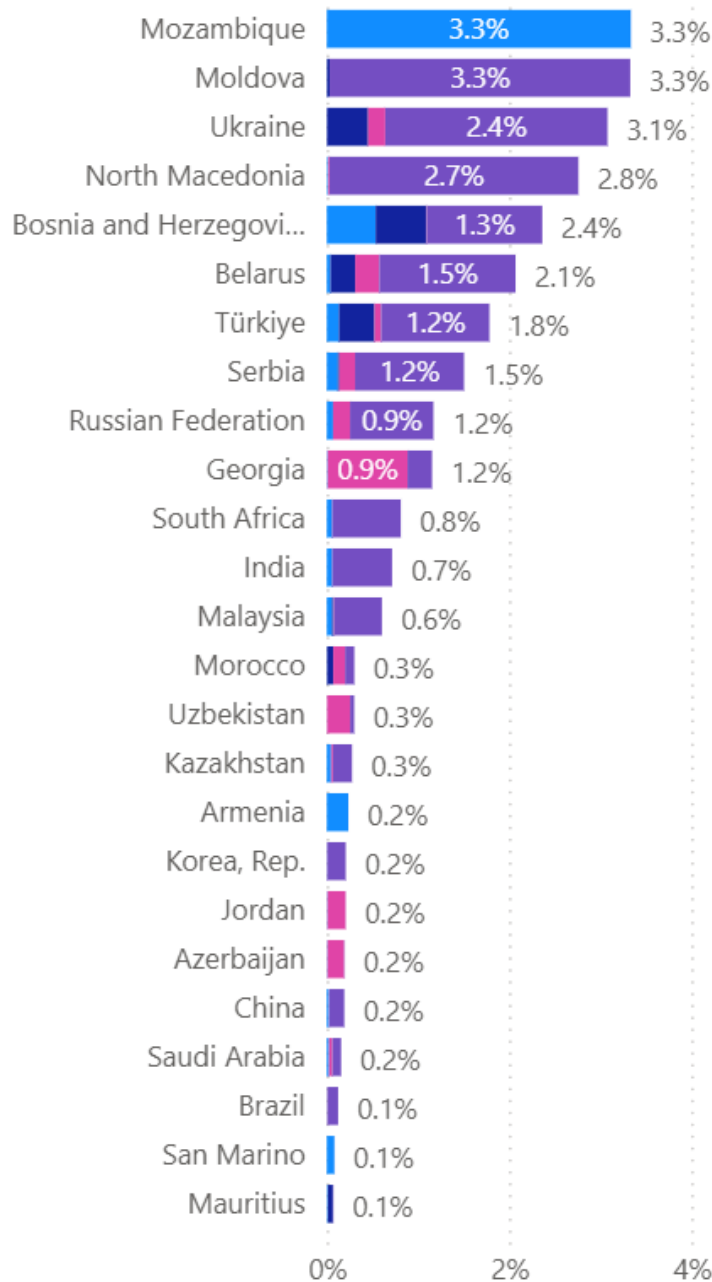
# Global comparisons: Iron and Steel

## Iron and steel sector mass-based trade exposure index by country



*The Trade Exposure Index (TEI) estimates the exposure of a trade partner to the EU CBAM, calculated at the sector-level. It provides an indication of relative competitiveness and market share, at the sector level. A positive value indicates an intensity higher than the EU (and the potential loss of competitiveness).*

# “Fiscal Opportunity Index” on CBAM goods exports (2022)



Represents CBAM certificate costs as a share of domestic tax revenues



01

## **Vulnerability is unevenly distributed**

While large countries have the largest absolute exposure, smaller economies are arguably more vulnerable, because aggregate CBAM costs represent a disproportionately large share of their GDP



02

## **Data source matters**

Data choice can flip the results (e.g. value-based or mass-based) producing different conclusions about which countries are most exposed or competitive under CBAM



03

## **Revenue metrics are only the starting point**

While these metrics offer important insights, they can oversimplify the broader fiscal and economic reality



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