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Briefing paper

EU CBAM in 2025: reform and implementation

Simplification, third-country policy responses and international impacts

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Key messages

The EU's Carbon Border Adjustment Mechanism (CBAM) applies an equivalent carbon price to imports, addressing carbon leakage risks and incentivising decarbonisation globally by encouraging third countries to adopt cleaner technologies or implement their own carbon pricing mechanisms.

This is a critical year as CBAM shifts from a transitional phase to full implementation, with simplification efforts, a comprehensive review and new legislative proposals shaping how the mechanism functions and affects global trade and emissions reduction efforts.

CBAM's direct trade impact has been limited so far, but long-term effects may include reduced EU imports, trade shifts favouring low-emission producers and varying economic outcomes depending on third countries' emissions intensity, policy responses and exposure to EU trade.

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About this publication

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Abbreviations and acronyms

CBAM	Carbon border adjustment mechanism
EU	European Union
ETS	Emissions Trading System
GHG	Greenhouse gas
IEA	International Energy Agency
OECD	Organisation for Economic Co-operation and Development
WTO	World Trade Organization

1 An introduction to CBAM

The EU's Carbon Border Adjustment Mechanism (CBAM) is a significant component of the European Green Deal – the bloc's decarbonisation strategy setting out a target of a 55% net reduction in greenhouse gas (GHG) emissions compared to 1990 levels by 2030, and to reach climate neutrality by 2050 (European Commission, n.d.). In April 2023, the EU adopted the 'Fit for 55' package, which included the revision of the Emissions Trading System (ETS) directive covering, amongst other aspects, a more rapid decrease in emissions allowances in the cap system and progressive phasing-out of free allowances between 2026 and 2034 (European Council, n.d.). Increased climate ambitions and the phase-out of free allowances in the EU, coupled with less stringent climate policies prevailing in some non-EU countries, led to increased concerns about 'carbon leakage' (Dechezleprêtre et al., 2025). CBAM was introduced as a response to this risk. It aims to maintain fair competition for European companies regulated under the EU ETS by applying an equivalent carbon price to imported goods. The second objective of CBAM is to contribute to promoting decarbonisation in third countries by encouraging producers to use technologies that are more efficient in reducing GHG, and through adoption of their own carbon pricing instruments (Regulation 2023/956).

CBAM will mirror the ETS by introducing a carbon price equivalent to the carbon price on EU domestically produced goods under the EU's ETS on selected carbon intensive goods at high risk of carbon leakage (Regulation 2023/956). This currently covers cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. Businesses importing goods manufactured outside the EU will be required to buy certificates reflecting the emissions associated with producing those goods and surrender them annually (Tamellini, 2024). CBAM will apply only to the share of emissions that is not covered by the free allowances under the EU ETS, thus ensuring a level playing field between importers and EU-based producers (Cornago and Berg, 2024). Moreover, if a carbon price has been paid for the embedded emissions generated in the production of goods imported into the EU, the importers can reduce the number of CBAM certificates they need to surrender by accounting for the costs already paid under a carbon pricing instrument in a non-EU country (Wildgrube et al., 2024).

CBAM entered into force in October 2023 for a two-year transitional period, during which importers have to report emissions embedded in

their imports without needing to buy or surrender CBAM certificates. According to the European Commission, the purpose of the transitional phase has been to provide a learning period for importers, producers and authorities and to gather data on embedded emissions, allowing refinement of the methodology (European Commission, 2025a). CBAM will enter into its definitive regime with financial obligations in January 2026.

2 CBAM in 2025: preparing for the definitive phase

The year 2025 marks a pivotal moment for the CBAM, as it moves from the transitional period to a definitive regime in January 2026. This year will be shaped by three major milestones: a simplification package announced in February, the comprehensive review of CBAM due by the end of 2025, and the groundwork for new legislative acts set to be published in early 2026. These developments will define the future structure and effectiveness of the CBAM.

2.1 Simplification

According to the European Commission, the collected data and experience gained during the transitional phase has shown that there is scope to simplify the CBAM while preserving its environmental integrity (European Commission, 2025b). The key element of the CBAM simplification package announced in February is the introduction of a new CBAM de minimis threshold exemption, which will exempt approximately 90% of importers from the CBAM obligations (European Commission, 2025a). The new exemption rule will be based on an annual cumulative mass threshold of 50 tonnes (of imports in the four industrial sectors), which will allow for a reduction in the administrative burden, while maintaining 99% of emissions in scope. In addition to the de minimis exemption, other simplifications were proposed for the importers remaining within the scope of CBAM to facilitate their compliance with reporting requirements. Notably, the proposal for a revised CBAM Regulation introduces the possibility for authorised CBAM declarants to freely choose between actual embedded emissions and default values[1] with a mark-up[2] (European Commission, 2025c). Previously, the Regulation stipulated that the Commission would have to set the criteria when actual emissions cannot be determined, with declarants having to provide evidence for that in order to revert to default values.

In the second half of 2025, the Commission will also present a comprehensive CBAM review report assessing the scope extension of the CBAM to additional EU ETS sectors and downstream products, as well as the inclusion of indirect emissions across all CBAM sectors

[1] Default values will be calculated at the level of the average emission intensity of the 10 exporting countries with the highest emission intensities for which reliable data is available (European Commission, 2025c).
[2] Mark-ups are intended to capture the extent to which products from each country exceed the default values.

(European Commission, 2025d). The report will also look at strategies addressing the risk of carbon leakage for goods produced by CBAM sectors in the EU for export, as well as the risk of circumvention of CBAM objectives caused by resource shuffling.[3]

Box 1 Stakeholders' views on CBAM simplification

During the dialogue, the European Commission noted that importers of goods covered by the CBAM had called for a simplification of compliance procedures and improvements to the mechanism's overall effectiveness. The following simplifications were briefly presented: new de minimis rule of 50 tonnes cumulative mass, extended deadline for submitting CBAM declarations from May to August/September, possibility to use default values for carbon emissions, reduced quarterly certificate holding requirements, and extended deadline for buying CBAM certificates.

Third countries' representatives broadly welcomed the CBAM simplification package. However, it was noted that some of the simplification measures, such as the new 50 tonnes de minimis rule, are mainly helpful for EU importers, and will not alleviate the reporting obligations on third-country exporters. Third countries are however appreciative of the possibility to use default carbon values as this will lessen the complexity and the cost of compliance with CBAM, as not all countries have the means of calculating actual embedded emissions.

Source: Participants' inputs from the First International Climate, Trade and Industrial Policy dialogue

2.2 Scope extension

Currently, CBAM covers mostly imports of primary goods such as iron, steel, fertilizer, aluminium and cement, and only a few semi-finished products. This can lead to higher input costs for downstream EU producers of semi-finished or finished products, such as automotive components (Marcu et al., 2024a). The Commission is considering expansion of the scope to prevent carbon leakage across entire value chains, ensure consistent carbon pricing across industries and align CBAM with EU ETS and climate objectives (Marcu et al., 2024b).

Several studies have attempted to estimate the impact of CBAM on downstream industries. Maratou and Marcu (2021) find that CBAM imposed only on primary aluminium might raise the cost of semi-finished aluminium products by 10–13%. In a recent study the OECD estimated that the extension of the CBAM product list to 1,400

[3] Resource shuffling occurs when goods produced in low-carbon production facilities in third countries are exported to the EU market, while carbon-intensive production continues for other markets, which lowers the incentives for decarbonisation of all production facilities (European Commission, 2025e).

additional emission-intensive and trade-exposed goods (while removing free emission allowances in the corresponding sectors) would result in only slightly reduced EU value added (-0.08%) and global emissions (-0.02%) (Dechezleprêtre et al., 2025).

It is worth noting that the further down in the value chain, the risk of carbon leakage decreases,[4] but the administrative burden to regulate and comply with the extended coverage regime increases (Marcu et al., 2024a). Therefore, determining which downstream products to include will need to balance the complexity of compliance, the risk of carbon leakage, potential substitution effects and challenges in estimating the embedded emissions (ibid.). The impacts will also likely vary across sectors. The first legislative proposal for extending the scope of CBAM to certain steel and aluminium-intensive downstream products is expected by Q4 2025.

Furthermore, during the review process, the Commission will also assess the possibility of extending CBAM to other ETS-covered sectors, such as chemicals, as well as indirect emissions across all CBAM sectors considering the indirect costs of electricity for EU producers[5] (European Commission, 2025d).

Box 2 Stakeholders' views on CBAM scope expansion

The CBAM review, scheduled for the end of 2025, envisions the potential inclusion of indirect emissions (Scope 2) for steel and aluminium within its scope. This change would have varying impacts across countries, depending on the carbon intensity of their energy mix. It would for example be beneficial for Brazil, whose electricity mix is one of the cleanest in the world, but detrimental for South Africa, which derives almost 80% of its energy from coal.

Source: Participants' inputs from the First International Climate, Trade and Industrial Policy dialogue

2.3 Export solutions

Competitiveness is a major concern for the EU's industries, particularly for export-oriented sectors which will face increased costs for imported materials under CBAM (Dechezleprêtre et al., 2025). Moreover, without integrating export provisions into CBAM, there is a risk of

[4] The risk of carbon leakage decreases as one moves down value chains because the relative significance of carbon costs in the final price of goods goes down as value added from additional processing is being added (Marcu et al., 2024a).
[5] Indirect emissions will be covered in the scope after the transitional period for some sectors (cement and fertilisers), on the basis of a defined methodology outlined in the Implementing Regulation published on 17 August 2023 and its accompanying guidance.

increased global emissions through export-related carbon leakage (if EU exports are displaced by higher-emission alternatives).

Various solutions for export-related carbon leakage have been proposed, ranging from direct carbon costs rebates or compensations to external financial support for innovations reducing emissions.[6] Marcu et al. (2025) argue that any mechanism addressing this issue should mitigate the risk of market share loss for EU producers, preserve incentives for EU industry to decarbonise, remain compatible with WTO rules and avoid administrative complexity. One solution proposed by Marcu et al. (2025: 16) argues for 'Incentive-aligned Export Adjustment Certificates', which would be calculated on the basis of existing EU ETS product benchmarks and awarded to exporters in exchange for EU ETS allowances. By Q2 2025, the Commission is expected to publish a communication providing analysis and options on how to address the problem of export-related carbon leakage for CBAM goods (European Commission, 2025e). Arguably the greatest challenge for any CBAM export solution will be ensuring compliance with WTO rules, as any financial assistance linked to export performance could be classified as a prohibited export subsidy under the Agreement on Subsidies and Countervailing Measures (Mehling and Jakob, 2024).

2.4 Carbon crediting

Article 9 of the CBAM Regulation allows declarants to request a reduction in the number of CBAM certificates they must surrender by accounting for any carbon price already paid in the country of origin for the reported embedded emissions (Regulation 2023/956). Crediting carbon prices already paid in third countries aims to ensure a level playing field and avoid a double burden on foreign producers by imposing the same *effective carbon price* on goods produced in the EU and on imported goods. Carbon prices actually paid in the country of origin are defined as a 'monetary amount paid in the form of a tax, levy fee or emission allowances under a greenhouse gas emissions trading system' (European Commission, 2024: 25). This implies a narrow definition of which foreign climate policy measures qualify for credit when assessing a declarant's compliance obligation (Marcu et al., 2023). This has been criticised by some countries as discriminatory as it does not allow for different regulatory approaches to decarbonisation, such as performance standards or indirect carbon pricing (Boute, 2024). Moreover, currently only a few countries have carbon pricing instruments in place, and among those that do, their average yearly carbon price is significantly lower than the EU ETS (Wildgrube et al., 2024).

[6] For an overview of solutions, see Marcu, A., Mehling, M., Cosbey, A. et al. (2025) 'Solutions for exports of EU CBAM-covered goods'. Roundtable on Climate Change and Sustainable Transition (ERCST) (https://ercst.org/solutions-for-exports-of-eu-cbam-covered-goods/).

Two main options were identified for carbon crediting by Wildgrube et al. (2024): an average price approach and actual payment approach. The average carbon price could be calculated either economy-wide or for individual sectors in a respective third country and adjusted for any product-specific rebates. The actual payment approach would require evidence of actual carbon price payments made by producers in third countries. Each approach has its advantages and disadvantages in terms of administrative effort, fairness and risk of fraud (ibid.).

The approach to recognition of third-country carbon prices will be specified in an implementing act due in early 2026. Recently, based on the findings from the transitional period, the Commission has indicated that declarants have difficulties in obtaining information on the carbon price effectively paid in third countries (European Commission, 2025c). It then suggested establishing an annual average carbon price of the effective carbon price paid 'based on the best available data from reliable, publicly available information and information provided by third countries, including on a conservative basis' (ibid.: 4). The amending Regulation also proposes introduction of 'a default carbon price which would allow declarants to claim a deduction where it cannot be demonstrated that a carbon price has been effectively paid' (ibid.: 24).

Box 3 Stakeholders' views on carbon crediting

During the dialogue the need for clarity on how carbon prices paid domestically will be credited under the CBAM was noted, as countries in the process of designing their own carbon pricing systems want to ensure these payments will be recognised by the EU. There is concern that, by focusing primarily on carbon pricing, the EU may be narrowing the scope of climate policies and interfering with countries' policy choices for meeting their Paris Agreement commitments.

A recent proposal to recognise carbon credits under Article 6 of the Paris Agreement has been advocated by some, as it offers a dual benefit: serving as an alternative pathway to CBAM compliance, while also channelling funds for low-carbon investment into third countries. However, some stakeholders caution that this approach might reduce the incentive for countries to implement their own carbon pricing mechanisms.

The European Commission has indicated that it is working on the default carbon price, and one key principle is to ensure a correlation between emissions covered under CBAM and the carbon price applied. It also acknowledged the difficulty of accounting for carbon prices paid upstream in the production chain.

Representatives from third countries expressed appreciation to the Commission for their openness to work on the issue together and noted that the use of a default carbon price could provide significant

relief, especially for countries without carbon pricing systems. However, they emphasised that such default prices should reflect different levels of development to ensure fairness. It was also noted that the ability to use carbon credits is critical for CBAM's legitimacy, but much depends on how the Commission decides to account for them. Some countries called for true regulatory equivalence, not just in monetary terms but in recognition of differing approaches and different abilities to pay a carbon price.

Source: Participants' inputs from the First International Climate, Trade and Industrial Policy dialogue

3 CBAM's impacts on third countries and European industry

According to a study by the OECD, the scope of the CBAM Regulation on global trade and emissions covered is relatively limited (Dechezleprêtre et al., 2025). In 2022, CBAM-covered goods accounted for just 0.37% of the total value of global trade in goods and services, and made up between 3%, according to Dechezleprêtre et al. (2025), and 5%, according to Bonnet and Baršauskaitė (2025), of EU imports from countries outside the Union. In terms of sectors, the most impacted are iron and steel, which represented 55% of CBAM-covered goods, while electricity and aluminium each comprised 19% in 2022 (Bonnet and Baršauskaitė, 2025). In terms of trade flows, there is no evidence that CBAM altered imports of affected goods, but in the long run it is expected to decrease EU imports of CBAM-covered goods (e.g. estimated at 4% for aluminium and 26% for fertiliser) (Cornego and Berg, 2024). In addition, the risk of resource shuffling, where producers redirect their goods with lower carbon intensity to the EU and export their 'dirtier' products to other countries to reduce their CBAM obligations (Cornego and Berg, 2024), will be assessed by the Commission and potential anti-circumvention measures proposed by Q4 2025 (European Commission, 2025e).

With regard to carbon leakage, the OECD finds that introduction of CBAM would result in a decrease of emissions in both the EU and globally, due to a shift in trade patterns as the EU moves towards importing from less carbon-intensive sources, thus effectively protecting against carbon leakage (Dechezleprêtre et al., 2025). Others have been more sceptical regarding CBAM's effectiveness in addressing carbon leakage due to substantial obstacles in its implementation, including administrative complexity, legal and political risks and potential for circumvention (Mehling et al., 2024).

The OECD estimated that the phase-out of free allowances and the rise in EU ETS price would result in some production being shifted to non-EU countries, leading to a slight fall (-1.06%) in the value added of CBAM industries in the EU (Dechezleprêtre et al., 2025). However, the introduction of CBAM would partially offset the impact of the removal of free allowances on EU industries, leading to a smaller reduction in value added (-0.85%). In a study by Assous et al. (2024),

CBAM introduction and the phase-out of free allowances would result in higher carbon costs for EU manufacturers of intermediary and final goods (e.g. car manufacturer) due to more expensive raw materials (e.g. EU-produced steel). The OECD also found a negative impact on downstream non-covered sectors that face increased input costs, which they cannot easily pass on to consumers (Dechezleprêtre et al., 2025).

In 2022, China, Türkiye and the UK were potentially the most affected third countries as the largest (by value) exporters of CBAM-covered goods to the EU (Bonnet and Baršauskaitė, 2025). The OECD study found that, despite its high exposure to CBAM, the impact on Türkiye's value added would likely be positive due to the low emission intensity of its steel industry, which relies on the production of recycled steel using electric arc furnaces (Dechezleprêtre et al., 2025). Similarly, according to Assous et al. (2024), the actual impact on China would also be narrow due to limited sectoral scope, the gradual phase-in of the CBAM, and the ability to pass the costs on to EU consumers. Looking beyond export volume, the World Bank's relative CBAM exposure index, which takes into account the carbon emissions intensity of exports and share of exports of CBAM products to the EU, points to Zimbabwe, Ukraine, Georgia, Mozambique and India as potentially the most affected countries (World Bank, 2023).

According to the OECD study, for non-EU countries the impact of CBAM on their value added will depend on the emission intensity of production processes, the carbon price paid within the origin country and the degree of exposure to EU trade (Dechezleprêtre et al., 2025). In their study, Assous et al. (2024) point out that the impact will also depend on third countries' policy reaction to the scheme. Countries with carbon pricing and lower emissions intensity, as well as countries with the fiscal space to support decarbonisation of their industry, such as the US, are set to benefit from CBAM as the demand for their products would likely increase relative to countries with dirtier production (Cornego and Berg, 2024). The countries for which CBAM has a negative estimated impact on value added, according to the OECD study, are India, Tunisia and South Africa (Dechezleprêtre et al., 2025). For the steel sector specifically, the Centre for European Reform estimated that, by 2034 when CBAM will be fully phased in, production and carbon costs in third countries will be around 50% higher compared to 2026 (Cornego and Berg, 2024). Sandbag, on the other hand, estimates the overall impact of CBAM on the EU's trade partners would be narrow, with net costs[7] limited to under €1 billion even after its full implementation in 2034 (Assous et al., 2024). Others have stressed, however, that even if the macroeconomic impact on a third country as a whole will be limited, 'concentrated impacts on

[7] Net costs are calculated as the CBAM charge minus the added revenue expected from a higher selling price in the EU. The combination of CBAM charges and price effect due to free allocation phase-out (prices will increase in Europe for CBAM-covered goods) may have a positive or negative impact on the profitability of imported goods, depending on their embedded carbon (Assous et al., 2024).

specific economic sectors might impose social hardships on certain social groups, such as workers in emission-intensive industries' (Jakob et al., 2024).

Box 4 Stakeholders' views on CBAM impacts

Third countries remain concerned about the broader economic impact of the CBAM on their economies. Key issues raised during the dialogue included its effect on access to the EU market, potential shifts in trade flows – such as the risk of goods being dumped due to anti-circumvention measures – and the administrative burden associated with compliance.

Emerging markets and developing economies also frequently question the fairness of the CBAM, particularly in light of their lower historical responsibility for global emissions. Additionally, doubts were raised about the mechanism's effectiveness in preventing carbon leakage, as carbon-intensive production may still relocate to other regions, resulting in only marginal reductions in global emissions.

On the other hand, it was acknowledged that the CBAM has encouraged faster decarbonisation efforts and the willingness to adopt domestic carbon pricing in several countries, including Brazil and Indonesia. In this context, the EU's support – particularly through the Commission's Task Force for International Carbon Pricing and Markets Diplomacy – has been welcomed in helping partner countries establish their own carbon pricing systems.

Source: Participants' inputs from the First International Climate, Trade and Industrial Policy dialogue

4 Third countries' policy responses

The EU has faced a great deal of criticism from its trading partners, especially low- and middle-income countries, over CBAM. The main points of criticism have been:

- CBAM is viewed as a unilateral protectionist tool that benefits EU industry at the expense of third-country competitors (Mehling et al., 2024).
- Low- and middle-income countries often lack financial resources to decarbonise their carbon-intensive industries and have limited technical capacity to introduce a domestic carbon pricing system (Sandler and Schrag, 2024).
- CBAM currently does not allow for flexibility in countries' response to it (e.g. indirect carbon taxes are not in scope of an effective carbon price paid), thus privileging countries that have chosen carbon pricing over other decarbonisation policies (Cornego and Berg, 2024).
- CBAM conflicts with the principle of Common But Differentiated Responsibility, in particular with regard to least developed countries (Maat, 2022).

At the same time, the debate surrounding border adjustment mechanisms, including CBAM, has been evolving in recent years. WTO members initially expressed their concern, including with regard to CBAM's compliance with WTO rules and its impact on trade (Bonnet and Baršauskaitė, 2025). More recently, and in particular since 2024, the tone has changed towards calls for cooperation and solving specific issues (ibid.), which suggests that countries have embarked on preparations to deal with CBAM's impact on their economies (Otto, 2025).

With regard to third countries' responses, Otto (2025) classified them into three main categories: policy adoption, opposition and cooperation. Having analysed the reactions of 32 countries, Otto (2025) has found that the most common response was policy adoption (24 countries), followed by opposition (22 countries) and cooperation (15 countries). A study by ECDPM classifies responses specific for developing countries as decarbonise (by lowering emission intensity of production), emulate (by adopting own carbon pricing), challenge

(by demonstrating opposition) and avoid (by shifting trade to other countries with less stringent climate policies) (Byiers and Medinilla, 2024).

To reduce their exposure to CBAM, third countries can adopt policies such as own carbon pricing and border adjustment mechanisms, as well as other measures supporting the decarbonisation of their industries (Otto, 2025). Introducing or expanding one's own carbon pricing instrument has an additional benefit as it can generate revenues domestically which would otherwise be collected by the EU. In fact, since the CBAM's introduction, a growing list of countries have chosen to develop domestic carbon pricing, including Brazil, India, Indonesia, Morocco, Türkiye, Ukraine, Uruguay, Vietnam and Western Balkan countries. In the case of 15 countries, Otto (2025) found a direct link between domestic carbon pricing adoption, or its consideration, and EU CBAM. Those countries that already had a form of carbon pricing instrument, such as the UK, Canada and Australia, are considering introducing their own carbon border adjustment mechanism (Cornego and Berg, 2024); others, such as China, are planning extension of the existing carbon pricing system to industrial emissions to match sectoral coverage of the CBAM (Mehling et al., 2024). However, many argue that, even if countries adopt a carbon pricing instrument, it may not protect them fully from the CBAM, as the average domestic price paid will likely be lower than the EU ETS price. For example, the South African domestic carbon price (around $10 per tonne in 2024) is a fraction of the EU carbon price, and raising it sufficiently would incur significant economic and political costs (Byiers and Medinilla, 2024).

Opposition to CBAM was mainly observed in the form of political opposition through public statements at multilateral fora, such as the WTO and the UNFCCC (Otto, 2025), with the most vocal opponents being Brazil, China, India, Russia and Türkiye (Bonnet and Baršauskaitė, 2025). While none of the countries have yet legally challenged the EU CBAM at the WTO, some argue, as noted by Byiers and Medinilla (2024: 16), that 'the CBAM is a disguised non-tariff barrier to trade, designed to protect EU industries, thus offering the WTO as a channel to challenge the EU'. Countries have also expressed concern with the limited opportunities to discuss in a multilateral forum practical aspects of CBAM implementation, including Article 9 (ibid.).

Finally, some countries have been seeking more cooperation with the EU as a response to the CBAM, including bilateral agreements, negotiations for exemptions, requests for support and broader climate policy collaboration (Otto, 2025). Examples listed by Otto (2025) include South Korea securing recognition of its carbon pricing system, Egypt and India seeking exemptions, and the UK considering linking its ETS with the EU's. India and the US attempted to negotiate exemptions, though with limited success. Additionally, some countries have sought financial or technical assistance to ease CBAM-related

impacts. Meanwhile, Canada, China and Japan have agreed to collaborate with the EU on carbon pricing and leakage issues, though not as a substitute for CBAM.

5 Broader implications and future outlook

The EU CBAM has accelerated discussions between the trade and climate communities and represents a pivotal shift in aligning international trade with climate objectives (Cornego and Berg, 2024). By attaching a carbon price to imports, it reinforces carbon pricing, which is considered one of the most cost-effective tools for reducing greenhouse gas emissions (UNCTAD, 2022). The CBAM creates incentives for companies to reduce emissions faster than their competitors, potentially gaining a competitive edge and capturing market share from higher-emitting producers (Spiller et al., 2024).

However, the global implications are complex. As other countries consider introducing their own carbon prices and CBAM-like measures, there is a growing risk of regulatory fragmentation. The proliferation of different national approaches highlights the urgent need to harmonise methods for calculating product-level GHG intensity, defining the scope to be included or agreeing on rules for crediting foreign carbon prices (Cosbey, 2024). Without coordination, compliance burdens could rise, particularly for exporters in low- and middle-income countries with high emissions intensity and limited domestic support.

While estimates to date suggest that CBAM may disadvantage certain trading partners more than others, its impact will not necessarily be negative for all countries (Assous et al., 2024). Most notably, the EU itself could bear significant costs, as the mechanism may drive up prices for its key industrial sectors. Finally, it should be noted that the actual impacts of CBAM will only be known once it enters into its definitive period in 2026, and the announced changes are implemented and adopted in legislation.

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