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THE CHALLENGING ROAD TO THE CBAM

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The Carbon Border Adjustment Mechanism (CBAM) is the European Union's (EU) instrument for putting a "fair price" on carbon emissions generated during the production of carbon-intensive foreign goods imported into the EU. Carbon pricing is a key element in enabling the EU to achieve climate neutrality by 2050 and comply with the 2015 Paris Agreement. Currently in a preparatory phase for data collection, the CBAM will enter into force in 2027 (one year later than originally planned), in a different global economic context than when it was launched in 2021, characterised by growing geopolitical tensions and threats of trade wars.

The EU's globally unique decision to introduce the CBAM stems from its growing ambition to tackle climate change, by strengthening the carbon pricing system already in place within the EU: the Emission Trading System (EU ETS). From 2026, the free allowances still in circulation within the EU ETS, which were granted to prevent the relocation of highly polluting industries abroad (a phenomenon known as carbon leakage), will be gradually phased out, until their complete elimination in 2034. As a result, previously exempted EU-based companies will start paying a domestic carbon price on the production of their goods. At the same time, imported goods entering the EU will also be subject to a similar carbon price. The sectors initially affected by the CBAM will be those considered hard-to-abate, including iron and steel, aluminum, fertilisers, electricity, cement, and hydrogen.

From this perspective, the CBAM should not be seen as a protectionist measure, but rather as an environmental policy instrument, designed to make carbon pricing more effective not only at a national level but also at global level. Under the CBAM, producers in partner countries will face a price surcharge, with the resulting revenue allocated to the EU budget. This should incentivise those countries to reduce the carbon intensity of their production and/or implement similar carbon pricing measures. Indeed, if a third country already adopts a carbon pricing system, its producers will be able to deduct the cost already paid from the CBAM calculation in the EU.

In February 2025, the European Commission introduced the Competitiveness Compact (CC) to boost the growth and international competitiveness of European industry. The EU has crafted a strategy that harmonises its climate neutrality goals with the economic and technological competition posed by the US and China. The CC also calls for a review of certain aspects of the CBAM. In addition to integrating the CBAM into broader efforts to simplify EU bureaucracy, the Commission intends to assess potential measures to address the impact of the CBAM on exports of affected goods.

For a long time, to remain competitive internationally, European exporters have demanded a rebate on the carbon price for their CBAM goods sold in foreign markets. However, from a public finance perspective, the carbon price is not a tax but rather a pricing mechanism. For goods traded on the international market, the standard rule for indirect taxes is taxation in the destination country, with a rebate on exports and a tax on imports. However, since the carbon price is a price rather than a tax, the difference with exporting countries should not be reimbursed.

In 2021, the European Commission ruled out the possibility of such adjustments, a position that should be maintained, despite concerns about competitiveness gaining prominence in the EU. Reversing this position would undermine the credibility of the EU's climate ambitions and could cause further tensions with key trading partners over the CBAM's compatibility with WTO rules.

The EU’s trading partners have reacted with concern to the decision to introduce the CBAM. The countries that will be most affected by CBAM-covered imports into the EU include China, Turkey, Russia, the UK, the US, and other high- and middle-income nations. However, for China and the US, the world’s largest emitters, the economic impact of the CBAM will not be severe. The real losers from the implementation of the CBAM will be the poorer countries, where CBAM exports represent a significant share of their economy. These include Albania, Montenegro, Ukraine, North Macedonia, Bosnia and Herzegovina, Serbia, Moldova, Armenia, Bahrain, Mozambique, and Zimbabwe.

Measures such as the CBAM must be coordinated with initiatives such as the Climate Club for industrial decarbonisation, launched at COP28 in Dubai (2023) as an inclusive forum for dialogue and negotiation between Global North and Global South countries. Asking the most affected (and least responsible) countries to bear not only the costs of damage and adaptation, but also those of mitigation is unreasonable without significant financial commitments from wealthier (and more polluting) nations, and especially without technology transfers to support the transition to clean energy sources.

CBAM now faces new challenges due to the increasing protectionist stance of the Trump administration. The announced increase in tariffs on steel and aluminum imports, to a fixed rate of 25% “without exceptions or exemptions”, threatens to ignite a major trade war, which would also impact the EU. The stance of the US seriously undermines the efforts made by international diplomacy, where the EU has consistently positioned itself as a global leader. However, as Ursula von der Leyen has stated: "Unjustified tariffs on the EU will not go unanswered – they will trigger firm and proportionate countermeasures. The EU will act to safeguard its economic interests." The EU must make it clear that it will respond to US tariffs with appropriate countermeasures, while ruling out the possibility of reconsidering the CBAM.

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(The opinions expressed here do not necessarily represent the CSF)

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