



# EU Carbon Border Adjustment Mechanism

## *Fact Sheet*

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**Disclaimer:** *This series tracks the progress of EU Green Deal legislation, providing point-in-time updates on how each law is being adopted into national law and the implementation status of specific article-level measures. This publication was compiled by the Climate Secretariat who are solely responsible for the content and any views expressed therein. It does not represent the views of the Council.*

EU's Carbon Border Adjustment Mechanism (CBAM) Regulation (EU) 2023/956	
Link	<ul style="list-style-type: none"> <li>➤ <a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2023.130.01.0052.01.ENG&amp;toc=OJ%3AL%3A2023%3A130%3ATOC">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2023.130.01.0052.01.ENG&amp;toc=OJ%3AL%3A2023%3A130%3ATOC</a></li> <li>➤ <a href="https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#legislative-documents">https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en#legislative-documents</a></li> </ul>
Key Dates	<ul style="list-style-type: none"> <li>➤ The CBAM entered into application in its transitional period on 1 October 2023.</li> <li>➤ The transitional phase for implementation of CBAM is between 2023-2025.</li> <li>➤ CBAM will fully apply from 2026, aligned to the phase out of free allocation of allowances under the EU ETS.</li> </ul>

## Introduction

The EU Carbon Border Adjustment Mechanism (CBAM) has been introduced to address the risk of 'carbon leakage' in the EU and complement existing EU climate policy. This can occur when companies move carbon-intensive production to countries outside of the EU where there is a lower carbon cost associated with their production, or where EU products are replaced by more carbon intensive imports.

The CBAM aims to ensure that the carbon price associated with goods imported from non-EU countries is equivalent to the carbon price of domestic production under the EU ETS, in order to support a level playing field between EU producers and third countries. It may also encourage the adoption of carbon pricing mechanisms and less carbon-intensive production in non-EU countries.

## Operation of the CBAM

The CBAM is applied to embedded emissions on goods imported to the EU<sup>1</sup>, calculated based on the methodology for reporting of emissions under the EU ETS for production of the same goods within the EU<sup>2</sup>. It initially applies to goods listed in Annex 1 of the Regulation, including cement, iron and steel, aluminium, fertilisers, electricity and hydrogen, with importers of goods having to report emissions associated with their imports. In the Impact Assessment published with the CBAM Regulation, the increased ambition under the EU Green Deal is highlighted and seen as driving growing carbon cost differences with trading partners, increasing the need to ensure that *'the price of imports reflects more accurately their carbon content'*<sup>3</sup>.

These sectors were chosen due to their higher emissions and risk of carbon leakage, along with the feasibility of covering a wider range of sectors within CBAM initially. To date, this risk has been addressed through free allocations under the EU emissions trading system (ETS) for certain industries at higher risk of carbon leakage, however these allocations are in the process of being phased out<sup>4</sup>. The increase in carbon prices under the ETS in recent years has also increased the risk of carbon leakage and potential impacts on competitiveness of European industry, in the context of a significant CO<sub>2</sub> price compared to other regions<sup>5</sup>.

From 2026, EU importers will buy CBAM certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. This price will mirror the EU ETS price<sup>6</sup>. If a non-EU producer has already paid a carbon price in a third country on the embedded emissions for the production of the imported goods, the corresponding cost can be deducted from the CBAM obligation.

The phase-in of CBAM will correspond to the phase-out of free allocation of EU ETS allowances between 2026 and 2034 for the sectors covered by CBAM. Until the phase out of free allocations in 2035, CBAM will only apply to the proportion of emissions that do not receive free allocation under the ETS. (It should be noted that free allocation to the Electricity Sector ceased in 2013.)

### **CBAM Transitional Phase (2023-2025)**

As of 1 October 2023, the transitional phase of CBAM implementation commenced, focusing on reporting obligations which are set out in the [Implementing Regulation](#). Financial obligations will apply from 2026. In Ireland, the EPA is the National Competent Authority and Revenue is the Customs Authority under the Regulation.

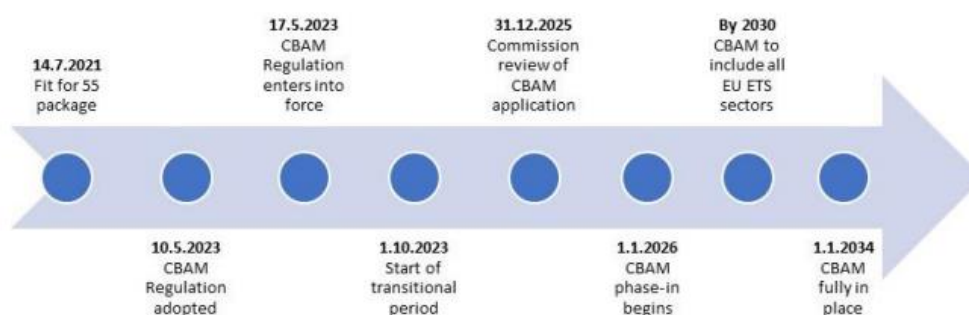
Importers are required to submit quarterly CBAM reports including the type and quantity of emissions embedded in goods based using a defined methodology (this includes CO<sub>2</sub> emissions and where relevant nitrous oxide (N<sub>2</sub>O) and perfluorocarbons (PFCs)). Until October 2024, importers were able to use default values from the European Commission for calculation of emissions on imported goods in quarterly reporting. Actual embedded emissions provided by producers of goods were due to be provided in the latest quarterly report, but many companies across the EU have reported finding it difficult to obtain this data from their suppliers<sup>7</sup>. Ireland, IBEC has indicated that most obligated firms have used default values to calculate embedded emissions<sup>8</sup>.

At the end of this phase, the Commission will be required to report to the European Council and Parliament under Article 30 on the application of the CBAM Regulation. This will include

an assessment of whether to extend the scope of the CBAM to indirect emissions and more products further down the supply chain. The Commission recently launched a survey<sup>9</sup> to consider the possibility of extending CBAM to downstream products, in part to keep manufacturing sectors and processing from leaving the EU<sup>10</sup>. It is also currently considering ways to simplify the mechanism, for example by exempting certain SMEs based on compliance issues that have arisen to date<sup>11</sup>.

### CBAM Definitive Regime (from 2026)

From 2026, importers of goods covered by CBAM will be required to register and purchase CBAM certificates corresponding to the carbon price that would have been paid to produce the same goods in the EU. The price of the certificates will be calculated depending on the weekly average auction price of EU ETS allowances expressed in €/tonne of CO<sub>2</sub> emitted. EU importers will declare the emissions embedded in their imports and surrender the corresponding number of certificates each year.



**Figure 1 CBAM Implementation Timeline**

### Expected Global Impact

The World Bank has developed a CBAM Exposure Index<sup>12</sup> which looks at export shares to the EU by different countries along with the average emissions intensity of their products compared to EU products, using an assumed CBAM price. It aims to identify countries with a high exposure to the CBAM. The relative CBAM exposure calculated by the World Bank for iron and steel, cement, fertiliser and electricity is shown in Table 1 below. Within the initial transitional phase, there have been reports of accelerated development of emissions trading systems across a number of countries indicating that the mechanism is already influencing the development of carbon markets<sup>13</sup>.

The European Commission's Impact Assessment, published with the Regulation, considered competitiveness impacts and the potential for EU output for the product categories covered

under CBAM to increase compared to competing but more emissions intensive imports from third countries. The interaction between CBAM and reductions in EU ETS free allowances is also expected to impact on EU output. In terms of downstream impacts, supply chains utilising such products could see higher prices under CBAM in the short term.

The United Nations Conference on Trade and Development (UNCTAD) published a report in July 2021 that examined the implications for developing countries of the introduction of a CBAM<sup>14</sup>. The expected impact on some countries has led to some suggestions that CBAM revenues should be used for international climate finance. Under the current framework, revenues from CBAM are due to accrue to the EU's 'own resources'.

### **Impact for Ireland**

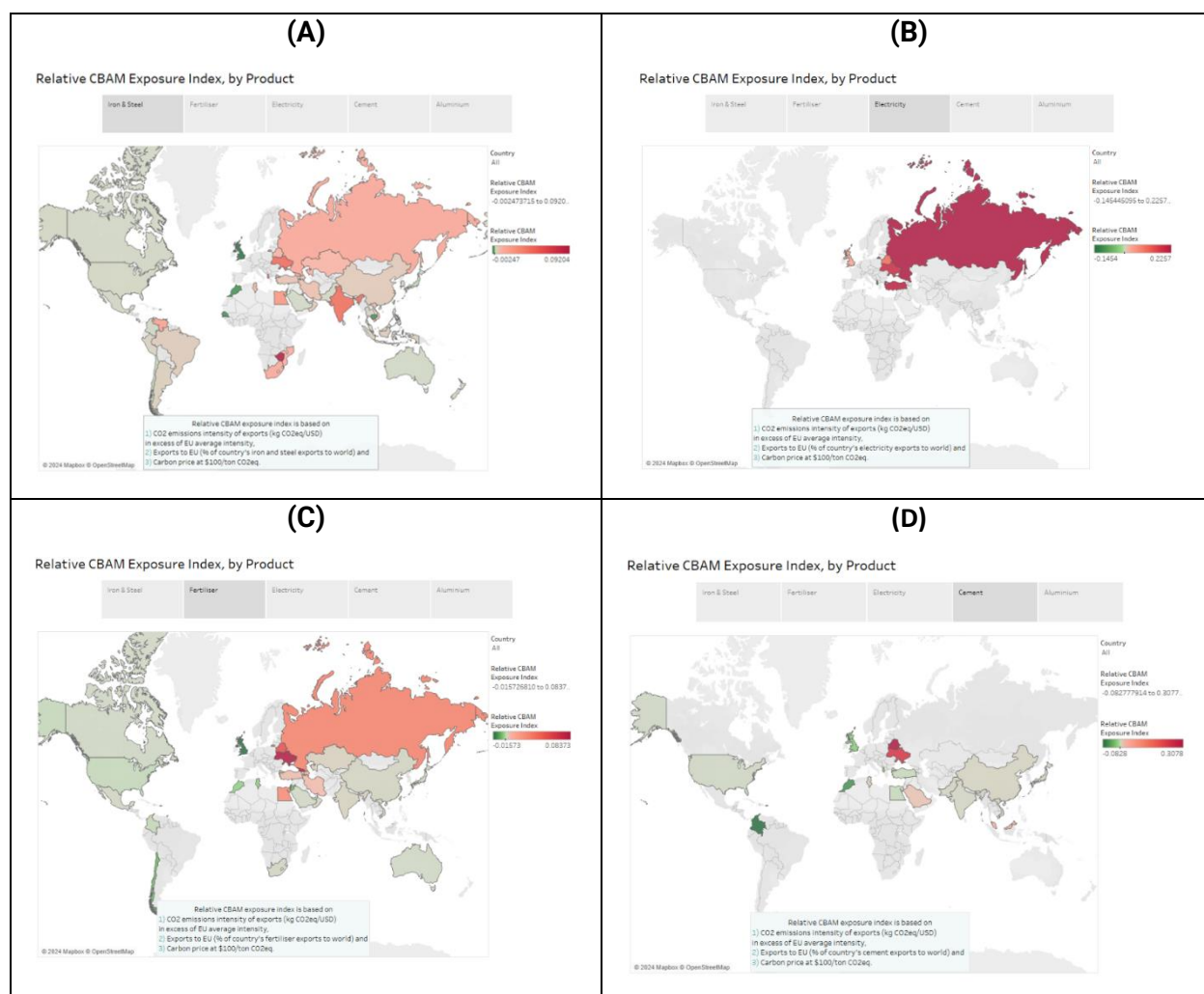
There is significant uncertainty in how the EU CBAM and UK CBAM, due to be established by 2027, will interact and what the implications of this will be for Northern Ireland<sup>15</sup>. This will depend for example on the sectors to be covered by the UK CBAM, the associated carbon price and whether the UK and EU ETS are linked. At present, Northern Ireland is subject to the EU ETS for electricity which means that the current expected impact of the EU CBAM on the Single Electricity Market is limited.

Since April 2023, net imports of electricity from GB to Ireland via interconnection have increased considerably, accounting for 9.5% of electricity supply in 2023. The price of UK ETS allowances has been lower than the EU ETS price during this time. CBAM is expected to apply based on the average carbon intensity within each jurisdiction electricity is being imported from. Analysis carried out by LSE<sup>16</sup> indicated that had CBAM been active in 2023, electricity exports from GB to EU countries would have been lower, indicating that CBAM may inhibit the extent of electricity imports to Ireland from GB from 2026 onwards. The impact in practice will depend on the difference in the average carbon intensity of electricity and electricity price differential between GB and the EU once the definitive CBAM regime commences from 2026.

Based on a comparison of CSO trade data with information contained in Ireland's National Inventory Report, it is estimated that about half of the cement produced in the four cement plants in Ireland is exported, mostly to the UK<sup>17</sup>, so the interaction between these regimes and relative carbon pricing would also be expected to have an impact on cement trade. CBAM may also impact on the price of imported fertiliser, given that approximately 50% is imported to Ireland from outside the EU<sup>18</sup>.

## Further Reading:

- EU carbon border adjustment mechanism Implications for climate and competitiveness. See:  
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/698889/EPRS\\_BRI\(2022\)698889\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/698889/EPRS_BRI(2022)698889_EN.pdf)
- Oireachtas Library and Research Service Note on CBAM. See:  
[https://data.oireachtas.ie/ie/oireachtas/libraryResearch/2024/2024-04-05\\_l-rs-note-carbon-border-adjustment-mechanism\\_en.pdf](https://data.oireachtas.ie/ie/oireachtas/libraryResearch/2024/2024-04-05_l-rs-note-carbon-border-adjustment-mechanism_en.pdf)
- World Bank Relative CBAM Exposure Index. See:  
<https://www.worldbank.org/en/data/interactive/2023/06/15/relative-cbam-exposure-index>



**Table 1 – Relative CBAM Exposure Index, by Product (A) Iron and Steel (B) Electricity (C) Fertiliser (D) Cement**