

CMW feedback on a potential downstream extension of the CBAM and new anti-circumvention rules

In response to a [European Commission consultation](#), CMW outlined its view on including downstream products under the CBAM scope, and the potential consequences for the integrity of the mechanism.

Since the impact assessment was published in 2021, a gradual expansion of the Carbon Border Adjustment Mechanism (CBAM) to downstream products was foreseen due to potential carbon leakage concerns moving down the value chain, with consumers sourcing final products out of Europe, while at the same time EU producers would face higher costs for input materials and would be priced out of the market.

This concern has been heavily brought up by industry players, especially from the steel and aluminium industry, and by manufacturers of final products such as cars and vans, tools and home appliances, as well as several types of heavy machinery.

The inclusion of downstream products in the EU CBAM needs to be carefully assessed in order to clarify its benefits in delivering a global decrease in greenhouse gas emissions. If that's the case, a gradual expansion of CBAM to all EU ETS activities should not distract the current CBAM implementation from proceeding as planned.

Emission reductions

The key dimension to assess is the total emissions avoided when a certain product is included. The introduction of CBAM as currently envisioned would save 23.9–36.2 Mt CO₂ globally¹.

In a [scenario](#) where CBAM is extended to include automotive products, total emissions still decrease slightly (additional 3.2–5.2 Mt CO₂), but net emissions may rise in the European Union by around 20.5 Mt CO₂. If this CO₂ is priced at around EUR120 (in a full ETS price scenario, from 2034 onwards) that will mean a EUR2.4 billion gain for European governments, which can be reinvested to support households, enterprises and innovative clean technologies, not to mention adaptation. Moreover, a sudden and short-term rise of emissions within EU borders would happen within the obligations of manufacturers to comply with the emissions limits under the EU ETS cap. This will ensure the current EU climate targets are met.

Competitiveness, purchasing power, and economic imbalances

When considering the economic impacts to the EU and other economies, the key issue is that there is still a lack of information on the extent to which the CBAM would affect global trade flows. The foundation of the Regulation, and the basis of most of the changes that it's undergoing (for example the announced [measure to protect exports of CBAM products](#)), is the risk of carbon leakage: however, the real climate impacts of carbon leakage have yet to be quantified, and for the moment the EU ETS Directive allows no distinction among sectors and products deemed at more severe vs less severe risk of carbon leakage. It's key to highlight that the carbon leakage should not be deemed proven if it simply means loss of production or even relocation of EU manufacturing. As [specified by the European Commission](#), identifying carbon leakage requires such as the relocation of activities to be for

¹ Frontier Economics calculations; the data presented in this paragraph has been collected through a literature review of existing analyses.



reasons of costs related to climate policies, and lead to an increase of total emissions globally.

Administrative challenges

Administrative complexity is often raised by businesses as a barrier to effectively implement the CBAM. While such complexity may indeed pose challenges in the short term, it cannot be considered a significant obstacle in the medium to long term. This is the case for two main reasons.

First, evidence shows that an increasing number of products are already being subjected to some form of carbon pricing, which shifts the incremental administrative burden to third countries over time. Second, complementary policies such as the introduction of the digital product passport and the Ecodesign for Sustainable Products Regulation (ESPR) will create systemic frameworks that facilitate data collection, traceability, and compliance across supply chains. These measures are expected to streamline administrative processes and reduce transaction costs associated with carbon-related reporting and pricing.

At the international level, mounting pressure is also driving global bodies toward issuing guidelines and standards that further clarify expectations for industry. A notable example is the Science Based Targets initiative's (SBTi) [Draft Automotive Sector Net-Zero Standard](#). Although not without shortcomings, this initiative represents an important step toward providing clearer guidance on how product manufacturing in the automotive sector can contribute to deep decarbonisation. By doing so, it indirectly steers the decarbonisation of upstream materials such as steel and aluminium, which are critical inputs with significant embedded emissions.

Together, these trends suggest that while short-term administrative complexity is a valid concern, it should not be overstated. In the medium to long run, the convergence of carbon pricing, complementary EU policies, and international standard-setting will reinforce one another. This will not only lower administrative hurdles but also amplify the environmental and economic value of avoided or priced emissions, ensuring a more coherent pathway toward sectoral and cross-sectoral decarbonisation.

Summing up the points made and data shown above, Carbon Market Watch recommends:

1. No steps back on CBAM

The CBAM is continuously challenged by European industry on the ground of being administratively complex and/or that it will lead to increased prices or resource shuffling. Several EU industry lobbies and companies are asking for the CBAM to be scrapped altogether if these issues are not addressed promptly in order to revert to the free allocation system under the EU ETS. When considering [EU governments lost around 40 billion euros](#) to free allowances in 2023 alone, there is **no reason to take a step back on an essential feature of the EU climate architecture, that will allow not only to price most of EU produced CO₂, but retain the competitiveness of the local industry** as well as nudging trade partners into lowering their own emissions. It's essential to keep in mind that the gradual implementation of the CBAM will translate into only an average of 2.5% of emissions being priced in the first year, and by 2030 still less than half of the emissions will be priced.

2. Quantify the carbon leakage and circumvention risks

The last time the European Commission published a thorough assessment **quantifying the risk of carbon leakage for certain products** was in 2013. It detected [no evidence for the occurrence of carbon leakage](#) as defined by the ETS Directive in the period of application of the EU ETS up to 2012. Yet the list of sectors at risk of carbon leakage is still bluntly put together by assessing the trade intensity and CO₂ intensity of industrial production. For downstream products, the picture is even less clear and lacks clarity needed to evaluate the real emission reductions as well as the economic gains of including certain downstream products. A proper risk assessment must account for the growing number of compliance carbon pricing systems and carbon taxes worldwide, which will -irrespective of its size- will gradually make the carbon leakage more manageable and disappear over time.

Similarly, circumvention risks need to be proven and quantified: some loopholes have already been [identified](#) and can be closed in the upcoming revision (for example by attributing emissions by both pre- and post-consumer scrap). At the same time it's essential that Member States and national custom authorities build capacity to **make full use of the anti-circumvention clause at Article 27**, which already envisions a notification procedure for identified cases of circumvention that must be investigated and assessed by the Commission within nine months, and can be followed by an update of the product list in Annex I.

3. Rely on international standards and on complementary EU policies

As per the 2021 [impact assessment](#)², *"extension to downstream sectors should be considered at a later stage as the use of international standards on defining carbon footprint will pick up and data will become more easily available for all sorts of products."*

Existing international standards and guidelines (ISO, SBTi) already provide a strong basis to assess the embedded emissions in products, and their methodology lay the groundwork for calculating relevant emissions for downstream products and their input materials. Further harmonisation is key in ensuring that the CBAM becomes a leading instrument for global climate change policies: the EU must not act alone, and using already existing accepted tools is essential in ensuring more acceptance.

Additionally, as highlighted by other civil society actors, the Digital Product Passport (DPP) under the Ecodesign for Sustainable Products Regulation (ESPR) can act as an important enabler, by helping determine the material content of complex products through reference to a consolidated DPP registry. The DPPs would help determine the material content of complex products through reference to a consolidated DPP registry for all products. The working plan for ecodesign and energy labelling for 2025-2030 already noted that "measures under ESPR are expected to complement existing environmental and climate measures on aluminium products and production such as ETS and CBAM." Similarly, intermediate products can be added following the same methodology adopted by the Joint Research Centre (JRC) in its

² Paragraph 5.2.1.4.

[preparatory study for the ESPR](#), based on criteria capturing environmental, consumption, production, and trade considerations.

4. Keep global attention on compliance carbon pricing

It's already apparent that since the EU CBAM monitoring phase started carbon [pricing systems are being announced all over the world, while existing mechanisms are being strengthened](#). The social and environmental benefits of CO2 reduction far surpass global “competitiveness” costs that may derive from switching to a zero-carbon economy. The use of fossil fuels needs to be phase-out and, in the meantime, priced, to reinvest the money to benefit citizens and further climate action (eg. renewable energy production and clean manufacturing, electrification of transport, climate adaptation, social protection for households). **The European Commission must commit to work with its trade partners towards full carbon pricing.** This can also help offset trade tension, especially in the case of an expansion to downstream products, that would especially affect countries such as Türkiye and South Korea in the case of an expansion to the automotive sector.

The current design of the CBAM falls short to address the needs of Least Developed Countries (LDCs) and Small Island Developing States (SIDS), such as providing technical and financial assistance. Special treatment of LDCs and SIDS would not have any outstanding impact on carbon leakage as most of these are [not major exporters to the EU](#) (with the exception of Mozambique). It would instead remove the administrative burden and compliance costs, which tend to be relatively higher in developing countries, and show that the EU recognises and respects the UNFCCC's principle of “common but differentiated capabilities and responsibilities”.

Finally, any review of the CBAM Regulation must be informed by the need to delivered enhanced EU ambition in line with achieving carbon neutrality. The CBAM can and should support the incentivisation of zero-carbon production processes, material efficiency and substitution, as well as enhanced recycling.

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