IETA

Report Update

June 2025

EVOLUTION OF GLOBAL RESPONSE TO EU CBAM

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INTRODUCTION: A NEW PHASE UNFOLDS

THE EU CARBON BORDER ADJUSTMENT MECHANISM (CBAM) IS GAINING MOMENTUM. OVER A YEAR INTO ITS TRANSITIONAL PHASE, THE MECHANISM HAS PROVIDED THE EUROPEAN UNION WITH VALUABLE INSIGHTS FROM THE FIRST REPORTING EXERCISES, WITH OVER 70,000 REPORTS SUBMITTED BY IMPORTING COMPANIES IN THE FIRST YEAR OF CBAM.[1] THESE COMPANIES, IN TURN, HAVE ENGAGED THEIR SUPPLY CHAINS, GENERATING CRITICAL DATA ON EMBEDDED CARBON EMISSIONS.

Momentum is there also for other countries. We compared this year's review with the findings of last year's IETA report,[2] which captured countries' first responses to newly established EU CBAM, marked by caution, and a wait-and-see approach. The comparison reveals a striking shift. One year on, most countries are taking a proactive stance: implementing or strengthening carbon pricing mechanisms, with emissions trading systems (ETS) emerging as the preferred tool, and in some cases, designing their own border carbon adjustment measures.

We are now a few months away from the start of the CBAM definitive phase, in January 2026. This makes 2025 a crucial year for refinement and evaluation, a process that began with the publication of the proposal for CBAM simplification, presented in February this year. The upcoming months will not only focus on CBAM's implementation and the simplification of reporting requirements, but also on preparing for its anticipated scope expansion (to be proposed by the Commission in late 2025).[3]

IETA, as an international organisation with deep expertise across global carbon markets, provides a unique perspective on CBAM. We operate at the intersection of business and policy, engaging with key stakeholders across multiple sectors and jurisdictions. As such, we closely follow CBAM's developments – from Brussels, Washington, Beijing, Tokyo, and other capitals. This unique perspective allows us to closely watch the global dynamic and notice trends before they are yet visible to others.

IETA Members understand the environmental and trade context that led to the establishment of EU CBAM proposal - an idea first discussed by the European Parliament and EU Member States for several years and eventually agreed swiftly and unanimously. Since the beginning of the EU ETS, free allocation served as a key tool to address competitiveness concerns of trade exposed industries. But, as the cap is decreasing over time, there are insufficient allowances to maintain this form of carbon leakage protection in the long-term.

Our vision is for other jurisdictions to establish meaningful carbon pricing programmes aligned to their Nationally Determined Contributions (NDC) under the Paris Agreement, which we believe could alleviate some trade distortions. We also underscore the importance of creating carbon trading linkages between jurisdictions, to enable competing industries to have access to the same pricing dynamics. But until those pricing programmes and linkages are in place, an effective EU CBAM will be important to level the playing field in key sectors.

ONE YEAR ON, MOST COUNTRIES ARE TAKING A PROACTIVE STANCE: IMPLEMENTING OR STRENGTHENING CARBON PRICING MECHANISMS, WITH EMISSIONS TRADING SYSTEMS (ETS) EMERGING AS THE PREFERRED TOOL, AND IN SOME CASES, DESIGNING THEIR OWN BORDER CARBON ADJUSTMENT MEASURES.

From IETA's perspective, CBAM has already demonstrated its vast potential to stimulate the global expansion of carbon pricing. This is presented in more detail in the country-level analysis section of this report. For this reason, we favour a CBAM that is:

- **Effective and competitiveness-conscious:** ensuring that it genuinely protects the EU industries against the risk of carbon leakage and creates a fair framework for competition in a world of asymmetric climate policies. That requires realistically set default values, robust monitoring, reporting and verification (MRV) rules, timely implementation and a regular review mechanism.
- **Advancing climate action on a global scale:** encouraging low-carbon development through market-based measures, without disproportionately harming the economies of the EU's trading partners and of Least Developed Countries; aligning in harmonisation across EU policy framework on the recognition of Article 6 units.
- **A catalyst for international cooperation and alignment:** fostering greater alignment between carbon pricing systems and providing a blueprint for other CBAMs. This can be achieved through sectoral scope alignment, harmonisation of registry data, and the adoption of common MRV standards.

Considering this, IETA actively promotes linking the existing carbon markets and enhancing the interoperability of emerging carbon pricing systems. A fragmented patchwork of CBAM regimes would create unnecessary complexity and trade distortions, making it more costly for businesses to operate efficiently across markets. Instead, fostering cost-effective alignment and coordination among CBAMs will be essential to providing predictability and consistency for companies while maintaining environmental integrity. By working towards greater harmonisation of carbon pricing approaches, we can create a framework that is efficient, equitable, and conducive to a global transition towards net-zero.

WE CAN CREATE A FRAMEWORK THAT IS EFFICIENT, EQUITABLE, AND CONDUCIVE TO A GLOBAL TRANSITION TOWARDS NET-ZERO EMISSIONS.

By: Dirk Forrister,
IETA CEO and President

CBAM HAS ALREADY DEMONSTRATED ITS VAST POTENTIAL TO STIMULATE THE GLOBAL EXPANSION OF CARBON PRICING.

KEY DEVELOPMENTS IN THE EU

AS CBAM MOVES CLOSER TO THE START OF THE DEFINITIVE PERIOD IN JANUARY 2026, THE PAST ONE AND A HALF YEARS HAVE BEEN MARKED BY SEVERAL PIVOTAL DEVELOPMENTS IN ITS IMPLEMENTATION AND FUTURE DIRECTION.

With the first full reporting cycle completed, the mechanism has begun to take tangible form, generating significant data on embedded emissions in imports. This, in turn, has triggered deeper engagement along supply chains, laying the groundwork for adjustments in sourcing practices and emissions transparency. The first reporting cycle also highlighted some operational challenges. In the first three quarters, the vast majority of declarants relied on default values. However, a shift toward actual emissions reporting is now underway, in line with the Regulation's timeline and with growing familiarity among importers and third-country producers.
These lessons have directly informed the Commission's CBAM review proposal, published in February 2025.[4]

A central feature of this proposal is simplification: it includes streamlined reporting, reduced complexity of authorisation and compliance requirements, and an update of "de minimis threshold".[5] The legislative process is progressing rapidly and is expected to be finalised before the summer break. Meanwhile, CBAM implementing legislation is ongoing, including provisions on the conditions for the sale and repurchase of CBAM certificates and the recognition of carbon prices "effectively" paid in third countries. Furthermore, by the end of 2025, the Commission is expected to issue a Communication on carbon leakage of exported CBAM goods and table a legislative proposal to extend CBAM to selected downstream goods, new sectors and transport emissions, alongside a package of anti-circumvention measures.[6]

This layered process reflects both the scale of ambition and the complexity of aligning trade, climate, and industrial goals, underscoring CBAM's central role in shaping the future of the EU's climate policy architecture.

2025 IS A YEAR OF POLICY FINE-TUNING AND PREPARATION FOR ANOTHER LEGISLATIVE LEAD.

EVOLUTIONS IN THE GEOPOLITICAL LANDSCAPE AND CARBON PRICING OUTLOOK

Since the start of CBAM's transitional phase in October 2023, the global context in which the mechanism operates has shifted. CBAM's international implications have become more pronounced amid a changing geopolitical and economic environment.

The return of a Trump administration in early 2025 has created uncertainty in global climate and trade policy. The withdrawal from the Paris Agreement was among the very first decisions taken by new US President. With a renewed emphasis on energy independence, and focus of worldwide tariffs,[7] the US administration challenged the dynamics of global economic order. In parallel, the Russia-Ukraine war continues to reshape the EU's geopolitical posture, reinforcing a long-term pivot toward energy diversification, security of supply, and industrial resilience.

Emerging economies are becoming increasingly engaged in carbon pricing policies. As of January 2025, 38 ETSs are in force globally, covering almost 20% of global GHG emissions, one-third of the global population and 58% of global GDP.[8] As detailed in the country-level analysis of this report, major emerging economies such as Brazil, India, and Türkiye, have accelerated their efforts to establish carbon pricing mechanisms.[9] China's national ETS is moving towards an absolute cap on emissions. Seventeen out of the G20 countries already have or are planning for an ETS. These developments are critical, as international feedback to EU CBAM will depend in part on whether major trading partners make credible progress on their own climate pricing instruments.

CBAM has also contributed to a growing entanglement of trade and climate policy. The concept of "carbon clubs" has resurfaced in both policy and academic circles, reflecting growing interest in plurilateral approaches to Border Carbon Adjustments (BCAs).

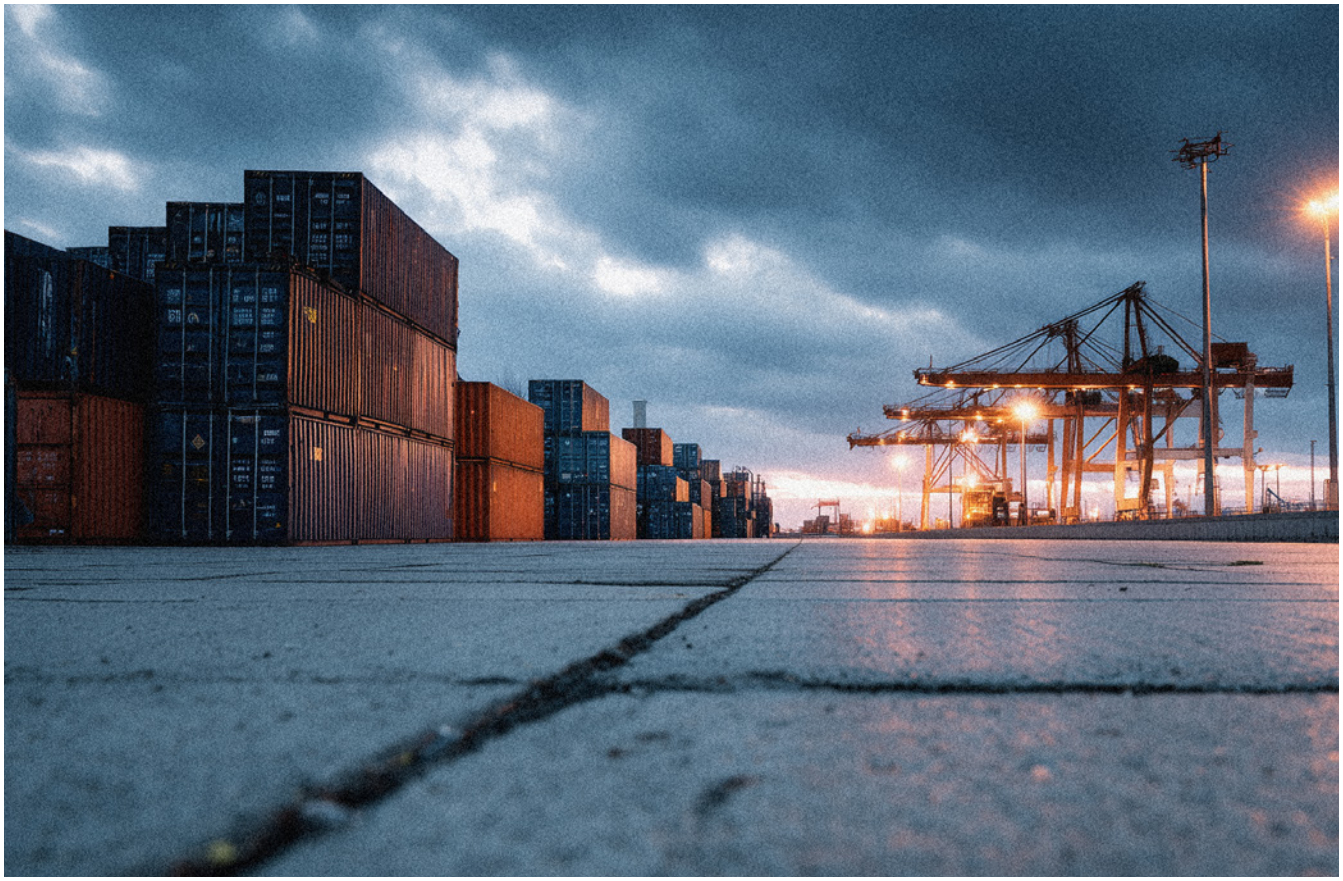
Even among the critics of the EU CBAM, reaction is increasingly taking shape through multipolar forms of international engagement and coordination.

At the 16th BRICS[10] Summit in October 2024, the bloc adopted the Kazan Declaration, expressing concerns "about the disruptive effect of unlawful unilateral coercive measures, including illegal sanctions, on the world economy, international trade, and the achievement of the sustainable development goals".[11]

At the opening of COP29, in November 2024, the BASIC group of fours emerging economies (Brazil, South Africa, India, and China) called for discussions on "climate change-related, trade-restrictive unilateral measures". Although not mentioned explicitly, the goal was to place EU CBAM in the agenda of the UNFCCC summit. Eventually, the item was not included by the COP29 Presidency,[12] but questions remain about how CBAM will be addressed in the international negotiation process going forward.

INTERNATIONAL FEEDBACK TO EU CBAM WILL DEPEND IN PART ON WHETHER MAJOR TRADING PARTNERS MAKE PROGRESS ON THEIR OWN CLIMATE PRICING INSTRUMENTS.

THE RETURN OF A TRUMP ADMINISTRATION HAS CREATED UNCERTAINTY IN GLOBAL CLIMATE AND TRADE POLICY.



AS TRADE BECOMES INCREASINGLY INFLUENCED BY CLIMATE METRICS, FIRMS MUST NAVIGATE A FRAGMENTED REGULATORY ENVIRONMENT

The increasing intersection of trade and climate regulation has sparked tensions in other multilateral fora, with the World Trade Organization (WTO) emerging as a critical space to watch. The recent initiation of a formal trade dispute against the EU CBAM by Russia, as detailed in the country-level section of this report, marks the first direct challenge. This case will be closely monitored, as its outcome could significantly shape how CBAM is perceived in international trade law. A key issue at stake is whether CBAM is viewed as an environmental protection measure or interpreted as a form of discriminatory trade barrier.

In parallel, several countries are exploring the possibility of introducing their own BCAs (see the country-level analysis section for update on developments in e.g. UK and Australia). While these developments could eventually support greater convergence in global carbon pricing, in the short term they risk further complicating the international regulatory landscape. The rise of multiple, uncoordinated BCA systems may lead to overlapping compliance obligations, inconsistent methodologies, and potential conflicts in trade relationships, especially in sectors with complex and cross-border supply chains.

For multinational companies, this evolving landscape is a challenge. As trade becomes increasingly influenced by climate metrics, firms must navigate a fragmented regulatory environment marked by divergent standards, inconsistent carbon accounting rules, and mounting compliance burdens across jurisdictions.

COUNTRY-LEVEL ANALYSIS

AUSTRALIA 01

POSITION

CONSIDERING DOMESTIC CBAM

REACTION TO EU CBAM

In response to growing concerns about carbon leakage and considering the EU's and the UK's decisions to establish their respective CBAMs, the Australian government announced in summer 2023 that it would work towards introducing its own version of CBAM.[13] In the same year, Australia launched a formal Carbon Leakage Review as part of the Safeguard Mechanism reform. Led by the Department of Climate Change, Energy, the Environment and Water (DCCEEW), the review aims to assess leakage risks in key sectors and explore potential policy responses, including an Australian CBAM, particularly for steel and cement.

Following two consultation papers (Nov 2023 and Nov 2024), which examined policy alignment with global carbon pricing frameworks and WTO rules, stakeholders from trade-exposed industrial sectors expressed a broad support for an Australian CBAM, however some stakeholders expressed concerns about its impact on cross-border trade and costs on downstream users. The final recommendations were expected by end-2024.[14] However, due to the May 2025 federal elections, any decision was postponed, and no official position has been announced since then.[15] The Labor Party's majority win is expected to lead to a tightening of the Safeguard Mechanism. In this context, and in line with international developments, the introduction of an Australian CBAM is a likely scenario, given the new government's strengthened mandate to implement climate and energy policy measures.[16]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

The Safeguard Mechanism, introduced in 2016 and reformed in 2023, is Australia's primary policy for reducing industrial emissions. It applies to large industrial facilities emitting more than 100,000 tCO_2eq per year across key sectors, i.e. mining, oil and gas production, manufacturing, transport, waste management. For electricity generation, the mechanism applies a sector-wide baseline rather than individual facility limits.

The Safeguard Mechanism sets baselines on covered facilities, which decline gradually to support Australia's target of reducing emissions by 43% below 2005 levels by 2030 and achieving net zero by 2050. In general, baselines decrease by 4.9% per year until 2030, although trade-exposed industries may apply for adjusted decline rates. To comply with the Safeguard Mechanism, facilities emitting below their baseline receive Safeguard Mechanism Credits (SMCs), while facilities emitting above their baseline must purchase and surrender domestic emissions credits (Australian Carbon Credit Units, or ACCUs) or take other compliance actions.

The 2023 reforms strengthened the policy, ensuring large emitters contribute more significantly to emissions reduction goals[17].

THE INTRODUCTION OF AN AUSTRALIAN CBAM IS A LIKELY SCENARIO, GIVEN THE NEW GOVERNMENT'S STRENGTHENED MANDATE TO IMPLEMENT CLIMATE AND ENERGY POLICY MEASURES.

BRAZIL 02

POSITION

NEW LAW ENABLES RESPONSE TO ENVIRONMENTAL "FOREIGN TRADE BARRIERS"

REACTION TO EU CBAM

Brazil has been a vocal critic of the EU CBAM. It voiced concerns over its compliance with WTO rules and its compatibility with climate justice principles, such as 'common but differentiated responsibilities', incorporated under the Paris Agreement. While contesting the EU CBAM, Brazil is simultaneously developing a domestic ETS to retain carbon pricing revenues and reduce its CBAM liability.

Also, the Brazilian Association of Technical Standards (ABNT) is preparing to act as an EU-accredited verifier.

Some analyses suggest that Brazil's relatively low-carbon industrial processes (thanks to its clean energy matrix) could give its exports a competitive edge in the EU under CBAM.[18]

Brazilian agencies, including the Ministry of Finance, are conducting a detailed assessment of CBAM impacts and exploring the idea of a Brazilian CBAM to protect local industries and leverage Brazil's cleaner electricity mix.[19]

Still, with just 0.15% of Brazil's GDP covered by EU CBAM in 2022, the near-term economic impact remains modest.[20] Most of the Brazilian export under CBAM are in iron and steel, followed by aluminium, though the EU is not a major destination for Brazil's ferrous metal exports.[21] As a major global exporter of iron ore, Brazil is concerned that other countries may adopt similar BCA measures, which would significantly impact Brazil's economy. A global spread of such mechanisms could reduce its export competitiveness in key sectors, which also makes the country cautious on discussing a potential establishment of a Brazilian CBAM to avoid contributing to an eventual domino effect worldwide.[22]

Compared to the EU CBAM, recent US tariff threats have raised more immediate concerns for Brazil. In mid-April, a new legislation, concerning tariff and environmental reciprocity, entered into force, providing an immediate response to tariff escalations a by the Trump Administration.[23] The new law allows the government to implement countermeasures against foreign trade barriers or protectionist measures, "proportionate to the harm to the competitiveness of Brazilian products abroad". This law applies to the event that "a country or economic bloc adopts actions, policies, or practices that constitute unilateral measures based on environmental requirements that are more burdensome than the parameters, norms, and standards of environmental protection adopted by Brazil". Thus, it allows Brazil to adopt countermeasures proportional to the economic impact caused by the measures taken by a third country. [24]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

In December 2024, the Brazilian Congress approved legislation establishing the Brazilian Greenhouse Gas Emissions Trading System (Sistema Brasileiro de Comércio de Emissões de Gases de Efeito Estufa, SBCE).[25] The system will impose compliance obligations on entities emitting over 25,000 tCO_2eq per year, while those emitting more than 10,000 tCO_2eq will be covered by monitoring and reporting.[26] The system will cover both emissions reductions and carbon removals. The Brazilian ETS is designed to exclude emissions from agriculture and land use, which account for over 60% of Brazil's emissions.[27]

COMPARED TO THE EU CBAM, RECENT U.S. TARIFF THREATS HAVE RAISED MORE IMMEDIATE CONCERNS FOR BRAZIL.

CANADA 03

POSITION

CBAM ON THE TABLE, TRADE TENSIONS WITH US

REACTION TO EU CBAM

Canada and the EU remain strategic trade partners. In the preparations for EU CBAM, but also in response to US tariffs, Canada has focused on strengthening relationships with the EU, under the EU-Canada Comprehensive Economic and Trade Agreement (CETA) framework.[28] The EU and Canada also aim to deepen a partnership on critical minerals and strategic metals.[29]

While traditionally, due to close trade integration with the US, Canda has not been considering introducing a border carbon adjustment mechanism, this may change following Canada-US trade tensions and the recent federal election. In its election manifesto the Liberal Party, that won the election, committed to develop a CBAM, saying that it would ensure "the competitiveness of Canada's most energy-intensive, trade-exposed sectors, and protect Canadians who work in industries such as steel and aluminum".[30] It is now expected that the new Canadian government will work on the establishment of a Canadian CBAM, however no timeline has been provided yet.

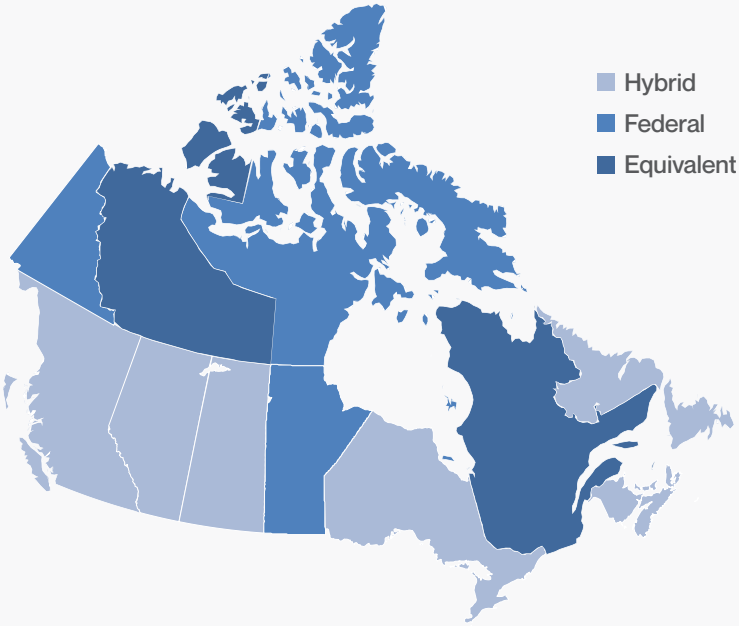
DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

At the federal level, the Greenhouse Gas Pollution Pricing Act (GGPPA, adopted in 2018)[31] establishes minimum national standards for carbon pricing across Canada. Provinces can create their own equivalent systems or have the federal system put in place. Under the GGPPA, the federal carbon pollution pricing system is composed by two parts: a federal fuel charge and federal trading system for industry, named Output-Based Pricing System (OBPS).[32] For the current period 2023-2030, most provinces opted for a "hybrid approach", combining their own OBPS and the federal carbon system.[33]

In 2025, the Government of Canada issued regulations that cease the application of the federal fuel charge, effective 1 April, and also removed requirements for provinces and territories to have a consumer-facing carbon price as of that date.[34] It also announced it was considering broader amendments to the GGPPA, to completely wind-down the fuel charge.[35]

In his election program, Prime Minister Carney also announced he would "reduce barriers to harmonising and linking these [provincial] markets across the country."[36] With his party's election victory, Canada's patchwork system may be subject to change, following the upcoming 2026 federal review.

IT IS NOW EXPECTED THAT THE NEW CANADIAN GOVERNMENT WILL WORK ON THE ESTABLISHMENT OF A CANADIAN CBAM, HOWEVER NO TIMELINE HAS BEEN PROVIDED YET.



CHINA 04

POSITION

DIPLOMATIC RESISTANCE TO CBAM, PRAGMATIC ADAPTATION OF ITS ETS RULES

REACTION TO EU CBAM

China maintains a firm political opposition to the EU CBAM, viewing it as a unilateral and trade-restrictive measure. This stance continues to shape its international climate diplomacy. For instance, at COP29 in Baku, China, alongside other members of the BASIC group, pushed to place carbon border measures on the agenda, reflecting its broader resistance to such instruments.[37]

Despite the public objections, China is actively implementing technical and policy reforms aimed at improving transparency and standardisation of carbon accounting for export sectors, as a pragmatic response to the evolving global trade requirements driven by EU CBAM. In January 2025, the Ministry of Commerce released draft low-carbon standards for PV module exports, capping embedded emissions at 415 $kgCO_2$/kWp, a step toward aligning with international carbon footprint standards. The National Greenhouse Gas Emission Factor Database, launched in early 2025 by the Ministry of Ecology and Environment and the National Bureau of Statistics, provides standardised emission factors across sectors, bolstering consistency and credibility in carbon accounting. For the first time, China also published an official national electricity carbon footprint factor for 2023 (0,6205 $kgCO_2eq$/kWh), a key input for accurate product-level emissions reporting.

Moreover, according to a recent government notice issued in early June by the General Offices of the CPC Central Committee and the State Council, China is considering reforming its national emissions trading system by gradually shifting from an intensity-based cap to an absolute cap in the coming years.[38]

These developments reflect China's dual approach: diplomatic resistance to EU CBAM, paired with practical adaptations to maintain competitiveness and ensure its exporters remain integrated in carbon-constrained global markets.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

China's national Emissions Trading System, launched in July 2021, initially covered only the power generation sector, responsible for about 40% of national carbon emissions. The system is set to expand to include aluminium, steel, and cement sectors, with the first compliance deadline scheduled for the end of 2025, covering the emissions of 2024.[39] These sectors align with those under the EU CBAM and are now a focus for improved carbon accounting.

Alongside ETS expansion, China is rapidly developing a comprehensive carbon accounting and verification framework. Under the National Implementation Plan on Establishment of a Carbon Footprint Management System, adopted in May 2024, over 50 product-specific carbon accounting standards are expected by the end of 2025, scaling to 100 by 2027 and 200 by 2030. A national carbon label certification is also under development to support transparency and comparability.

In January 2024, China relaunched its voluntary carbon market, the Chinese Certified Emissions Reduction (CCER) scheme, after a six-year suspension. The reformed scheme now supports offsetting mechanisms within the national ETS.

CHINA IS IMPROVING TRANSPARENCY AND STANDARDISATION OF CARBON ACCOUNTING FOR EXPORT SECTORS, FOCUSING ON THOSE COVERED BY CBAM

INDIA 05

POSITION

CALLED EU CBAM A "REPEAT OF COLONIALISM" [40]

REACTION TO EU CBAM

India views the EU CBAM as a protectionist and discriminatory trade barrier. The Indian government threatens to make a complaint over CBAM to the WTO, saying that the measure is breaching the WTO's non-discrimination principle[41], but at the same time it is actively negotiating a Free Trade Agreement (FTA) with the EU. As a part of this deal, India is seeking exceptions for its exporters under EU CBAM, including a longer transition timeline and concessions for micro, small, and medium enterprises.[42] The EU has signalled that relaxations of CBAM's rules for India's companies is unlikely, even in the context of an FTA partnership.[43] Recent reports on the status of FTA negotiations, and the Indian government, anticipate that a deal can be concluded by the end of 2025.[44]

As a retaliatory measure to counteract the EU CBAM, the Indian government raised the possibility of taxing exporters to the EU based on their carbon content, to ensure that revenues associated with complying with EU CBAM remain in India[45]. A "twin strategy" of calibrated retaliation and renaming existing schemes as carbon taxes has also been suggested.[46] For instance, India is also considering converting existing energy and environmental taxes into carbon price equivalents for export calculations within CBAM-impacted sectors.[47]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

India employs various schemes and implicit taxation mechanisms that encourage clean power and energy transition. These include the Coal Cess, Perform Achieve Trade (PAT) scheme, and Renewable Energy Certificates.[48]

The country is moving towards establishing a national ETS partly in response to the EU CBAM. In 2023, India established the framework of the Carbon Credit Trading Scheme (CCTS), composed by two elements: a compliance mechanism and an offset mechanism[49]. In July 2024 the Indian government adopted the regulation defining the CCTS compliance mechanism, which takes the form of an intensity-based 'baseline-and-credit' scheme with mandatory GHG emissions intensity targets. Entities that overachieve the set targets are issued Carbon Credit Certificates ("CCSs"), and entities that fail to achieve the targets are required to meet the shortfall by purchasing CCSs from the market. Initially, the compliance mechanism will cover carbon dioxide and perfluorocarbons emissions from entities from nine industrial sectors already regulated under the PAT scheme: aluminium, chloralkaline processes, cement, fertiliser, iron and steel, pulp and paper, petrochemicals, petroleum refining, and textiles.[50] The government plans to expand the scope to other greenhouse gases and other activities at a later stage, notably to coal-fired power generation.[51]

Entities not covered under the compliance mechanism are allowed to participate in the market by registering projects and obtaining tradable CCSs. In March 2025, the Indian government approved the operational rules of the offset mechanism and eight methodologies to develop projects, including renewable energy (hydro and pumped storage), green hydrogen production, industrial energy efficiency, landfill methane recovery, and mangrove afforestation and reforestation.[52]

The CCTS in its compliance and offset mechanisms is expected to be operational in October 2026.[53]

THE COUNTRY IS MOVING TOWARDS ESTABLISHING A NATIONAL ETS AND CONSIDERING "CALIBRATED RETALIATION" ON CBAM

JAPAN 06

POSITION

US TARIFFS MORE CONCERNING THAN EU CBAM

REACTION TO EU CBAM

Despite Japan being the EU's second-biggest trading partner in Asia, its exposure to the CBAM is relatively small. CBAM impact on Japanese companies is expected to be limited and concentrated in the steel sector. In February 2024 the Ministry of Economy, Trade and Industry published the calculation guidelines for EU CBAM on steel screws and bolts, as these products are commonly exported from Japan to the EU.[54,55]

Nevertheless, in 2023 Japanese industry groups expressed concerns about the EU CBAM mandatory reporting, stating that exporters are required to disclose confidential price and cost data. They pointed out the disparities in the reporting process and frequency between EU products and foreign goods, saying that while CBAM reports are required on a quarterly basis, the facilities under the EU ETS are obliged to report on their emissions annually.[56] That, in the view of Japanese businesses, may potentially constitute a violation of WTO regulations.

At the beginning of 2025, Korea and Japan agreed to cooperate more closely in industrial environmental policies, also to ensure that EU CBAM does not act as a trade barrier.[57] Still, the bigger concern for Japanese businesses is the effect of US President Donald Trump's higher trade tariffs on the country's economy. At the end of 2025, the Japanese government presented a package of emergency economic measures to counter the US import duties.[58]

Moreover, Japan is considering introducing its own carbon levy from 2028 or 2029, targeting fossil fuel importers such as refiners, trading houses and electricity utilities.[59]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

Japan climate policy framework features several carbon pricing instruments, combining voluntary action with a phased approach toward regulation: the voluntary GX League, established in 2022,[60] an ETS (GX-ETS) established in 2023 and complemented by voluntary Joint Crediting Mechanism and J-Credit scheme,[61] a carbon levy (GX-Surcharge) on fossil fuel importers and domestic fossil fuel extractors to be introduced from 2028.[62]

The GX-ETS was established in 2023 as a voluntary baseline-and-credit system with participation of over 700 companies, accounting for more than 50% of country's emissions.[63] In May 2025, Japan passed legislation to make it a mandatory from 2026 onwards. Participation in Japanese ETS will be obligatory for companies emitting over 100,000 tCO_2 annually.[64]

Japan's low-carbon strategy is outlined in the Green Transformation (GX) Policy approved by Cabinet in February 2023. It provides a 10-year roadmap supporting investments in renewable energy, energy efficiency, clean technologies and energy security.[65]

JAPAN IS CONSIDERING INTRODUCING ITS OWN CARBON LEVY FROM 2028 OR 2029

RUSSIA 07

POSITION

INITIATED THE DISPUTE OVER EU CBAM AT WTO

REACTION TO EU'S CBAM

Russia's war in Ukraine reduced the relevance of CBAM in trade relations between the EU and Russia.[66] However, despite the sanctions, the EU continues to import iron and steel and primary aluminium from Russia.[67]

Russia is active in challenging CBAM at international level, both in individual capacity and as a member of the BRICS group.[68] In mid-May 2025 the Russian Federation initiated a dispute at the WTO by submitting "a request for consultations" with the EU and its Member States regarding the EU CBAM. The request starts a formal WTO dispute process.[69] In its submission, Russia argues that EU CBAM violates several trade agreements, such as the General Agreement on Tariffs and Trade; the Agreement on Import Licensing Procedures; the Agreement on Subsidies and Countervailing Measures; and the Protocols of WTO Accession of Bulgaria, Croatia, Estonia, Latvia, and Lithuania. While formally the next step is a 60-day period for two sides to try resolving the issue through consultations, the European Union rejected a possibility of holding hold consultation talks with Russia due to "extraordinary circumstances created by the Russian Federation's war of aggression against Ukraine". The EU stated that any talks with Russia "cannot be fruitful and cannot lead to a mutually satisfactory solution". [70]

If initial consultations fail, the next step under WTO rules is for Russia to request the establishment of a dispute settlement panel, which it is generally expected to issue its final report within six months.[71]

IN ITS SUBMISSION, RUSSIA ARGUES THAT EU CBAM VIOLATES SEVERAL TRADE AGREEMENTS. THE REQUEST STARTS A FORMAL WTO DISPUTE PROCESS

SOUTH AFRICA 08

POSITION

HIGH CARBON INTENSITY AND HIGH CBAM EXPOSURE

REACTION TO EU'S CBAM

With high-carbon intensity and low effective carbon price, South Africa is highly exposed to the adverse negative effect of EU CBAM. Since the start of the CBAM transitional period, South Africa expressed concern that the measure will undermine "multilateral trust" and that it violates the WTO's core-principle of non-discrimination.[72] South Africa has argued that CBAM should be designed in a way that considers the needs of developing countries and avoids unfair trade practices. It emphasised the importance of addressing climate change through international cooperation and support for developing economies.[73]

As a member of the BRICS and BASIC groups, South Africa supported the initiative to put EU CBAM in the agenda at COP29 in Baku and the Kazan Declaration.[74]

South Africa's iron, steel and aluminium industries are particularly exposed to EU CBAM in the short term.[75] There are also concerns that CBAM may lead to increased imports from countries seeking alternate markets, potentially resulting in dumping.[76]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

South Africa's carbon pricing system is based on a carbon tax that came into force on 1 June 2019. Phase 1 was initially due to end in 2022, but in 2022, it was extended until December 2025. In the 2023 Budget, the rate of the carbon tax was set at R159 (around 7 euros) per tonne, with plans for further increase under Phase 2 (starting from 2026) to reach R462 (around 22 euros) per tonne by 2030.

The tax applies to emissions from fossil fuel combustion, electricity generation, fugitive emissions (e.g. methane from mining), and industrial processes including cement, iron, steel, glass, and ceramics. The tax is mandatory for all entities exceeding specific emissions thresholds. In general, installations with thermal capacity below 10 MW are exempt.[77]

SOUTH AFRICA HAS ARGUED THAT CBAM SHOULD BE DESIGNED IN A WAY THAT CONSIDERS THE NEEDS OF DEVELOPING COUNTRIES AND AVOIDS UNFAIR TRADE PRACTICES

SOUTH KOREA 09

POSITION

REFORMING DOMESTIC ETS TO MITIGATE CBAM COST

REACTION TO EU'S CBAM

South Korea continues to view the EU CBAM as a significant challenge for its export-driven, energy-intensive industries despite having in place a national ETS covering CBAM-liable sectors. Still, the considerable carbon price gap between the Korean ETS and the EU ETS continues to pose cost risks for exporters.

To assist small and medium-sized enterprises, the Korean government issued a public call for support programmes focused on emissions data collection and verification. Also, the Ministry of Trade, Industry and Energy has been holding industry briefings and consultations and has initiated enhanced collaboration with Japan to address CBAM through coordinated diplomatic efforts.[78]

Furthermore, in early 2025, the Ministry of Environment launched an International Cooperation Bureau dedicated to managing Korean response to global environmental and trade policies.[79] It leads national coordination and represents South Korea in international negotiations on carbon-related trade measures.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

South Korea's Emissions Trading Scheme (K-ETS), active since 2015, remains the central pillar of country's climate strategy, covering around 70% of national GHG emissions.[80] In the years 2024-2025, the government introduced key reforms to enhance market liquidity and expand participation. Recent updates include relaxed allowance banking rules, extended offset credit conversion periods, and more flexible auctioning.[81]

In December 2024, the government adopted the fourth "Basic Plan for the Emissions Trading System," covering the period between 2026 and 2035. This plan addresses the fourth and fifth allocation periods and aims to better align the ETS with the country's Carbon Neutral Framework Act and updated NDCs. Key measures include a significant increase in auctioning for the electricity sector, and an increase in benchmark-based allocations to industrial installation from 65% to 75%. Revenues from the scheme will be reinvested in emission reduction efforts, and Carbon Contracts for Difference will be introduced to incentivise innovation.[82]

The government plans to introduce carbon futures and has encouraged carbon-linked financial products to further stimulate trading.[83] According to recent announcements, starting from February 2025, South Korea's ETS includes institutional investors such as banks, insurers, and fund managers. In addition to trading on the Korea Exchange, transactions are also allowed through emissions brokerage firms.[84]

These developments suggest a strategic shift in Korea's approach to carbon pricing, influenced in part by external mechanisms like the EU CBAM.

IN EARLY 2025, THE MINISTRY OF ENVIRONMENT LAUNCHED A NEW BUREAU DEDICATED TO MANAGING KOREAN RESPONSE TO GLOBAL ENVIRONMENTAL AND TRADE POLICIES

TÜRKIYE 10

POSITION

BUMPY ROAD TO ESTABLISH NATIONAL ETS

REACTION TO THE EU CBAM

Türkiye is one of the countries most vulnerable to the impact of the EU ETS, through the iron, steel and cement sectors.[85] To mitigate CBAM impact on Turkish economy and exporting companies, the government decided to accelerate the development of its own carbon market, aligning the Turkish ETS with the EU ETS. While Türkiye remains committed to establish a national ETS, the pilot phase, planned to be launched in 2025 was postponed until 2026.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

The Turkish ETS will cover approximately 130 installations in the energy and industrial sectors, targeting major emitters in the cement, chemicals, and refining sectors. The system will operate similarly to the EU ETS, utilising auctioned allowances and establishing a secondary market managed by EPIAS, Türkiye's energy exchange.

The establishment of a Turkish carbon market is a key element of Türkiye's Climate Law that will legislate the national goal of achieving net zero by 2053.[86] The proposal for the Climate Law was presented to the Turkish Grand National Assembly in February 2025, and subsequently adopted by the Turkish Parliament's Environment Commission in March 2025.[87]

However, as of May 2025, the Turkish government has withdrawn the draft Climate Law[88] amid criticism from opposition parties and environmental groups.[89] No official timeline for reintroducing the legislation has been announced.

Furthermore, Türkiye is exploring additional carbon pricing instruments, including the use of voluntary carbon market and offset mechanisms under the Paris Agreement's Article 6, to complement the ETS.[90]

THE ESTABLISHMENT OF THE ETS IS A KEY ELEMENT OF TÜRKIYE'S CLIMATE LAW THAT WILL LEGISLATE THE NATIONAL GOAL OF ACHIEVING NET ZERO BY 2053

UKRAINE 11

POSITION

CALLING FOR FORCE MAJEURE EXEMPTION FROM CBAM

REACTION TO THE EU CBAM

Ukraine is seeking ways to mitigate the economic risks posed by the EU CBAM, with some estimates suggesting a potential impact of several billion euros in export and investment losses, depending on the scenario considered. According to some analysis, the steel sector is particularly vulnerable, as 93% of Ukrainian exports, which fall under CBAM regulation, is represented by iron and steel.[91]

The CBAM Regulation includes a majeure clause[92] that allows the European Commission to temporarily exempt a country from the financial obligations of CBAM under specific conditions, namely "where an unforeseeable, exceptional and unprovoked event has occurred that is outside the control of one or more third countries subject to the CBAM, and that event has destructive consequences on the economic and industrial infrastructure of such country or countries concerned".[93]

According to Kyiv, this provision is applicable to Ukraine due to "large-scale destruction of industrial infrastructure as a result of russia's full-scale invasion".[94]

In late May 2025, the Ukrainian Committee on Economic Development issued an appeal to the Prime Minister of Ukraine to enter negotiations with the European Commission on a temporary exemption from the financial components of EU CBAM for the duration of martial law and for at least five years thereafter. The Committee also called to authorise the Ministry of Economy of Ukraine to conduct negotiations once opened.[95]

In line with Article 30(7) of the CBAM Regulation, the application of force majour provision requires from the European Commission to "assess the situation" and come up with a legislative proposal outlining provisional measures to address those exceptional circumstances.[96]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

Ukraine plans to establish a national ETS in line with its obligations under the "Ukraine-EU Association Agreement", which entered into force in September 2017.[97] A monitoring, reporting, and verification system was introduced in 2021.[98] Mandatory reporting was reinstated in January 2025 following a temporary suspension due to the war. In February 2025, Ukraine approved a roadmap for the implementation of a Ukrainian ETS.[99] The first phase, planned from 2025 to 2027, aims to establish infrastructure necessary for the system's operation. A pilot phase will begin in 2028, allowing Ukraine to test and refine the ETS framework. The full operational phase is planned to begin no earlier than three years after martial law is lifted.

After being granted official EU candidate status in 2022, the adoption of an ETS is a key requirement for Ukraine's future accession to the European Union.[100] It is intended to facilitate the country's future participation in the EU ETS and mitigate CBAM impacts.

UKRAINE IS SEEKING WAYS TO MITIGATE THE ECONOMIC RISKS POSED BY THE EU CBAM, WITH SOME ESTIMATES SUGGESTING A POTENTIAL IMPACT OF SEVERAL BILLION EUROS IN EXPORT AND INVESTMENT LOSSES

UNITED KINGDOM 12

POSITION

UK-EU ETS LINKING TO ALLOW MUTUAL EXEMPTIONS FROM CBAM

REACTION TO THE EU CBAM & DOMESTIC CBAM

In October 2024, the UK government confirmed its plans to introduce a CBAM, taking effect on 1 January 2027.[101] The UK CBAM's sectoral scope will be similar to the EU CBAM, covering goods from aluminium, cement, fertilisers, hydrogen, and iron and steel sectors, with an exemption of electricity. The UK mechanism is designed to function as a levy, where importers will pay a tax based on the embedded carbon emissions of the imported products, differing from the EU's certificate-based system. It will cover both direct and indirect emissions. Regarding recognition of the carbon price paid in third countries, the UK system will recognise only explicit carbon prices, similarly to EU CBAM. The sectoral and product level scope of the CBAM will be kept under review.[102] A technical consultation to gather feedback from stakeholders on the UK CBAM legislation is open until 3 July 2025.[103]

In the backdrop of these developments, in mid-May 2025 the EU and the UK announced a "breakthrough" deal to strengthen mutual collaboration and deepen post-Brexit partnership. As a part of the agreement, London and Brussels committed to work towards linking their carbon market. The "Common Understanding"[104] explicitly mentions that the establishment of the EU-UK ETS link "should create the conditions for goods originating in our jurisdictions to benefit from mutual exemptions from the respective EU and UK CBAMs". Since negotiations and ratification of the agreement may take several years, it is relevant for businesses that a solution to exempt EU imports from the UK CBAM is secured before 1 January 2026, to provide clarity on how to manage CBAM-related risks.[105]

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

The UK ETS has been in place since 1 January 2021, replacing the UK's participation in the EU ETS. It closely mirrors the EU ETS in terms of sectoral coverage, rules for auctioning, free allocation of allowances, and the ban on using international credits for compliance. The UK ETS includes an Auction Reserve Price of £22 (approximately EUR 25.74), which sets the minimum price at which allowances can be sold at auction.

Several revisions are currently underway to expand the scheme, incorporate GHG removals, and revise free allocation to industrial installations. However, in light of the recent announcement to link the UK and EU ETS, and the UK's commitment to "dynamic alignment" with relevant EU rules underpinning the ETS link, these proposed reforms may become redundant.

THE ESTABLISHMENT OF THE EU-UK ETS LINK SHOULD CREATE THE CONDITIONS FOR MUTUAL EXEMPTIONS FROM THE RESPECTIVE EU AND UK CBAMS

UNITED STATES 13

POSITION

LOOMING TARIFFS, EXPLORING OWN CBAM

REACTION TO THE EU CBAM & DOMESTIC CBAM

Initially, the US expressed concerns about the potential implications of the EU CBAM for its economy, relationships, and trade. The previous US Administration warned against CBAM, saying that it should be a "last resort" measure.[106]

The return of a Trump administration in 2025 put renewed emphasis on broad tariff policies, an approach already pursued during Trump's first term. The US President's mandate in this area is broad, as he is authorised to impose tariffs on imports that threaten national security, under Section 232 of the Trade Expansion Act of 1962, a provision that President Trump used already under its first tenure. In March 2018, President Trump first invoked this provision to impose 25% tariffs on steel and 10% on aluminium. Several countries, including the EU, initially received exemptions. At the beginning of his second mandate, in February 2025, Trump reinstated the full 25% steel tariff and raised the aluminium tariff to 25%, citing the need to close loopholes and restore the effectiveness of the original measures.[107]

In April 2025, in Congress, US Republican Senators Bill Cassidy and Lindsey Graham, proposed a legislation effectively establishing a US CBAM – an updated version of the "Foreign Pollution Fee Act" – originally presented in 2023.[108] The bill aims to "level the playing field for American manufacturers" by imposing a fee on imported goods based on the pollution, and especially embedded carbon emissions, associated with their production. Several energy- and emission-intensive sectors are proposed to be covered by the bill: steel, aluminium, cement, glass, fertiliser, hydrogen, solar components, and certain battery inputs. However, the proposed legislation focuses purely on environmental equivalence and carbon performance, without taking into account the carbon price paid in third countries. As of April 2025, the Foreign Pollution Fee Act is in the early stages of the legislative process, and it remains to be seen whether it will receive enough political support.

DOMESTIC CARBON PRICE AND CAP-AND-TRADE POLICIES

The US does not have an explicit carbon pricing mechanism in place. Emissions of GHGs are addressed through a combination of federal, state, and local regulations, including taxes and standards such as fuel efficiency requirements, state-level emissions trading systems, and re-newable portfolio standards.

IN APRIL 2025, US REPUBLICAN SENATORS PROPOSED A LEGISLATION EFFECTIVELY ESTABLISHING AN US CBAM, AN UPDATED VERSION OF THE "FOREIGN POLLUTION FEE ACT"

CONCLUSION: KEY ISSUES SHAPING THE FUTURE OF EU CBAM

01 THE RECOGNITION OF CARBON PRICING EFFECTIVELY PAID IN THE COUNTRY OF ORIGIN

02 THE CBAM EFFECTIVENESS TO PROTECT EU INDUSTRIAL COMPETITIVENESS,

03 THE CHALLENGE OF ENSURING INTEROPERABILITY AMONG BORDER CARBON MEASURES EMERGING WORLDWIDE

AS THE EU CBAM MOVES TOWARD FULL APPLICATION IN 2026, THE GLOBAL POLICY LANDSCAPE REMAINS UNSETTLED. THREE KEY TOPICS WILL HAVE A SIGNIFICANT IMPACT ON ITS BROADER INFLUENCE ON GLOBAL CARBON PRICING AND TRADE: THE RECOGNITION OF CARBON PRICING "EFFECTIVELY" PAID IN THE COUNTRY OF ORIGIN, THE CBAM EFFECTIVENESS TO PROTECT EU INDUSTRIAL COMPETITIVENESS, AND THE CHALLENGE OF ENSURING INTEROPERABILITY AMONG BORDER CARBON MEASURES EMERGING WORLDWIDE.

RECOGNISING CARBON PRICES PAID IN THIRD COUNTRIES

One of the pivotal aspects of CBAM is how, and under which conditions, the EU will recognise carbon prices already paid in exporting countries. In the recent proposal for CBAM review, the Commission introduced the possibility of using default values for the calculation of carbon levies paid abroad. For that purpose, the Commission would establish an annual average of the effective carbon price paid in third countries to be deducted by CBAM declarants. The implementing act, outlining the methodology and criteria for the calculation of carbon pricing in third countries, is currently under preparation, with an adoption planned by the end of 2025.

Current debate is intensifying regarding the potential use of international credits, especially those issued under Article 6 of the Paris Agreement, in the EU climate policy framework, including CBAM.[109] While this could promote greater integration between compliance and voluntary markets, concerns about integrity and credibility must be carefully addressed, as well as harmonisation across different EU laws and policies.

PROTECTING EU INDUSTRIAL COMPETITIVENESS AGAINST CARBON LEAKAGE

The EU ETS will begin its phase out of free allocation to industrial installations next year. CBAM will be gradually phase in over a period of ten years, becoming the main tool to mitigate the risk of carbon leakage. By 2034 CBAM will fully replace free allocation in CBAM sectors; less-exposed sectors will stop receiving free allowances by 2030. Whether CBAM alone is sufficient to ensure a level playing field remains one of the central questions in EU climate policy debate.

Risk of circumvention, such as product re-routing or transformation into downstream goods, are among the main concerns of EU industry. Of critical importance will be the legislative proposal due by the end of 2025, aimed at expanding CBAM's scope to downstream products, new sectors and transport emissions, as well as a strategy to strengthen anti-circumvention measures and provide a solution to exporting industries.

Meanwhile, the EU is trying to reinforce its industrial base through initiatives like the Clean Industrial Deal, which includes several components to support EU clean production, such as the establishment of Industrial Decarbonisation Bank and sectoral action plans. These highlight a broader shift in political tone, where climate ambition needs to coexist with industrial resilience, and where CBAM's climate integrity will be tested against its economic impacts.

INTEROPERABILITY IN THE CARBON BORDER JUNGLE

As other jurisdictions are working on their own carbon border adjustment mechanisms, the global policy environment risks becoming more fragmented and uncoordinated. The EU CBAM, while first in kind, will not remain the only model. The UK and Australia, among others, are actively designing domestic BCA schemes, and interest is growing in other G20 economies.

Without a shared framework or mutual recognition mechanisms, the proliferation of CBAM-like instruments could lead to regulatory fragmentation, double compliance burdens, and trade frictions. Questions of methodological alignment, verification standards, and scope compatibility will be at the heart of future interoperability discussions.

Multilateral fora like the WTO and UNFCCC will become increasingly important arenas for dialogue, but also for dispute. Another key area to monitor in this domain is bilateral or regional coordination, such as the recently announced EU-UK initiative to work on linking their ETSs, with the aim of reducing compliance costs, and enabling mutual exemptions from respective CBAMs.

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