CBAM for Dummies

A simple, systemic guide for companies facing CBAM for the first time

Updated for the December 2025 regulatory package

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The Core Problem CBAM Solves

The Challenge

The EU puts a price on carbon emissions through the EU Emissions Trading System (EU ETS). This increases production costs for EU manufacturers.

Without CBAM, two critical issues emerge:

- EU production moves abroad to avoid carbon costs
- EU-made products are replaced by cheaper, more carbon-intensive imports

This phenomenon is called carbon leakage.

The Solution

CBAM exists to stop carbon leakage.

It levels the playing field by ensuring imported goods face the same carbon costs as EU-produced goods, protecting both the environment and EU competitiveness.

Understanding the EU ETS First

Before diving into CBAM, you must understand the EU Emissions Trading System (ETS) - it's the foundation of everything.

01

Cap Setting

The EU sets a cap on total CO_2 emissions across covered industries

02

Allowance Requirements

Companies must hold ETS allowances for each tonne of CO_2 they emit

03

Market Trading

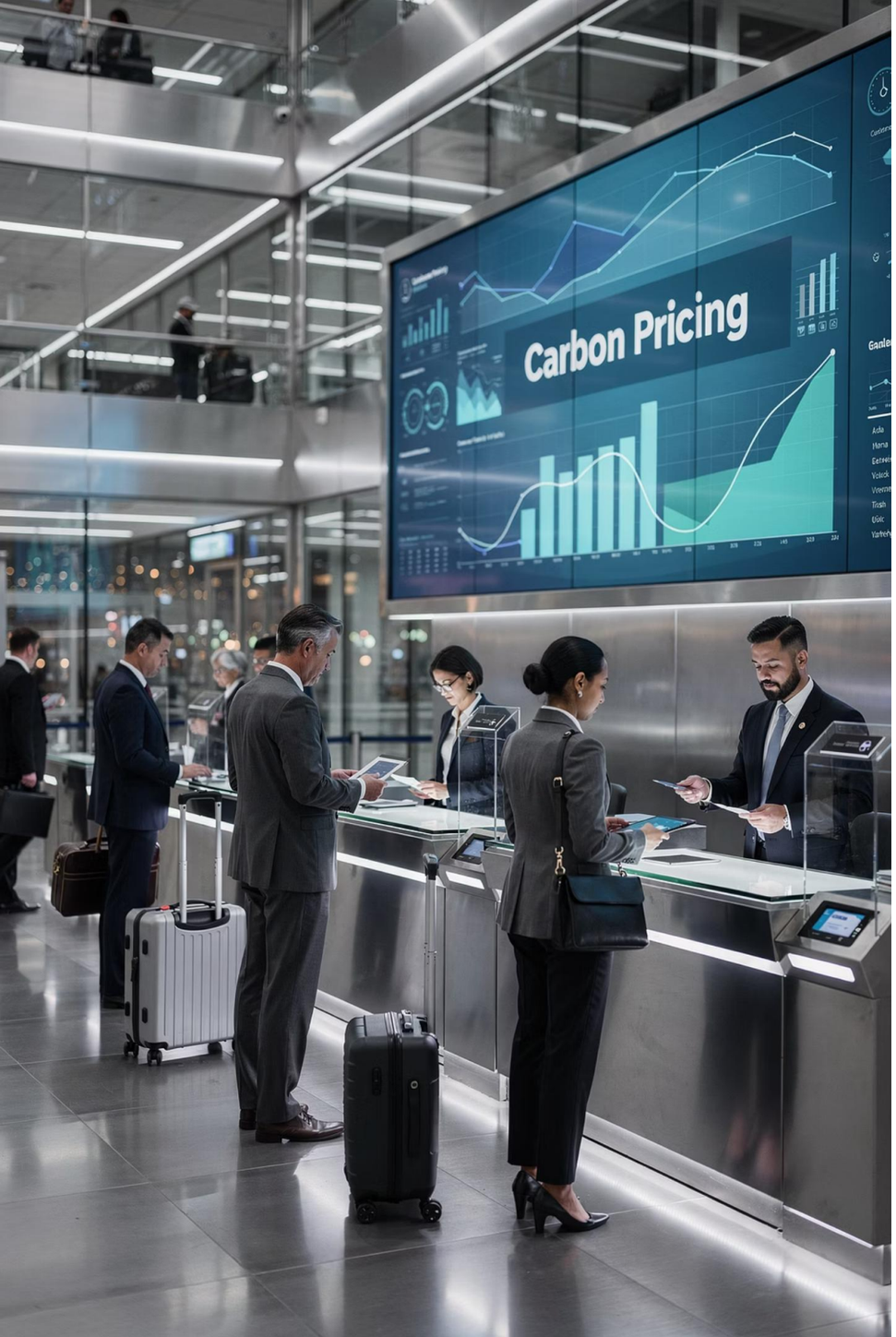
Allowances are traded on the market, creating a carbon price

04

Price Fluctuation

The price fluctuates based on market dynamics (recently €60–100 per tonne CO_2)

Critical Link: CBAM is explicitly linked to the ETS price. Understanding ETS pricing is essential for calculating CBAM costs.



What is CBAM?

Simple Definition

CBAM makes importers pay a carbon price equivalent to the ETS price for the emissions embedded in certain imported goods.

1

The Logic

If a product would pay ETS if produced in the EU...

2

The Requirement

...then it must pay CBAM when imported into the EU

CBAM Doesn't Apply to Everything

Product-Specific, Not Company-Specific

CBAM applies only to products listed by CN codes (customs codes) in Annex I of the CBAM Regulation.

This is a critical distinction: your company isn't "in scope" - specific products you import are.

Legal Basis: Regulation (EU) 2023/956

Core CBAM Sectors

Iron & Steel

Basic steel products and semi-finished goods

Aluminium

Primary and secondary aluminium products

Cement

Clinker and cement products

Fertilisers

Nitrogen-based fertilizers

Hydrogen

Hydrogen production

Electricity

Imported electrical power

These sectors are called **basic materials** and form the foundation of CBAM coverage.

The Big 2025 Change: Downstream Goods

The Value-Chain Logic

Originally, CBAM stopped at raw materials. But the EU realized this created a gap:

1

Problem 1

Carbon costs move down the value chain

2

Problem 2

EU producers using steel/aluminium lose competitiveness

3

Problem 3

Imports of finished products escape carbon pricing

4

Solution

Extend CBAM to downstream goods

What Are Downstream Goods?

Simple Definition

Downstream goods are products made using CBAM basic materials (mainly steel and aluminium). They are further down the industrial value chain.

December 2025 Extension: The Commission proposed adding ~180 downstream products focused on steel- and aluminium-intensive goods facing high carbon leakage risk.

Examples

- Car parts and automotive components
- Washing machines and appliances
- Industrial machinery
- Construction components
- Metal fittings, frames, and casings

Important: Only CN codes in the official annex are legally relevant. These examples are illustrative.

Who is Exposed to CBAM?

1

EU Importers

Direct legal obligation

- Must report emissions data
- Must buy CBAM certificates
- Carry full compliance risk

2

Non-EU Producers

Commercial exposure

- EU customers will demand emissions data
- Without data, you lose price competitiveness
- May need verification systems

3

"Normal" Manufacturers

New risk category

- Companies importing components, machinery, appliances, or metal parts
- May now fall into CBAM for the first time
- Often unprepared for carbon compliance

CBAM Certificates Explained

What a CBAM Certificate Is

A CBAM certificate represents **one tonne of CO_2**, priced to mirror the ETS allowance price.

1 Surrender Requirement

You must surrender certificates equal to embedded emissions in your imports

2 Purchase Process

Certificates are purchased via the CBAM registry system

3 Pricing Mechanism

Price equals the average ETS price, calculated using Commission-defined rules

Understanding Embedded Emissions

What Counts

Embedded emissions = CO_2 emitted during the production of the CBAM-relevant part of the product

This aligns with what ETS would cover if the product were made in the EU.

What Doesn't Count

- Transport emissions
- Office electricity
- Marketing activities
- Full life-cycle footprint

Only direct production emissions matter.

Precursors: Critical for Downstream Goods

What is a Precursor?

A precursor is a CBAM basic material used as an input in a downstream product.

Steel Precursor

Steel plate used in a car door or machinery frame

Aluminium Precursor

Aluminium sheet used in washing machine casing or aircraft parts

Steel Profiles

Steel profiles used in construction components or industrial equipment

Calculating Emissions for Downstream Goods

The Key Simplification

> For downstream goods: **Only emissions of the precursors are counted.**

Example 1: Car Door

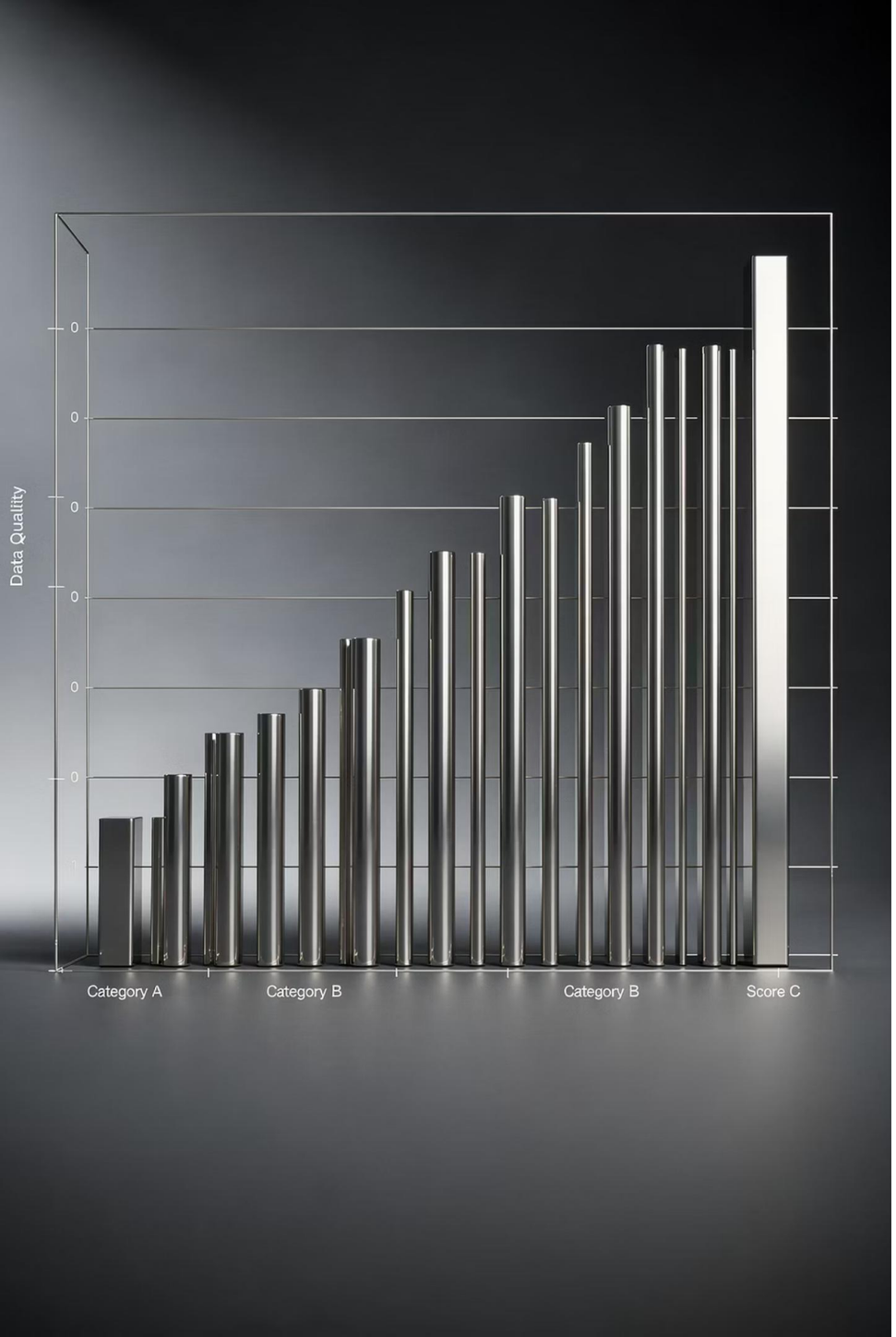
CBAM covers: Emissions from producing the steel plate

CBAM does NOT cover: Assembly, welding, factory electricity, or labor processes

Example 2: Washing Machine

CBAM covers: Steel precursor emissions + Aluminium precursor emissions

Key challenge: Proving material composition, precursor origin, and emissions data



Actual Emissions vs Default Values

Actual Emissions

Used when:

- Supplier provides data
- Calculated using approved methodology
- Supported by documentation and verification

Benefit: Usually lower cost if supplier is cleaner

Default Values

Used when:

- No data available
- Data is incomplete
- Data cannot be verified
- Anti-circumvention risk identified

Risk: Defaults are conservative by design - higher cost

Cost Methodology: The Money Difference

CBAM Cost Formula (Simplified)

$$\text{CBAM cost (€)} = \text{Imported quantity} \times \text{Embedded emissions} \times \text{ETS price} - \text{Deductions}$$

Illustrative Example

1,000	€80	1.5	2.2
Tonnes Imported	**ETS Price per tCO_2**	**Actual Emissions (tCO_2/tonne)**	**Default Emissions (tCO_2/tonne)**

Using Actual Data

1,000 × 1.5 × €80 = **€120,000**

Using Default Values

1,000 × 2.2 × €80 = **€176,000**

The Difference

€56,000 additional cost

This is why data quality matters.

7-Step Checklist for First-Time CBAM Companies

Identify CN Codes

CBAM is CN-code based. No CN code = no compliance clarity. Start here.

Check Official Annex

Use Regulation Annex I and COM(2025) 989 annexes to verify coverage.

Identify Precursors

For downstream goods: Steel? Aluminium? What quantity and share?

Collect Supplier Data

Request embedded emissions, methodology used, and supporting documentation.

Decide Actual vs Default

If data is weak or unverifiable, budget using default values.

Fix Contracts

Include data obligations, audit rights, and cost-sharing clauses for defaults.

Build CBAM Files

Create one organized folder per CN code with all documentation.

What CBAM Changes for Your Business

Cost Structure

Costs become carbon-linked and variable based on ETS pricing

Supplier Strategy

Supplier choice becomes strategic: cleaner suppliers = lower costs

Contract Terms

Contracts need carbon clauses, data obligations, and verification rights

Cross-Functional Work

Customs and sustainability teams must work together closely

Critical Mindset Shift: CBAM is not ESG storytelling. It is border-level cost regulation with real financial impact.

CBAM Timeline: Simple Guidance for Newcomers

The Carbon Border Adjustment Mechanism (CBAM) is transforming how the EU manages carbon emissions from imports. Understanding this timeline is critical for any company importing covered goods into the EU. This guide breaks down the key phases from law to full implementation.

Key Phases: From Reporting to Payment

1

May 2023: CBAM Becomes Law

The CBAM Regulation officially enters into force. No reporting yet, but the legal framework is established.

2

Oct 2023 - Dec 2025: Transitional Phase

Reporting only, no payments. Importers submit quarterly CBAM reports. First report due 31 January 2024 for Q4 2023. This phase focuses on learning, data collection, and testing systems.

3

Jan 2026: Definitive Phase Begins

Real financial liability starts. Imports create obligations, and embedded emissions must be calculated. The meter starts running, though certificates aren't available yet.

4

March 2026: Authorization Deadline

Critical deadline to apply as an authorized CBAM declarant. Missing this risks being blocked from importing CBAM goods. Apply by 31 March to continue provisionally.

5

Feb 2027: Certificates on Sale

CBAM certificates become available for purchase, priced based on EU ETS carbon prices. For 2026 imports, pricing uses quarterly averages from 2026.

6

Sept 2027: First Payment

Submit annual CBAM declaration for 2026 and surrender certificates to cover embedded emissions. This is when CBAM becomes a real cash outflow.

What Happens Next: 2026-2034 and Beyond

Phase-In to Full CBAM

Between 2026 and 2034, CBAM gradually ramps up while free ETS allowances for EU producers phase out. By 2034, CBAM and ETS are fully aligned, creating a level playing field.

Downstream Product Expansion

On 17 December 2025, the Commission published a proposal to extend CBAM to approximately 180 downstream steel- and aluminum-intensive products with strengthened anti-circumvention rules. This proposal requires legislative adoption before enforcement.

2023-2025

Report only

2026

Liability starts

Early 2026

Get authorized

2027

Pay for 2026

2026-2034

Full ramp up

One-page takeaway for management: If you understand this timeline, you already understand 80% of CBAM risk planning. Companies affected by downstream goods should prepare before the final legislative vote.

Key Takeaways for Management

CBAM = ETS Logic Applied to Imports

It's a carbon pricing mechanism at the border, not a trade barrier

Downstream Expansion Changes Everything

Industrial supply chains are now pulled into scope - many companies affected for the first time

Data Quality Determines Cost

Good data = lower costs. Poor data = expensive defaults. The difference can be substantial.

CN Codes Decide Everything

Product classification is the foundation of compliance. Get this right first.

Official Sources & Resources

European Commission CBAM Hub

Main information portal with guidance documents and updates

taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

CBAM Regulation (EU) 2023/956

The legal foundation - official regulation text

eur-lex.europa.eu/eli/reg/2023/956/oj

Commission Q&A (December 2025)

Latest clarifications on downstream goods and implementation

ec.europa.eu/commission/presscorner/detail/en/qanda_25_3089

Downstream Extension Proposal

COM(2025) 989 with CN code annexes

Official Annexes Document

Ready to Navigate CBAM?

Your Action Plan

Immediate Steps

1. Audit your import portfolio for CN codes
2. Engage with suppliers on emissions data
3. Review and update contracts
4. Build internal cross-functional teams

Strategic Priorities

1. Develop supplier carbon performance criteria
2. Budget for CBAM costs in financial planning
3. Invest in data management systems
4. Monitor regulatory updates continuously

> **Remember:** CBAM is not going away. Early preparation and strong data management will give you a competitive advantage and protect your margins.