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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2025) 989 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT Accompanying the document Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures

Delegations will find attached document SWD(2025) 989 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

Proposal for a Regulation of the European Parliament and of the Council

amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures

{COM(2025) 989 final} - {SEC(2025) 989 final} - {SWD(2025) 987 final} - {SWD(2025) 988 final}

Executive Summary Sheet
Impact assessment on the revision of the Carbon Border Adjustment Mechanism Regulation
A. Need for action
What is the problem and why is it a problem at EU level?
Regulation (EU) 2023/956 establishing the Carbon Border Adjustment Mechanism (CBAM) came into force in October 2023. It is in its transitional phase until end-2025. The definitive regime, which will include financial obligations, will apply from 2026 onwards. CBAM ensures that imports are subject to a carbon price equivalent to that faced by domestic producers under the EU Emissions Trading System (EU ETS). It is a key instrument to ensure that the EU's increased climate ambition is not undermined by carbon leakage, which could occur when companies based in the EU move the production of carbon-intensive goods to countries with less stringent climate policies, or when EU products are replaced by more carbon-intensive imports. CBAM also plays a key role in helping curb greenhouse gas (GHG) emissions beyond the EU's borders. It achieves this by encouraging foreign exporters to decarbonise their production and, as CBAM deducts the carbon price effectively paid in the country of origin, by incentivising third countries to implement or strengthen their own carbon pricing systems. However, the current design of the CBAM is not fully effective in preventing carbon leakage, incentivising decarbonisation and has given rise to some implementation difficulties. More specifically it does not address downstream carbon leakage risks, the risk of CBAM avoidance, and does not sufficiently take the decarbonisation efforts of third country electricity producers into account.
What should be achieved?
The overall objective of the legislative proposal is to strengthen the effectiveness of CBAM, including by addressing the risk of downstream carbon leakage and encouraging decarbonisation in a feasible and cost-effective way, thus reducing GHG emissions and fighting climate change globally. More specifically, it intends to (i) mitigate the risk of downstream carbon leakage, (ii) strengthen enforcement of the CBAM and deter avoidance practices, and (iii) encourage decarbonisation of electricity imports.
What is the value added of action at the EU level (subsidiarity)?
Reducing GHG emissions is fundamentally a cross-border issue requiring effective action at the largest possible scale. The EU as a supranational organisation is well placed to establish effective climate policy on its territory, as it has already done with the introduction of CBAM and the EU ETS. The only meaningful way to ensure equivalence between the carbon pricing policy applied in the EU's internal market and the carbon pricing policy applied on imports is to take action at the level of the Union. Additionally, the need for minimal administrative costs is best achieved by consistent rules for the entire single market. Any revision of the CBAM should therefore take place at EU level.
B. Solutions
What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

There are three distinct but interrelated problems. For each of them, various options were assessed, and a preferred option was identified.

Downstream carbon leakage: Three options were examined, each reflecting a different level of coverage in extending the scope to downstream products. These are based on (i) filters reflecting the risk of carbon leakage (namely the carbon cost push and the trade intensity) plus (ii) an EU production emissions floor to limit the scope extension to downstream products with significant climate relevance. The technical feasibility of attributing emissions to selected downstream goods was also considered. The proposal focuses on goods that are downstream to steel and aluminium-intensive sectors, as also announced in the Commission's Steel and Metals Action Plan.

Option 1 is a targeted extension to downstream goods that have the highest risk of carbon leakage and significant climate relevance. Option 2 is a balanced extension to downstream goods at risk of carbon leakage and with significant climate relevance. Option 3 is a broad extension to all downstream goods considered at risk of carbon leakage.

Anti-avoidance: Two options were considered to address issues of avoidance such as the misdeclaration of emissions and abusive practices.

Option 1 provides for the inclusion of pre-consumer scrap as CBAM precursor. It also provides an empowerment for the Commission to request, in case actual emissions are declared, additional evidence to prove the place of production. This empowerment to improve the traceability of goods would be limited to a sub-set of CN codes and origins with the highest risk of mis-declaration of emission intensities.

Option 2 provides for the inclusion of both pre-and post-consumer scrap as CBAM precursors. In addition, the empowerment to request additional evidence on the place of production would apply to all CN codes and origins.

Both options also share two common policy measures: 1) to provide the Commission with an empowerment to further detail CN codes to better capture the specific material composition of the different products falling within any given CN code under the CBAM scope, 2) to provide the Commission with an empowerment to attach to the use of actual emissions additional conditions for identified goods at high risk of abusive practices.

Electricity

Four options have been considered. These differ regarding the methodology to calculate the emission factor and the conditions to declare actual values. They cover the four possible combinations of two main policy choices: (i) retaining the CO_2 emission factor of the exporting country or changing to an average grid emission factor of the exporting country; (ii) modifying the criterion related to congestion by referring to the absence of structural congestion or removing it altogether. All options include a modified criterion relating to power purchase agreements (PPAs) clarifying that it only includes physical PPAs whilst broadening its scope also to indirect PPAs. The options also all include changes to the condition relating to nominations of capacity, which should only apply in case of explicit capacity allocation.

Preferred options

This impact assessment supports a combination of **option 2 for the downstream extension, option 1 for the anti-avoidance strand and option 4 for electricity** (change to an average grid emission factor of the exporting country, modified criteria relating to power purchase agreements and nomination of capacity, and

removal of the criterion related to congestion) as they are expected to deliver clear environmental gains compared to CBAM's current design, while remaining proportionate to the scale of the problems and keeping the additional administrative burden to a minimum.

What are different stakeholders' views? Who supports which option?

The public consultation suggested that the risk of downstream carbon leakage is widely acknowledged as an issue, which needs to be addressed by means of including downstream goods in the scope of CBAM. Similarly, a clear majority confirmed that there are circumvention risks that necessitate a further strengthening of the CBAM regulation. Furthermore, there was support for greater granularity in the information on the material composition of different products within CN codes. For electricity, a large majority of stakeholders indicated in the public consultation that the current default values used in CBAM are inadequate and supported amending the conditions for using actual emissions. Regarding the latter, the consultation also resulted in specific recommendations to revise criteria around power purchase agreements, network congestion, interconnector nominations, which are seen as impractical or misaligned with market realities. The outcome of the public consultation confirmed stakeholder feedback received via other fora.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

The preferred option is a combination of Option 2 to address downstream carbon leakage risks, Option 1 to address avoidance and Option 4 to address electricity. This policy package provides clear environmental benefits, reduces the risk of carbon leakage, and encourages decarbonisation in a feasible and cost-effective way. More specifically for the downstream extension, under Option 2, the estimated reduction in yearly GHG emissions is approximately 0,7 Mt of CO_2 equivalent emissions (CO_2e) by 2030. This option is also estimated to significantly reduce carbon leakage. The preferred option to address CBAM avoidance provides the necessary safeguards to ensure that the effectiveness and environmental benefits of CBAM are not undermined. When it comes to electricity, the preferred option will ensure a better reflection of the decarbonisation efforts of exporting countries while simplifying the reporting of actual emission values.

The macroeconomic impacts are minimal and mostly stemming from the downstream extension. A minor increase in EU output in some downstream sectors is expected. Regarding social impacts, for the downstream extension, the preferred option foresees a small increase in employment by 0,05% in the downstream sectors covered.

What are the costs of the preferred option (if any, otherwise of main ones)?

The macroeconomic costs are negligible, with an estimated change in EU GDP of less than -0,001%. Similarly, the impact on private consumption prices is also marginal.

Administrative and compliance costs are expected for businesses and authorities (national competent authorities and customs authorities) mostly stemming from the downstream extension. While it is difficult to assess these costs with precision, estimates based on stakeholder surveys show that under the preferred option for a downstream extension, aggregate recurrent costs for businesses could amount to EUR 8 to 43 million yearly, in addition to one-off costs of EUR 31 million. Estimated recurrent enforcement costs for authorities range between EUR 1,3 and 10,0 million for all Member States combined. The preferred option to address avoidance would result in negligible additional administrative cost for authorities and its impact on business is also limited. The preferred option for the electricity strand is not expected to entail any

additional administrative and compliance costs for EU importers or third-country electricity producers but rather reduce them as a result of streamlining the conditions to declare actual emissions.
What are the impacts on SMEs and competitiveness?
In October 2025, the Council and European Parliament adopted Regulation (EU) 2025/2083 regarding the simplification of CBAM, which, among other improvements, introduced a *de-minimis* threshold exemption of 50 tonnes mass that would keep 99% of emissions still in the CBAM scope, while exempting around 90% of the importers. This significantly limits the administrative burden for SMEs and benefits smaller downstream importers. The CBAM downstream extension has a moderate impact on the absolute number of SME importers brought into CBAM's scope. The proportion of SME importers is around 50% of the additional importers in scope. This amounts to an additional 3800-3900 SME importers. The preferred policy package has marginally positive impacts on competitiveness overall. Among the three strands, the downstream extension would have the most significant competitiveness implications because it levels the playing field for domestically produced and imported steel- and aluminium-intensive downstream products with respect to the carbon costs they face.
Will there be significant impacts on national budgets and administrations?
The downstream extension under option 2 is estimated to generate around EUR 0.58 billion of revenues in 2030, while the anti-avoidance measures will contribute to ensuring that revenues are actually collected.
Will there be other significant impacts?
No other significant impact.
Proportionality?
The preferred option meets the objectives of the initiative in a proportionate manner.
D. Follow up
When will the policy be reviewed?
The CBAM will be subject to regular reviews as provided for in the CBAM Regulation. The application of the proposed changes to the Regulation assessed under this impact assessment will be reviewed in the context of the bi-annual review reports on CBAM implementation foreseen under Article 30 of the CBAM Regulation.