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**NOTE**

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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council

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Subject:	<i>Preparation of the Competitiveness Council (Internal Market, Industry, Research) on 6 March 2025</i> A competitive and decarbonised EU industry in the context of the Carbon Border Adjustment Mechanism - <i>Exchange of views</i>
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Delegations will find attached a Presidency background note on “A competitive and decarbonised EU industry in the context of the Carbon Border Adjustment Mechanism” with a view to the exchange of views at the Competitiveness Council on 6 March 2025.

**DISCUSSION PAPER**

Meeting of the Competitiveness Council

Brussels, 6 March 2025

*A competitive and decarbonised EU industry in the context of the Carbon Border Adjustment Mechanism*

The Carbon Border Adjustment Mechanism (*Regulation (EU) 2023/956* establishing CBAM) is the EU's tool to establish a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries. This tool has been designed to enable the EU to achieve its climate goals, combat carbon leakage, ensure a level playing field between EU and non-EU producers and encourage other states to reduce their emissions. As the EU maintains its climate ambition and less stringent environmental and climate policies prevail in some non-EU countries, there is a strong risk of carbon leakage.

The EU's Clean Industrial Deal ambitiously aims to give the necessary impulse to a green and competitive European industry. To meet these objectives effectively, the CBAM regulation, along with the rest of the European measures that regulate or have impact on carbon market, *must continuously ensure fairness and efficiency*, while reaching the appropriate balance between environmental and industrial policy measures. However, some risks mainly connected to carbon leakage and a heavier than expected administrative burden have already been identified together with possible solutions, notably in the 2024 Draghi report<sup>1</sup>. The report emphasizes the need for a continuous monitoring of CBAM's implementation and a comprehensive effectiveness review in 2025, before the 'phase-in' of CBAM begins and including an evaluation. This review shall assess the intended, as well as, if any, unintended consequences and is expected to include industry input to ensure a balanced evaluation.

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<sup>1</sup> [The Draghi report on EU competitiveness](#) proposal 7 p. 103.

It should also be noted that markets of downstream products may as well be affected by the implementation of CBAM. Prof. Draghi's report had cautioned that domestic downstream manufacturers will likely face increased costs of their inputs and larger production cost differentials may lead to a shift towards relocation of downstream activities or importing downstream products from third-country producers whose value chains are not covered by CBAM.

In the Competitiveness Compass<sup>2</sup> the European Commission has stated<sup>3</sup> that "Europe needs to combat carbon leakage of its industries" and communicated the forthcoming review of the CBAM regulation to reinforce the Mechanism's effectiveness through the possible extension of scope to further sectors and downstream products as well as possible measures to address impacts on exports of relevant goods.

The reduction of Free Allowances in the ETS Regulation have impact on European energy-intensive sectors such as iron and steel, cement, aluminum, and chemicals. Certain segments of these industries are heavily reliant on fossil fuels, and as such are exposed to international trade and thereby to significant risk of carbon leakage due to EU ETS allowance costs passed on in energy prices and face considerable compliance costs as CBAM imposes additional carbon-related expenses. In parallel, the free allowances under the EU ETS are bound to be phased-out. Ministers have already shared these concerns during the informal meeting of Ministers for Internal Market and Industry and of Ministers for Trade in Warsaw earlier this year. While CBAM remains, an environmental measure designed to prevent carbon leakage and put a price on emissions there are several remarks:

- Higher production costs: CBAM may add costs for industries producing goods downstream of CBAM basic goods, that are dependent on imports of carbon-intensive raw materials and costs related to EU ETS would also increase potentially affecting their competitiveness.

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<sup>2</sup> [EU competitiveness - European Commission](#) published 29<sup>th</sup> January 2025

<sup>3</sup> „...The situation of energy intensive industries included in the European Emissions Trading System and the need to minimise cases of circumvention and unintended consequences on value chains will inform the forthcoming review of the Carbon Border Adjustment Mechanism. In order to reinforce the Mechanism's effectiveness this review will analyse the possible extension of scope to further sectors and downstream products as well as possible measures to address impacts on exports of relevant goods. This will reinforce the goal of preventing 'carbon leakage' and ensuring a greater impact in terms of promoting global carbon pricing and, as a consequence, an international level playing field.”

- Risk of market relocation: As a consequence, these companies might consider shifting production outside the EU to regions with less stringent regulations, counteracting CBAM's intended goals and EU demand may shift towards imports from high-emission trade partners without carbon price mechanisms, pointing towards the need to consider extending the CBAM scope to downstream products.
- Incentive for Green Innovation: The mechanism should encourage both EU and non-EU industries to adopt low-carbon technologies and emissions monitoring schemes, pushing forward decarbonization and carbon pricing strategies.

Draghi's focus on monitoring, gradual implementation, international coordination, and simplification of compliance measures reflects a balanced strategy that acknowledges both environmental and economic concerns.

Furthermore, the European Commission has also announced<sup>4</sup> a two-step revision of the CBAM regulation, including an early, comprehensive simplification proposal with a particular focus on the needs of smaller market players, to promote a simpler, lighter, faster EU regulation that is "fit for competitiveness", and a broader assessment of the Mechanism which may include i.e. an endorsement for the broadening of the scope of CBAM and an assessment of the impact on exports of EU CBAM industries.

CBAM is currently in its transitional phase and the definitive regime will commence in 2026. Accordingly, it is of the essence that key aspects of the regulation are addressed, following the unforeseeable changes which have significantly altered the core assumptions made about CBAM when the Commission's first draft was published in 2021. Furthermore, new risks stemming from international trade, e.g. recently announced US policies, and the difficulties experienced by some energy-intensive sectors, including steel - where trade protection measures are due to expire - also justify an in-depth discussion.

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<sup>4</sup> [EU competitiveness - European Commission](#), p. 8, 18

**Question:**

With the aim of providing the European Commission with useful input for the upcoming review of the Regulation, the Presidency wishes to direct the following question to delegations:

1. How can the EU better address the following aspects to strengthen the CBAM: reduction of administrative burden, appropriate scope, coverage of downstream products, carbon leakage and support to exporters, preventing circumvention practices and dealing with indirect emissions?
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