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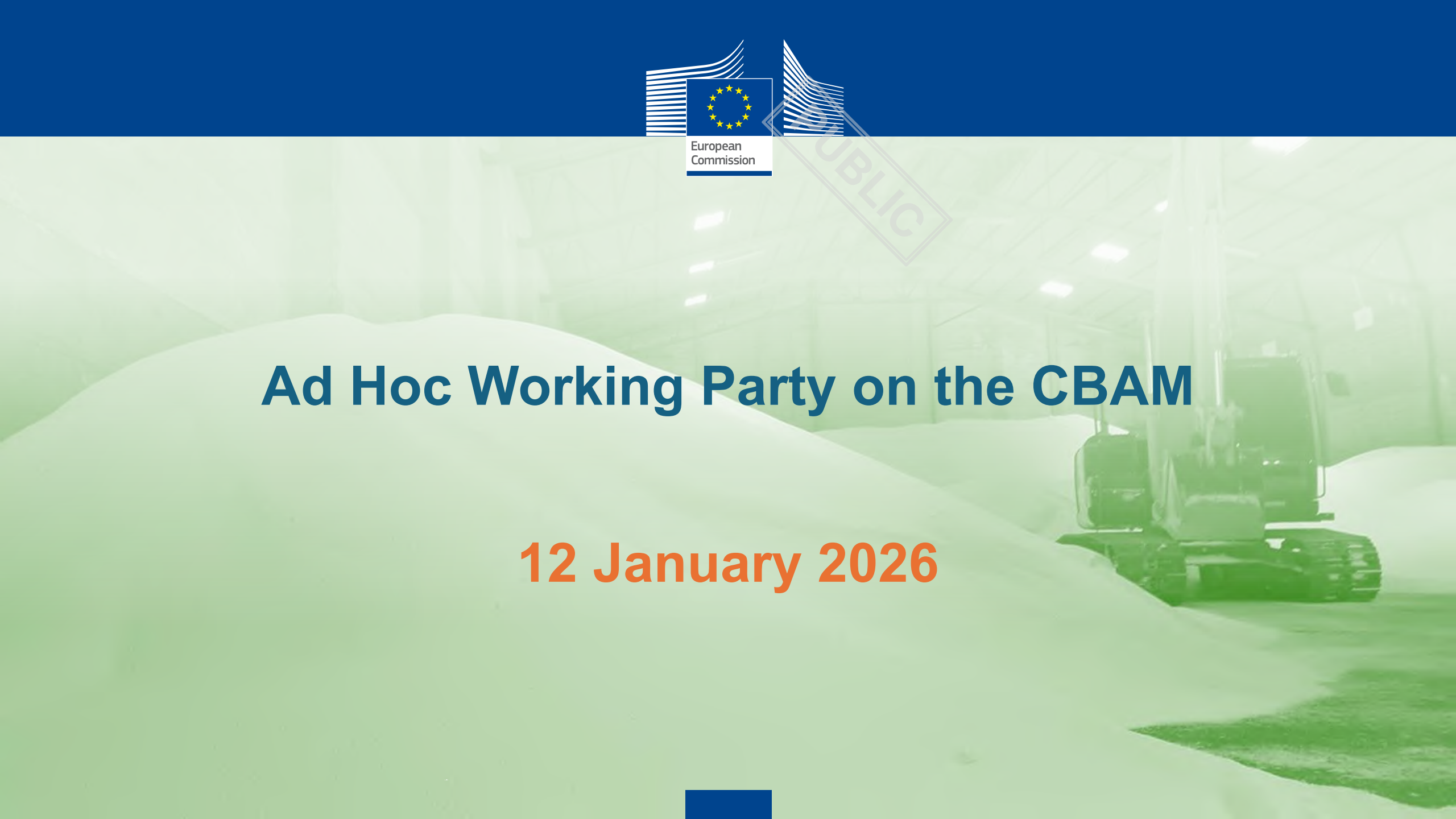
MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Delegations
Subject:	CBAM - presentation by the European Commission

Delegations will find attached the presentation made by the European Commission at the AHWP CBAM meeting on 12 January 2026.



Ad Hoc Working Party on the CBAM

12 January 2026

A. CBAM review report

Review report: legal basis Art 30(2) CBAM Reg

2. Before the end of the transitional period referred to in Article 32, the Commission shall present a report to the European Parliament and to the Council on the application of this Regulation. The report shall contain an assessment of:

(a) the possibility to extend the scope to:

(i) embedded indirect emissions in the goods listed in Annex II;

(ii) embedded emissions in the transport of the goods listed in Annex I and transportation services;

(iii) goods at risk of carbon leakage other than those listed in Annex I, and specifically organic chemicals and polymers;

(iv) other input materials (precursors) for the goods listed in Annex I;

(b) the criteria to be used to identify goods to be included in the list in Annex I to this Regulation based on the sectors at risk of carbon leakage identified pursuant to Article 10b of Directive 2003/87/EC; that assessment shall be accompanied by a timetable ending in 2030 for the gradual inclusion of the goods within the scope of this Regulation, taking into account in particular the level of risk of their respective carbon leakage;

(c) the technical requirements for calculating embedded emissions for other goods to be included in the list in Annex I;

(d) the progress made in international discussions regarding climate action;

(e) the governance system, including the administrative costs;

(f) the impact of this Regulation on goods listed in Annex I imported from developing countries with special interest to the least developed countries as identified by the United Nations (LDCs) and on the effects of the technical assistance given;

(g) the methodology for the calculation of indirect emissions pursuant to Article 7(7) and point 4.3 of Annex IV.

Review report: Art. 30 of CBAM

- Experience with CBAM's application in the **two-year transitional period**, October 2023 to end-2025
- **Possibility for extension** to downstream products, indirect emissions, emissions in transport, as well a other ETS sectors like chemicals and polymers
- Assessing governance and functioning of CBAM, and its impact on LDCs
- Second report **planned for 2027** on further scope extension **to indirect emissions from CBAM goods** (iron and steel, aluminium and hydrogen) and **to other sectors**.

Review report: key elements

- CBAM can be **an engine for global industrial decarbonisation**- contributing to addressing carbon leakage and fostering global carbon pricing.
- **Already 80 carbon pricing instruments implemented** in 95 jurisdictions, with their coverage reaching about 28% of global greenhouse gas emissions in 2025.
- CBAM contributed to progress in international climate discussions, facilitated by outreach and technical aid.
- Impact of CBAM on LDCs, developing countries and neighbourhood countries relatively minor (less than 0.01% of GDP of LDCs).
- Assessment of CBAM impact on Ukraine's economy in the exceptional circumstances of Russia's war of aggression. Despite the damage to its economy, Ukraine is the largest exporter of CBAM goods to the EU, and producers in Ukraine are able to monitor and calculate emissions. **CBAM is expected to have only a limited impact (less than 0.01%) on Ukraine's GDP** while EU demand for Ukrainian iron and steel is estimated to remain broadly stable.

Review report: Implementation roadmap

- **Two-step approach** for strengthening and extending CBAM in the coming years:
  - **Step 1: 2026–2027**
    - Dec 2025: proposals on downstream extension, strengthening anti-circumvention rules and a temporary fund to support sectors at remaining risk of carbon leakage
    - 2026: Implementing Act on the deduction of carbon price effectively paid in third countries.
  - **Step 2: 2027**
    - Report to evaluate further scope extensions to indirect emissions to the rest of CBAM goods (iron and steel, aluminium and hydrogen), as well as to other sectors like chemicals, or other downstream goods.

Review report: table of contents

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B. Proposal for a Regulation amending the CBAM Regulation as regards the extension of its scope to downstream goods and anti-circumvention measures

I. Overview of the proposal

Objectives

The objective of the proposal is to strengthen the effectiveness of CBAM in addressing the risk of carbon leakage and contribute to decarbonisation globally by:

- Extending the scope of CBAM to steel and aluminium-intensive downstream products
- Addressing circumvention risks through better monitoring and targeted amendments
- Improving the treatment of electricity to encourage decarbonisation

The revision also provides an opportunity to make a number of minor fixes and improvements to the Regulation

Downstream extension: General approach

General considerations

- Focus on goods where ‘iron & steel’ and ‘aluminium’ constitute dominant CBAM input – as mandated by the Steel and Metals Action Plan
- Only emissions that would be covered under the EU ETS if the good were produced in the EU. No downstream process emissions
- Criteria for the selection should follow the same criteria as for the original scope – adjusted where needed to downstream characteristics

Other design elements

- Use of actual emissions remains the priority in the determination of embedded emissions
- Default values will need to be developed for each good. In case of use default value , no mark-up
- Possibility to review the list, as part of the 2027 review

Downstream extension: New goods to be added

Downstream good category	Number CN codes
Industrial Machinery & Machine Tools	34
Vehicles & Chassis	39
Metal Hardware & Fabrications	28
Vehicle Components & Systems	21
Domestic Appliances & Consumer Goods	18
Construction & Lifting Equipment	17
Engines, Motors & Power Generation	7
Electrical & Electronic Components	6
Medical, Laboratory & Safety Devices	5
Agricultural & Lawn Equipment	5
Total	**180**

- All are goods with a high carbon leakage risk and a high share of steel and/or aluminium content (on average, 79% steel/aluminium content)
- Vast majority (86%) based on combined metal inputs (iron & steel and aluminum). Rest based purely on Iron and Steel inputs
- Vast majority are industrial components (metal mountings, cylinders, industrial radiators, or machines for casting). A small share, 6%, of the downstream goods concerned are also household goods, such as washing machines.
- In terms of value, the current CBAM scope of 571 CN codes accounts for EU imports of about EUR 100 billion (out of which EUR 80 billion comes from iron and steel and aluminium)
- The extension would add 180 CN codes around 55 billion in value add another 55% in value terms by increasing the scope by 30% in CN code terms.

Anti-Avoidance

- Review of scope
  - Inclusion of downstream products also addresses circumvention risk
  - Closing the scrap loophole: Attribution of emissions to pre-consumer metals scrap used as input material (precursor) to a CBAM good.
    - Direct imports of pre-consumer scrap remain outside the scope (no risk of carbon leakage in its own right).
    - Post-consumer scrap not be covered

- Targeted empowerments, tackling
  - Mis-declaration of emission intensities via additional and targeted reporting requirements. Notably includes traceability requirements for selected high-risk cases
  - Abusive practices: Requirement for additional documentation for the use of actual emissions, otherwise use of country and product specific default values

Electricity

Improvements of the methodology to calculate the embedded emissions of electricity

- Change of **default values:** from the current CO2 EF (only fossil-fuel based) to an average emission factor of the exporting country that also accounts for electricity generated from renewable sources.
- **Streamlining of conditionality:**
  - Opening of condition to indirect PPAs
  - Removal of the condition related to physical network congestion
  - Capacity nomination shall be proven solely in case of explicit capacity allocation
- **Clarification** that PPAs are only physical
- Once these amendments are adopted, the implementing acts (methodology / verification) will be adjusted as necessary, **including default values**, but no change of fundamental design will be needed as a result.

Other elements:

- Clarification that certain unscheduled electricity flows during emergencies not subject to CBAM
- Some adjustments in the context of the Art. 2(7) exemption

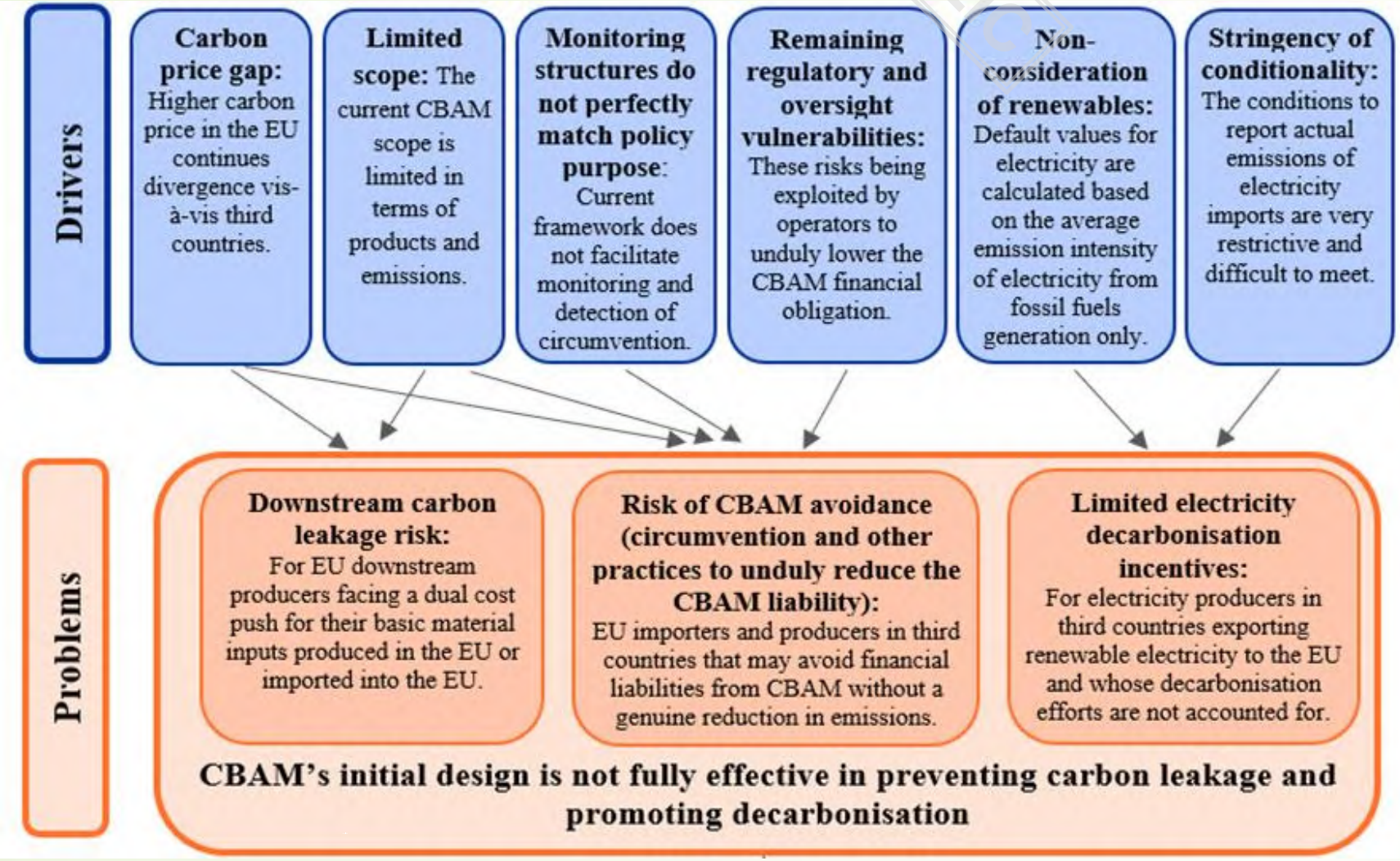
Other fixes and improvements made by the revision

The legislative revision is also an opportunity to make a number of improvements:

- Extend the possibility to require applicants for CBAM authorisations to provide a guarantee to meet financial criteria, possibility to recover the guarantee to compensate for non-compliance with CBAM obligations;
- Make registration of operators in CBAM Registry mandatory for the use of actual verified emissions;
- Allow operators to share data on verified emissions of precursors with each other via CBAM Registry;
- Strengthen data confidentiality by reducing the scope of the record-keep obligation and of information included in the verification report;
- Possibility for the Commission to temporarily remove CBAM goods from Annex I;
- Clarify the scope of certain empowerments (e.g. customs communication);
- Other amendments.

II. Impact assessment

Problems and problem drivers



Public consultation

Public consultation took place as well as targeted stakeholder consultation

Outcome of public consultation

- 367 stakeholders participated, about 20 % from outside the EU (notably Egypt, UK and Ukraine).
- Mostly businesses/ organisations or business associations. But also citizens, public authorities, NGOs, academic/research institutions, trade unions, environmental organisations and other organisations

Key messages

- About three-quarters of the downstream respondents consider that there is a risk of carbon leakage downstream at least to some extent
- The majority of downstream stakeholders agree that extending the CBAM would have a positive climate impact: About 70% agree or strongly agree that such an extension would reduce the risk of carbon leakage for downstream products made in the EU and the effectiveness of EU climate policy
- The majority of downstream stakeholders also agree that the downstream extension could significantly increase the administrative burden for EU importers, non-EU exporters and non-EU producers of downstream goods
- Nearly 80% of circumvention respondents believe the current CBAM system is at risk of circumvention, which could undermine its effectiveness
- About 90% electricity respondents believe the current methodology to calculate the default values used in CBAM is inadequate to achieve the CBAM objectives
- Nearly 70% electricity respondents think that the conditions for relying on actual emissions need to be amended

Downstream extension: Criteria for selection

- Carbon **leakage** risk screen
  - **trade intensity** as a proxy for a downstream good's tradability
  - **cost push indicator**: How much the carbon cost embedded in CBAM-covered inputs drive a downstream good's overall costs, compared to their overall value added

Downstream products are deemed at risk of carbon leakage when they have both a high-cost push and high trade intensity

- Additional filtering
  - **EU production emission floor:** ensuring only products with high climate relevance are selected

- Technical feasibility to attribute emission to the goods selected

Downstream: Options considered

	Carbon leakage risk filter		
Policy options	Trade intensity	Cost push	EU Emission floor
Option 1: Targeted	20%	15%	150Kt CO_2eq.
	• Higher cut-off for the carbon leakage filter and an emission floor • Selected products are those with the highest leakage risk and highest climate relevance.		
Option 2: Balanced	10%	5%	150Kt CO_2eq
	• Lower cut-off for the carbon leakage filter and keeps the emission floor. • Selected products are centred on those potentially at risk of downstream carbon leakage and with the highest climate relevance.		
Option 3: Broad	10%	5%	None
	• Keeps lower cut-off for the carbon leakage filter. No emission floor, • Broad list of downstream products to selected for inclusion		

70-80 CN codes

150-180 CN codes

230-250 CN codes

Downstream: Impacts and comparing the options

Across the three options, modelling showed only marginal differences in economic and social impacts:

- Macroeconomic impacts are minimal (a change of less than -0.001% under each option)
- Environmental impacts are marginally better under Option 3 than Option 2, while markedly inferior under Option 1
- Price increases for EU final consumers are estimated to be very small (some sectors experience slightly higher impacts)

We also considered additional efficiency and proportionality indicators: Overall, Option 2 fares best in advancing the environmental objectives of CBAM while keeping the administrative burden in check.

	Indicators	Option 1: Targeted extension	Option 2: Balanced extension	Option 3: Broad extension
General	Number of additional importers	1400-1500	7000-7100	8400-8500
Effectiveness: benefits	EU production emissions (Mt CO2 eq.) covered	45-60	110-120	110-120
Efficiency: benefits / costs	EU production emissions (Kt CO2 eq.) / number of CN codes	680-740	720-730	470-480
	Import emissions (Kt CO2 eq.) / number of importers	1.1-1.15	1.1-1.15	1.05-1.1
Proportionality	Share of CN codes with ≥ 70% basic good content (kg)	85-100%	85-90%	75-80%
Administrative burden	Estimated additional compliance and enforcement costs in EUR millions	2.1 – 12.7	9.1 – 53.0	10 – 59.8

Anti-avoidance options

Policy measures	Option 1:	Option 2:
Further detail CN codes to capture composition of products within a given CN code (defined in an empowerment)	Common to both policy options	
Attach additional conditions (defined in an empowerment) to the use of actual emissions for a combination of goods and origins in case of sufficient evidence pointing towards a high risk of abusive practices.	Common to both policy options	
Inclusion of scrap as precursor	Pre-consumer	Pre-consumer and post-consumer
Requesting the provision of evidence (defined in an empowerment) to prove place of production to allow the use of actual emissions (traceability requirement)	For a sub-set of CN coders/origins	For all CN codes/origins

Anti-avoidance: comparing the options

The preferred option (Option 1) strikes a balance between revenue preservation and additional reporting burden. It allows to address:

- the scrap loophole as well as the risk of mis-declaration of emission intensity, through better traceability requirements and a better specification of the content of products imported.
- abusive practices for high-risk cases, thereby limiting the impact in terms of administrative burden to a subset of businesses. It also allows for future-proofing the system.

At the same time, it limits additional admin burden for importers and authorities and specifically:

- Closing the **scrap loophole.** Negligeable administrative cost for businesses (impact limited to a methodological dimension for emissions calculation). Also, no additional declarations to be handled by national administrations.
- Additional **traceability requirements** limited to a subset of CN codes/origins (selected high risk), limiting the number of impacted businesses.

Electricity options

Policy measures	Baseline	Option 1	Option 2	Option 3	Option 4 (Preferred)
Electricity emission factor	CO2 emission factor of the exporting country	Preserving the CO2 emission factor of the exporting country		Change the emission factor to reflect electricity generation from renewables, too.	
Conditions for using actual values	Absence of physical network congestion shall be demonstrated	Absence of structural congestion shall be demonstrated	Removal of the criterion related to congestion	Absence of structural congestion shall be demonstrated	Removal of the criterion related to congestion
	Imported electricity is covered by a PPA	Imported electricity shall be covered by a physical PPA, including indirect PPA			
	Capacity nomination to be proven for all imports of electricity	Capacity nomination shall be proven solely under explicit allocation			

Electricity – Impacts and comparing options

- All options entail methodological adjustments but no change in scope.
- The preferred option (no. 4) **best incentivises renewable electricity** generation in third countries due to:
  (1) The methodology to calculate default value which better reflects decarbonisation
  (2) Streamlined conditions to declare actual values
- It will lead to the **highest reduction in the methodological complexity** and thus administrative burden associated with the use of actual emissions to calculate the embedded emissions of electricity.
- It will reduce the CBAM liability for electricity importers, driven by lower default values and simplified conditions for declaring actual values.
- This reduction is likely to translate into lower social impacts for EU consumers, as electricity prices are expected to be comparatively lower under the preferred option.
- No significant impact on revenues expected, as lower default values are expected to encourage higher import volumes.