

**Question 1:** What is the purpose of the EU's Carbon Border Adjustment Mechanism (CBAM)?

**Answer 1:** CBAM aims to prevent *carbon leakage* — the relocation of carbon-intensive production outside the EU to jurisdictions with weaker climate policies. It ensures imported goods face a carbon cost equivalent to that under the EU Emissions Trading System (ETS), supporting Europe's 55% emission-reduction target by 2030 and climate neutrality by 2050

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**Question 2:** How does the CBAM work in practice?

**Answer 2:** Importers will report embedded emissions of covered goods and, from 2026 onward, purchase *CBAM certificates* equal to the carbon price that would have been paid under the EU ETS. If a foreign producer has already paid a domestic carbon price, that cost is deducted from the CBAM obligation, avoiding double pricing

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**Question 3:** What is the current stage of CBAM implementation?

**Answer 3:** The CBAM Regulation entered into its **transitional phase** on 1 October 2023, requiring quarterly emissions reports but no payments. The **definitive phase** begins in **2026**, when certificate purchases start. Amendments proposed in 2025 may postpone full rollout to 2027 and simplify compliance for small importers

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**Question 4:** Which sectors and goods fall under CBAM?

**Answer 4:** The initial scope covers **cement, iron & steel, aluminium, fertilisers, hydrogen, and electricity**. These sectors were chosen for their high emissions and carbon-leakage risk, representing over half of industrial ETS emissions. The scope may later expand to downstream products such as fasteners or alloys

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**Question 5:** What are the main reporting obligations during the transitional phase?

**Answer 5:** Importers (or their indirect customs representatives) must submit **quarterly reports** detailing the volume of CBAM goods, direct and indirect embedded emissions, and any carbon price paid abroad. Reports are due one month after each quarter ends, beginning 31 Jan 2024

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**Question 6:** What are the key reforms introduced in 2025?

**Answer 6:** The EU Parliament endorsed reforms including:

- A **de minimis threshold of 50 tons/year**, exempting ~90% of small importers by volume.
- Simplified emission-data rules (allowing use of verified default values).
- A possible delay of full implementation to 2027.
- Development of **country-level default carbon-price values** to credit non-EU carbon payments

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**Question 7:** How does CBAM affect low- and middle-income countries (LMICs)?

**Answer 7:** LMICs face higher exposure due to reliance on CBAM sectors (e.g., fertiliser, cement) and limited capacity to track emissions. SMEs in supply chains risk exclusion if they cannot provide verified data. Studies project up to **0.5% income loss for some African economies**, prompting calls for EU technical and financial support

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**Question 8:** How will revenues from CBAM be used?

**Answer 8:** CBAM is expected to generate about **€2.1 billion annually**. While most revenue currently goes to the EU budget, experts urge allocating part to *international climate finance*—for example, funding MRV systems or green-industry projects in exporting LMICs—to ensure a fair transition

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**Question 9:** What penalties apply for non-compliance during the transitional phase?

**Answer 9:** Failure to report, or submitting incorrect or incomplete data, can result in fines of **€10–50 per tonne** of unreported emissions. National competent authorities (NCAs) enforce compliance and may request corrections before imposing penalties

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**Question 10:** What are the EU's main recommendations to make CBAM globally equitable?

**Answer 10:**

1. Simplify rules for SMEs and developing countries.
2. Expand CBAM to circular-economy products.
3. Provide technical and financial aid for LMICs' monitoring systems.
4. Recognize equivalent foreign carbon-pricing or green investments.
5. Dedicate part of CBAM revenues to global decarbonization funds