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Final Report

Shaping global green leadership

Inclusive solutions to address the negative spillovers of the European Green Deal

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INTRODUCTION & METHODOLOGICAL NOTE

This report aims to foster a European-level reflection on the coherence between the European Union's internal and external policies, with a particular focus on the spillover effects of EU trade-related sustainability policies.

Since 2019, under the framework of the European Green Deal, the European Union has introduced a series of environmental measures with significant implications for global value chains (GVCs). These include, among others, the Carbon Border Adjustment Mechanism (CBAM), the Regulation on deforestation-free products (EUDR), the Corporate Sustainability Due Diligence Directive (CSDDD), and the Ecodesign for Sustainable Products Regulation (ESPR). These measures, which carry extraterritorial dimensions, have triggered concern among stakeholders in various regions—from the BRICS countries (Brazil, Russia, India, China, South Africa, UAE) to actors in low- and middle-income countries (LMICs)—who fear unfair and asymmetric access to the EU market.

On the concept of "spillovers"

In academic and policy research, the concept of *spillovers* refers to the **unintended effects**, either positive or negative, that policies enacted in one jurisdiction can have **beyond their borders**. Within the context of the European Green Deal, these spillovers pertain to the impact of EU environmental regulations on non-EU countries, particularly through global value chains and trade relations.

Positive spillovers may occur when EU environmental standards encourage regulatory improvements or sustainable investments in other countries. Conversely, negative spillovers can arise when such standards impose compliance costs or trade barriers that disproportionately affect countries with limited institutional or technological capacities.

An important reference point for assessing international spillovers is the "Spillover Index" developed by the UN Sustainable Development Solutions Network (SDSN), featured in its annual *Sustainable Development Report*[1]. This index systematically evaluates the transboundary environmental, social, and economic impacts of countries' domestic actions. Notably, the European Union is identified as the worst-performing region globally in terms of negative spillover effects. While EU

[1] UN Sustainable Development Solutions Network (SDSN), Sustainable Development Report 2024 https://www.unsdsn.org/resources/the-sustainable-development-report-2024/

member states demonstrate significant progress in achieving domestic sustainability targets, the region's external footprint—manifested through trade, consumption, and financial flows—suggests a considerable outsourcing of environmental and social costs.

The Overseas Development Institute (ODI) has introduced and developed the concept of a "*green squeeze*" (Keane, 2023) to describe the pressures that new EU environmental measures, such as the Carbon Border Adjustment Mechanism (CBAM), the Eco-design for Sustainable Products Regulation (ESPR) and the Regulation on deforestation-free products (EUDR), place on Least Developed Countries (LDCs)[2]. These measures can lead to increased compliance costs and potential exclusion from EU markets for countries lacking the necessary infrastructure and resources to meet the new requirements. In '*Good Spillover, Bad Spillover? Industrial Policy, Trade, and the Political Economy of Decarbonization'*, Mehling (2025) offers a categorisation of both positive and negative spillovers stemming from climate and environmental policies. The paper highlights the dual nature of spillover effects. While they have contributed to important achievements in climate change mitigation, they also risk hindering the pace of decarbonization and are frequently overlooked in the design of climate policy instruments, largely because of their complexity and the challenges involved in defining and measuring them. It further argues that when industrial and trade policies are not properly coordinated, they can intensify harmful spillovers, ultimately raising both the costs and the duration required for effective decarbonisation.

Table 1. Mehling (2025), Types of climate-related spillover effects described in the literature, across contexts and with observed climate implications

Context	Example	Description	Climate Implica-tion
Time Hori-zons	Green Paradox	Increase emissions in the near term due to anticipated regulation	Harmful
Geogra-phies	Emissions Leakage	Emission shifts across geographies due to policy interventions	Harmful
Geogra-phies	Policy Diffusion	Adoption of mitigation policies across geographies	Beneficial
Markets	Price Effects across In-terconnected Energy Markets	Changes in value of renewable energy resources due to growing penetration across markets	Harmful

[2] Jodie Keane, The Green Squeeze, An Explainer, Emerging Analysis, ODI, December 2023 https://media.odi.org/documents/ODI_The_green_squeeze-an_explainer.pdf

Sectors	Waterbed Effect	Emission shifts across sectors due to policy interventions	Harmful
Companies	Knowledge Spillovers	Innovation and learning by doing benefits shared across firms	Beneficial
Functions	Functional Spillovers	Political integration	Beneficial
Knowledge	Technology Spillovers	Innovation effects transmitting across different technologies	Beneficial
Behaviors	Peer Effect	Changes in social norms or motivation	Beneficial
Behaviors	Rebound Effect	Efficiency gains stimulate higher energy use	Harmful

Source: Mehling, M., (2025), *Good Spillover, Bad Spillover? Industrial Policy, Trade, and the Political Economy of Decarbonization*, Research Brief, MIT, Center For Energy and Environmental Policy, January 2025 https://ceepr.mit.edu/wp-content/uploads/2025/01/MIT-CEEPR-WP-2025-01-Brief.pdf

On the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC)

The principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR) was formally articulated in the 1992 United Nations Framework Convention on Climate Change (UNFCCC) and later reaffirmed in subsequent international agreements, including the Kyoto Protocol and the Paris Agreement of 2015. It reflects the recognition that, while all states are responsible for addressing global environmental degradation, they do not share equal historical responsibility or capacity to respond to it. Developed countries, having contributed most to cumulative emissions and possessing greater financial and technological resources, are expected to take the lead in mitigation and support efforts.

In the context of EU environmental policymaking, especially measures with extraterritorial reach such as CBAM or the EUDR, the CBDR-RC principle highlights the importance of aligning trade-related instruments with global equity concerns. Many low- and middle-income countries – particularly in Africa, Latin America, and Southeast Asia – lack the infrastructure, institutional capacity, or investment access needed to comply with rapidly evolving EU regulations. Without adequate support or flexibility, these countries risk being penalised for structural conditions beyond their control.

Respecting the CBDR principle, therefore, demands more than rhetorical commitment: it requires designing environmental policies that are responsive to varying national circumstances, and ensuring that support mechanisms (e.g. technical assistance, climate finance, and preferential partnerships) are embedded in regulatory frameworks. Failing to do so could erode trust, fuel perceptions of

neo-colonialism, and undermine the legitimacy of the EU's sustainability agenda on the global stage.

A recurring criticism of the European Green Deal agenda concerns the lack of prior consultation in the policymaking process and the insufficient inclusion of economic actors from the most vulnerable economies (those heavily dependent on access to the European market), and a fragmented external outreach from the European Commission, with different Directorate-Generals of the European Commission managing international dialogues in an uncoordinated manner. The diversity of methods employed in this project is primarily aimed at fostering inclusion, beginning with feedback from international partners, with particular attention given to the African continent. The insights gathered through the Barometer and structured interviews enabled a **strategic prioritisation** of the policies to be addressed.

To explore the geopolitical dimensions of these developments and understand how they are perceived outside the EU, this report draws on extensive qualitative research involving stakeholders in LMICs, with a specific focus on Africa. The research was conducted through two main formats:
A large-scale expert survey, the fifth edition of the *European Green Deal Barometer*, which gathered insights from both European and non-European experts to categorise attitudes toward the Green Deal (see Section 1).
A series of structured interviews with African experts, providing deeper insight into regional challenges, expectations, and engagement strategies (see Section 2). This edition of the *Green Deal Barometer* has been adapted into a platform for structured engagement with non-European experts, particularly on the African continent.

Rather than focusing primarily on the economic or social tensions that may result from EU environmental regulations, this report highlights the potential for constructive engagement and international cooperation. It recognises the complexity of the issues at stake, particularly for LMIC stakeholders navigating the evolving EU regulatory landscape.

Structure of the Report The report is organised into three parts:

Section 1 presents the findings of the *Green Deal Barometer* survey, mapping international perceptions of EU Green Deal policies.
Section 2 summarises the outcomes of structured interviews with African experts, identifying key themes and concerns.

Section 3 compiles three policy papers that analyse in depth the three most frequently mentioned regulatory measures—CBAM, EUDR, and ESPR. These papers, published between March and June 2025, were further informed by expert discussions held during a roundtable in Warsaw on 28 March 2025, hosted under the Polish Presidency of the Council of the EU[3]. The project concludes by examining the role of foreign policy instruments and trade partnerships as platforms for cooperation that could help ease tensions arising from the implementation of these regulatory tools.

Together, these three sections aim to provide an initial yet comprehensive basis for policy dialogue on how the EU's sustainability agenda can align more effectively with the realities and priorities of its global partners.

[3] Think 2030 – Poland https://think2030.eu/think2030-dialogues-poland/

1. EUROPEAN GREEN DEAL BAROMETER: A FOCUS ON AFRICAN ATTITUDES TOWARDS EU ENVIRONMENTAL POLICIES

The European Green Deal Barometer is an annual expert consultation assessing the implementation progress of the European Green Deal (EGD). The fifth edition focuses on the **external dimension of the Green Deal's policies** and analyses the opportunities and challenges that the EGD presents to countries outside the EU, specifically identifying the external spillovers.

IEEP interviewed 165 sustainability experts worldwide via a 15-minute online survey. About four in five (81%, n=133) live in EU countries, and about one in five (19%, n=32) live in countries outside the EU. In line with the focus of this report, we will present the **perspectives of sustainability experts from countries outside the EU**, highlighting the insights of the **10 experts based in Africa**. The sample of non-EU stakeholders is varied, with respondents working in different sectors from academia and think tanks (37.5%) to NGOs and foundations (37.5%), from the public administration (12.5%) to the private sector (9%). The remaining 3% of respondents work in other fields, including in development finance.

Over four-fifths (81%) of respondents have worked in a sustainability-related role for at least five years.

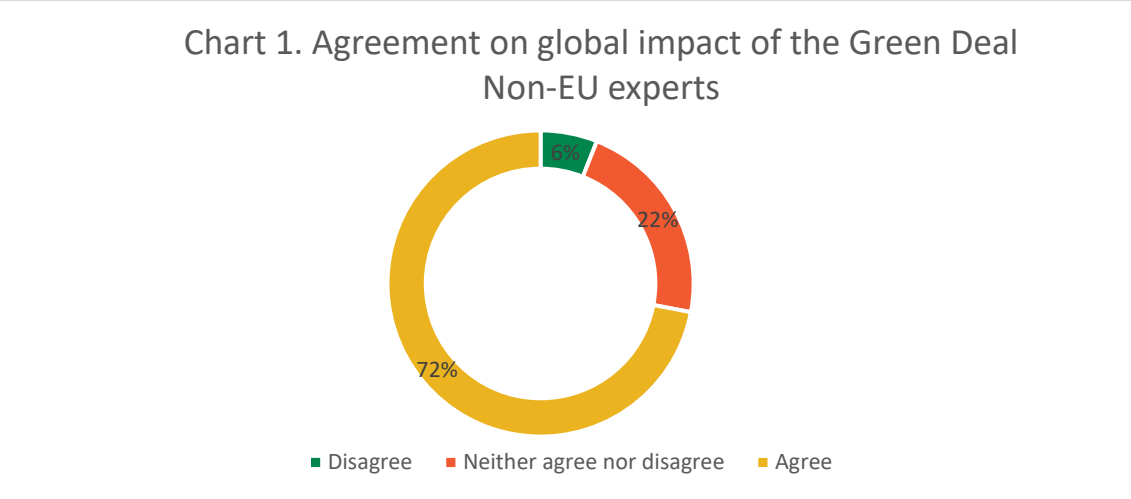
1.1 GLOBAL IMPACTS OF THE GREEN DEAL AND EU EXTERNAL POLICIES

With the Green Deal, the EU has added an international dimension to climate policy, given the many EGD files that inevitably have external impacts. This 2025 edition of the Barometer has a special focus on the perception of the Green Deal

policies in third countries, including the coherence of such policies with the EU external action, as well as the opportunities and challenges it presents or poses to countries outside the EU.

First of all, we tested the experts' familiarity with the European Green Deal. Among non-EU experts, **91% reported being familiar with EGD policies**, with 72% indicating they are familiar or very familiar. This demonstrates a notable interest in EU politics.

The same proportion, **72%, acknowledge the global impact the European Green Deal** would have if enacted into law, while only 6% disagree. The others (22%) neither agree nor disagree with this statement (see Chart.1).



Question: To what extent do you agree or disagree with the following statement: "If the Green Deal proposals become law, they will have a global impact"?

What do experts based in Africa think?

- **60%** recognise the global impact of the EGD if turned into approved legislation.
- **50%** believe that the EU's external policies are sufficiently aligned with the Green Deal agenda.
- **50%** consider the EU rather closed to input from countries outside the EU.

- **30%** think that EU external policies demonstrate consistency and/or coherence.
- Main opportunity: **environmental and sustainability incentives**, selected by 80%.
- Main challenge: **trade and market barriers**, selected by 60%.

When asked about the **alignment of the EU's external policies with the Green Deal agenda**, respondents expressed mixed views. Only 25% believe that these policies are sufficiently aligned, while 44% do not recognise sufficient alignment between the two policy frameworks. The remaining, about one-third (31%), hold a neutral position on this issue.

A similar pattern emerges regarding perceptions on the **consistency and coherence of EU external policies**. One-fourth of non-EU respondents (25%) believe that EU external policies demonstrate consistency and/or coherence, while half (50%) disagree.

The most selected policies to be revised to improve consistency and/coherence:

- **trade policy**, selected by 59%
- **energy policy**, including decarbonisation, selected by 56%
- **cooperation for development**, selected by 50%

We also explored perceptions of the **EU's openness to input from countries outside the EU** in shaping and implementing Green Deal policy proposals. Slightly more than half (54%) see the EU as rather closed to external input. In addition, non-EU experts largely agree that the Green Deal presents both opportunities and challenges for countries outside the EU, including their own; this view is shared by about four-fifths of experts (81%). More specifically,

- The main opportunity that the EGD presents is: **environmental and sustainability incentives** (selected by 72%)
- The main challenge that the EGD poses is: **trade and market barriers** (also selected by 72%)

Chart 2 (see below) presents experts' views on certain statements related to the **Green Deal's contribution to international commitments** or **third countries' climate action**. Respondents tend to agree with all the statements, recognising the positive impacts of the Green Deal and the strong effectiveness of its policies. In particular, there is a wide agreement that the Green Deal will help the EU achieve international commitments (i.e., UN SDGs, Paris Agreement, and the global biodiversity goals). On the other hand, they believe that strategic international partnerships will help the EU achieve the EGD objectives.

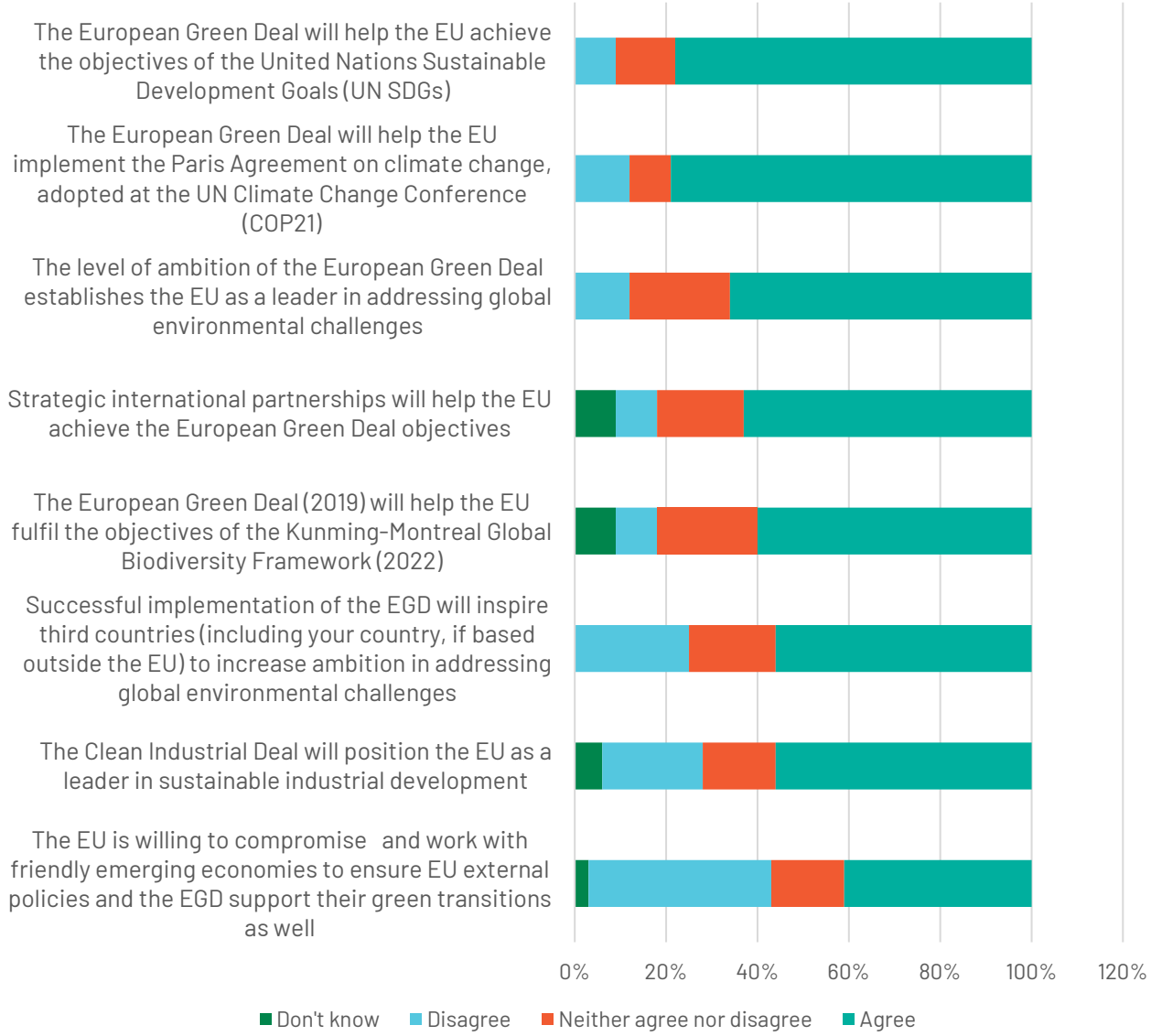
What do experts based in Africa think?

60% deem the EGD's overall external impact as positive.

In addition, they agree that the EGD establishes the EU as a global leader in addressing environmental challenges, and, conversely, that a successful implementation of the Green Deal will inspire other countries to increase their action. Regarding the Clean Industrial Deal, the majority of respondents agree that it positions the EU as a leader in sustainable industry (56% vs. 22%). Opinions are more mixed on the statement regarding the **EU's willingness to compromise with emerging economies**, where the percentage of non-EU experts who agree with this statement is barely higher than those who disagree (41% vs. 40%).

Nevertheless, **72% of non-EU respondents see the overall external impact of the EU Green Deal as positive** (either positive or very positive). Only 12% consider it to be negative or very negative.

Chart 2. Agreement with the tested statements
Non-EU respondents



Question: To what extent do you agree with the following statements?

1.2 DEEP-DIVE INTO EGD POLICIES WITH AN EXTERNAL DIMENSION

In the second part of the survey, respondents were invited to select and respond to additional questions about specific Green Deal files or policies with an international dimension, based on their expertise. This allowed for more in-depth insights into the perceived impacts and external spillovers of these policies.

1.2.1 Carbon Board Adjustment Mechanism (CBAM) – 13 responses

Non-EU experts generally agree (93%) that the CBAM direct revenues imposed on EU imports should be recycled to contribute to international climate needs. A large majority (62%) believe that they should be redirected towards climate-vulnerable countries or low-developed countries, while 38% think they should instead be recycled to the country or business of origin.

1.2.2 Energy transition -12 responses

Half of non-EU respondents (50%) think that the increased target in the EU Renewable Energy Directive (RED) will support the adoption of renewable energy sources in the EU and in the rest of the world to a moderate/great extent, 42% agree to some extent, while 8% agree to a limited extent. It is worth noticing that none of the experts dispute the EU's influential role in the energy transition, as nobody selected the "not all" option.

We also asked experts for their views on the new Clean Trade and Investment Partnerships (CTIPs), as part of the Clean Industrial Deal (CID), the new EU framework for the energy transition and the development of clean technologies. With the information available at the time of the fieldwork (e.g., Commission political guidelines, Commissioners' mission letters, and hearings), more than half of respondents (58%) believe that the CTIPs will contribute to a fairer and reinforced cooperation with third countries on critical raw materials, clean energy, and clean tech to a moderate or great extent, 32% believe it will do so to some or limited extent, while 8% think it will not at all contribute to reinforced cooperation.

2.2.3 Climate diplomacy - 7 responses

71% of non-EU experts deem the EU's role in climate diplomacy to be inclusive and effective in engaging with third countries in international climate negotiations to a great or moderate extent, while 29% think it is so to some extent. No one selected the other options available, namely "to a limited extent" and "not at all", suggesting that the EU's leading role in such contexts is highly recognised.

Regarding how to enhance EU green leadership, the most selected provision the EU should adopt is legally binding carbon budgets (71%), followed by regulations and business support packages for delivering the SDGs (57%) and green debt reform and concessionary loan packages for developing economies (47%).

2.2.4 Spillovers and policies to be reviewed

Table 1 gathers the spillovers (or limits) that non-EU experts identified for each policy. The most selected options are often related to the risk of creating **inequalities** and the **social dimension** (CBAM, EUDR and CRMA), or **environmental impacts** (CRMA and FTAs), while for the CSDDD, the main spillover is related to **supply chains**.

Table 1. Green Deal policies' perceived spillovers or limits

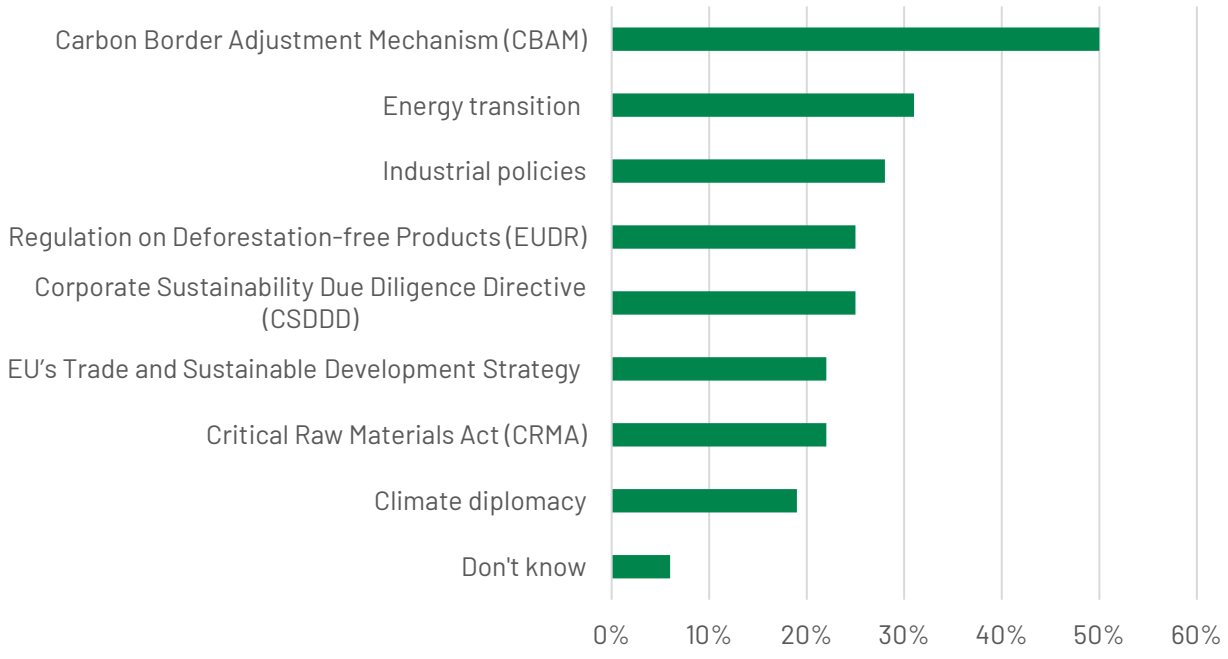
EGD Policy	Main Spillover or limit
CBAM (13 RESPONSES)	It makes Global Southern countries pay higher importing costs even if they are not responsible for climate change (shifting the financial and administrative burden towards countries whose historic contribution to GHG emissions is minimal) - 85%
EUDR (6 RESPONSES)	Risks disproportionately impacting smallholder farmers due to restricted resources to ensure compliance - 83%
CRMA (6 RESPONSES)	It lacks circularity elements and a sustainable resource use strategy to reduce the EU's material footprint, and The environmental and social impacts are not adequately addressed – both 67%
FTAS (5 RESPONSES)	They contribute to global climate and environmental degradation by importing goods produced in countries with less stringent climate and environmental regulations – 60%
CSDDD (8 RESPONSES)	Supply Chain Disruptions (e.g., if suppliers cannot meet the requirements) – 87%

To limit the negative external impacts of the Green Deal, we asked experts which policies the EU should prioritise to revise. **CBAM is the EGD policy that respondents think the EU should prioritise for revision** to limit the negative external impacts, selected by half of the non-EU experts (50%). It is followed by energy transition and industrial policies, respectively selected by 31% and 28% of this group of experts (see Chart 3).

What do experts based in Africa think?

Also for African respondents, the CBAM is the Green Deal policy that should be prioritised by EU institutions for revision, selected by 80%

Chart 3. Specific EGD policies to be revised to limit negative external impacts
Non-EU experts



Question: In your opinion, among the following EU Green Deal policies, which one(s) should the EU prioritise revising to limit negative external impacts?
Please select max. 3 answers.

2. SUMMARY OF STRUCTURED INTERVIEWS

The project facilitated several semi-structured interviews with African experts. The project team reached out to several experts across different geographies and fields of expertise. The final four interviewees who were able to make time in the timeframe both work and reside in African countries, concentrated in Morocco and Kenya. The experts were predominantly familiar with CBAM and the energy sector. The experts were asked about their familiarity and their views on whether and in what way the EU Green Deal policies are reshaping EU–Africa trade and investment strategies.

Prior to the interview, the experts were provided with a **list of themes and sub questions**, namely ***EU-Africa trade relations*** (influence of EU sustainability policies on EU-Africa trade dynamics; opportunities and challenges), ***social and economic impacts*** (employment, industrial growth, and local economies; EU market access), ***existing investment or trade agreements*** (alignment or contradiction of trade or partnership agreements with the European Green Deal), ***national/regional strategies for economic development*** (adaption to align with or counterbalance the Green Deal), ***existing and future EU investment facilities*** (gaps in current EU investment strategies; improvements could be made to ensure fair and sustainable economic collaboration). During the 30-45 minutes interview, they were asked to focus on some of the themes, according to their field of work. At the end, they were asked to respond to one or more recommendations made in the IEEP policy brief on global leadership (hereafter referred to as 'the policy brief').[4]

In summary, all experts note that measures extend far beyond Europe's borders, with the potential of altering global trade rules and supply chains. The interviewees elaborated on both the opportunities and costs that African economies are facing.

2.1 EU–Africa trade relations

Interviewees emphasised that the Green Deal's trade rules impose significant burdens on African exporters. As most experts' work focuses on CBAM, the conversation was more extensive on this topic. The burden on exporters, such as South Africa for steel, aluminium and chemicals, was referred to as potentially adding €70–100 per ton of CO_2 embedded in goods. The costs that CBAM could add collectively to African economies were estimated by an expert at roughly

[4] IEEP (2025) A Matter of Global Leadership.

$25 billion per year, equal to what the continent receives annually in climate finance. Carbon-intensive economies face pressure to advance decarbonisation steadily and be included in transition plans.

Morocco was highlighted as an example of both a close EU trading partner and a country with pre-emptive measures. Morocco's exports to the EU subject to CBAM are minimal (~4%), and renewables make up around 42% of electricity, targeting 50% by 2030. However, the interviewees warn that **technical progress alone is not enough**. African leaders also debate new domestic policies. Several are considering carbon taxes or emissions trading (South Africa, Kenya, Morocco), but they want EU mechanisms to account for these efforts. In the case of CBAM, the experts push for **formal EU recognition of African decarbonization efforts**, as outlined in the policy brief otherwise "early movers" risk losing their competitive edge. Cooperation with Global South partners on this matter was underlined by all interviewees.

The profit and safety for local communities were one of the main aspects that experts cautioned about the **Critical Raw Materials Act**. As one expert noted, "most cobalt is shipped raw" from the DRC and Zambia, and without co-financing of refineries, the region risks entrenching a pure-export model – and thereby reinforcing old asymmetries. Interviewees pointed to the need to develop local processing, and in turn, create jobs and income sources.

Finally, experts highlighted an underlying structural imbalance. The **EU negotiates its climate-trade rules mostly bilaterally,** country by country, which plays to the advantage of larger African economies and undermines smaller ones. It was suggested that a continent-wide approach is needed. For instance, the African Continental Free Trade Area (AfCFTA) is drafting a protocol to harmonise sustainability and agricultural standards, as further described in the policy brief. If adopted, this may allow African states to negotiate with the EU as a bloc.

2.2 National strategies and social/economic impacts

Experts discussed whether the EU Green Deal is supporting or disrupting the transition abroad, the social and economic impacts that this may create and how national strategies are adapting to the international context. Firstly, **growth and energy security** remain priorities even amid climate action. Most interviewees note that strategies in African countries, for instance, energy strategies, highlight grid security and access for local energy needs more than export orientation.

A question posed was whether strategies abroad shifted in the face of Green Deal policies. Morocco's national plan, for instance, was geared towards local energy

security, and has now shifted towards encompassing the entire economy. CBAM has accelerated industry decarbonisation plans and export orientation. However, Africa's priorities mean that **renewable energy projects aimed at exports** (like green hydrogen) must also provide domestic power. The African analysts argue that EU partners should recognise these needs. The recommendation for CBAM implementation included CBAM timelines for using transition periods to build the underlying infrastructure and legal frameworks. Across the interviews, stakeholders urged that the EU Green Deal should adapt to the local context and ensure **local ownership** where possible, for instance under the CRMA. They called for transparency in deals, more accountability, and mechanisms ensuring that communities benefit. "Local ownership of energy systems is important," one interviewee stressed, pointing out that profits often "do not remain in the local context".

Transitions can be both economically beneficial but also expensive and disruptive. There is potential to deliver on **job creation, technology transfer and skills development**. Such changes could be brought forward by tailored, country-specific platforms for co-developing green industrial strategies, as suggested by the policy brief. Nevertheless, specifically scaling new industries requires **capital and political will**. For instance, green hydrogen played a role for most interviewees, mentioning, among others, Namibia's planned green hydrogen export scheme backed by the EU Global Gateway. Across Africa, several governments view renewable-based hydrogen and related industries as strategic sectors. Experts emphasised that **mutually beneficial EU-Africa cooperation** is key. In essence, national and regional strategies are geared towards a green economic model: leveraging renewable resources (sun, wind, critical minerals) to attract investment and exports, while gradually building up local industry.

2.3 Existing investment and trade agreements

Stakeholders reviewed current frameworks through which the EU and Africa engage on trade and investment. Interviewees call for shifting these frameworks: enhancing African ownership and regional coordination; co-managing funding; and ensuring that any EU–Africa deals explicitly balance interests. Interviewees pointed out that Europe's approach has been largely bilateral, which can fragment Africa's response. To counter this, many called for **strengthening continental institutions**.

The **EU's Global Gateway** was frequently mentioned, while interviewees strongly held the position that investment for regional value chain development is key. Yet experts warn that many such arrangements are donor-driven, noting that "strategies do not accommodate the local context". CTIPs and SIFAs, as non-

binding agreements, were either not mentioned during the interviews or not seen as a valuable option. On the financing side, a recommendation was to link CBAM revenues back to African development. For example, one expert proposed that the upcoming African Import-Export Bank host a "trade decarbonisation" facility – creating more transparency and building capacity.

Key recommendations: The interviews suggest several policy directions for the EU and African partners:

(a) **Collaborate on CBAM implementation:** delay and gradually phase in CBAM for African/LDC exporters while jointly investing in emission-tracking capacity, formally recognise credible African carbon-pricing or certification

(b) **Use CBAM revenues for Africa:** establish jointly managed funds to channel CBAM proceeds into African clean-energy and industrial projects

(c) **Co-finance value-chain development:** Europe should offer financial and technological support for local processing of critical minerals and manufacturing of renewables equipment

(d) **Embed social safeguards:** EU–Africa investment deals should include local-ownership requirements, capacity-building, and transparent impact assessments so that projects deliver jobs, skills and energy access

3. WORKING PAPERS

3.1 PAPER 1. A MATTER OF GLOBAL LEADERSHIP: STAYING THE COURSE STARTS WITH ADDRESSING THE SPILLOVERS OF THE EUROPEAN GREEN DEAL

The mandate of the first Von der Leyen Commission concluded with the identification of a fundamental challenge: the **coherence** of EU sustainability policies[5], namely, the alignment between their objectives and their global socio-economic impacts, and the interference of those with other EU policies with extraterritorial effect. The second Von der Leyen Commission began with an answer: ***simplification***. In many instances, however, this has effectively meant ***deregulation***, here defined as the relaxation, the postponement, or in some cases, the removal of legal obligations related to sustainable development for European economic actors.

This policy brief proposes an alternative pathway to simplification: one grounded in cooperation as the foundation for maintaining the EU's ambition and policy trajectory while building global leadership. Rather than suspending or weakening regulatory frameworks, the European Commission should aim to ***align*** **existing measures and partnership agreements** to ensure both their effectiveness and the consolidation of EU leadership rooted in the European core values of legality, justice and international solidarity. The **European Green Deal** (EGD) is an unprecedented policy framework for achieving sustainable growth in Europe. Its

[5] COHERENCE WAS THE GUIDING QUESTION OF THE TRADE POLICY SEMINAR "*TRADE, SUSTAINABILITY AND COHERENCE: IMPACT ON TRADE OF EU INTERNAL INSTRUMENTS*" ORGANISED ON 27 MAY 2024 BY THE BELGIAN PRESIDENCY OF THE EU COUNCIL.

ambition goes beyond climate neutrality by 2050 and encompasses biodiversity protection and restoration, the reduction of pollution, and the promotion of a circular economy. As the EU implements this wide-ranging transformation, the Green Deal's external effects are becoming increasingly visible, from a race to Critical Raw Materials (CRMs) to the implementation of unilateral measures with extraterritorial reach.

The brief draws on the outcomes of a **Think2030 workshop organised in Warsaw on 28 March**, with the support of the Polish Presidency of the Council of the EU. It focuses on the unilateral measures with the most significant impact on countries in the Global South – **with a focus on the African continent,** and which have resonated most strongly in recent international climate negotiations: the **EU Carbon Border Adjustment Mechanism** (CBAM), the **EU Deforestation Regulation** (EUDR) and the **Ecodesign for Sustainable Products Regulation** (ESPR). The intensity of this debate in international climate negotiations has even led some to refer, in the context of the last UNFCCC COP, to a "*CBAM bomb*" to debunk. In light of the current climate landscape, characterised by the United States' withdrawal from the Paris Agreement and a broader context of international mistrust, engaging all willing actors in constructive cooperation is imperative. The imposition by the Trump administration of tariff duties of unprecedented scale in modern history, including on the poorest countries[6] must lead the EU to assume stronger leadership for international legality and solidarity.

This brief advocates for a **multidimensional approach** involving greater integration of policy objectives across the EU's domestic and external actions. It calls for enhanced synergies between **trade and investment policy, cooperation programmes, and the EU's international climate strategy**, grounded in respect for internationally agreed objectives and commitments enshrined in multilateral environmental agreements (MEA). This reflection piece aims to demonstrate that the time has come to address the international dimension of EU Green Deal legislation more systematically and rigorously. It

[6] COLETTE VAN DER VEN, EU NEEDS TO SUPPORT DEVELOPING COUNTRIES, COMMENTARY, BORDERLEX, 23 APRIL 2025 HTTPS://BORDERLEX.NET/2025/04/23/ENLIGHTENED-INTEREST-THE-EU-SHOULD-SUPPORT-POOR-COUNTRIES-HIT-BY-TRUMP-TARIFFS/

concludes by posing a number of practical questions that will be explored further in a forthcoming IEEP research report, which will be published in June 2025.

Key recommendations

1. Double down on engagement with the G20

Leverage ongoing negotiations with G20 countries, i.e., a Clean Trade and Investment Partnership (CTIP) with South Africa[7], ongoing negotiations towards Free Trade Agreements with the UAE[8], India (alongside an Investment Protection Agreement)[9], Australia[10] and Indonesia[11], recently reviewed and signed agreements respectively with Mexico[12] and Mercosur (Brasil, Argentina)[13], as well as current diplomatic engagement with Brazil in the context of its COP30 presidency[14], to work towards a plurilateral declaration calling for a moratorium on sectoral "green equivalents", starting with the steel sector, the interoperability of industrial decarbonisation policy frameworks, and the use of Paris Agreement Article 6 credits (whether Internationally Tradeable Mitigation Outcomes (ITMOs)[15] or voluntary credits) in the context of Border Carbon Adjustments (BCA).

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[7] EU – South Africa – Clean Trade and Investment Partnership https://ec.europa.eu/commission/presscorner/detail/en/ip_25_774

[8] EU and UAE agree to launch free trade talks, Reuters, 10 April 2025 https://www.reuters.com/world/eu-uae-agree-launch-free-trade-talks-2025-04-10/

[9] EU Commission, EU India FTA, Factsheet, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement_en /
EU Commission, EU India Investment Protection Agreement https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement_en&sa=D&source=docs&ust=1746284310336759&usg=AOvVaw0pxitMev6dcxWEzb8Im5Il

[10] EU Commission, EU-Australia FTA, Factsheet, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/australia/eu-australia-agreement_en

[11] EU Commission, EU-Indonesia FTA, Factsheet, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/indonesia/eu-indonesia-agreement_en

[12] EU Commission, EU-Mexico FTA, Factsheet https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mexico/eu-mexico-agreement_en

[13] EU Commission, EU Mercosur FTA, Factsheet, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mercosur/eu-mercosur-agreement_en

[14] UN Climate Change Conference, COP 30 - https://unfccc.int/cop30

[15] UNFCCC, key Outcomes from COP29: Article 6 of the Paris Agreement; https://unfccc.int/sites/default/files/resource/COP29%20outcomes_A6.2_6.4_6.8.pdf

2. Build consensus before COP30

Ease tensions before landing in Belem: negotiate and secure public statements from key partner countries committing not to challenge the CBAM before the WTO's Dispute Settlement System in exchange for support mechanisms or plurilateral revenue-sharing arrangements.

Work with Global South partners towards a solution on CBAM proceeds[16]: Establish a mechanism to ensure that CBAM-generated revenues contribute directly to decarbonisation efforts in affected countries either at the source, through the recognition of alternative carbon pricing or liability systems under the definition of CBAM's "effective carbon price"[17], or via the creation of dedicated funds co-managed by the EU and regional development banks to support decarbonisation in third countries.

Avoid granting pure exemptions under CBAM, EUDR and ESPR[18]: Instead of undifferentiated exemption regimes, build support schemes that reflect countries' capabilities and reward climate ambition. Exemptions such as the definition of a "no-risk" category[19] would create loopholes and significantly reduce the effectiveness of Regulations, as well as pose WTO compliance issues.[20]

3. **Make the most out of new partnerships:**

Make CTIPs and SIFAs coincide with investment governance reform: The Clean Trade and Investment Partnerships and Sustainable Investment Facilitation Agreements are interesting new investment-for-decarbonization vehicles, but

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[16] Green Trade Network, Summary for decision-makers: Four guiding principles for CBAM design and implementation, 2022

[17] Sandler, Ely and Daniel Schrag. "Leveraging Border Carbon Adjustments for Climate Finance: Matching Carbon Tax Assets with Carbon Tax Liabilities." *Science, Technology, and Public Policy Program, Belfer Center*, December 2, 2024

[18] WORLD RESOURCES INSTITUTE, *PROPOSED AMENDMENTS TO EU DEFORESTATION LAW CREATE DANGEROUS LOOPHOLES AND UNCERTAINTY*, 18 NOVEMBER 2024 HTTPS://WWW.WRI.ORG/NEWS/STATEMENT-PROPOSED-AMENDMENTS-EU-DEFORESTATION-LAW-CREATE-DANGEROUS-LOOPHOLES-AND-UNCERTAINTY ;

[19] Amendments proposed by the European Parliament to introduce a no-risk category in the EUDR's country benchmarking was avoided.

[20] TULIP CONSULTING, *WTO IMPLICATIONS OF THE PROPOSED 'NO RISK' AMENDMENT TO THE EUDR*, 2 DECEMBER 2024

they could be a drop in the ocean if they remain – as currently envisaged -non-binding agreements[21]. Furthermore, these new types of agreements do not exempt EU Member States from a termination of existing extra-EU bilateral investment agreements (BIT) including Investor-to-State Dispute Settlement provision, which constrain political and fiscal space and, in doing so, undermine the climate ambition of States[22].

Support tailored cooperation mechanisms for co-developing green industrial strategies: These platforms should provide investment planning, capacity-building, and local value creation mechanisms, especially in sectors affected by CBAM and EUDR.

Expand investment beyond the global gateway: Scale up technology transfer, regional value chain development (e.g. in green hydrogen or critical minerals), and private sector mobilisation through de-risking instruments.

4. **Reinforce strategic coherence across EU institutions**:

Improve coordination between DG CLIMA, TRADE, ENER, INTPA, and GROW to align trade, climate, and development goals and ensure joined-up external action. This could materialise through **dedicated interservice sessions** and a **systematic involvement of these Directorate Generals in the Sustainability Impact Assessment (SIA)** processes ahead of the conclusion of any partnership.

[21] Van der Ven, Azevedo, Lamy & Pons, A New Era of EU Mini Trade Deals, Europe Jacques Delors, policy Paper, March 2025, https://www.europejacquesdelors.eu/publications/a-new-era-of-eu-mini-trade-deals
[22] COLUMBIA CENTER ON SUSTAINABLE INVESTMENT, OVERHAULING INVESTMENT GOVERNANCE FOR A JUST ZERO-CARBON FUTURE HTTPS://CCSI.COLUMBIA.EDU/CONTENT/INVESTMENT-GOVERNANCE-CLIMATE-ENERGY

3.1.1 Why addressing the external spillovers of the EU Green Deal has become urgent

a. Repositioning climate leadership as an international security issue

Climate politics is inherently power politics, and the geostrategic dimension of advancing the fight against climate change has never been more evident[23]. The abrupt decoupling of the American and Chinese economies, amidst an ongoing technological rift, also signals a short-term geopolitical realignment of major global blocs around climate-related issues. Since returning to power, Donald Trump has pursued a strategy of economic insularity aimed at protecting domestic industrial and manufacturing capacities, alongside a renewed emphasis on increased fossil fuel production. This approach is, by its very nature, short-sighted—not only because of the inevitability of climate change and the irreversible necessity of transitioning to decarbonised production systems, but also because renewable energy sources, even in the United States, continue to outcompete fossil fuels in terms of cost-effectiveness, and this, in spite of any Trump administration's policy direction. The American U-turn, in this context, highlights the economic strategies of certain states—Russia among them—that are predicated on maintaining a climate status quo.

Moreover, the slowing pace of the fossil fuel phase-out perpetuates systems of dependency that benefit fossil exporters and disproportionately affect countries in the Global South. The European Union's leadership-by-example approach, as embodied by progress made under the Green Deal between 2019 and 2024, has thus become insufficient. What is now required is deeper cooperation with developing countries, particularly in the fields of investment, regulatory alignment and market integration. The dissemination of European values—chief among them, respect for legality and international conventions—must go hand in hand with deploying the instruments that underpin the EU's power, most notably its trade policy. It also implies responding to the concerns expressed by low and middle-income countries that fear EU Green Deal legislation with extraterritorial reach turn into *de facto*-market access restrictions.

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[23] Bergeling, Oger & Van Melkebeke, A European Wellbeing Economy – avenues for political action, Report, IEEP & GEF, Chapter 5 "Global Challenges and Global Solutions", March 2025 https://ieep.eu/publications/a-european-wellbeing-economy-avenues-for-political-action/

b. Addressing the risk of circumvention and trade diversion

Global challenges need global responses. As simple as it may sound, this assertion is particularly true when it comes to implementing market access regulations. Although the EUDR is a formidable policy tool to ensure that in critical sectors only deforestation-free goods can enter the single market, the risk of supply chain segregation is real. Without a proper assessment of the capacity of local actors to cope with the new obligations, the EUDR risks enshrining market divergences and encouraging traders to segregate between suppliers destined for the EU market and the rest[24].

Since the adoption of the EUDR, the Commission has made mandatory the issuance of a trade impact assessment ex ante in the design phase of any environmental policy with extraterritorial reach. Closer technical assistance work on the ground and with the help of the delegations will be required to ensure the regulation's effectiveness while avoiding restricting smallholders' access to the EU market.

3.1.2 What is at stake? Hearing (and understanding) Global South concerns on CBAM, EUDR and ESPR

a. The Carbon Border Adjustment Mechanism (CBAM)

CBAM is one of the EU's key policy tools to prevent industrial carbon leakage. It imposes a carbon price equivalent to the price paid by EU producers as part of the Emissions Trading Scheme on a selected range of imports. While its rationale is rooted in protecting the integrity of the EU's strategy to incentivise its domestic industry to decarbonise, CBAM has generated significant concerns among low — and middle-income countries (LMIC), mostly linked to their limited fiscal and technological capacity to decarbonise.

Modelling work led by the African Climate Foundation[25] and the African Centre for Economic Transformation (table below) indicates that while the Carbon Border

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[24] Mathias Cramm (2022), *Exploring how agricultural commodity trader responses can influence the effectiveness of the new EU deforestation proposal*, European Forest Institute, 202022 https://efi.int/sites/default/files/files/publication-bank/2022/newgo_policybrief_2022a.pdf

[25] African Climate Foundation. (2023). *Implications for Africa of a CBAM in the EU*. https://africanclimatefoundation.org/wp-content/uploads/2023/05/800756-AFC-Implications-for-Africa-of-a-CBAM-in-the-EU-08.pdf

Adjustment Mechanism (CBAM) is projected to reduce CO_2 emissions in the sectors it targets, it would also result in significant GDP declines across several African countries. Specifically, average GDP reductions of approximately 1% are anticipated, primarily due to trade disruptions. These findings underscore that the implications of CBAM extend beyond economic metrics, affecting social welfare, employment, and the availability of development finance. Many of the countries most impacted have already committed to net-zero transitions but lack the financial and technological capacity to implement large-scale green investments. The same models conclude that implementing an African Union-wide Carbon tax, to diminish the cost of CBAM and retain the fiscal proceeds within the continent, would lead to even heavier economic and social distributive impacts.

Table 1. Addressing spillover risks: effects of the CBAM

Country	GDP (%)	Welfare (US$ mil.)	Total exports (%)	CO_2 emissions (%)
Egypt	-0.17	-416	-1.01	-0.1
Morocco	-0.06	-189	-1.01	0.8
Tunisia	-0.96	-276	-2.67	-1.7
Cameroon	-0.11	-34	-0.66	0.3
Côte d'Ivoire	-0.16	-25	-1.04	0.8
Ghana	-0.24	-154	-0.78	-0.4
Guinea	-3,98	-183	-4.77	-2.7
Nigeria	-1.9	-2,845	-2.9	0.6
Senegal	0.53	31	-1.41	-0.6
Central Africa	-1.84	-2,006	-2.58	-0.9
Ethiopia	0.64	62	-0.92	0.6
Kenya	0.45	40	-0.83	0.5
Rwanda	-0.5	-28	-1.43	0.4
Tanzania	-0.10	-65	-1.07	-0.1
Uganda	-0.4	-78	-1.45	0.3
Malawi	-0.56	-21	-0.4	0.1
Mauritius	-0.05	-3	-0.57	0.3
Mozambique	-2.52	-230	-4.98	-3.1
Zimbabwe	-0.72	-40	-1.07	-1.0
Botswana	-4.09	-351	-2.23	2
Namibia	-0.90	-1,123	-0.29	-14.3
South Africa	-0.17	-416	-1.01	-0.1

Source: Asafu-Adjaye, J. and G. Baffour-Awuah, 2024. '*The role of climate-positive policies in promoting green growth and industrialization in Africa*', African Center for Economic Transformation, May[26]

CBAM has thus become emblematic of the risks posed by the "one-size-fits-all" approach to carbon pricing, which risks penalising countries for structural constraints beyond their control. It may also incentivise diversion away from EU markets or even slow down decarbonisation if alternative pathways are not supported by additional targeted investments. The African Union has already raised formal complaints about CBAM, and in several countries, there is greater concern over it than over tariffs introduced under the Trump administration.

The Commission is currently working at the technical level to define default values[27] by country, sector, and goods (covering more than 700 HS codes) for cases where there is insufficient information on the carbon intensity of goods declared at customs. The challenge—particularly significant for countries in the Global South—is to establish a fair and differential carbon price, and the methodology adopted will inevitably be closely scrutinized by industry and stakeholders. Meanwhile, CBAM's domestic politics do not sufficiently consider these external developments. The European debate around CBAM has been heavily shaped by industrial and competitiveness concerns, with relatively little attention paid to the external development implications. This has led to a policy architecture that risks exacerbating global inequalities and undermining climate cooperation. CBAM must therefore be part of a broader EU-African strategy that builds capacity, promotes technology transfer, and secures long-term green partnerships.

a. The EU Deforestation Regulation (EUDR)

The EUDR, which seeks to eliminate deforestation from EU-bound supply chains, mandates that products such as rubber, timber, cattle (and selected derived products such as leather, chocolate or furniture) be traceable and verified as deforestation-free. While the regulation responds to a critical environmental need, its implementation

[26] Using GTAP10A database (reference year January 2020)

[27] EU Commission, Carbon Border Adjustment Mechanism https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

presents important challenges for producers in the Global South[28]. The International Trade Centre[29] has documented the ways in which SMEs and smallholder farmers and cultivators in countries like Nepal, the Philippines, and Kenya are struggling to adapt to the EUDR. In Nepal, for instance, coffee is produced in remote mountainous areas, often by smallholder farmers. Volumes exported are modest in share of EU imports but matter a lot for these operators. These producers are subject to the same level of requirements than large agribusinesses (as in data requirements are the same, risk mitigation and risk assessment level depends on the size of the operator, that first places the product on the EU market). In Kenya, the leather sector is seen as a future export engine, but EUDR compliance has emerged as a major obstacle due to traceability constraints.

The impact assessment underpinning the EUDR has been criticized for failing to adequately consider these real-world implications. The regulation risks excluding developing country producers from EU markets and undermining rural livelihoods. Moreover, the regulatory process was not sufficiently inclusive—many affected countries were not meaningfully consulted in the design phase. This fuels the perception that the EU is exporting its environmental standards without due regard for the socio-economic realities of its partners.

Beyond technical compliance, the EUDR also raises concerns around market fragmentation, information asymmetry, and predictability. Ongoing "simplification" efforts by the European Commission have provided important clarifications on the due diligence statements[30], but nevertheless have lowered the bar. For instance, while previously every shipment or batch entering the EU market was required to be accompanied by a Due Diligence Statement (DDS), it is now required annually. Further simplifications/clarifications include reusing DDS for re-imports and minimum legal requirements for large downstream companies, amongst others. It is to be seen

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[28] See Javiera Cáceres Bustamante, Yilly Vanessa Pacheco*, EU Unilateral and Bilateral Approaches in Anti-deforestation Efforts: Analysis of Trade Agreements with Chile and the Andean Community*, Eur. For. Aff. Rev. Vol. 30, SI (2025) and Alessandra Lehmen, Geraldo Vidigal, *Trade and Environment in EU-Mercosur Relations: Negotiating in the Shadow of Unilateralism* Eur. For. Aff. Rev. Vol. 30, SI (2025).

[29] International Trade Centre. Deforestation-free value chains | ITC

[30] EU Commission, Press Release, *Commission takes action to simplify the implementation of the EU Deforestation Regulation,* https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1063

whether the adjustments reduce monitoring and data entry time without reducing the impact of the Regulation. The regulation's implementation was delayed by 12 months to the end of 2025, but the economic and social risks associated with exporting countries remain.

b. The Ecodesign for Sustainable Products Regulation

The Ecodesign for Sustainable Products Regulation (ESPR)[31], adopted by the European Commission in March 2022 as part of the Circular Economy Action Plan[32], establishes a comprehensive framework for improving the environmental sustainability of products sold in the EU. Replacing the earlier Ecodesign Directive focused primarily on energy-related products, the ESPR extends requirements across a broad range of product categories. It aims to enhance product durability, reparability, recyclability, and energy and resource efficiency, while also addressing aspects such as the presence of harmful substances and the use of recycled content. By setting mandatory sustainability criteria through delegated acts, the ESPR seeks to transform production and consumption patterns in the EU and contribute to the bloc's climate and environmental objectives.

The ESPR is expected to significantly influence global value chains by setting sustainability requirements that apply to products placed on the EU market, regardless of their origin. As a result, non-EU producers, especially those in developing countries, may face challenges in adapting to the new rules due to limited technical capacity, data availability, and financial resources. These new rules risk creating trade distortions and market exclusion, particularly for small and medium-sized enterprises (SMEs). Additionally, the increased demand for more sustainable materials and production practices could lead to shifts in global resource flows, affecting commodity prices and potentially triggering unintended environmental or socio-economic consequences in producer countries, especially those with lower institutional capacity. However, the ESPR also presents opportunities for positive international spillovers if implemented with appropriate support mechanisms. By setting a global benchmark for product

[31] EU Commission, ESPR, Factsheet https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/ecodesign-sustainable-products-regulation_en
[32] EU Commission, Circular Economy Action Plan https://environment.ec.europa.eu/strategy/circular-economy-action-plan_en

sustainability, it can incentivise greener production practices and innovation beyond the EU. International cooperation, technical assistance, and capacity-building partnerships will be instrumental to maximise co-benefits and ensure a just circular transition[33].

3.1.3 Towards a change of EU doctrine on international partnerships

If the EU is serious about promoting a fair and effective green transition globally, it must rethink how it engages with partners on the external dimensions of its environmental policies. This includes institutional innovation, proactive investment strategies, and more flexible regulatory frameworks. In the case of EU-Africa relations, this involves acknowledging the two blocs' mutual interests in fostering industrial decarbonisation cooperation to create collaborative clean industrial ecosystems and consolidating existing regional initiatives to drive climate-positive investments[34].

a. Fostering regional dynamics of sustainable supply chain integration

Recent research on green industrialisation underscores that Africa's transformation hinges not only on meeting sustainability benchmarks but also on leveraging global regulatory shifts to strengthen value chains and regional trade. In its relations with the African continent, the EU should build on existing platforms and initiatives such as:

- **The African Continental Free Trade Area (AfCFTA),** launched in 2019 by the African Union (AU), which aims to create a single market for goods and services across Africa, eliminating tariffs on 90% of goods and reducing non-tariff barriers. With participation from nearly all African Union members, it seeks to boost intra-African trade, foster economic integration, and enhance the continent's global competitiveness. The European Union has supported the **AfCFTA** through funding and technical assistance. With over €1 billion pledged via the Team Europe initiative, the EU has brought important

[33] See recent comprehensive report authored by IEEP's Eline Blot: Blot, E., (2025) External impacts of new EU sustainable product standards, Policy Brief, April 2025 https://ieep.eu/publications/external-impacts-of-new-eu-sustainable-product-standards/

[34] Sébastien Treyer (IDDRI), Chukwumerije Okereke (CCCD) and Elisabeth Hege (IDDRI), After US Election, EU and Africa should Strenghthen Partnership for Green Industrialisation, Blog, ETTG https://ettg.eu/us-africa-europe-greenindustrialisation/

support to facilitate its implementation. The EU should continue to mainstream an AfCFTA-inclusive approach to its engagement in Africa.

- The **African Green Industrialisation Initiative (AGII)[35],** launched in the margins of COP28 and spearheaded by Kenya, aims to build climate-positive growth through a green economy model. A new strategic approach to EU partnerships must better integrate these regional initiatives. This approach is especially crucial in the fields of emerging technologies and access to affordable, decarbonised energy, which form the foundation of the continent's industrial development.
- In the field of deforestation-free value chains, initiatives under the Global Gateway such as the **Sustainable Cocoa Initiative** have borne fruit and enabled a consolidation of market access for cocoa producers in Ghana, Cameroon and Ivory Coast[36]. This approach could be replicated to other types of goods, especially to CRM, building on local expertise as well as on the expertise of specialized UN agencies such as the UN Industrial Development Organisation, to add value locally and identify industrial development opportunities.

b. Taking advantage of new opportunities to address past issues and do better moving forward: CTIPs and SIFAs.

The **Clean Trade and Investment Partnerships (CTIP)** are a novel instrument in the European Union's trade policy toolkit, aiming to enhance competitiveness, diversify supply chains, and stimulate economic growth both within the EU and among its partners. Introduced as part of the EU's broader strategy to address market fragmentation, geopolitical shifts and economic challenges, CTIPs are designed to be more flexible and targeted than the traditional Free Trade Agreements (FTA). They focus on specific sectors such as clean energy, technology, and strategic industries, facilitating cooperation on investment, skills development, and regulatory alignment. Given their structure, CTIPs can be useful tools to mobilize private capital for climate

[35] COP28, African Green Industrialisation Initiative

[36] Sustainable Cocoa Initiative, EU Commission https://international-partnerships.ec.europa.eu/policies/programming/programmes/sustainable-cocoa-initiative_en

projects and safeguards to protect regulatory space for climate policies[37]. Negotiations towards a CTIP were launched with South Africa in March 2025, emphasising investment in the clean energy transition and the development of strategic industries along the supply chain. This partnership is supported by a €4.7 billion Global Gateway investment package, underscoring the EU's commitment to fostering sustainable economic ties. However, the non-binding nature of CTIPs has raised questions regarding their enforceability and the extent of parliamentary oversight, highlighting the need for clear governance structures and transparency to ensure their effectiveness and mutual benefit[38].

However Clean Trade and Investment Partnerships (CTIPs) as currently envisaged, seem fit for the needs of emerging economies, benefiting from already installed industrial capacities. Their corollary for Low Income Countries – branded as the "Sustainable Investment Facilitation Agreements" (SIFA), the first one of which was recently concluded with Angola, respond to different challenges. In particular SIFAs aim to create a more transparent, efficient, and predictable environment for foreign investment, with a strong emphasis on sustainability. Unlike conventional investment treaties that primarily focus on protecting investors' rights, and without addressing the issues arising from those conventional treaties, SIFAs prioritise measures aimed at improving the overall investment climate—such as simplifying administrative procedures, increasing inter-agency coordination, and promoting responsible business practices. The primary objective of a SIFA is to encourage foreign direct investment that supports sustainable development. This includes fostering investments that contribute to environmental sustainability, social equity, and sound governance. By attempting to align investment facilitation efforts with global objectives like the Sustainable Development Goals (SDGs) and the Paris Agreement, SIFAs seek to channel international capital toward development that is both economically and

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[37] Marie-Claire Cordonier Segger, Markus Gehring, Ted Gleason and Matheus Garcia, *Climate and Investment Law Nexus Reimagined – Beyond ISDS, Obligations and Instruments to Avoid and to Defend* (CISDL, 2025) Pg. 22. https://www.cisdl.org/ecf-legal-working-paper-on-investment-treaties/

[38] Martin Dietrich Brauch, Stefan Mayr, and Carl Frederick Luthin, *How EU Clean Trade and Investment Partnerships Can Foster Sustainable Investment Governance,* Blog, Columbia Center on Sustainable Investment (CCSI), March 2025 https://ccsi.columbia.edu/news/eu-clean-trade-investment-partnership-ctip-sustainable-investment-governance

environmentally beneficial. However, the language used in the text of the agreement is still too imprecise and noncommittal to expect meaningful results on this front[39].

Notwithstanding the announcement of new trade and investment vehicles, the EU risks undermining its clean investment agenda if it continues to maintain the over 1000 existing bilateral investment treaties (BITs) that include investor-state dispute settlement (ISDS) mechanisms. These treaties constrain domestic policy space and impose high costs on public finances, without conclusive evidence that they attract or support sustainable investment[40]. In particular, ISDS provisions have shown to have restrictive effects on domestic climate policies[41]. Moreover, they protect all forms of investment—including fossil fuels—undermining the very climate objectives that CTIPs and SIFAs are meant to promote. Having already withdrawn from the Energy Charter Treaty and terminated intra-EU BITs for their incompatibility with EU law and climate goals, the EU and its Member States should now take the logical next step: phase out existing extra-EU BITs and remove investment protection clauses from trade agreements that conflict with the Union's green transition[42]. A truly "clean" partnership must extend to the governance of investment itself.

These new agreements could secure new types of commitments, similar to those of the recently concluded Agreement on Climate Change, Trade and Sustainability (ACCTS)[43],

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[39] The SIFA with Angola *"recognises the importance of taking urgent action to combat climate change…in line with the Paris Agreement"* and subsequently states that the parties shall implement the Paris Agreement (Article 32). https://circabc.europa.eu/ui/group/09242a36-a438-40fd-a7af-fe32e36cbd0e/library/a17ccfe1-ce36-428f-bc7f-76bcb902c36a/details?download%3Dtrue&sa=D&source=docs&ust=1746284310351058&usg=AOvVaw2fYgy26UC_pl8BRS17pn3u

[40] MARTIN DIETRICH BRAUCH, STEFAN MAYR, AND CARL FREDERICK LUTHIN, *HOW EU CLEAN TRADE AND INVESTMENT PARTNERSHIPS CAN FOSTER SUSTAINABLE INVESTMENT GOVERNANCE,* BLOG, COLUMBIA CENTER ON SUSTAINABLE INVESTMENT (CCSI), MARCH 2025 HTTPS://CCSI.COLUMBIA.EDU/NEWS/EU-CLEAN-TRADE-INVESTMENT-PARTNERSHIP-CTIP-SUSTAINABLE-INVESTMENT-GOVERNANCE

[41] Marie-Claire Cordonier Segger, Markus Gehring, Ted Gleason and Matheus Garcia, *Climate and Investment Law Nexus Reimagined – Beyond ISDS, Obligations and Instruments to Avoid and to Defend* (CISDL, 2025) Pg. 3. https://www.cisdl.org/ecf-legal-working-paper-on-investment-treaties/

[42] Martin Dietrich Brauch, Stefan Mayr and Carl Frederick Luthin, After intra-EU BITs and the ECT, the EU needs to abandon extra-EU BITs—for legal, energy and climate policy, and political economy reasons, Columbia FDI Perspectives, No. 394 October 14, 2024 https://ccsi.columbia.edu/sites/ccsi.columbia.edu/files/content/docs/fdi%20perspectives/No%20394%20-%20Brauch,%20Mayr%20and%20Luthin%20-%20FINAL.pdf

[43] NEW ZEALAND FOREIGN AFFAIRS AND TRADE, *AGREEMENT ON CLIMATE CHANGE, TRADE AND SUSTAINABILITY (ACCTS) – OVERVIEW* HTTPS://WWW.MFAT.GOVT.NZ/EN/TRADE/FREE-TRADE-AGREEMENTS/FREE-TRADE-AGREEMENTS-CONCLUDED-BUT-NOT-IN-FORCE/AGREEMENT-ON-CLIMATE-CHANGE-TRADE-AND-SUSTAINABILITY-ACCTS/AGREEMENT-ON-CLIMATE-CHANGE-TRADE-AND-SUSTAINABILITY-ACCTS-OVERVIEW

but only if designed in a more formal way, including binding provisions, which would ultimately turn CTIPs into something they are not at the moment and what Van der Ven, Azevedo, Lamy and Pons call "mini-trade deals"[44]. The inclusion of explicit commitments to phase out fossil fuel subsidies and promote renewable energy sets the ACCTS as a critical precedent for aligning investment and trade policies with climate objectives[45]. While the ACCTS is providing an example of what an ambitious plurilateral trade agreement could deliver in terms of climate action progress[46], recent research led by CISDL[47] and based on a foresight report commissioned by the European Climate Foundation calls for the creation of a "Green Free Trade Agreement" (GFTA) under the World Trade Organisation. These new types of agreements, inspired by the Australia-Singapore Green Economy Agreement and the ACCTS would include similar provisions aimed at phasing out fossil fuel subsidies, identifying market opportunities for green goods and services produced by either of the Parties, but also mutually reinforcing capacities to increase Nationally Determined Contributions under the Paris Agreement.

Tailored, country-specific platforms for co-developing green industrial strategies are essential. These platforms should go beyond high-level political declarations and offer concrete mechanisms for:

- Joint assessment of local needs and opportunities, particularly in sectors affected by EU regulations like CBAM and EUDR;
- Transparent investment planning with local job creation and value addition;
- Technical support and blended finance – including more concessional loans - to enable compliance and investments in clean infrastructure including in transparency and monitoring technologies,
- Liberalisation of trade in environmental goods and services (only if designed as more traditional – binding - trade agreements)

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[44] Van der Ven, Azevedo, Lamy & Pons, A New Era of EU Mini Trade Deals, Europe Jacques Delors, policy Paper, March 2025, https://www.europejacquesdelors.eu/publications/a-new-era-of-eu-mini-trade-deals

[45] Marie-Claire Cordonier Segger, Markus Gehring, Ted Gleason and Matheus Garcia, *Climate and Investment Law Nexus Reimagined – Beyond ISDS, Obligations and Instruments to Avoid and to Defend* (CISDL, 2025) Pg. 20. https://www.cisdl.org/ecf-legal-working-paper-on-investment-treaties/

[46] The ACCTS includes an extensive list of over 300 environmental goods and services benefiting from tariff liberalisation, as well as commitments to achieve the objectives set in the Paris Agreement and gradually phase out fossil fuel subsidies.

[47] CISDL, Toward Net Zero in 2040: Providing Legal Options for ECF's "Future of Trade in a Net Zero World" Report, March 2025 https://www.cisdl.org/ecf-cisdl-future-of-trade-in-a-net-zero-world-foresight-report/

- Mutual support mechanisms to achieve Nationally Determined Contributions under the Paris Agreement

Partnerships should move beyond the traditional "EU+1" model and be reconceived as genuinely collaborative processes that actively involve regional institutions and civil society. This reframing is essential to prevent the perpetuation of extractive dynamics that continue to prioritise European interests at the expense of partner countries. In a recent digest on African Industrialisation strategies, ECDPM underscores the need for African countries to take a leading role in shaping these partnerships, ensuring they reflect the continent's green industrial priorities and are responsive to broader transformations in global energy and trade systems. This should come with a stronger connection between the EU and regional coordination and market integration initiatives such as the AfCFTA[48].

c. Scale up investment beyond the global gateway

While the Global Gateway is a step in the right direction, it lacks the scale and strategic clarity to meet the expectations and needs of partner countries. The EU must offer more robust financing instruments and clearer value propositions. This includes:

- Expanding support for technology transfer, especially in sectors like green hydrogen, where African countries are still underprepared.
- Prioritising regional supply chain development to reduce dependency on single markets ;
- Mobilising private capital through risk-sharing instruments and guarantee schemes.

Strategic investments in value-added industries — such as lithium-ion battery value chains —can enable African countries to benefit more from the global transition and avoid being relegated to raw material suppliers.

d. Enable greater flexibility in EU regulations with extraterritorial impact

[48] ECDPM, GREEN INDUSTRIALISATION IN AN AGE OF DISRUPTION: AFRICA, EUROPE AND THE GLOBAL ECONOMY HTTPS://ECDPM.ORG/WORK/GREEN-INDUSTRIALISATION-AGE-DISRUPTION-AFRICA-EUROPE-AND-GLOBAL-ECONOMY

The EU should consider more flexible approaches to CBAM and EUDR implementation. In particular for CBAM, a key priority for the EU should be the recognition that, while carbon pricing can serve as an effective policy instrument, it does not constitute a one-size-fits-all solution. Accordingly, the Carbon Border Adjustment Mechanism (CBAM) should be designed to acknowledge and accommodate a broader spectrum of climate-positive measures implemented by partner countries. Quickly implementable measures could include:

- Phased introduction or longer transitional periods for Least Developed Countries.
- Revenue recycling from CBAM into climate finance for affected countries.
- Incorporating technology transfer and capacity-building as integral components of environmental trade measures.

CBAM and EUDR should also be subject to ongoing monitoring and impact assessments involving external stakeholders. Without such mechanisms, the EU risks locking in inequitable outcomes and losing international trust.

e. Reframe EU climate diplomacy through a geopolitical lens

Climate diplomacy can no longer operate in isolation from broader foreign and security policy. While countries like China, the US, and the Gulf states are actively using climate and industrial policies to expand their geopolitical influence, the EU has been fraught with real difficulties in expressing a unified vision of the purposes and impacts of policy instruments like CBAM (which is still perceived as an industrial policy by Global South actors), EUDR or the Corporate Sustainability Due Diligence Directive.

In this context, the EU should enhance internal coordination between DG CLIMA, DG TRADE, DG INTPA, and DG GROW to align environmental and external policy; and build broader coalitions around shared industrial and environmental goals, with BRICS, G7 countries and ACCTS partners.

3.1.4 Conclusion

The EU Green Deal has the potential to drive a transformative global agenda, but only if it is implemented in ways that are fair, inclusive, and development-friendly. CBAM, EUDR or the ESPR are not inherently problematic, but their review and final

implementation must better reflect the asymmetries of the global system. Through adaptive regulation, inclusive partnerships, and strategic investments, the EU can move from being seen as an environmental rule-maker to becoming a genuine partner in a globally just transition as well as a global climate justice leader in very uncertain times.

3.2 PAPER 2. EXTERNAL IMPACTS OF NEW EU SUSTAINABLE PRODUCT STANDARDS: EXPLORING SPILLOVERS OF THE ECODESIGN FOR SUSTAINABLE PRODUCT REGULATION

The Ecodesign for Sustainable Products Regulation (ESPR) is a fundamental piece to the puzzle that makes up the European Green Deal's Circular Economy Action Plan (CEAP). The Regulation, which entered into force in July 2024, sets a framework to improve the sustainability of products sold in the EU. As a framework regulation, the ESPR relies on the adoption of Delegated Acts (DAs) for its implementation.

Most notably, the ESPR will set new Ecodesign requirements on product performance and information through DAs. **Performance requirements** target product durability, reusability, repairability, recyclability, upgradability, and environmental impacts. **Information requirements** ease access to product information such as performance, traceability, technical documentation, harmful chemicals, and user manuals to facilitate product repair and recycling[49]. This product information would be carried on the

[49] Official Journal of the EU. (2024). *Regulation (EU) 2024/1781 of the European Parliament and of the Council of 13 June 2024 establishing a framework for the setting of ecodesign requirements for sustainable products, amending Directive (EU) 2020/1828 and Regulation (EU) 2023/1542 and repealing Directive 2009/125/EC (Text with EEA relevance).* https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024R1781&qid=1719580391746

Digital Product Passport (DPP). The DPP would also authenticate a product's EU Ecolabel to combat imitative Ecolabels that may mislead consumers. This is considered separate from the EU's Green Claims Directive which aims to combat greenwashing and ensure companies can validate their environmental claims[50]. The first DA would cover the technical framework of the DPPs for textiles and furniture. It is expected to be published in January 2026 and enter into force 18 months later. The DAs can be drafted on a product-by-product basis or across product groups through a horizontal requirement relating to product performance and information. Each DA would be preceded by an impact assessment and stakeholder consultation.

A significant advantage of the ESPR is that it can put forward comprehensive standards for high-impact product categories, flexibly tackling several environmental considerations under one framework. Through the DAs, the ESPR can set minimum or maximum requirements throughout a product's life cycle, as opposed to one stage of production. The DAs will either introduce existing standards or require the development of new standards through standardisation requests to the European Committee for Standardisation (CEN) and/or the European Committee for Electrotechnical Standardisation (CENELEC).

For example with textiles, requirements could include life cycle maximum emissions to water and air, water consumption, waste generation, recycled content, carbon footprint, minimum reliability, affordable access to spare parts, and content of sustainable renewable raw materials[51] such as in practice content with sustainability certification. Yet, designing an all-encompassing standard is more challenging in practice, relying on current technologies and calculation methodologies for standards that will apply years from now. Nonetheless, the thoughtful advancement of new Ecodesign standards is preferable to maintaining the status quo.

The ESPR also aims to tackle the unsustainable use of resources. This includes a ban on the destruction of unsold goods (currently only apparel and footwear which will enter into force on 19 July 2026), disclosure requirements of unsold goods, designation of market surveillance authorities to scope out product non-compliance, and minimum sustainability requirements for public procurement. Companies will be obligated to

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[50] European Commission. (2023). *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on substantiation and communication of explicit environmental claims (Green Claims Directive)*. Brussels: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52023PC0166

[51] Faraca, G., Ranea Palma, A., Spiliotopoulos, C., Rodríguez-Manotas, J., Sanye Mengual, E., Amadei, A. M., . . . Wolf, O. (2024). Ecodesign for Sustainable Products Regulation: Study on new product priorities. https://data.europa.eu/doi/10.2760/7400680

disclose the number and weight of discarded products along with the reasons for discarding these products and the share of discarded products that will be prepared for reuse, refurbishment, remanufacturing, recycling or (energy) recovery. By 19 July 2025, a first Implementing Act will set out the details and format of the disclosure information, and a DA will specify derogations on the ban of destruction of unsold goods such as health, hygiene, safety reasons, not acceptable for donations, or a product not being fit for purpose[52].

3.2.1 Scope and inclusion criteria of product groups

Product groups covered by the ESPR could be subject to several Ecodesign requirements to enhance the overall sustainability criteria of a product. Table 1 below provides a summary of some possible product parameters that could be covered by the Ecodesign requirements as outlined in the Regulation's Annex I.

Table 1: Product aspects that can be covered by Ecodesign requirements and potential product parameters

Product aspect	Product parameter
Durability & reliability	Expressed through a product's guaranteed and technical lifetime, mean time between failures, indication of real use information, …
Repairability & maintenance	Characteristics, availability, delivery time, affordability of and compatibility with spare parts, modularity, availability of repair and maintenance, number of materials and (standard) components used, …
Upgradability, reusability, remanufacturing refurbishment	Number of materials and components used, use of standard components, number and complexity of processes and tools needed, ease of non-destructive dis- and re-assembly, guarantees for remanufactured and refurbished products, …
Recyclability	Use of easily recyclable materials, standard components, number of materials and components used, safe and non-destructive disassembly, and possibility of high-purity sorting, …

[52] Official Journal of the EU. (2024). *Regulation (EU) 2024/1781 of the European Parliament and of the Council of 13 June 2024 establishing a framework for the setting of ecodesign requirements for sustainable products, amending Directive (EU) 2020/1828 and Regulation (EU) 2023/1542 and repealing Directive 2009/125/EC (Text with EEA relevance)*. Brussels: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024R1781&qid=1719580391746

Hazardous substances	Presence of substances of concern with impacts on human health and the environment during the production process, in the final product or the end-of-life stage.
Consumption & use	Of energy, water and other resources during the product lifecycle stages.
Content & use	Of recycled or recovered materials such as CRMs, sustainable renewable materials, or used components.
Footprint	Covering carbon, material and environmental footprint with one or more environmental impact categories.
Emissions & waste	Released to air, water, and soil, including noise, micro- and nanoplastics and waste generation throughout the product life cycle stages, including packaging and end-of-life.
Performance & design	Product ability to perform as intended, skills required and compatibility with other products, lightweight design through reduction of material consumption

In principle, almost any product group could fall within the scope of the ESPR, though some product groups are likely to generate relatively higher potential improvements in environmental impact than others. A recent JRC study assessed 33 product groups and narrowed down their scope to 18 product groups based on environmental, market and policy considerations. Then, these 18 product groups were ranked based on their scoring on environmental impact categories (water, air, soil, biodiversity, waste, climate change, energy use, human toxicity), currently unexploited potential for material efficiency improvements and contribution to EU Open Strategic Autonomy[53].

[53] Faraca, G., Ranea Palma, A., Spiliotopoulos, C., Rodríguez-Manotas, J., Sanye Mengual, E., Amadei, A. M., . . . Wolf, O. (2024). Ecodesign for Sustainable Products Regulation: Study on new product priorities. https://data.europa.eu/doi/10.2760/7400680

A note on Open Strategic Autonomy

The inclusion of Open Strategic Autonomy as a criterion to prioritise certain product groups in the JRC study is relevant as the ESPR plans to "assess [and prioritise] the potential contribution of those products to the functioning of the internal market and to the Union's economic resilience."

Since 2020 the EU has faced several external shocks to their supply chains, starting with the pandemic, followed by the Russian invasion of Ukraine and subsequent energy crises. Consequently, the political concept of Open Strategic Autonomy has gained traction, with the European Commission featuring the term in various strategies including its 2021 trade policy strategy[54]. The idea is for the EU to balance strategic, technological, and vulnerability considerations while ensuring its capacity to act independently in key policy areas. The EU's aim is still to pursue multilateral cooperation whenever possible, underlining "Open" in the strategy name[55].

Indeed, the inclusion of Open Strategic Autonomy is a logical dimension to include in the overall exercise of product identification under the ESPR. Especially in light of the European Commission's Clean Industrial Deal which aims to accelerate climate action while improving competitiveness[56].

The main criteria for assessing a product group's contribution to Open Strategic Autonomy, as defined in the JRC study, are linked to potential supply risks that may lead to price volatility and supply chain disruptions. These risks include the presence of critical or strategic raw materials in the product group, dependence on imported

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[54] European Commission. (2021). *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Trade Policy Review - An Open, Sustainable and Assertive Trade Policy*. Brussels: https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF

[55] Kroll, H. (2024). *Assessing Open Strategic Autonomy*. https://op.europa.eu/en/publication-detail/-/publication/524071d9-ab81-11ee-b164-01aa75ed71a1/language-en

[56] European Commission. (2025a). *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation*. Brussels: https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_en

crude oil and petroleum products for manufacturing, high energy consumption during manufacturing and use phases, and the possibility of the product group being subject to trade sanctions[57].

Tables 2 and 3 provide an overview of product groups (final and intermediate products) that were considered in the JRC study, the ESPR's proposed list of product groups to be covered by Ecodesign requirements in Article 18 and the list of products included in the discussion paper of the first ESPR Working Plan, which is planned for adoption by 19 April 2025[58]. The tables reveal how the list of products proposed for the first Working Plan largely stems from a narrowed-down list of products listed in both the JRC study and Article 18 of the ESPR, except for ICT Products & Other Electronics and the omission of Footwear from Textiles.

Table 2: List of final products considered in the JRC study, ESPR Article 18 and the first Working Plan

Product Group	JRC Study	ESPR (Art. 18)	1st Working Plan
Final products			
Textiles & Footwear	✓	✓	✓ (Footwear omitted)
Furniture	✓	✓	✓
Tyres	✓	✓	✓
Bed Mattresses	✓	✓ (Under furniture)	✗
Detergents	✓	✓	✗
Paints	✓	✓	✗
Cosmetics	✓	✗	✗
Lubricants	✓	✓	✗
Toys	✓	✗	✗
Fishing Gear	✓	✗	✗
Absorbent hygiene products	✓	✗	✗
Energy-Related Products	✗	✓	✗
ICT Products & Other Electronics	✗	✓	✓

[57] Ibid.

[58] European Commission. (2025b). *Ecodesign and Energy Labelling Forum - Discussion paper on the 1st ESPR and Energy Labelling Working Plan*. https://ec.europa.eu/transparency/expert-groups-register/screen/meetings/consult?lang=en&meetingId=59861&fromExpertGroups=3969

The discussion paper on the first Working Plan shares that the first batch of product groups likely to be prioritised are textiles, furniture, tyres (final products), and steel and aluminium (intermediate products)[59]. The first Ecodesign requirements to be considered in the first Working Plan include repairability, recyclability and recycled content to improve material efficiency in the scope of ICT products. Products with the highest relevance to Open Strategic Autonomy as determined by the JRC study include tyres, iron and steel, commodity chemicals, and non-ferrous metal products, including critical raw materials (CRMs).

The inclusion of ICT Products under the horizontal measures for repairability and recyclability and recycled content is justified as it complements existing legislation (such as the Right to Repair and the Waste Electrical and Electronic Equipment (WEEE) directive), adds value, enables the extended use and/or recovery of valuable CRMS, and it would be a popular measure among EU citizens as appeared from the public consultation.

The Commission notes that the omission of Footwear is due to the sector having "relatively lower impacts, improvement potential as well as market value" compared to apparel textiles and other products considered in the first Working Plan[60]. Products not covered in the first Working Plan are not excluded from being covered in future working plans. The concentration of products included in the first Working Plan appears to be more of a decision based on feasibility considering the available resources as opposed to political decision-making.

[59] Ibid.
[60] Ibid.

Table 3: List of intermediate products considered in the JRC study, ESPR Article 18 and the first Working Plan

Product group	JRC study	ESPR (Art. 18)	1st Working Plan
Intermediate products			
Iron & steel	✓	✓	✓
(Commodity) Chemicals	✓	✓	✗
Non-ferrous metal products	✓	✗	✗
Aluminium	✓	✓	✓
Plastics	✓	✗	✗
Pulp & paper	✓	✗	✗
Glass	✓	✗	✗

Under the list of intermediate products, chemicals were not included in the first Working Plan. Commodity chemicals scored high in the environmental impacts, improvement potential and contribution towards Open Strategic Autonomy in the JRC study. Yet, comprehensive regulatory frameworks for chemicals exist including the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the Regulation on the Classification and the Labelling and Packaging of Hazardous Substances (CLP) and over 40 legislative instruments covering chemicals' environmental impacts[61]. The Commission explains the omission of chemicals due to the heterogeneity and complexity of the product group. Instead during the implementation of the first Working Plan, it would be proposed to commission a study to define more precisely the potential scope for the inclusion of chemicals in the following working plan[62].

Non-ferrous metal products are not specifically listed in either Article 18 or the first Working Plan. Conversely, ICT Products & Other Electronics were not specifically evaluated in the JRC study. Considering the presence of CRMs in electronics and e-waste, the inclusion of horizontal measures for repairability and recyclability and

[61] Faraca, G., Ranea Palma, A., Spiliotopoulos, C., Rodríguez-Manotas, J., Sanye Mengual, E., Amadei, A. M., . . . Wolf, O. (2024). *Ecodesign for Sustainable Products Regulation: Study on new product priorities*. https://data.europa.eu/doi/10.2760/7400680

[62] European Commission. (2025b). *Ecodesign and Energy Labelling Forum - Discussion paper on the 1st ESPR and Energy Labelling Working Plan*. https://ec.europa.eu/transparency/expert-groups-register/screen/meetings/consult?lang=en&meetingId=59861&fromExpertGroups=3969

recycled content for ICT Products partly accounts for the absence of non-ferrous metals.

Plastics, pulp and paper, and glass were neither listed under the ESPR Article 18 nor included in the first Working Plan. These product groups scored relatively lower on environmental impacts compared to iron and steel, chemicals, non-ferrous metals, and aluminium in the JRC study. The study also scored these product groups as mid- to low priority concerning Open Strategic Autonomy. Another possible explanation for their absence could be the inclusion of these product groups in existing regulations. For example, emissions of the glass, paper and pulp industries are covered by the Industrial Emissions Directive and the Emission Trading System (ETS). The glass industry and its final products are also covered by REACH and legislation on packaging products, vehicles, and electrical and electronic products. The plastics industry is covered by the Plastics Strategy and the paper and pulp industry would adhere to the 'New EU Forest Strategy for 2030'[63].

3.2.2 What does the ESPR mean for economic actors?

Table 4 below provides an overview of several obligations for manufacturers of products covered by the ESPR placed on the EU market. Logically, manufacturers have the primary obligation to ensure their products are designed, produced and carry the necessary information to comply with the ESPR. Importers or distributors of the same products largely act as an additional compliance checkpoint, verifying that manufacturers have complied with the Regulation before making the products available on the market. However, if an importer or distributor sells a product under their name/trademark or modifies a product in a way that affects its compliance with the Regulation, they must also assume all manufacturer obligations. Moreover, online marketplaces and search engines will be required to cooperate with authorities and remove non-compliant products.

[63] Faraca, G., Ranea Palma, A., Spiliotopoulos, C., Rodríguez-Manotas, J., Sanye Mengual, E., Amadei, A. M., . . . Wolf, O. (2024). *Ecodesign for Sustainable Products Regulation: Study on new product priorities*. https://data.europa.eu/doi/10.2760/7400680

Table 4: Excerpt of manufacturers' obligations under the ESPR (Art. 27)

Product compliance	Ensure products meet performance and information requirements, and availability of DPP through a conformity assessment.
Marking and identification	Ensure products are accompanied by a type/batch/serial number and proper labelling, such as the conformity marking.
Digital Product Passport	Ensure availability and accessibility to the DPP including contact information of the manufacturer.
Corrective actions	Cooperate with national authority concerning corrective actions, recall, or withdrawal of non-compliant products.

The implementation of new standards implies a compliance cost for economic operators that is often passed on to the consumer. Of course, the end goal of the ESPR is not to design a flurry of new sustainability requirements by any means necessary. The Commission will act where EU law or market self-regulation is absent/insufficient or where there is a divergence of product performance for similar products, yet the overall aim is to improve product performance and information while avoiding disproportionate costs. Accordingly, the impact assessments accompanying the DAs will feature cost-benefit analyses to ensure maximal environmental benefits at a minimal cost.

Commonly, the cost of compliance incurred by operators is most strongly felt by small and medium-sized enterprises (SMEs) as they typically have less access to technical expertise or financial support to conform to new requirements. In this context, the Commission states it shall account for the needs of SMEs when drafting and implementing DAs, including a dedicated section in the impact assessment. For example, to ensure predictability, actors must comply with DAs within 18 months of their entry into force. Moreover, DAs will be accompanied by digital tools and guidelines specific for SMEs to support for instance the calculation of product environmental footprint and the implementation of the DPP. Member States may also implement measures to support SME compliance with Ecodesign requirements such as access to finance, fiscal advantages, specialised training, and organisational and technical assistance. Moreover, the Commission emphasises the need for sufficient consultations with stakeholders, especially SMEs, in both the Member States Expert Group and the Ecodesign Forum. The Forum's main tasks include contributing to the preparation of Ecodesign requirements and working plans, evaluating market surveillance effectiveness, assessing self-regulation measures, and reviewing potential

bans on the destruction of unsold consumer products beyond those already listed in Annex VII[64].

3.2.3 Trade implications and global alignment of the ESPR

The following section is divided into subsections, each diving deeper into the trade and international implications of the ESPR. Subsection 3.1 discusses the ESPR compatibility with WTO rules; 3.2 covers compliance costs and trade disruptions; 3.3 analyses trade data of product groups covered by the first working plan; and 3.4 considers the role of international cooperation in mitigating unintended spillovers of the Regulation.

a. WTO compatibility

The Ecodesign requirements would apply to all products sold on the Single Market, meaning both foreign and domestic economic operators will be required to conform to the Regulation. The Ecodesign requirements could be non-discriminatory and compatible with World Trade Organisation (WTO) law provided that the requirements are based on objective, scientific, transparent criteria, and not disproportionate vis-a-vis the environmental objective. Accounting for these principles could minimise the possibility of new Ecodesign requirements being challenged at the WTO, however, would not grant the Regulation immunity to such challenges by WTO members.

Despite the Commission's claim wanting to avoid disproportionate costs and barriers brought on by new Ecodesign requirements, the ESPR could face issues at the WTO from members claiming the Regulation discriminates against foreign "like" products based on process and production methods (PPMs) or the literal product end-use (e.g., in the case of the ESPR the ability to disassemble and recycle or reuse a product in a certain manner). The WTO judges "like" products based on four factors; (i) physical product similarities, (ii) similar end-uses, (iii) consumer preference equivalence, and (iv) tariff classification[65]. If a foreign product is barred from being sold in the EU while allowing the sale of a domestic product that shares the same appearance, function and tariff classification, and is interchangeable with its foreign counterpart, the two would be considered "like products" under WTO rules. Treating them differently in this context

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[64] European Commission. (2025c, 31 January 2025). Group of experts on Ecodesign for Sustainable Products and Energy Labelling ('the Ecodesign Forum') (E03969). *Register of Commission Expert Groups and Other Similar Entities*. https://ec.europa.eu/transparency/expert-groups-register/screen/expert-groups/consult?lang=en&groupID=3969&fromCallsApplication=true

[65] WTO. (2025b). WTO rules and environmental policies: key GATT disciplines. https://www.wto.org/english/tratop_e/envir_e/envt_rules_gatt_e.htm

would likely constitute discrimination. In this case, the ESPR could run into this issue of "like" products as setting rules on PPMs or specific eco-labels as a prerequisite for market access may not sufficiently differentiate sustainably produced from unsustainably produced products.

If the European Commission is adequately prepared to argue how the Ecodesign requirements put in place by the ESPR serve a legitimate environmental objective while being designed and applied fairly, it is possible that Ecodesign requirements could fall under GATT's General Exceptions Article. As discussed earlier, possible Ecodesign requirements are wide-ranging and could touch on varying aspects related to the conservation of exhaustible natural resources (CRMs, biodiversity, freshwater) and serve to protect human, animal, or plant life or health (emissions to air, water, soil, avoidance of hazardous substances). Furthermore, discrimination disputes on the grounds "like" products are reviewed on a case-by-case basis by the WTO Appellate Body which may allow for more favourable interpretations of the Regulation's environmental objectives.

b. Cost of compliance and trade disruptions

As previously discussed, all manufacturers intending to sell products covered by the ESPR in the EU must comply with the requirements put in place by the Regulation's upcoming DAs. The imposition of such mandatory EU sustainability requirements risks the development of **regulatory divergence**, resulting in market fragmentation for targeted products.

Generally, new national or regional technical and regulatory barriers brought on by mandatory domestic standards imply **higher compliance costs** for manufacturers and can be a significant barrier to market entry for SMEs. These expenses cover costs related to information gathering, adjustments to the production process and labelling (specification costs), and verification and demonstration of conformity to the national authorities via conformity assessments[66].

New technical and regulatory barriers paired with market access restrictions for non-compliant products risk generating **trade disruptions**. The severity of trade disruptions varies by sector, through generally, specification and conformity assessment costs arise as the most important trade barrier with the introduction of new standards for goods.

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[66] OECD. (2017). International Regulatory Co-operation and Trade: Understanding the Trade Costs of Regulatory Divergence and the Remedies. *OECD Publishing, Paris*. https://doi.org/10.1787/9789264275942-en

The impact on global value chains is particularly prominent where different segments of the value chain are required to comply with an accumulation of international regulatory requirements[67].

Environmental standards and regulations serve to generate beneficial outcomes for people and the planet, for example by ensuring safe and sustainable methods of production or recycling or prohibiting harmful fishing practices. However, from a strictly trade point of view, a systemic review found that manufacturers in countries with stringent environmental regulations faced more difficulties in remaining competitive on the international market where other products face less stringent environmental requirements. Environmental regulations also raise trade barriers for imports from third countries[68]. The same study finds that both imports and exports are positively impacted when trading under ISO standards due to the international recognition of these standards. Yet where international standards apply, trade between developed countries intensifies due to the relatively lower cost of compliance due to countries' familiarity with stricter standards. Consequently, where institutional capacity is lacking, developing countries may lose out on market opportunities[69].

c. Trade patterns and exposure to ESPR requirements

Figure 1 presents EU imports from its largest exporters of the product groups likely covered by the first Working Plan, i.e., clothing, furniture, tyres, steel and aluminium by value (€) in 2023. The total value of EU imports from the presented countries totals approximately €163 billion. Taken together the displayed countries make up approximately 70% of total EU imports of the product groups clothing, furniture, and tyres. For iron and steel, and aluminium respectively, the displayed countries make up around 54% and 61% share of total EU imports in their product group.

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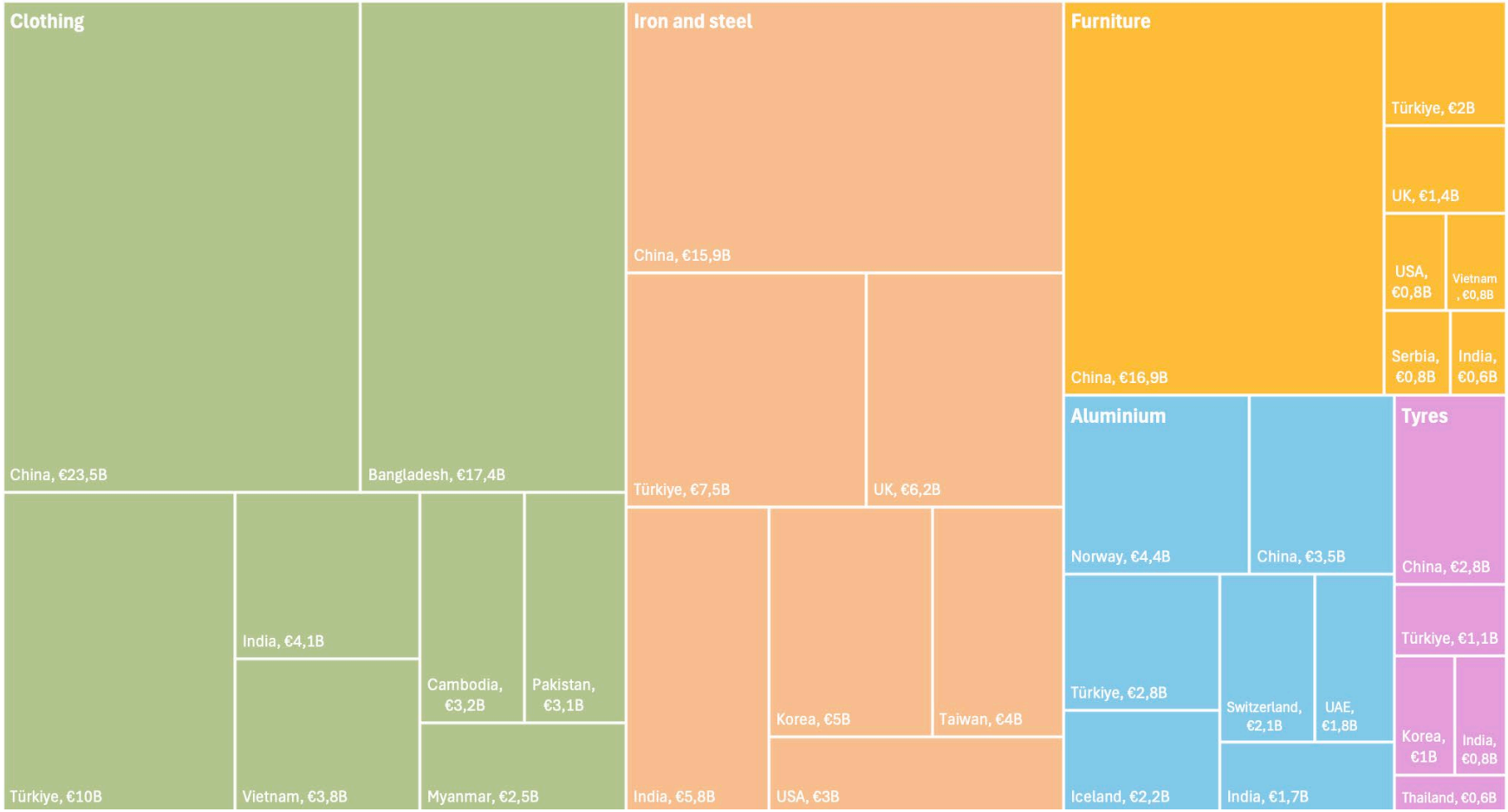
[67] Ibid.

[68] Swann, G. P. (2010). International standards and trade: A review of the empirical literature. *OECD Trade Policy Papers no. 97, OECD Publishing, Paris*. http://dx.doi.org/10.1787/5kmdbg9xktwg-en

[69] Ibid.

Figure 1: EU imports of product groups covered in the first ESPR Working Plan in billion euros, Eurostat 2023



Note: Data extracted from the Eurostat Database and figures drafted by the author. Import data codes: Clothing (CN 61+62), Iron and Steel (CN 72+73), Aluminium (CN 76), Furniture (CN 94), Tyres (CN 4011).

Figure 2: EU imports of furniture, clothing and tyres from the largest exporters in Mt, Eurostat 2023

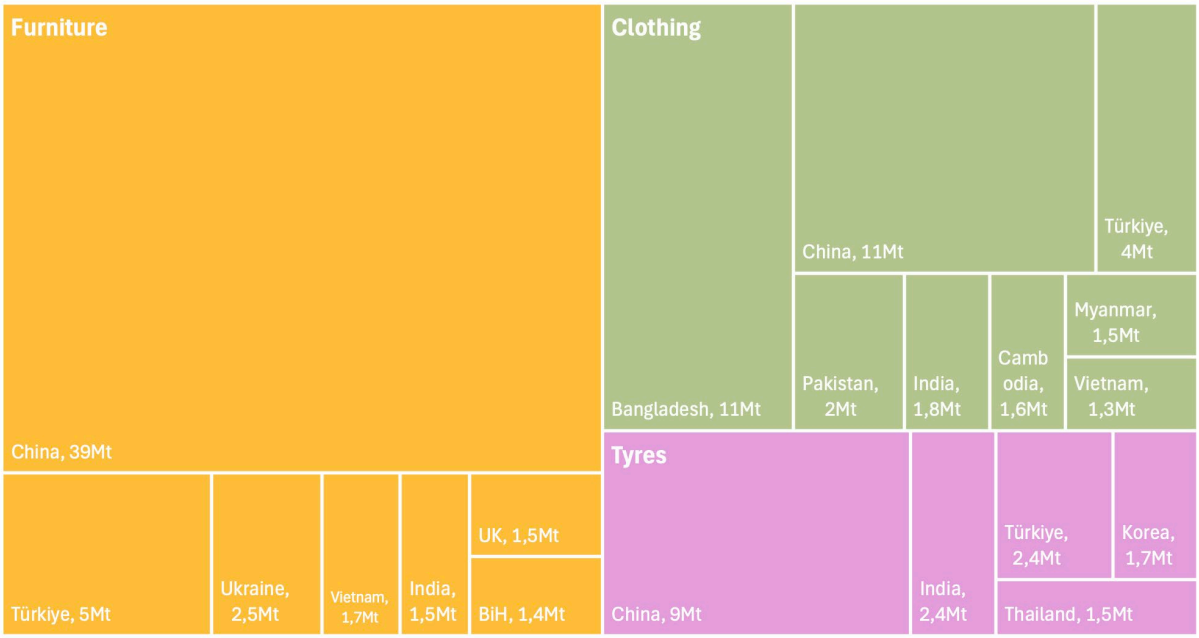
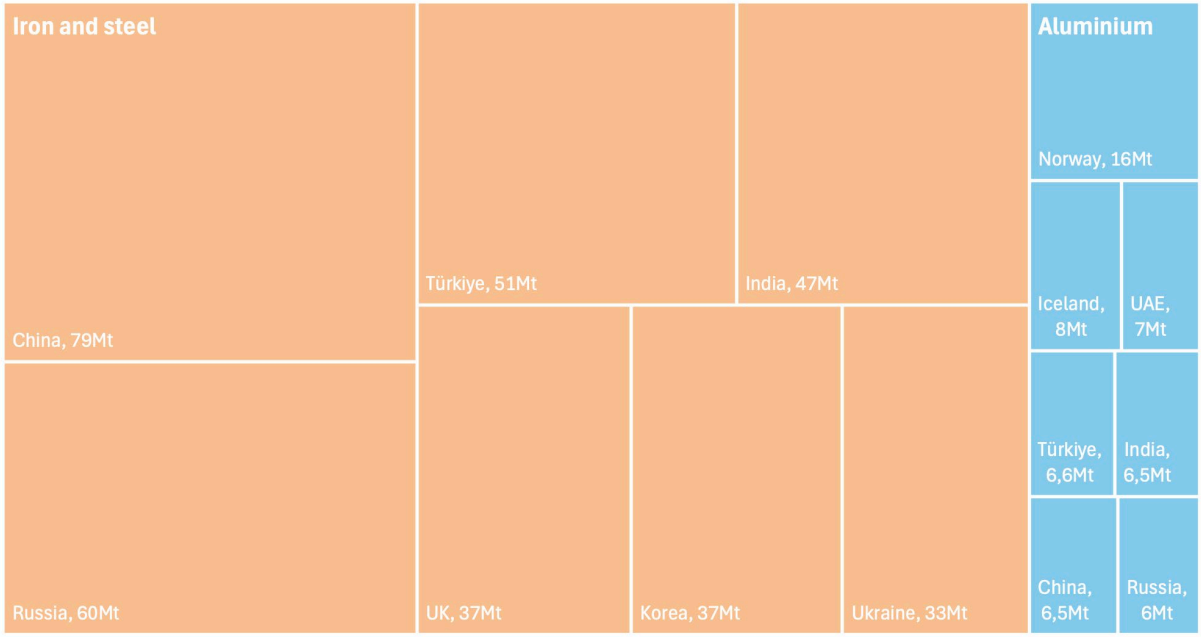


Figure 3: EU imports of iron and steel and aluminium from the largest exporters in Mt, Eurostat 2023



A few things become clear from these figures. By value, clothing imports from the top exporting countries account for more than a third of EU imports of all product groups in the first Working Plan. China is the largest exporter to the EU in all product groups excluding aluminium, and Turkey and India are the second and third most prominent exporting countries.

Figures 2 and 3 above present EU imports from its largest exporters of clothing, furniture, tyres (Figure 2), and steel and aluminium (Figure 3) by weight in megatonnes (Mt) in 2023. Assessing trade in goods based solely on trade value provides only part of the total picture which is the EU's imported consumption patterns. Considering one dimension of the ESPR to effectively lower the EU's material footprint, these figures provide a snapshot of the current situation. Iron and steel, and aluminium were considered separate from clothing, furniture and tyres due to their significantly higher weight differences.

By weight, China still emerges as the largest exporting country for each product group except for aluminium, and clothing as it is tied with Bangladesh. This highlights the need to review trade by weight as it appears that Bangladesh is exporting relatively cheaper apparel items compared to China.

ESPR's challenge for fast fashion and global recycling hubs

Concretely, the case of clothing under the ESPR is particularly interesting as alongside new Ecodesign requirements, the ban on the destruction of unsold goods will apply. Clothing manufacturing is highly concentrated in a handful of specialised countries including China, Bangladesh, Turkey, India and Vietnam where leading fast fashion brands such as Shein, Inditex (owner of Zara) and H&M operate manufacturing hubs.

Together, these three MNCs capture approximately 40% of the global fast fashion market[70]. In 2023 alone, their combined net profits

[70] Masters, K. (2023, 13 December 2023). How Shein outgrew Zara and H&M and pioneered fast-fashion 2.0. https://www.reuters.com/business/retail-consumer/how-shein-outgrew-zara-hm-pioneered-fast-fashion-20-2023-12-13/

exceeded €8 billion: €5.4 billion from Inditex, €1.84 billion from Shein and €775 million from H&M[71].

New Ecodesign requirements for clothing would likely require adaptations to their current manufacturing processes such as energy use, material sourcing and product durability. This combination of market and financial concentration makes MNCs key players in the successful implementation of the ESPR. Yet on the flip side of the coin, the concentration of market power of such MNCs means they also have sufficient resources to potentially lobby against ambitious Ecodesign requirements.

Authors Barrie, Lavallée, Walsh, and Schröder outline the implications of the ESPR on textiles trade, highlighting that although the amount of high-quality ESPR-compliant clothing imports will increase over time there will likely be a surge of low-quality clothing imports before the DA for apparel and textiles enters into force[72].

More importantly, they discuss the ESPR implications for non-EU countries, in particular those reliant on EU exports of used and unsold textiles for their recycling sectors. In the short term, recycling hubs could face additional pressures on their waste management systems under the ban on the destruction of unsold apparel. In the medium- to long-term, these hubs could face difficulties as their feedstock diminishes and is increasingly made up of lower-quality textiles, as textiles with higher potential remain in the EU for repair and reuse.

The categories of iron and steel, and aluminium feature other noteworthy findings. By weight, Russia is noted as the second largest exporter of iron and

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[71] See Lee, L. (2024, 1 April 2024). Shein made $2 billion in profits last year. That's a lot of fast fashion. https://www.businessinsider.com/shein-2-billion-profit-2023-ipo-fast-fashion-environmentally-conscious-2024-3 & Pons, C. (2024, 13 March 2024). Zara-owner Inditex shares rise to record high on spring season boost. https://www.reuters.com/business/retail-consumer/zara-owner-inditexs-profit-risesfalls-54-bln-euros-2023-bet-upmarket-fashion-2024-03-13/

[72] Barrie, J., Lavallée, M. V., Walsh, S., & Schröder, P. (2024, 5 December 2024). FURTHER TOGETHER: HOW THE EU CAN WORK MORE CLOSELY WITH TRADE PARTNERS TO ACHIEVE A SUSTAINABLE AND CIRCULAR TEXTILES ECONOMY. https://www.circle-economy.com/blog/further-together-how-the-eu-can-work-more-closely-with-trade-partners-to-achieve-a-sustainable-and-circular-textiles-economy

steel to the EU, however, the country is not among the top seven exporters to the EU by value, highlighting the low prices of Russian iron and steel. The opposite finding applies to the USA.

d. Mitigating fragmentation through international cooperation

Taken together, the implementation of the ESPR must carefully consider its unintended spillover effects. Disproportionate compliance costs risk undermining the global competitiveness of EU products, even when they offer sustainability advantages over like products. While all manufacturers, EU-based or otherwise, will need to invest time and resources to update production processes, carry out conformity assessments, and meet reporting obligations, thereby levelling the playing field within the EU, trade diversion could create unintended strain on secondary markets. This is particularly true for developing countries, where both low- and high-quality goods may increasingly be redirected. The extent to which these countries can adapt to and align with the ESPR will depend largely on their institutional capacity and governance frameworks, ultimately shaping whether they gain from or are disadvantaged by the Regulation's spillover effects.

The possibility of deepened regulatory divergence on the global marketplace resulting from the EU spearheading new Ecodesign requirements could result in market fragmentation for sustainable products. In this light, regulatory cooperation between countries is imperative to avoid severe trade disruptions and the creation of a global two-tier market for products and their ESPR-conform counterparts.

> The ESPR positions the EU in a particular situation with two possible paths arising in response to the same challenge: the EU becomes a global leader and sets the bar for sustainable products or risks intensifying regulatory divergence on the global marketplace, leading to market fragmentation.

The outcome will rely on the EU's ability to cooperate with third countries, bilaterally and at international fora, and standardisation organisations such as the ISO to make a case for international sustainability standards, align on possible mutual recognition of standards, increase transparency of its

regulatory framework[73] and where appropriate, support the uptake of these new standards in third countries, particularly in developing countries through technical assistance programs such as Aid4Trade[74].

In April 2024, the Commissioner of DG INTPA announced two circular economy initiatives indicating a positive way forward: the EU Circular Economy Resource Centre under the Global Gateway strategy will facilitate exchanges and partnerships between EU and trade partners, fostering the uptake of circular economy policies and business models. The SWITCH to Circular Economy in East and Southern Africa programme focuses on capacity building and improved access to finance, particularly targeting packaging, electronics, plastics waste and e-waste[75].

Furthermore, both the WTO's Trade and Environmental Sustainability Structured Discussions (TESSD) Working Group on circular economy and the Global Alliance on Circular Economy and Resource Efficiency (GACERE) offer multilateral fora to discussions on ESPR compliance and mutual recognition of standards. Ahead of the next Ministerial Conference, the TESSD Working Group on circular economy is focusing on the textiles sector including sharing experiences on textiles recycling, and challenges and opportunities regarding trade and circular textiles[76]. In light of the ESPR, the GACERE also kicked off discussions to consolidate knowledge on policies and instruments to encourage the circular transition of the textiles value chain[77].

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[73] OECD. (2017). International Regulatory Co-operation and Trade: Understanding the Trade Costs of Regulatory Divergence and the Remedies. *OECD Publishing, Paris*. https://doi.org/10.1787/9789264275942-en

[74] See Barrie, J., Latif, L. A., Albaladejo, M., Baršauskaitė, I., Kravchenko, A., Kuch, A., . . . Schröder, P. (2022). *Trade for an inclusive circular economy: A framework for collective action*. https://ieep.eu/publications/trade-for-an-inclusive-circular-economy-a-framework-for-collective-action/ & Blot, E., Oger, A., & Watkins, E. (2022). *Trade in support of circular economy: A synthesis report*. https://ieep.eu/wp-content/uploads/2022/12/CE-and-trade_Synthesis-report.pdf

[75] European Commission. (2024b). Global Gateway: EU announces new EU Circular Economy Resource Centre and SWITCH to Circular Economy in East and Southern Africa programme to accelerate global transition [Press release]. https://international-partnerships.ec.europa.eu/news-and-events/news/global-gateway-eu-announces-new-eu-circular-economy-resource-centre-and-switch-circular-economy-east-2024-04-16_en

[76] WTO. (2025a, 11 March 2025). Members focus on specific sectors and MC14 objectives in environmental sustainability discussions. https://www.wto.org/english/news_e/news25_e/tessd_11mar25_e.htm

[77] GACERE. (2024, 10 December 2024). A global perspective on circular textiles. https://www.unido.org/sites/default/files/files/2024-12/20241209_GACERE%20webinar_agenda.pdf

The International Organisation for Standardisation (ISO) has also been developing new international standards for the circular economy (ISO 590XX). The standards include guidance on the principles of the circular economy and its implementation, transitioning to circular business models, data collection and analysis with circularity indicators[78]. Based on the literature discussed above, the alignment of national standards with international standards could significantly mitigate trade impacts. Currently, the Commission does not foresee a link between new Ecodesign standards, and the work being conducted at the ISO. However, depending on the scope and content of the ISO 590XX standards, future links to these international standards on circularity are not excluded[79].

3.2.4 Streamlining circularity along the value chain

While the ESPR could see the EU take on a leading role as a standard-setter for sustainable products, the Commission has recently underscored the importance of the circular economy transition related to its industrial policy objectives. The Clean Industrial Deal (CID), announced in February 2025, aims to accelerate climate action and improve industrial competitiveness, partly relying on a new Circular Economy Act (CEA) to decarbonise the EU's industry and promote resource efficiency and security[80].

Enhanced decarbonisation efforts and improved resource security are particularly relevant for the EU's energy-intensive industries and the clean-tech sector, both of which produce or rely on key intermediate products such as steel, aluminium and CRMs. These input materials have a high potential for circularity as scrap metals retain their value and can be recycled with minimal loss in quality, though most CRMs currently face barriers hindering their collection and recycling[81]. Moreover, diverse and reliable partnerships with

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[78] International Organisation for Standardisation. (2025). ISO - Circular Economy. https://www.iso.org/sectors/environment/circular-economy

[79] European Commission. (2024a). Ecodesign for Sustainable Products Regulation (ESPR): Frequently Asked Questions (FAQ). https://circabc.europa.eu/ui/group/418195ae-4919-45fa-a959-3b695c9aab28/library/25c48e7c-9ce3-41cb-96ac-d2942a8a29d6/details?download=true

[80] European Commission. (2025a). *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation*. https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_en

[81] Watkins, E., Bergeling, E., & Blot, E. (2023). *Circularity and the European Critical Raw Materials Act: How could the CRMA better promote material circularity?* https://ieep.eu/publications/circularity-gaps-of-the-european-critical-raw-materials-act/

resource-rich countries are critical to achieving the EU's clean transition[82], especially as the demand for CRMs will surge before secondary CRMs become more widely available through improved collection and recycling processes[83].

So far what is known of the CEA is that it aims to facilitate the free movement of circular products, secondary raw materials, and waste, while boosting the availability of high-quality secondary raw materials, increasing demand for high-quality secondary materials and circular products[84]. Its current emphasis lies on recovery and recycling, both key elements for developing and promoting secondary markets. While this focus is essential, it is not sufficient to ensure EU industries fully take on circular practices throughout their value chain.

A well-functioning secondary raw materials market is only one component of a truly circular economy. Without stronger integration of upstream strategies, such as reusing, repairing, repurposing, and reducing, the CEA risks reinforcing a system where circularity begins only after a product's first use. This would be a missed opportunity to fully unlock the environmental and economic benefits of circularity[85].

In this context, the ESPR plays a critical role as it is the main legislative vehicle for shifting circularity upstream by embedding sustainability requirements at the design phase before products ever reach consumers. Therefore, the ESPR and CEA must be complementary and cohesive. If the CEA is to support downstream circularity, it must be matched by an ambitious ESPR that

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[82] Blot, E. (2024). *Sourcing critical raw materials through trade and cooperation frameworks*. https://ieep.eu/publications/sourcing-critical-raw-materials-through-trade-and-cooperation-frameworks/

[83] Blot, E., Bergeling, E., Watkins, E., & Marchetti, E. (2024). *Circularity strategies and sustainable resource management to safeguard the clean energy transition*. https://ieep.eu/publications/circularity-strategies-and-sustainable-resource-management-to-safeguard-the-clean-energy-transition/

[84] European Commission. (2025a). *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation*. https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_en

[85] See Blot, E., Bergeling, E., Watkins, E., & Marchetti, E. (2024). *Circularity strategies and sustainable resource management to safeguard the clean energy transition*. https://ieep.eu/publications/circularity-strategies-and-sustainable-resource-management-to-safeguard-the-clean-energy-transition/ & Ellen MacArthur Foundation. (2023). *Building a circular supply chain: Achieving resilient operations with the circular economy*. https://www.ellenmacarthurfoundation.org/circular-supply-chains

transforms upstream value chains. Only then can Europe reduce its material footprint and accelerate a meaningful transition to a circular economy.

3.2.5 Concluding remarks

The ESPR allows for the ambitious design and implementation of Ecodesign requirements to improve the overall sustainability of products sold on the EU market. The first batch of product groups and requirements likely to be featured in the first ESPR Working Plan are clothing, furniture, tyres, steel, and aluminium, along with horizontal repair, recycling and recycled content requirements for ICT products. The inclusion of ICT products in the scope of the first Working Plan aimed at extending material use and efficiency is encouraging.

Economic actors including manufacturers, importers and distributors of products covered by the ESPR will face new obligations to adhere to the Regulation. The primary obligation to ensure their products are designed, produced and carry the necessary information to comply with the ESPR falls on the manufacturers, while importers and distributors act as an additional compliance checkpoint. To mitigate the cost of compliance for SMEs, the Commission would make digital tools and guidelines available that may aid with the calculation of product environmental footprint and the implementation of the DPP. Moreover, the Member States may decide to further support SMEs by aiding with access to finance, fiscal advantages, specialised training, and organisational and technical assistance.

With both foreign and domestic economic actors required to adhere to obligations under the Regulation, the implementation of the ESPR could have significant repercussions beyond EU borders. **While it promises to raise sustainability standards, it also risks introducing trade barriers that disproportionately affect countries with lower institutional capacities.**

These unintended spillovers underline the importance of regulatory cooperation. Without efforts to align standards and provide technical assistance, the ESPR may contribute to market fragmentation and a two-tier global system for sustainable products. However, by actively engaging in multilateral fora like TESSD and GACERE, cooperating on standardisation with the ISO, and by supporting capacity-building programmes such as SWITCH Africa and the EU Circular Economy Resource Centre, the EU can shape a more inclusive global transition.

The roll-out of a new industrial strategy anchored in circularity alongside the ESPR will be key to shifting the EU towards a circular economy and addressing its high levels of resource use. This emphasises the need for the EU to

ambitiously incorporate Ecodesign requirements that will **meaningfully extend product lifespans and reduce resource use while cooperating with third countries to kick off a global circular transition.**

3.3 PAPER 3. THE EU CBAM's REFORM AND REMAINING IMPLEMENTATION CHALLENGES FOR LOW- AND MIDDLE-INCOME COUNTRIES

Adopted in 2023, the Carbon Border Adjustment Mechanism (CBAM) aims to protect the integrity of the EU's Emissions Trading System (ETS) by preventing carbon leakage and ensuring that imported goods face equivalent carbon pricing.

Since its inception, the mechanism has sparked international concerns over fairness, feasibility, and economic impacts, particularly among low- and middle-income countries (LMICs). Tensions around the mechanism's full-scale implementation, delayed to 2026, culminated on 19 May 2025 with a first formal complaint against the measure filed by Russia before the World Trade Organisation's Dispute Settlement System. As climate urgency increases and the EU faces the need to triple its emission reduction pace to meet its 2030 targets compared with the last decade (European Commission 2024), CBAM has become a global symbol of the EU's externalisation of climate efforts. A few days after the adoption by the European Parliament of a series of amendments to simplify the regulation, this brief summarises recent domestic CBAM developments, analyses implications for developing countries, and offers pathways for greater global carbon market interoperability and equity.

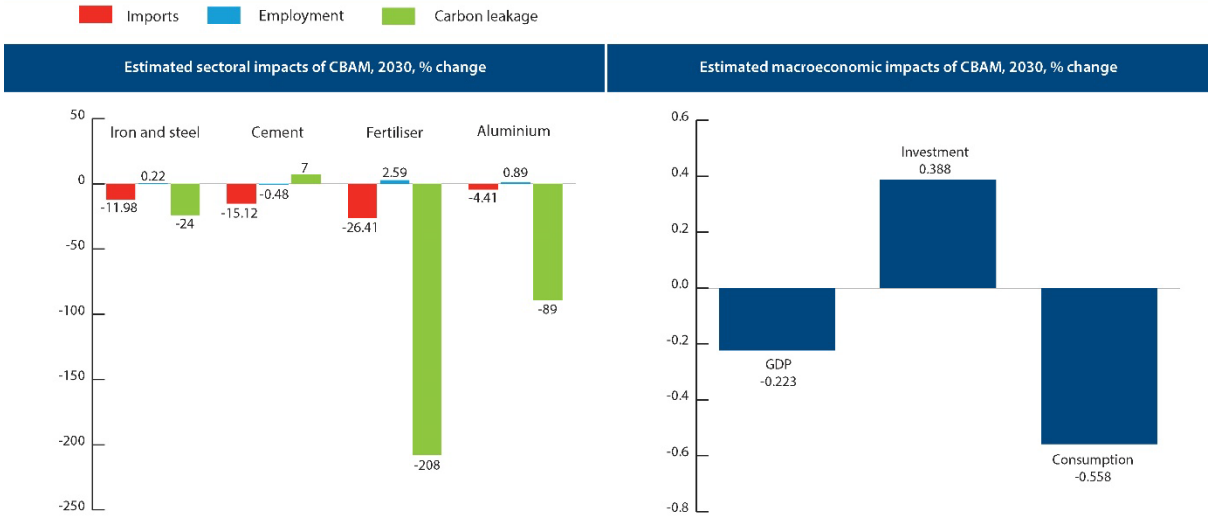
3.3.1 CBAM Implementation: domestic progress and challenges

a. Transition phase dynamics

Since October 2023, importers must report embedded emissions but are not yet required to purchase CBAM certificates. This transitional phase has had limited

observable impact on trade flows, though full implementation (planned for 2026 or later) is expected to affect production and sourcing patterns significantly. While CBAM's macroeconomic impact on the EU is minor (−0.22% GDP by 2030), sectoral effects are notable: EU imports of fertilisers may fall by 26%, with iron and steel also heavily affected. Variability across member states (e.g. Bulgaria, Ireland, Greece) highlights regional sensitivities tied to import dependencies.

Figure 1: Estimated macroeconomic impact of CBAM in the EU



Source: European Commission, 2021

b. Administrative and technical hurdles

A key challenge for importers is calculating embedded emissions using installation-specific data, a requirement enforced since July 2024. While default data are still permissible in limited cases, most declarants must now rely on complex supply chain reporting—often hindered by data unavailability from third-country suppliers. This has placed disproportionate burdens on small and medium-sized enterprises (SMEs), both within and outside the EU. To address these concerns, the Commission proposed in February 2025 to:

- **Raise the de minimis threshold to 50 tons/year, supposedly exempting ~90% of importers by volume.**
- **Allow use of default values without justification.**

- **Reconsider full CBAM rollout, possibly delaying it to 2027.**

The political atmosphere in the European Parliament regarding the EU CBAM has shifted significantly since the previous legislative term, to the extent that the mechanism now stands out as one of the most broadly supported pieces of the EU's climate policy puzzle. Over 2,000 amendments were originally tabled in response to the initial CBAM proposal. By contrast, in the current legislative cycle, specifically within the framework of the Omnibus I regulation, only around thirty amendments have been submitted on CBAM. On 22 May 2025, the European Parliament endorsed the proposal of the European Commission to introduce a de minimis threshold of 50 tonnes under the EU Carbon Border Adjustment Mechanism (CBAM), a move aimed at simplifying compliance for SMEs and occasional importers. According to the European Commission[86], this new threshold would exempt 90% of importers—primarily small businesses and individuals—while still covering 99% of CO_2 emissions from imports of iron, steel, aluminium, cement, and fertilisers. This replaces the previous €150-per-shipment exemption, which proved ineffective, disproportionately burdensome for small businesses, and easily circumvented through shipment splitting. Changes in the amendments adopted by the European Parliament on 22 May – and which will now have to be negotiated between the Parliament and the EU Council streamline the authorisation process for declarants, simplify emissions calculations and liability management, and reinforce anti-abuse measures. The reform proposes allowing importers to choose between using actual emissions data or conservative default values, making compliance more accessible for countries with limited monitoring capacity and encouraging the use of verified data. Finally, under the proposed reform and in response to challenges in documenting foreign carbon pricing at the product level, the Commission will develop default carbon price values by country or regime, ensuring that foreign carbon prices can be deducted from CBAM obligations more systematically. Additional adjustments include delaying the start of CBAM certificate

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[86] *COM(2025) 87 final, 2025/0039 (COD) Proposal for a Regulation of the European Parliament and the Council amending Regulation (EU) 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism, Brussels, 26.2.2025*

See new methodology under Annex II, revising Annex VII of the Proposal to dynamically continue to cover 99% of emissions https://commission.europa.eu/document/download/dc72f9cb-2b58-465a-8a33-8c5d6b6efe8b_en?filename=COM_2025_87_annexes_EN.pdf

sales to February 2027 (for 2026 emissions), extending reporting deadlines, and excluding downstream emissions in steel and aluminium, which are deemed to have limited climate relevance.

c. Gaps in circularity and scope

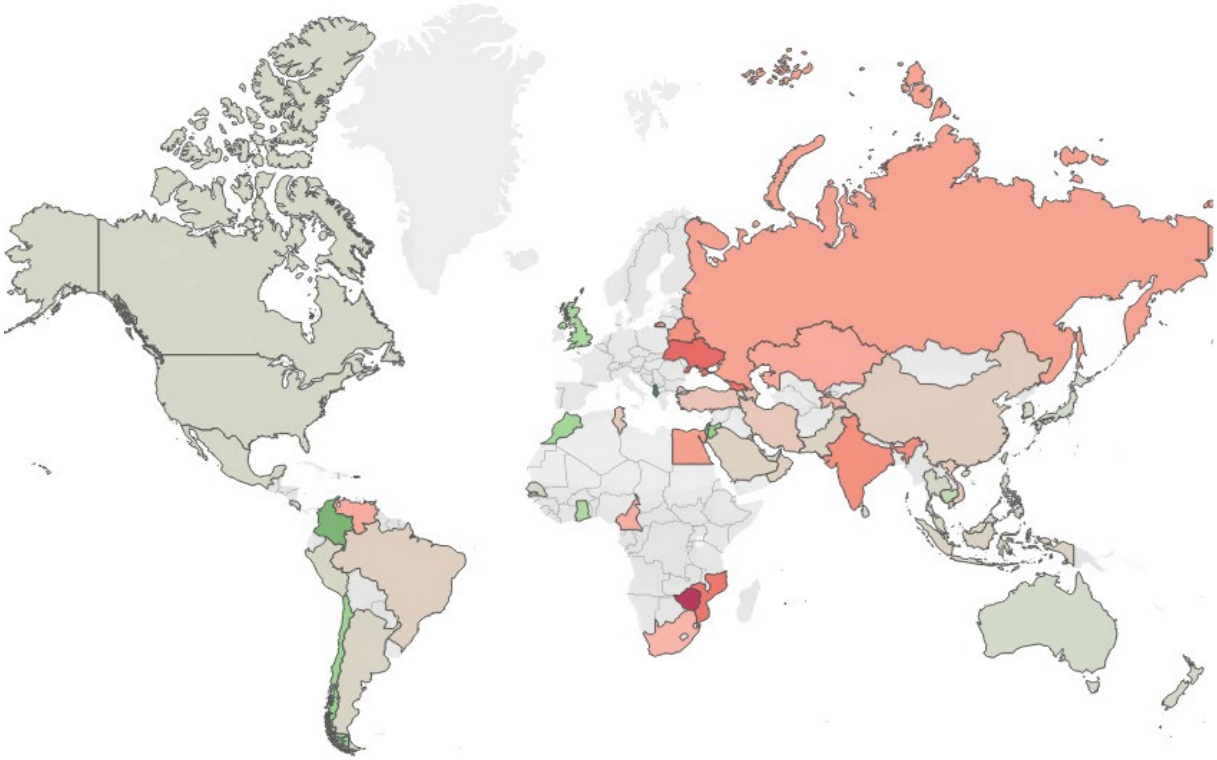
CBAM's current design excludes downstream products and scrap materials, reducing incentives for circular value chains and undermining EU objectives for a resource-efficient single market. Business groups have called for extending CBAM to downstream products like aluminium and steel to support recycling investments and prevent regulatory arbitrage. A growing concern is the so-called "scrap loophole" (Sandbag, 2024) which allows exporters to circumvent the CBAM by blending high shares of recycled pre- or post-consumer scrap into products destined for the EU—thereby lowering reported emissions without actually reducing average carbon intensity. This legal circumvention undermines the level playing field CBAM seeks to create, especially as EU producers face more limited access to high-quality scrap and are phasing out free allowances. Moreover, the current reliance on actual emissions data encourages resource shuffling and under-reporting, since importers can selectively declare low-carbon goods with real data while defaulting to less accurate reporting for higher-emission products. A systematic use of country-level default values could close this loophole, reduce complexity and compliance costs, and align incentives more effectively toward actual emissions reductions across entire supply chains.

3.3.2 CBAM's impacts on Global South countries

a. Trade exposure and structural vulnerability

Countries face CBAM exposure through two channels: high absolute exports to the EU (e.g. China, India, Türkiye), or strong economic reliance on CBAM sectors (e.g. Zimbabwe, Ukraine, Georgia). LMICs in the second group are particularly vulnerable, as even low export volumes can significantly affect local economies. The World Bank's CBAM Exposure Index flags several LMICs at high aggregate risk, particularly in fertilisers and cement. Africa, despite limited exports, faces high ad valorem rates and stands to lose up to 0.5% of income due to potential trade declines (African Climate Foundation and The London School of Economics, 2023).

Figure 2: Aggregate Relative CBAM Exposure Index



Source: World Bank, 2025

b. SME disadvantage and value chain fragmentation

SMEs in LMICs are indirectly affected through their role in complex supply chains. As EU importers push compliance costs downstream, SMEs lacking data management or decarbonization capacity face financial strain and potential exclusion from value chains. Multinational firms with dual EU/non-EU operations (e.g. Tata Steel) may adapt more easily, but this bifurcation risks widening structural inequalities. The main concern is not just direct costs, but cascading impacts through indirect enforcement, client renegotiations, and administrative compliance.

3.3.3 A Global patchwork: carbon pricing and interoperability

a. Growing but fragmented landscape

As of early 2025, 58 emissions trading systems exist globally—up from 29 in 2019. While momentum is growing, significant disparities persist in coverage, price levels,

and scope. The EU ETS price remains the highest globally (US$70–80/ton), while systems in China, South Korea, and California vary widely in ambition and administrative burden. Despite shared sectoral targets (e.g. industry, power), deeper interoperability remains elusive. The complexity and fragmentation raise costs for global firms and risk inefficient decarbonization.

b. Towards greater convergence

Several countries (UK, Türkiye, China) are considering or have introduced CBAM-like mechanisms. The UK plans a system by 2027, offering potential for EU alignment (Lydgate and Winters, 2025), as the EU and the UK officially announced working on the integration of their respective emissions trading systems, which would imply a mutual recognition of their Border Adjustment Mechanisms. The EU has joined Canada's Global Carbon Pricing Challenge, aiming to harmonise approaches, but the initiative lacks LMIC participation. The EU's proposed default recognition of foreign carbon prices is a step forward, but broader recognition of alternative mitigation efforts, such as green investment projects or internationally accepted carbon accounting standards, may be needed. Brazil, for instance, has advocated for the inclusion of ISO and GHG Protocol standards (International Institute for Sustainable Development, 2024)

c. Financing a fair transition

CBAM is expected to generate €2.1 billion annually in EU revenues. While the regulation prioritises domestic reinvestment, several stakeholders have called for a share of these revenues to be earmarked for international climate finance, especially to support industrial decarbonization in LMICs. A promising recent proposal (Sandler, 2024) involves recognising green investments in exporting countries as part of their domestic carbon pricing equivalent, effectively channelling CBAM revenues into decarbonization projects abroad. This would ensure both climate and development dividends, while fostering political buy-in.

3.3.4 Conclusion and recommendations

While essential to the EU's net-zero trajectory and the integrity of the EU ETS, its success hinges on broader legitimacy and international cooperation. To mitigate tensions and avoid widening global inequality, the EU should:

1. Finalise simplification reforms to ensure SMEs, both in the EU and globally, are treated equitably
2. Expand CBAM scope to incentivize circular economy practices and capture emissions from downstream products.
3. Support LMIC readiness through financial and technical assistance for MRV systems and carbon pricing instruments.
4. Enhance international alignment by recognizing alternative mitigation efforts and participating in carbon pricing dialogues.
5. Allocate part of CBAM revenues to global climate finance, linking them to measurable decarbonization outcomes in exporting countries.

The future of CBAM depends not only on its robustness but on its ability to catalyse global climate cooperation without leaving the Global South behind. Debunking its divisive potential will be key to the EU's strategy to deliver ambitious outcomes at COP30. If so far only Russia has challenged the measure before the WTO, a way to ease tensions could be – in the context of the G20 – to reach a ministerial declaration of non-challenge at the WTO assorted with an agreement to work on interoperable regulatory solutions on carbon mitigation approaches.

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