

IS THE EU CBAM DRIFTING OFF THE CLIMATE POLICY TRACK?

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About: *Adopted as part of the European Union's Fit-for-55 package, the Carbon Border Adjustment Mechanism (CBAM) was conceived as a climate instrument designed to address carbon leakage while reinforcing the EU's domestic decarbonisation trajectory. In contrast, on the international stage, CBAM is increasingly depicted less as a climate policy instrument and more as a protectionist mechanism, aimed at shielding European industry and generating additional revenues for the EU budget. This blog assesses whether the revision package presented on 17 December 2025 remains aligned with the EU's climate objectives. It underscores the importance of upholding a number of core principles and highlights the risks of future dilution arising from evolving political dynamics in the European Parliament, notably the growing convergence between the moderate right and the far right on environmental policy issues.*

Adopted in December 2022 as part of the Fit-for-55 legislative package aiming to put the European Union on track to achieve 55% emissions by 2030, the Carbon Border Adjustment Mechanism (CBAM) has rapidly emerged as one of the most visible and contested instruments of the European Green Deal. Flagship initiative or tip of the iceberg - the EU CBAM constitutes first and foremost the logical corollary of the domestic EU Emissions Trading System (ETS) which is the cornerstone of the EU's industrial decarbonisation strategy. The latest revision of the ETS adopted in April 2023 further increased in ambition as it effectively doubled the annual linear reduction factor of the emissions cap—from 2.1% in the 2021–2023 period to 4.3% for 2024–2027 and 4.4% for 2028–2030. Initially conceived as a measure to address carbon leakage by aligning the carbon costs borne by imports with those faced by EU producers under the more ambitious EU ETS, CBAM has progressively acquired a broader political and geopolitical salience. It became the initial spark that triggered not only a global surge in the adoption of carbon pricing schemes, but also a range of efforts to structure and institutionalise the trade–climate policy nexus at the international level.

As part of the Omnibus I legislative package adopted in 2025, the EU amended the CBAM Regulation (EU) 2023/956 to introduce a significant revision of the mechanism's scope through a 'de minimis' mass-based threshold, replacing the previous value-based exemption. Under the original design, imports of covered goods were exempt from CBAM obligations only if individual consignments were of negligible value (below €150 per consignment). The revised framework replaced this with a single annual mass threshold of 50 tonnes of CBAM goods per importer per calendar year, such that importers whose total annual imports of CBAM-covered goods fall below this threshold are exempted entirely from CBAM compliance requirements—including reporting,

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declaration, and certificate surrender obligations. The revision substantially reduced the number of economic operators subject to CBAM, primarily excluding small and medium-sized enterprises (SMEs) and occasional importers that trade relatively small quantities of covered products. Estimates presented by the European Commission alongside the amending legislation suggest the threshold could exclude around 90 % of importers, while still covering approximately 99 % of embedded emissions from CBAM-covered goods entering the EU. These figures were calculated upon initial default values applied to exporting countries, and will have to be revised based on actual data.

On 1 January 2026, CBAM fully entered into force, two weeks after the Commission published a last-minute revision consisting of a series of legislative acts amending the conditions for the application of the mechanism or clarifying its functioning and methodology.

What are the main elements of this reform? More importantly, what do they reveal about the European Commission's vision and intentions regarding the use and future of the mechanism? While the shift from a climate to a competitiveness rationale is clear, questions remain as to whether CBAM may gradually evolve into an instrument serving objectives beyond climate policy, notably commercial and fiscal ones.

A LOOK INTO THE CONTENT OF THE 17 DECEMBER REVISION PACKAGE

In his address to the press on 17 December, Commissioner for Climate Wopke Hoekstra said that the Commission wanted to “focus on a combination of climate, competitiveness, and independence”. The details of the revision reveal how these objectives are prioritised in practice. While the CBAM reform includes provisions affecting the general functioning of the mechanism, it is primarily framed within a competitiveness-oriented rationale.

The first revision proposal of the 17 December package ((COM (2025) 990 final, 2025/0418 (COD)) concerns CBAM's sectoral scope. It extends its coverage from 2028 onwards to certain precursors and upstream inputs in the steel and aluminium sectors, such as pre-consumer scrap, as well as to downstream products further along the steel and aluminium value chains. The stated objective is to mitigate carbon-leakage risks resulting from the relocation of intermediate production stages to jurisdictions with no or lower carbon pricing compared to the EU. The extension applies to a defined list of goods containing steel and aluminium for which a specific competitive risk—and, consequently, a risk of production relocation—has been identified, including car doors,

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kitchen and garden equipment, washing machines and certain automotive components. To the extent that this extension is calibrated to address carbon-leakage risks downstream in the value chain, it remains broadly consistent with the spirit and original objectives of the CBAM Regulation. Nevertheless, an important issue arising from this extension concerns the relevance and future of the 50-tonne *de minimis* clause mentioned previously. Through this extension, CBAM effectively becomes a supply-chain policy instrument, affecting not only companies specialised in the import and export of primary materials such as steel and aluminium, but also producers themselves and their procurement departments (i.e. car doors in the automotive sector, or washing machines in the case of high-tech product distributors). The *de minimis* clause was originally designed to simplify a mechanism primarily targeting upstream sectors. At the very least, it will need to be reassessed in light of the operational realities faced by importers of semi-finished and more complex products, in order to avoid undermining the effectiveness of the extension proposed last December.

The second central element of the package concerns financial support for European firms engaged in decarbonisation efforts. Throughout the CBAM legislative process, considerable debate surrounded the possibility of introducing an export rebate or “export solution,” a position strongly supported by industrial lobbies. The export rebate ultimately became their central demand when it became apparent that the Commission would neither roll back the reduction of free allocations nor abandon the introduction of the CBAM.

Rather than adopting an export rebate—that we regard as potentially incompatible with WTO rules and destabilising for the legal architecture underpinning CBAM—the Commission proposed a broader financial instrument which eventually constitute a public subsidy - much like free allowances.

In line with the guidelines of the Clean Industrial Deal and the European Competitiveness Compass, the programmatic successors to the Green Deal, the proposal prioritises the preservation of European industrial competitiveness in a context of rising carbon prices under the EU ETS, particularly from 2028 onwards. To this end, the Commission has proposed the establishment of a Temporary Decarbonisation Fund (TDF). Interestingly, and even though the Commission kept referring to the special risks faced by exporting industries in its presentation of the fund, the text of the proposal does not include any mention of the term « export » in its over 40 pages. Instead, it emphasises the persistent risk of carbon leakage, framed in terms of competitiveness losses for European producers on both the internal market and international markets. It further calls for conditionality criteria to mirror those already applied within the system governing free allowance allocation under the EU’s Emissions Trading System.

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The European Commission had consistently rejected the earmarking of CBAM revenues on the basis of the principle of budgetary universality—a legal argument that also served to dismiss proposals for revenue recycling towards international climate finance. Here the tone is different as it seems to have found a way to work around this budgetary limitation by focusing on a share of the revenues. The legislative proposal establishing the Temporary Decarbonisation Fund specifies that 25% of CBAM revenues collected by Member States will be allocated to the fund. As 75% of CBAM revenues accrue to the EU budget under the EU own resources framework, this arrangement remains compatible with EU budgetary law.

Nevertheless, the measure raises several concerns. Despite the existence of conditionality requirements, funds will be made available on a generous basis, including to firms for which exports do not constitute a critical share of overall sales. Emissions-Intensive Trade-Exposed (EITE) sectors such as steel and aluminium already benefit from multiple forms of state support, most notably the free allocation of emission allowances under the EU ETS, which effectively operates as a subsidy for carbon-intensive activities. Free allocations have long been identified as one of the central factors behind European industry's delayed investment in low-carbon production pathways ([CE Delft, 2021](#)). While emissions in the European power sector declined by 22% over the 2012–2018 period, those of industries benefiting from free allocations under the EU ETS fell by only 1% over the same period ([Carbon Market Watch](#)). Is the Commission repeating the exact same recipe, focusing on short-term solutions that risk both hampering the EU's climate efforts and kicking the can of competitiveness risks down the road?

One reality that must be acknowledged here is that, for several months, the Commission had been caught in a bind between demands from certain Member States for stronger safeguards to protect industrial sectors—particularly steel—and the need to secure consensus for the revision of its NDC and the adoption of a new climate target for 2040. France, in particular, had made its approval of the 2040 target conditional on the introduction of additional safeguard measures for the steel sector. The French government was also pushing for a broad use of default values, a sort of maximalist solution to address the risks of fraud. With respect to default values, the implementing act presented on 17 December adopts a relatively balanced and restrained approach. This however did not stop industrial lobbying groups from continuing to advocate for broader reliance on default values in order to address perceived risks of circumvention and misreporting ([Eurometal, December 2025](#)).

DIPLOMATIC TURBULENCES?

The 17 December reform package does not appear to have fundamentally reshaped the EU's trade or diplomatic relations. It was introduced during a period of heightened geopolitical tension, marked notably by the Trump administration's ambitions to assert control or a form of sovereignty over Greenland. Tensions reached a peak at COP30 in Belém (10-21 November 2025), where concerns over CBAM's implementation featured prominently in discussions and constituted a key factor behind Brazil's proposal to establish an Integrated Forum on Climate Change and Trade. China, for its part, sought to persuade the EU to abandon CBAM in exchange for stronger mitigation commitments in the final COP outcome document (Carbon Pulse). Before that, the EU-US Joint Statement (Turnberry Agreement) of last Summer, did include the mention of so-called "flexibilities" to be granted to US companies in the implementation of the EU's environmental policies with extraterritorial reach. In many respects, COP30 marked the culmination of tensions surrounding the mechanism, as it was the last before CBAM's full implementation. Data expected to be released by the Commission are likely to show that—apart from limited exceptions—CBAM has had only a moderate impact on third-country economies and on global CO₂ emissions.

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From a narrative perspective, CBAM—together with its internal counterpart, the ETS—is often portrayed by industry as a cost. Calls to reduce these costs are therefore framed as a logical response to concerns over competitiveness. However, safeguarding the integrity and environmental ambition of CBAM will require a solid counter-narrative. Rather than a burden, CBAM should be understood as a critical instrument to protect current and future investments by European companies in low carbon projects. It constitutes the external extension of an incentive already embedded in the EU carbon market, where free allocations are progressively phased out and revenues are channelled into the Innovation Fund and the Modernisation Fund. Both were designed to reduce the financial risks borne by European industry in the transition towards a net-zero economy by 2050.

A first question concerns whether CBAM will increasingly be used as a political safety valve. The European agri-food sector has recently raised concerns regarding rising prices for chemical fertilisers. This development reflects a combination of factors, including tariffs imposed on the Russian Federation—formerly the EU's largest fertiliser supplier—and the closure of several fertiliser production facilities within the EU as a

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result of rising gas prices, themselves a consequence of Russia's war of aggression against Ukraine. In response, the Commission included in the CBAM revision presented on 17 December an amendment to Article 27(a), allowing for the suspension of CBAM application to a specific sector where inclusion "causes severe harm to the Union internal market due to serious and unforeseen circumstances related to the impact on the prices of goods" (European Commission Q&A). The Commission has called for rapid adoption of the amendments by the co-legislators and indicated that any suspension would be retroactive.

The fertiliser price issue is not new and largely stems from the EU's strategy of decoupling from Russian imports. Given that Egypt is the EU's second-largest fertiliser supplier, an earlier and more targeted trade-cooperation approach with Egypt could have been envisaged, allowing CBAM implementation to coexist with diversification of fertiliser imports. While the solution adopted may be the most effective in maintaining prices at acceptable levels for European producers, it entails the suspension—potentially for an indefinite period—of carbon pricing in one of the most CO₂-intensive sectors, whose central role in the European agri-food system is also a major contributor to soil degradation and water pollution ([European Environmental Agency, March 2025](#)). This decision further illustrates the need for stronger coordination between the EU's trade-diversification strategies and its environmental objectives, particularly those set out in the Farm to Fork Strategy adopted in 2021, which aims to reduce chemical fertiliser use by 20% by 2030. Finally, it risks weakening the EU's narrative that CBAM was designed on the basis of an objective and science-based assessment of carbon leakage risks, rather than with specific industrial interests in mind. A narrative that stood in contrast to the US Foreign Pollution Fee Act proposed by Senator Cassidy, which explicitly seeks to support US sectors that are already less carbon-intensive than the global average. By selectively including certain EITE sectors while excluding others, the EU opens itself to comparisons that may complicate its efforts to present CBAM as a neutral and climate-oriented instrument.

Methodological choices, default values, and the treatment of ETS free allowances in the calculation of CBAM certificates to be surrendered by importers constitute clarifications and additions to existing legislation. As such, they are addressed through delegated acts falling within the Commission's exclusive competence and are based on consultations conducted primarily with private-sector stakeholders. Environmental NGOs were notably absent from the Commission-convened stakeholder meeting on export-related solutions. By contrast, the Temporary Decarbonisation Fund constitutes a standalone legislative proposal, and the extension of CBAM scope from 2028 formally amends the CBAM Regulation. Both therefore require adoption by the EU co-legislators: the European Parliament and the Council.

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The legislative process is expected to begin in early February, with the file likely to be referred to the European Parliament's Committee on Environment, Public Health and Food Safety (ENVI). The Group of the Socialists and Democrats (S&D) could secure the rapporteurship, as it did during the previous mandate. A centrist, moderate voting majority gathering the moderate right wing groups, the centrist-liberal group (Renew) and the S&D may emerge, as this file represents one of the central pillars of Ursula von der Leyen's Green Deal legacy. Within the European Parliament, however, recent developments in environmental policymaking point to an emerging alliance between the moderate right (EPP) and the far right (European Conservatives and Reformists Group, Patriots for Europe). These groups have repeatedly voted together on legislative files or amendments that undermine Green Deal ambitions. They jointly blocked the Sustainable Forest Management proposal and narrowly failed to block the Nature Restoration Law. Most notably, and without precedent, the EPP—historically a cornerstone of European integration and a key component of parliamentary majorities—recently supported amendments tabled by the eurosceptic far-right Patriots for Europe group that removed significant portions of the due diligence and reporting obligations established under the CSRD and CSDDD, two central pillars of the European Green Deal.

Finally, in presenting the CBAM revisions, Executive Vice-President Séjourné explicitly referred to the possibility of decoupling the timeline for the phase-out of free allowances from that of CBAM implementation. Strict alignment of these timelines is a *sine qua non* not only for WTO compatibility—since any decoupling would result in unequal carbon-price treatment between EU and non-EU operators—but also for CBAM's climate function as an incentive for decarbonisation. It cannot therefore be excluded that CBAM may follow a trajectory similar to that of other recent Green Deal files: a gradual dismantling and watering down of its climate objectives under the guise of competitiveness concerns. Such targeted adjustments could once again gather a right-far-right majority in the European Parliament. At a minimum, this calls for sustained vigilance over the mechanism's evolution—one that many would hope to see serve as a catalyst for enhanced trade and industrial cooperation on decarbonisation investment, rather than as an illustration of an EU retreating from climate leadership while turning inward.

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