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EU CBAM in an International Context



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SUMMARY

- *CBAM is a mechanism whose purpose, operation, and consequences all extend beyond the Union: as it enters its definitive phase, its effectiveness increasingly depends on carbon prices, administrative capacity, and cooperative arrangements in third countries, making its international dimension central rather than incidental to its success.*
- *The EU framework contains the provisions needed to engage with that dimension - recognition of third-country carbon prices under Article 9, bilateral agreements under Article 2(12), and a verification and accreditation architecture - but each is constrained in practice: recognition both by the gap between EU and third-country effective carbon prices and by the difficulty of establishing what has effectively been paid, bilateral agreements by a narrow reading of what they may deliver, and verification by a shortage of accredited capacity where it is most needed.*
- *International reactions range from the constructive adoption of carbon pricing to legal and political pushback, and the proliferation of divergent border measures raises a real risk of fragmentation; whether the CBAM ultimately advances global decarbonization or entrenches division will depend on the willingness of the Union and its partners to pair unilateral instruments with genuine international cooperation.*

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1. Introduction and Methodology

The European Roundtable on Climate Change and Sustainable Transition (ERCST) is an independent think-tank dedicated to facilitating informed debate and providing analysis of European Union (EU) and international climate policy. Its work has consistently focused on the functioning of carbon pricing instruments, including the EU Emissions Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM). Across multiple publications and stakeholder dialogues, ERCST has examined the conceptual foundations of border carbon adjustments, the nature and evolution of carbon leakage risk, competitiveness implications for European industry, and the practical conditions required for policies to remain environmentally effective, legally defensible, and administratively workable.

Building on the earlier phases of the project Border Carbon Adjustments in the EU, this paper turns to a dimension of the CBAM that has been present since its conception but becomes decisive as the mechanism enters its definitive phase: its international character. The CBAM is a unilateral measure, adopted by the Union and applied at its border, yet its purpose, its operation, and its consequences all extend well beyond the Union. It is intended to prevent carbon leakage while contributing to the reduction of global emissions and supporting the goals of the Paris Agreement; it operates on emissions released, and carbon prices paid, in third countries; and it has provoked reactions, both cooperative and adversarial, from trading partners across the world. A mechanism designed to protect the integrity of EU climate policy is, of necessity, also an instrument of the Union's external climate relations.

As the transitional period gives way to full application from 1 January 2026, and as the December 2025 legislative package and the accompanying implementing and delegated acts translate the CBAM from framework into operating rules, the questions that matter most are increasingly practical: on what terms a third-country carbon price is recognised, how foreign emissions and payments are verified, whether bilateral cooperation can ease the administrative burden, how trading partners are responding, and whether the emerging landscape of border measures can be made to function together rather than at cross-purposes.

Against this background, the objective of the present paper is to assess the CBAM in its international context: to examine how the EU's own framework provides for its interaction with third countries, how those countries have responded, and what the case for international cooperation entails. The intention is not to reopen foundational debates about the CBAM's design, but to situate its international dimension within the trajectory of earlier design choices and analytical reflections, and to indicate where tensions persist and further attention may be warranted as implementation continues.

The paper is structured in three substantive parts. Chapter 2 examines the international dimensions of the EU's own policy framework — the provisions through which the CBAM engages with third countries, namely the recognition of carbon prices paid abroad under Article 9, the scope for bilateral agreements under Article 2(12), and the architecture for verification and accreditation of foreign emissions and payments — and assesses how far each is equipped to deliver on the mechanism's international objectives. Chapter 3 turns outward, mapping how third countries have responded: the momentum behind carbon pricing beyond the EU, the proliferation of border carbon adjustment proposals in other jurisdictions, and the trade tensions and negotiating disputes the CBAM has provoked. Chapter 4 sets out the case for international cooperation, examining the risks of an uncoordinated proliferation of border measures — the "spaghetti bowl" of divergent regimes, discriminatory design

elements, high compliance costs, and multilateral spillovers — and the conditions under which interoperability between them might be achieved.

2. International Dimensions of the EU Policy Framework

2.1 Introduction

The CBAM is a unilateral instrument, but not one that operates in isolation from the rest of the world. Its operation depends at every stage on facts that arise outside the Union: the emissions released at a third-country installation, the carbon price that installation has paid under its own jurisdiction's rules, and the availability of a qualified party to attest to both. The EU framework therefore makes provision for how those facts are established and recognised. These provisions are the subject of this chapter.

Three sets of rules are the most influential.

1. The recognition of carbon prices paid in third countries under **Article 9 of the CBAM Regulation**, which allows an authorised CBAM declarant to reduce the number of certificates surrendered to reflect a carbon price already paid.¹
2. **Article 2(12)**, which permits the Union to conclude agreements with third countries for the purposes of Article 9.²
3. The architecture for **verification** of embedded emissions and **accreditation** of the parties who perform the verification, set out in Articles 8, 10 and 18 and elaborated across a series of implementing and delegated acts.³

This framework has changed substantially in a short period. Regulation (EU) 2025/2083 amended the CBAM Regulation in October 2025, rewriting Article 9 to introduce a default carbon price alongside the price effectively paid.⁴ In December 2025 the Commission adopted the implementing and delegated acts governing the definitive period and proposed a further Regulation amending the scope of the mechanism to extend it to downstream goods and strengthen its anti-circumvention provisions.⁵ That proposal is under negotiation at the time of writing and would amend both Article 2(12) and Article 9. In May 2026 the Commission published, for feedback, the draft Implementing Regulation converting a third-country carbon price into a reduction in CBAM certificates. This functions as the last major

¹ Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, OJ L 130, 16.5.2023, p. 52, Article 9, as amended by Regulation (EU) 2025/2083.

² *Ibid.*, Article 2(12).

³ *Ibid.*, Articles 8, 10 and 18. See in particular Commission Implementing Regulation (EU) 2025/2546 of 10 December 2025 on the application of the principles for verification of declared embedded emissions, OJ L, 2025/2546, 22.12.2025; Commission Implementing Regulation (EU) 2025/2547 of 10 December 2025 laying down rules as regards the methods for the calculation of emissions embedded in goods, OJ L, 2025/2547, 22.12.2025; and Commission Delegated Regulation (EU) 2025/2551 of 20 November 2025 specifying the conditions for granting accreditation to verifiers, for the control and oversight of accredited verifiers, for the withdrawal of accreditation and for mutual recognition and peer evaluation of accreditation bodies, OJ L, 2025/2551, 22.12.2025.

⁴ Regulation (EU) 2025/2083 of the European Parliament and of the Council of 8 October 2025 amending Regulation (EU) 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism, OJ L, 2025/2083, 17.10.2025.

⁵ Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures, COM(2025) 989 final, 17.12.2025, 2025/0419(COD).

operational piece of the Article 9 regime, and the instrument that gives content to what "effectively paid" means in practice.⁶

This chapter does not address the process by which a third country may fall outside the CBAM either through full linkage of its emissions trading system, or the electricity market-coupling exemption under Article 2, which turns on integration rather than on recognition of a price paid.

2.2 Article 9: Recognition of third-country carbon pricing

2.2.1 The legal architecture

Article 9 of the CBAM Regulation allows an authorised CBAM declarant to claim a reduction in the number of CBAM certificates to be surrendered to take into account a carbon price paid in a third country for the declared embedded emissions.⁷ The provision is short, and three of its features do most of the work.

- 1 **Payment condition.** The reduction may be claimed only where the carbon price has been **effectively paid**, and any rebate or other form of compensation available in that country, that would have resulted in a reduction in that carbon price, must be taken into account.⁸ What matters is therefore not the visible price of a third-country instrument, but the amount actually borne, net of whatever the same jurisdiction gives back.
- 2 **Definition of what counts.** Article 3(29) defines a carbon price as a monetary amount paid under a carbon emissions reduction scheme, **in the form of a tax, levy or fee, or in the form of emission allowances under a greenhouse gas emissions trading system**, calculated on the amount of the greenhouse gases released during the production of goods.⁹ The definition is emissions-based; it does not extend to energy taxation or to costs imposed by other means.
- 3 **The two-track structure** introduced by Regulation (EU) 2025/2083. The price effectively paid may be claimed only where embedded emissions are themselves determined on the basis of actual emissions, and the supporting documentation is certified by an independent person.¹⁰ Alongside this, a new Article 9(4) permits a declarant to claim a reduction by reference to yearly default carbon prices instead. This route is optional where actual emissions are used and mandatory where embedded emissions are determined on the basis of default values. From 2027, the Commission may determine and make available in the CBAM registry the default carbon prices for third countries where carbon pricing rules are in place, and publish the methodology for their calculation.¹¹

The pending amending Regulation would adjust Article 9 further. It would replace the requirement that the certifying person be independent from both the declarant and the third-country authorities with a requirement of independence from the third-country authorities alone, on the reasoning that certification

⁶ Draft Commission Implementing Regulation laying down rules for the application of Regulation (EU) 2023/956 as regards the conversion of the carbon price paid in a third country into a corresponding reduction in the number of CBAM certificates to be surrendered, the evidence of payment of that carbon price, the qualifications of the independent person and conditions to ascertain its independence and qualifications, ref. Ares(2026)4841230, 13 May 2026.

⁷ Regulation (EU) 2023/956, Article 9(1), as amended by Regulation (EU) 2025/2083.

⁸ Ibid.

⁹ Ibid., Article 3(29).

¹⁰ Ibid., Articles 9(1) and 9(2), as amended.

¹¹ Ibid., Article 9(4), as inserted by Regulation (EU) 2025/2083.

may take place before the goods are imported.¹² It would also insert the principle of equivalence into the implementing-act empowerment in Article 9(5) and empower the Commission expressly to regulate the conditions for deducting carbon credits under Article 6 of the Paris Agreement.¹³

2.2.2 What the draft Implementing Regulation provides

The draft Implementing Regulation published for feedback in May 2026 gives the operational content. Its stated purpose is to ensure that a carbon price is not paid twice on the same emissions.¹⁴

The equivalence test. Only carbon prices paid on specific embedded emissions give rise to a reduction, and only when the scheme is a carbon tax, levy or fee, or an emissions trading system that is binding in nature and imposes compliance obligations on all operators active in the relevant sectors without discrimination.¹⁵ Fuel-based carbon taxes qualify, and a declarant may claim a price levied on the carbon content of a fuel even where that price was not paid directly by the installation operator, provided the rate levied is consistent with the emission factor of the fuel.¹⁶ Credits or other emission units purchased under a baseline-and-credit emissions trading system are treated as equivalent to allowances purchased under the EU ETS.¹⁷

Boundary tolerance. Emissions subject to a carbon price are attributed to goods in accordance with the system boundaries and production processes set out in the calculation methodology,¹⁸ but differences of up to 5 % between the emissions covered by the third-country mechanism and those covered under the CBAM are permitted, in order to limit the administrative burden on third-country operators.¹⁹

Carbon credits. Where a third-country mechanism allows compliance through the purchase of carbon credits, the declarant may claim a reduction based on the price effectively paid for the specific credits used, irrespective of whether the underlying mitigation activity took place domestically or abroad. For domestically issued credits no additional qualitative or quantitative criteria are imposed.²⁰ Credits generated outside the domestic jurisdiction must be authorised and issued as internationally transferred mitigation outcomes under Article 6.2 or Article 6.4 of the Paris Agreement, and their use is limited to a maximum of 10 % of the reported and confirmed emissions under the carbon price mechanism.²¹

Rebates and compensation. Any modification of a parameter that lowers the obligation to pay is treated as compensation.²² The operative provision lists reduced tax rates; exemptions from the emissions coverage of the mechanism, including free allowances, emissions below an intensity baseline under a baseline-and-credit system, and emissions exempted from the tax, levy or fee; monetary refunds that partially or wholly compensate the price paid, including indirect cost compensation; and any other rebate based on relevant parameters establishing the effective price.²³ By derogation, subsidies financed from carbon pricing revenues are not deducted where four cumulative conditions are met (Article 8(2)):

¹² COM(2025) 989 final, Article 1(7)(a), and recital 24.

¹³ Ibid., Article 1(7)(b), and recital 21.

¹⁴ Draft Implementing Regulation, recital 1.

¹⁵ Ibid., recital 8. see also Article 2(3) (definition of carbon price mechanism).

¹⁶ Ibid., recital 9.

¹⁷ Ibid., recital 10. See also Article 2(5) for the definition of a baseline-and-credit emissions trading system.

¹⁸ Commission Implementing Regulation (EU) 2025/2547, cited above n. 3.

¹⁹ Draft Implementing Regulation, recital 7.

²⁰ Ibid., recital 12.

²¹ Ibid., recital 13.

²² Ibid., recital 14.

²³ Ibid., Article 8(1).

- 1 All installations subject to the mechanism are eligible irrespective of the price each has paid;
- 2 Eligible installations must apply;
- 3 The granting authority's decision is public;
- 4 The subsidy has as its objective the reduction of the beneficiary installation's emissions.²⁴

Compensation that cannot be evidenced yields no deduction; compensation not yet received but officially established is counted; compensation the operator did not claim is disregarded.²⁵

Calculation and application. The reduction is expressed as a ratio of the effective carbon price to a yearly reference price of CBAM certificates, multiplied by the quantity of the good declared.²⁶ Prices in foreign currency are converted at yearly average exchange rates published by the Commission on the basis of European Central Bank or Eurostat rates.²⁷

2.2.3 *Assessment*

Recognition under Article 9 is, in design, the most outward-facing element of the mechanism: it is the point at which the CBAM credits something a third country has done. Three features determine how much it delivers in practice.

- Recognition rewards systemic carbon pricing and reaches beyond EU-bound production. By confining recognition to binding mechanisms that apply to all operators in the covered sectors without discrimination, the draft excludes export-only arrangements, stand-alone offset purchases and schemes designed around CBAM exposure. From a leakage perspective this is coherent: a sectoral compliance regime spreads the carbon cost across all production rather than only the share exported to the EU (which keeps the average burden on foreign producers comparable to that on EU producers). The same feature carries a cost. Conditioning recognition on how a jurisdiction prices production that never reaches EU consumers extends the reach of the mechanism from the product to the sector and brings into the assessment considerations that are not strictly environmental.²⁸
- The deduction is only as valuable as the price gap (EU vs non-EU) is small. Article 9 operates arithmetically: it subtracts what has been paid. For jurisdictions whose effective carbon price sits far below the EU level, the residual obligation remains large no matter how the mechanism is recognised. Carbon prices in the low tens of dollars per tonne, set against a projected EU price several times that by 2030, leave a gap that the third country in question cannot close any time soon.
- The incentive to use the actual-price track may be weaker than the architecture assumes. A producer choosing the certified route incurs the time and cost related to installation-level carbon price reporting and of an accredited certifier, in exchange for a deduction linked to the price it actually paid. Where the default carbon price is available and does not require individual calculations, the return on certification may be thin. That calculation is harder to assess while the default carbon prices themselves remain undetermined: the methodology is not set out in the

²⁴ Ibid., Article 8(2); see also recital 15.

²⁵ Ibid., Article 8(3).

²⁶ Ibid., Article 6(1) and (2). The yearly reference price is the average of the price of CBAM certificates published pursuant to Commission Implementing Regulation (EU) 2025/2548 of 10 December 2025 laying down rules as regards the calculation and publication of the price of CBAM certificates, OJ L, 2025/2548, 22.12.2025.

²⁷ Ibid., Article 5; see also recital 18.

²⁸ ERCST, Submission to the European Commission "Have Your Say" Feedback request: Draft Commission Implementing Regulation on the conversion of the carbon price paid in a third country into a reduction in CBAM certificates (Article 9, Regulation (EU) 2023/956) — ref. Ares(2026)4841230, June 2026.

draft Implementing Regulation, and the values were not published at the time of writing.²⁹ Two further consequences follow. First, if default carbon prices are set generously relative to a country's actual effective price, producers have little reason to bear the cost of certifying their genuinely lower price, and the actual-price track is likely to be underused. Second, the criteria and values are determined unilaterally, without a formal channel for affected third parties to engage before they are set.

On the two remaining elements of the draft that impact most directly third countries, the treatment of carbon credits and of rebates, ERCST has set out a detailed assessment in its response to the Commission's consultation on the draft Implementing Regulation. This chapter does not reproduce that analysis in full.³⁰ Two points are worth mentioning here.

- The recognition of Article 6 credits is a significant but narrow signal. For the first time, credits issued under Article 6 of the Paris Agreement are given standing in the EU's climate architecture. But the conditions attached - availability only where the producer is under a binding domestic price that itself accepts such credits, recognition of the price paid rather than the emissions covered, and a cap of 10 % of covered emissions - mean the demand that CBAM will generate is modest, and projections of a large CBAM-driven pull on the Article 6 market appear overstated.
- The rebate rules are pragmatic but leave a class of cases unresolved. Netting out rebates and compensation is the correct reading of "effectively paid," and the exclusion of genuine decarbonisation subsidies financed from carbon-pricing revenue is sensibly drawn, mirroring the treatment of the EU ETS Innovation Fund. The four cumulative conditions attached to that exclusion do useful work, but they do not resolve every borderline case - for instance, support whose formal objective is decarbonisation but whose net effect is to offset the compliance burden. The operative test should be whether the support preserves the marginal incentive created by the carbon price.

2.3 Bilateral Agreements under Article 2(12)

2.3.1 The provision and its proposed expansion

Article 2(12) of the CBAM Regulation states that the Union may conclude agreements with third countries or territories with a view to taking into account carbon pricing mechanisms in such countries or territories for the purposes of the application of Article 9³¹. It is a single sentence, it confers no obligation, and it prescribes no procedure. What it does, is that it seems to establish that recognition of a third-country carbon price need not be handled exclusively through the unilateral, installation-by-installation route that Article 9 and its implementing act set out. A negotiated instrument is available, in principle.

The recitals give some indication of the intent behind it. The Regulation records that dialogue with third countries should continue and that there should be space for cooperation and solutions informing the choices made on the details of the CBAM during implementation, particularly during the transitional period.³² It states that the Commission should engage in an even-handed manner with the third countries whose trade is affected, explore the possibility of dialogue and cooperation on the implementation of

²⁹ Regulation (EU) 2023/956, Article 9(4), second subparagraph, as inserted by Regulation (EU) 2025/2083.

³⁰ ERCST submission, cited above.

³¹ Regulation (EU) 2023/956, Article 2(12).

³² *Ibid.*, recital 70.

specific elements of the mechanism, and explore the possibility of concluding agreements that take into account the carbon pricing mechanisms of third countries, with technical assistance provided to developing countries and LDCs.³³ A further recital frames the establishment of the CBAM as calling for the development of bilateral, multilateral and international cooperation. It also provides for a forum of countries with carbon pricing or comparable instruments - “a *climate club*”- intended to support the comparability of climate measures by ensuring the quality of monitoring, reporting and verification among its members and providing means for engagement and transparency between the Union and its trade partners.³⁴

The pending amending Regulation would widen the provision. Under the Commission's December 2025 proposal, Article 2(12) would read: “the Union may conclude agreements with third countries or territories with a view to taking into account carbon pricing mechanisms in such countries or territories for the purposes of the application of Article 9 as well as the mutual recognition of third-country accreditation bodies for the accreditation of a legal person to be a verifier pursuant to Article 18”.³⁵ The explanatory memorandum describes this as providing the possibility for the Union to conclude agreements with third countries to take into account carbon pricing mechanisms and for mutual recognition of accreditation bodies.³⁶ The addition matters because it converts Article 2(12) from a provision addressed to one subject - carbon price recognition - into one addressed to two, the second being the accreditation bottleneck discussed in section 2.4. It is also the clearest signal to date that the Commission sees a negotiated route as part of the answer to at least some implementation problems, even as it maintains a narrow reading of what such agreements can deliver on price recognition itself.

Amendments tabled in the course of the negotiation would go further, including a proposed obligation on the Commission to engage actively with third countries on the interoperability of carbon pricing systems and the alignment of monitoring, reporting and verification requirements.

2.3.2 *Two readings of Article 2(12)*

The gap between what Article 2(12) is understood to permit, and what stakeholders would have it do, is the most consequential unresolved question in this part of the framework.

- **The narrow reading.** The Commission's position is that bilateral agreements under Article 2(12) cannot produce preferential treatment. The CBAM applies a principle of equal treatment across third countries, and an agreement that gave a partner a more favourable recognition outcome than the rules afford others would be inconsistent with that principle and difficult to defend under the Union's trade obligations. On this reading the provision is a vehicle for dialogue, technical cooperation and administrative streamlining - for making the existing rules work better for a given partner, not for reaching a broad bilateral deal.
- **The expansive reading.** The alternative starts from the burden problem rather than from the legal constraint. Under the draft Implementing Regulation, establishing an effective carbon price requires installation-level reporting by the operator, certification by an accredited independent person, supervision of that person by a national accreditation body, and - for the default track - the Commission's own construction of default carbon prices for every trading partner with a carbon pricing regime. This administrative load is out of proportion to the size of

³³ Ibid., recital 71.

³⁴ Ibid., recital 72.

³⁵ COM(2025) 989 final, Article 1(1)(e), amending Article 2(12) of Regulation (EU) 2023/956.

³⁶ Ibid., explanatory memorandum, section 5 (“Detailed explanation of the specific provisions of the proposal”).

the reduction most producers can realistically claim, with the likely result that the facility is underused.

An Article 2(12) agreement offers a structurally different way of discharging the same evidentiary function. The regime in the draft would remain the default but could be displaced, for a willing partner, by an agreement in which the EU and that partner settle in advance the formula for calculating the effective carbon price in each covered sector, with the partner government undertaking to supply the limited, standardised data needed to apply it. ERCST has set out the elements of such an arrangement in its consultation response.³⁷ The effect is to shift the technical and evidentiary burden from individual installations, certifiers and national accreditation bodies to a single government-to-government framework - and, in doing so, to address through one instrument several of the difficulties identified in section 2.2, since related-party credit pricing and the line between genuine decarbonisation support and disguised compensation are both easier to police once the host authority certifies the data.

Notably, this is not a formula for preferential treatment in the sense the Commission's objection implies. The substantive test, the fundamental rules for what counts as an effectively paid carbon price, would be unchanged; What changes is who bears the cost of demonstrating it, and at what level of aggregation it can reduce the administrative burden for importers. Whether that distinction holds is a legal question this chapter does not settle, but it is the question on which the disagreement turns, and it has not been squarely addressed. The demand articulated by trading partners maps closely onto the expansive reading: jointly defined rather than unilateral default values, structured recognition of a national carbon price, and cooperation on verifier accreditation. Some have signalled openness to recognition of a carbon price trajectory rather than a spot price - which would let an agreement reflect a credible convergence path rather than the gap at a single point in time, which no unilateral instrument can offer.

No agreement is known to have been concluded under Article 2(12). That may reflect the fact that the provision is still to be defined, or simply that it has not yet been tested. The distinction matters, because the administrative pressures described in the next section are unlikely to ease on their own.

2.4 Verification, certification and accreditation

2.4.1 The two-layer architecture

Recognition of a third-country carbon price rests on two distinct acts of attestation, each governed by its own regime. The first concerns the emissions themselves; the second concerns the price paid on them.

There is more experience with the former. Where embedded emissions are determined on the basis of actual values, the authorised CBAM declarant must ensure that the declared total is verified by a verifier accredited under Article 18, in accordance with the principles set out in Annex VI.³⁸ Accreditation is granted by a national accreditation body, which may accredit a legal person.³⁹ Regulation (EU) 2025/2083 supplemented this framework by requiring accredited verifiers to register in the CBAM registry, and the conditions for accreditation, and for the mutual recognition and peer evaluation of accreditation bodies, are set out in a dedicated delegated regulation.⁴⁰

³⁷ ERCST submission, cited above.

³⁸ Regulation (EU) 2023/956, Article 8(1), as amended by Regulation (EU) 2025/2083; verification principles at Annex VI.

³⁹ *Ibid.*, Article 18(2), as amended by Regulation (EU) 2025/2083.

⁴⁰ *Ibid.*, Article 10a, as inserted by Regulation (EU) 2025/2083; Commission Delegated Regulation (EU) 2025/2551, cited above n. 3.

Certification of the carbon price is a layer where there is less experience, introduced by the draft Implementing Regulation. The price effectively paid must be certified by an independent person. The Regulation treats this task as comparable to emissions verification: it consists of a review of the scope of emissions covered by the third-country mechanism and of the attribution of those emissions to CBAM goods. It also describes it as inextricably linked to the verification of embedded emissions.⁴¹

Accordingly, the independent person must obtain accreditation for a dedicated scope relating to the certification of the carbon price and must comply with the harmonised standard for validation and verification bodies, EN ISO/IEC 17029:2019.⁴² The regime is detailed: a materiality level of 5 % of the effective carbon price per tonne is set for each good identified by its CN code;⁴³ national accreditation bodies conduct annual surveillance of each accredited entity;⁴⁴ accreditation bodies are subject to peer evaluation, with mutual recognition of the certificates and reports they issue.⁴⁵ The intention is that a single accredited party may perform both the verification of emissions and the certification of the price, thereby streamlining the two procedures.⁴⁶ The pending amending Regulation reinforces this integration and, as noted above, narrows the independence requirement so that the certifier needs to be independent only from the third-country authorities, on the basis that certification may precede importation.⁴⁷

2.4.2 The capacity problem

The constraint on this architecture is not one of legal design but of availability. The entire structure presupposes a supply of accredited verifiers and certifiers able to operate in third countries. Accreditation is obtainable only through the national accreditation body of a Member State, and only a small number of those bodies currently accept applications from third-country verifiers.⁴⁸ Verification work in third-country installations is due to begin in 2027, yet operators report difficulty in locating verifiers. The accreditation of new entrants is expected to take a further year. In the interim, producers in the affected jurisdictions are confined to the default track, with no practical means of demonstrating lower actual emissions.

The significance of this constraint is that it compounds with the features examined earlier in the chapter. Default carbon prices and default emission values carry mark-ups calibrated for conservatism; the pending extension of the mechanism to downstream goods brings within its scope producers who cannot readily obtain verified data on their own inputs; and the shortage of accredited verifiers denies producers the means to substitute actual data for punitive defaults. Each element is defensible in isolation, but together they produce a system in which a genuinely low-carbon producer may be unable to have that fact recognised - the simplification offered by the default track being of little value where the conditions for escaping it cannot be met and the recognition promised by Article 9 remaining, for many producers, more theoretical than real.

⁴¹ Draft Implementing Regulation, ref. Ares(2026)4841230, recital 25.

⁴² Draft Implementing Regulation, certification and accreditation provisions; see recital 25. The applicable standard is EN ISO/IEC 17029:2019, Conformity Assessment - General principles and requirements for validation and verification bodies..

⁴³ Ibid., Article 16.

⁴⁴ Ibid., article 22.

⁴⁵ Ibid., Article 25.

⁴⁶ Ibid., recital 25.

⁴⁷ COM(2025) 989 final, Article 1(7)(a), and recital 24.

⁴⁸ Regulation (EU) 2023/956, Article 18(2); Commission Delegated Regulation (EU) 2025/2551. On the number of participating bodies, see European Commission, 'State-of-play CBAM accreditation' (1 July 2026).

Two routes to relief could be discussed, each considered elsewhere in this chapter. The first is mutual recognition of third-country accreditation bodies, which the Commission's own proposal would bring within the scope of Article 2(12), and which would allow accreditation capacity in partner countries to be drawn upon rather than duplicated within the Union.⁴⁹ The second is the approach taken by the United Kingdom, whose CBAM is to begin on 1 January 2027: rather than requiring accreditation through its own national bodies, the United Kingdom envisages relying on verifier membership of a recognised international accreditation framework together with compliance with the applicable ISO standards.

2.5 Interim Conclusions

The three components of the EU framework examined in this chapter all give the mechanism an international reach that extends beyond the collection of a border charge. Recognition under Article 9 allows a carbon price already borne abroad to be credited; Article 2(12) would allow for a negotiated process; and the verification and accreditation regime provides how foreign emissions and payments can be established with sufficient reliability to be acted upon. Taken together, they constitute the machinery through which the CBAM engages with the policies and producers of third countries.

Each component, however, is constrained in a manner that limits what it delivers in practice. Recognition is worth only as much as the third-country price it credits. For jurisdictions whose price sits well below the Union's, a substantial residual obligation remains. Article 2(12) is constrained by interpretation: the narrow reading maintained by the Commission confines it to dialogue and administrative cooperation, while the more substantive use to which stakeholders would put it remains untested. Verification is constrained by capacity: the regime is coherent on paper but presupposes a supply of accredited parties that does not yet exist, with the consequence that producers able to demonstrate genuinely lower emissions may be prevented from doing so.

These are all points at which a unilateral instrument meets the limits of what it can achieve - where its effectiveness depends on carbon prices, administrative capacity and cooperative arrangements that lie beyond the Union's own control. How third countries have responded to the mechanism is the subject of Chapter 3; the case for addressing these constraints through cooperation is covered in Chapter 4.

3. International Reactions to the CBAM

Having examined how the EU's own regulatory architecture extends the reach of the CBAM beyond Union borders in the previous section, the analysis now turns to third-country reactions provoked by the CBAM. These responses occupy a broad spectrum: at one end is the CBAM's arguably most consequential effect: an acceleration of carbon pricing among the EU's trade partners that a growing body of research has attributed, at least in part, to the CBAM. Further along this spectrum, an increasing number of jurisdictions have begun designing their own BCAs, echoing the EU's approach while diverging from it in important respects. At the opposite end are more adversarial responses, including efforts to contest the mechanism in multilateral fora, ranging from recurring agenda battles within the UN climate regime to the first formal legal challenge before the WTO. This section maps that spectrum of reactions.

⁴⁹ COM(2025) 989 final, Article 1(1)(e), amending Article 2(12) of Regulation (EU) 2023/956.

3.1 Carbon Pricing Momentum beyond the EU

Among the various effects set in motion by the CBAM, the most far-reaching may be one that was never explicitly mentioned as an objective in the CBAM Regulation itself: the diffusion of carbon pricing beyond Europe. Although the CBAM Regulation frames the mechanism as a safeguard against carbon leakage, a growing body of evidence suggests that its greater climate impact may be indirect, reshaping the incentives trade partners face when considering whether to price their own emissions.⁵⁰ Here, the critical provision is Article 9 of the CBAM Regulation, which allows importers to deduct a carbon price already “effectively paid” in the country of origin from their CBAM obligation. The resulting shift in incentives is straightforward, yet not to be underestimated. Where a domestic carbon price was once viewed as a pure cost burden to be resisted by treasuries, trade ministries, and emitting industries alike, the CBAM now recasts it as a means of reducing trade barriers for exports and retaining revenue at home that would otherwise be collected at the EU border.⁵¹ Political economy dynamics anticipated more than a decade ago⁵² in the theoretical literature on border adjustments are thus materializing in practice: there has already been a marked acceleration in carbon pricing activity among jurisdictions with significant trade exposure to the EU, frequently on timelines that track the phase-in of financial obligations under the CBAM.

This pattern is evident across several major emerging economies. Türkiye has been the most explicit, directly referencing the CBAM in a political document that states the national emissions trading system is expressly designed for compatibility with the CBAM and the EU ETS.⁵³ Similarly, Brazil has established the legal foundations for its Sistema Brasileiro de Comércio de Emissões (SBCE); the legislator who served as rapporteur for the enabling bill publicly cited the CBAM as a reason to price emissions domestically rather than surrender the associated revenue abroad.⁵⁴ In other cases, the link to the CBAM is less explicit, but still suggestive of a correlation. China has recently moved to expand the sectoral coverage of its national ETS to include the carbon-intensive industries covered by the CBAM, while India, Indonesia, and Vietnam are each advancing their own carbon market frameworks on

⁵⁰ Anna Bahí, Maximilian Fuchs and Camille Reverdy, ‘Carbon Pricing beyond Borders: Assessing Climate Policy Spillovers from the EU Carbon Border Adjustment Mechanism’ (Bruegel Working Paper 05/2026, 2026) <<https://www.bruegel.org/sites/default/files/2026-03/WP%2005%202026.pdf>>; Timothé Beaufils, Joschka Wanner and Leonie Wenz, ‘The Potential of Carbon Border Adjustments to Foster Climate Cooperation’ *Journal of the Association of Environmental and Resource Economists* 13 (2026); Kimberly A. Clausing et al, ‘How Carbon Border Adjustments Might Drive Global Climate Policy Momentum’ (Resources for the Future Report 24–20, 2024) <<https://www.rff.org/publications/reports/how-carbon-border-adjustments-might-drive-global-climate-policy-momentum>> accessed 21 October 2024; Michael A. Mehling, Geoffroy Dolphin and Robert A. Ritz, ‘The European Union’s CBAM: Averting Emissions Leakage or Promoting the Diffusion of Carbon Pricing?’ *Journal of Environmental Policy & Planning* 27/6 (2025) 687; Simon Otto, ‘The External Impact of EU Climate Policy: Political Responses to the EU’s Carbon Border Adjustment Mechanism’ *International Environmental Agreements: Politics, Law and Economics* 25 (2025) 177.

⁵¹ In this case, the rationale is one of rent retention: because a carbon price levied domestically reduces the CBAM liability owed at the EU border by an equivalent amount, a government that prices its own emissions captures revenue that would otherwise accrue to the EU budget, while its exporters face no additional net cost. This in turn realigns the domestic political economy, converting actors once opposed to carbon pricing into potential supporters.

⁵² Dieter Helm, Cameron Hepburn and Giovanni Ruta, ‘Trade, Climate Change, and the Political Game Theory of Border Carbon Adjustments’ *Oxford Review of Economic Policy* 28/2 (2012) 368.

⁵³ Türkiye, ‘Medium Term Program (2024-2026)’.

⁵⁴ Eduardo Piovesan and Tiago Miranda, ‘Câmara aprova projeto que regulamenta o mercado de carbono no Brasil; texto segue para sanção’.

timelines that align with the gradual phase-in of CBAM obligations.⁵⁵ Similarly, accession candidates and neighbors in the Western Balkans have accelerated their carbon pricing plans.⁵⁶

The overall significance of this shift for global climate action is hard to overstate. With its current scope, the CBAM only covers a fraction of a percent of global emissions directly through the imported goods to which it applies. Yet, the carbon pricing systems now expanding or emerging in Brazil, India, Indonesia, Türkiye, and Vietnam – combined with the extension of China’s system to industrial emissions – could bring a further share of global emissions under a carbon price that is potentially an order of magnitude larger.⁵⁷ Against a broader backdrop where 87 carbon pricing systems are already operational worldwide and several more are under consideration or development,⁵⁸ the CBAM appears to be functioning as a *de facto* accelerant of a wider trend.

Perhaps unsurprisingly, the EU has come to recognize this spillover as a strategic benefit of the CBAM rather than as a mere side-effect. While the CBAM Regulation itself is silent on the matter of influencing foreign climate policy, the European institutions have increasingly acknowledged the mechanism’s role in prompting third country governments to adopt carbon pricing; this diffusion effect now features prominently in the political case for the instrument: in the European Commission’s own words, the CBAM has been “a catalyst for the development of carbon pricing” abroad,⁵⁹ while the Council has affirmed “the importance of ... the Carbon Border Adjustment Mechanism, in ... supporting the global uptake of effective carbon pricing systems.”⁶⁰ This is central to the analysis that follows: if one of the CBAM’s most valuable climate contributions lies in the carbon pricing it induces abroad, then the cooperative arrangements and design choices examined elsewhere in this report should be assessed not only by their ability to prevent leakage, but also by their capacity to sustain that inducement.

Some qualifications should nonetheless be applied. First, the causal relationship between the CBAM and emerging carbon pricing systems should not be overstated: not every recent development in carbon pricing is attributable to the CBAM, and the relationship documented in the empirical literature is one of correlation between CBAM exposure and pricing activity rather than a demonstration of sole cause. Many of the systems currently advancing have their origins in early policy roadmaps – often accompanying capacity building efforts to build market readiness – that long predate the CBAM; and years of institutional support for carbon pricing by entities such as the World Bank and regional development banks have consistently highlighted benefits for implementing countries that would exist independently of the CBAM, such as advancing domestic decarbonization and revenue objectives. Second, depending on the final shape and stringency of the EU’s own implementing regulation on the recognition of carbon prices paid abroad, the incentive created by Article 9 could potentially be met with practices that yield limited climate benefits. A trade partner might reclassify an existing excise tax as a carbon price, or otherwise structure its response to capture the Article 9 deduction without imposing a comparable cost across its broader economy. It is also worth noting that the EU’s exclusive recognition

⁵⁵ ICAP, ‘Emissions Trading Worldwide: Status Report 2026’ (International Carbon Action Partnership 2026) <<https://icapcarbonaction.com/en/publications/emissions-trading-worldwide-icap-status-report-2026>>.

⁵⁶ World Bank, *State and Trends of Carbon Pricing 2026* (World Bank 2026).

⁵⁷ Mehling, Dolphin and Ritz, ‘The European Union’s CBAM: Averting Emissions Leakage or Promoting the Diffusion of Carbon Pricing?’ (n 51).

⁵⁸ World Bank, *State and Trends of Carbon Pricing 2026* (n 57).

⁵⁹ European Commission, ‘Report to the European Parliament and the Council on the Application of the Regulation on the Carbon Border Adjustment Mechanism, COM(2025) 783 Final’ (COM(2025) 783 final, 2025) <<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0783>> 9.

⁶⁰ Council, ‘Council Conclusions on EU Energy and Climate Diplomacy: EU Energy and Climate Diplomacy – Strengthening Sovereignty and Advancing the Global Clean Transition. Doc. 8417/26’ (Council of the European Union Council Conclusions 8417/26, 2026) <<https://data.consilium.europa.eu/doc/document/ST-8417-2026-INIT/en/pdf>> 11.

of explicit carbon pricing could be seen as a coercive intervention in sovereign policy choices and thus potentially misaligned with the nationally determined architecture of the Paris Agreement.⁶¹

In any event, effective carbon prices in most existing and emerging carbon pricing systems will remain below price levels in the EU, even after accounting for current practice of free allocation. Whether the directional momentum translates into durable, economy-wide carbon pricing at meaningful levels will also depend heavily on how the recognition of foreign carbon prices is operationalized, a question already addressed in Section 2 above.

3.2 Proliferation of Border Carbon Adjustment Proposals

In game theory, the same rationale that has driven the diffusion of carbon pricing also predicts a second, distinct reaction: the adoption of BCAs by other jurisdictions.⁶² When a large market prices the embedded emissions of imports, its trade partners are incentivized to introduce carbon pricing in order to capture the rents themselves rather than cede them, but as a result then face pressure to protect their own producers from emissions leakage. This prediction is currently being realized across an expanding set of countries, although ambition, design, and pace vary considerably.

The United Kingdom is the most advanced in this regard. Following confirmation in October 2024 that it would proceed with a border adjustment of its own, the UK is scheduled to introduce its CBAM on 1 January 2027, covering hydrogen, aluminium, cement, fertiliser, iron, and steel.⁶³ While the UK's design broadly parallels the EU model – utilizing a price referenced to the domestic ETS, allowing deductions for explicit carbon prices paid abroad, and employing a de minimis threshold to exempt small importers – it diverges on specific details, such as the formal classification of the payment obligation, the calculation of default values, and the treatment of indirect emissions. Notably, the EU and the UK have indicated an intention to link their emissions trading systems; such a move would allow each to exempt the other from its respective CBAM and serves as an early example of how bilateral cooperation could pre-empt friction between parallel mechanisms.

Other jurisdictions are moving in the same direction, albeit more tentatively. In 2025, Taiwan's environmental authorities announced that a Taiwanese CBAM would be modeled on the EU's, starting with trial product-level emissions reporting for the cement and steel sectors before a targeted launch in 2027. Norway, which already participates in the EU ETS, has proposed transposing the EU's CBAM rules into national law. Beyond these examples, another group of governments – including Chile, Türkiye, Thailand, Australia, and Canada – has conducted feasibility studies, public consultations, or reviews to determine whether and how to adopt its own border measure.⁶⁴

In the United States, by contrast, momentum has been legislative rather than executive. Successive proposals in Congress, ranging from carbon-tariff bills to measures linked to domestic emissions performance, share the goal of leveling the competitive field against producers in jurisdictions with weaker climate policies, even as they differ significantly from the EU approach in both rationale and

⁶¹ Anatole Boute, 'Accounting for Carbon Pricing in Third Countries Under the EU Carbon Border Adjustment Mechanism' *World Trade Review* 23/2 (2024) 169.

⁶² Helm, Hepburn and Ruta, 'Trade, Climate Change, and the Political Game Theory of Border Carbon Adjustments' (n 53).

⁶³ Brock Burton, Olivia Windorf and Jason Ye, 'Developments in Border Carbon Adjustments in the 119th Congress and Abroad' (Center for Climate and Energy Solutions 2026) <<https://www.c2es.org/wp-content/uploads/2026/01/developments-in-border-carbon-adjustments-in-the-119th-congress-and-abroad.pdf>>.

⁶⁴ *ibid.*

structure.⁶⁵ Tellingly, several of these proposals decouple the border charge from any domestic economy-wide carbon price, relying instead on comparative emissions intensity. This design would extend the border-adjustment model to jurisdictions lacking their own carbon tax or ETS, underscoring the extent to which the instrument has evolved away from its original theoretical template.

What this survey reveals is not, so far, convergence toward a common template, but a proliferation of related yet divergent instruments. While early-stage BCAs share a focus on carbon-intensive heavy industry, they differ in their implementation timelines, their measurement, reporting, and verification requirements, their treatment of default values, the emissions and sectors they cover, and how far downstream their coverage extends. Although each divergence may be individually defensible as a response to national circumstances, collectively they raise the prospect of a fragmented patchwork that risks new trade distortions and multiplies compliance costs for internationally active firms. The proliferation of BCAs is therefore a double-edged development: it validates the EU's first-mover position and extends the reach of carbon pricing, while simultaneously strengthening the case for the coordination and interoperability addressed in detail in Section 4.

3.3 Pushback: Agenda Fights and Trade Tensions

Not all reactions to the CBAM have entailed the adoption of domestic climate policies. Alongside the more accommodating responses surveyed above, the mechanism has encountered sustained political and legal resistance, primarily concentrated in two arenas: the negotiations under the UN climate regime and the dispute-settlement system of the WTO.

Within the United Nations Framework Convention on Climate Change (UNFCCC), a coalition of developing countries has spent several years attempting to place “unilateral trade measures” – with the CBAM serving as the emblematic example – on the formal negotiating agenda. Led by the BASIC group – a group consisting of Brazil, South Africa, India, and China – and the broader Like-Minded Developing Countries (LMDCs), this effort was pressed at successive conferences from COP28 in Dubai (2023) through COP29 in Baku (2024) and COP30 in Belém (2025), based on the argument that measures restricting trade in the name of climate policy fall within the Convention's remit. For years, the initiative was rebuffed, as many parties maintained that trade is the province of the WTO rather than the climate regime; consequently, the item was excluded from the formal UNFCCC agenda at each meeting.

Belém represented a partial breakthrough. Although unilateral trade measures were once again omitted from the formal agenda, the COP30 outcome – the “Global Mutirão” decision – referred to them explicitly for the first time in the history of the climate conferences and established a series of dedicated climate-and-trade dialogues to be convened in 2026, 2027, and 2028.⁶⁶ These dialogues carry no mandated outcome and fall well short of the reporting mechanism or recurring agenda item sought by some parties. Their significance lies less in any immediate deliverable than in their signaling effect: they indicate that contestation over trade-related climate measures has become a durable feature of the multilateral landscape, and that the CBAM will continue to serve as a lightning rod for North–South tensions regarding the distribution of transition costs. The first of these dialogues took place at the June 2026 session of the subsidiary bodies in Bonn; while procedural matters related to attendance impeded constructive discussions, it established a standing, if modest, channel for the issue within the climate

⁶⁵ *ibid.*

⁶⁶ UNFCCC, ‘Global Mutirão: Uniting Humanity in a Global Mobilization against Climate Change. Decision 1/CMA.7. UN Doc. FCCC/PA/CMA/2025/19/Add.1’.

regime. The potential of these dialogues as a venue for cooperation is considered further – alongside other formal and informal initiatives – in Section 4.

Beyond multilateral fora, the CBAM has also generated friction through diplomatic and bilateral channels. India has been among its most persistent critics, raising the mechanism during trade deliberations and characterizing it as a protectionist measure that shifts the costs of European climate ambition onto exporters in developing countries. While the United States has not pursued formal litigation, it has contested (as part of broader transatlantic trade tensions) the extraterritorial reach of the CBAM and measures related to corporate supply chain due diligence and sustainability reporting; the terms on which the EU chooses to accommodate these concerns could, in turn, reshape the mechanism's incentive effects. Although these bilateral tensions seldom produce discrete legal outcomes, they condition the EU's room for maneuver and shape the diplomatic environment in which the CBAM operates.

The most formal arena of pushback is the WTO, where the CBAM has faced its first legal challenge. Russia – the only country to have initiated a trade dispute against the measure to date – requested consultations with the EU in May 2025, contending that the CBAM discriminates against imports and unlawfully restricts market access. Russia alleged breaches of core provisions of the General Agreement on Tariffs and Trade (GATT), including national-treatment and most-favoured-nation obligations, the binding of tariffs, transparency requirements, and the prohibition on quantitative restrictions, while further alleging that the EU ETS confers a prohibited export subsidy ⁶⁷. The EU declined to enter consultations. Russia subsequently escalated the dispute by requesting the establishment of an adjudicating panel; the EU blocked this first request at the Dispute Settlement Body meeting on 24 July 2026 – a right respondents may exercise once – but a renewed request at the following meeting would ordinarily lead to the establishment of a panel as of right.

A current impasse in WTO adjudication may limit the practical relevance of this legal challenge: because the Appellate Body remains non-functional, the losing party can appeal the report “into the void,” leaving it legally inconclusive and unadopted. A panel ruling on the CBAM, whenever it occurs, would very likely meet the same fate. Nevertheless, the substance of the legal debate remains consequential regardless of that procedural impasse. At its core is the question of whether a charge imposed on imports based on their embedded emissions discriminates between “like products” on the basis of origin, thereby violating the national-treatment and most-favoured-nation disciplines of the GATT. Defenders of the CBAM argue that it does not: by mirroring for imports the carbon costs domestic producers bear under the EU ETS, the mechanism can be designed to treat domestic and foreign goods symmetrically. If a panel were to find a *prima facie* violation, the EU would likely invoke the environmental exceptions of GATT Article XX, shifting the decisive inquiry to the chapeau – specifically, whether the CBAM is applied in a manner that constitutes unjustifiable or arbitrary discrimination. This inquiry would turn on the very design details that remain contested, from the treatment of developing countries to the use of default values.

The implication is that the legal contest over the CBAM is unlikely to produce a definitive verdict on its WTO-consistency in the near term; these questions will likely remain unresolved as a matter of adjudicated law for the foreseeable future. For the EU, this dual pushback – legal before the WTO and diplomatic within the climate regime – represents less an immediate threat to the operation of the CBAM than a persistent source of reputational cost and friction. It serves as a reminder that the international durability of the mechanism will depend as much on cooperative engagement as on unilateral design.

⁶⁷ European Union and its Member States – Carbon Border Adjustment Mechanism: Request for Consultations by the Russian Federation Dispute Settlement Body DS639, UN Doc WT/DS639/1 [2025].

Taken together, the reactions surveyed in this section describe a mechanism that is simultaneously succeeding and straining. The CBAM has proven to be a potent catalyst for border adjustments and carbon pricing beyond Europe, extending the reach of climate policy in ways its architects only partially foresaw. Yet, the same unilateralism that provided its force has also rendered it a focal point for political and legal resistance. Whether that resistance leads to lasting fragmentation or is instead channeled into coordination is the question addressed in the next section.

3.4 Interim Conclusions

The reactions analyzed in this section support a primary set of conclusions. The CBAM has demonstrated, more convincingly than any prior measure, that a unilateral instrument with extraterritorial effects can influence the policy choices of other states. This causal claim should not be overstated: in nearly every instance, the decision to implement carbon pricing followed years of concerted international effort to build market readiness and extensive domestic groundwork, including the assembly of political support, the elaboration of policy roadmaps, and the creation of institutional infrastructure and capacity. Nevertheless, a growing body of research suggests that the mechanism's contribution has been far from negligible. Recent econometric work that estimates the effect of country-level exposure to CBAM-covered trade on the propensity to price carbon finds a significant and positive relationship, albeit one concentrated among higher-income economies;⁶⁸ domestic policy documents of the affected countries themselves frequently affirm the correlation.

Also, international reactions clearly show that this form of suasion has proven unpopular among the trade partners subjected to it. In principle, carbon pricing offers states a cost-effective path toward achieving their own Nationally Determined Contributions while increasing fiscal revenue and retaining payments that would otherwise accrue to the EU budget. In principle, they are also not bound to exporting into the EU market and could seek alternative export destinations. Commercial realities, however, are less accommodating. In practice, switching trade routes and buyers is far more difficult than in theory, and deep structural dependencies – particularly between former colonial powers and their former colonies, for which CBAM-covered trade can represent a considerable share of export earnings – constrain their options. It is unsurprising, therefore, that many third countries have condemned the CBAM as a form of neo-colonialism or “green protectionism,” decrying a “green squeeze” even as they advance their own carbon pricing initiatives.⁶⁹ Legitimate questions regarding how this extraterritorial spillover aligns with the nationally determined spirit of the Paris Agreement have been raised and will continue to emerge. The EU must thus be careful not to overplay its hand, yet with the CBAM it clearly possesses a powerful lever over global climate outcomes even as its own share of global emissions, already below six percent, continues to decline.

Moreover, this resistance is becoming increasingly coordinated. Efforts to elevate the treatment of trade-related climate measures across multilateral processes echo a dynamic first observed at the Copenhagen climate conference, which led to the formation of the BASIC grouping: the climate issue has united large developing countries, prompting them to coordinate and project their collective weight more systematically and earlier than in fields such as security or trade, where national positions have traditionally remained more disparate. Brazil's diplomacy at COP30 provided a striking illustration, as several of its initiatives were framed as responses to, or were triggered by, the CBAM. This posture is

⁶⁸ Bahí, Fuchs and Reverdy, ‘Carbon Pricing beyond Borders: Assessing Climate Policy Spillovers from the EU Carbon Border Adjustment Mechanism’ (n 51).

⁶⁹ See e.g. Jodie Keane et al, ‘Avoiding a “Green Squeeze”: Supporting Least Developed Countries to Navigate New Greening Trade Measures’ (Working Paper2024) <<https://odi.org/en/publications/avoiding-a-green-squeeze-supporting-least-developed-countries-navigate-new-greening-trade-measures>>.

unlikely to diminish in the near term and may foreshadow a more assertive stance by emerging economies across future geopolitical and multilateral processes – one that will inevitably affect the CBAM and its implementation, including any efforts to extend its scope into new sectors or further downstream, as well as any attempts to deploy similar measures in entirely new areas such as agricultural products or fossil fuels.

It is far less clear how the WTO’s dispute-settlement machinery will respond to these developments. The organization is enduring a crisis of confidence unlike any it has previously faced, and the appetite for reforms that might reinvigorate it appears limited; without such renewal, the WTO risks drifting toward obsolescence as trade disputes and diplomacy migrate toward bilateral, plurilateral, and regional arrangements. Recent case law offers little indication of a shift in the interpretation of core disciplines. The panel report in the Türkiye–Electric Vehicles dispute, circulated in mid-2026, applied national-treatment, most-favoured-nation, and bound-tariff obligations in a wholly orthodox manner. Neither that report nor the exceptions available under Article XX of the GATT, as currently construed, suggests any judicial inclination to create more permissive space for unilateral trade measures motivated by climate goals.⁷⁰ Consequently, the ultimate role that trade disciplines will play remains difficult to anticipate.

On a more constructive note, the CBAM’s gravitational pull has achieved what a decade of deliberate coordination failed to do. In an era characterized by fragmentation and the deformalization of governance toward non-binding initiatives and soft law, the mechanism has done more to catalyze serious engagement with interoperability and harmonization in climate policy than many of the multilateral vehicles created for that specific purpose. This may create opportunities for bottom-up integration, precisely where top-down harmonization has been endorsed in principle but has lacked political support and any genuine pressure to act. The linking of carbon markets serves as one obvious example. The next section turns to these prospects for cooperation and the forms they might take.

4. The Case for International Cooperation

Absent any form of international cooperative governance, BCA regimes such as the EU’s CBAM might have several types of undesirable international effects:

- Where multiple regimes exist, a “spaghetti bowl” of different regulatory requirements for exporters in measuring, reporting and verifying their GHG emissions.
- Lost market share for foreign producers due to regime elements that discriminate against their products.
- Even without discrimination, lost market share for foreign exporters due to high compliance costs and lack of support for decarbonization.

Absent sufficient efforts to address those primary effects, a follow-on effect is negative repercussions in multilateral fora such as the UNFCCC and the WTO. In what follows, each of these effects is unpacked in turn, along with a survey of who is doing what, and who might do what, to address them.

4.1 The spaghetti bowl

Section 3.2 above describes the potential proliferation of BCA regimes well beyond the EU’s CBAM. An uncoordinated roll-out of multiple BCA regimes would mean that exporters trying to access those markets would need to comply with different demands to access each market, in terms of measurement,

⁷⁰ Türkiye - Measures Concerning Electric Vehicles and Other Types of Vehicles from China: Report of the Panel DS629, UN Doc. WT/DS629/R [2026].

reporting and verification (MRV) of their GHG emissions. Compliance with even a single regime is challenging, particularly for MSME exporters, and compliance with multiple conflicting regimes ratchets up those challenges. UNCTAD estimates that the lack of regulatory convergence in non-trade measures at the border—which, to be clear, is a broader category of measures that includes BCAs—increases regulatory costs to exporters by between 15 and 30%.⁷¹ Costs along these lines risk fragmenting global supply chains, and are a clear source of tension and concern for the trading partners of those implementing BCAs.

Cooperative governance in this space would seek to ensure that however many BCA regimes there might ultimately be, exporters to those markets can comply with the requirements without undue complexity and costly duplication of efforts. That is, the goal is interoperability – the ability of different regimes to work together despite their different characteristics.

In an ideal world, those regimes would go the extreme form of interoperability: completely harmonized requirements for MRV. But BCA is a complement to domestic carbon pricing, and carbon pricing regimes are fundamentally different from jurisdiction to jurisdiction worldwide, with different approaches (e.g., cap and trade, taxes, baseline and crediting), sectoral coverage, coverage of gases, protocols for GHG measurement, cost containment mechanisms like free allocation, carve-outs, offset provisions, and other design elements.⁷² The implication is that because BCAs try to mirror those varied domestic carbon pricing at the border, different countries' BCA regimes will also necessarily vary.

The solution is a coordinated effort among countries implementing BCA that starts by distinguishing those regime design elements that should be harmonized, and those whose differences can be tolerated or accommodated to attain interoperability.⁷³ As a rule, the more granular the requirements of the regimes, the more potential for interoperability. For example, if two regimes have different system boundaries, but they require granular emissions data disaggregated by production stage, it is a simple matter for each regime to simply choose the data it needs according to its specific system boundary. Or, if they cover different GHGs, they can be interoperable as long as the GHG reporting is granular – that is, it reports not just totals, but rather emissions of each type of GHG. Harmonization would be desirable for example in the rules used to allocate emissions to products in facilities that produce multiple covered product—such as petroleum refineries and petrochemical plants.⁷⁴ For the methodologies used in carbon accounting, and the accreditation of verifiers, mutual recognition is arguably appropriate.

The institutional landscape

The coordinated effort needed to bring about effective interoperability of MRV begins with analysis that scopes out the various elements, along the lines described above. Here, the Inclusive Forum on Carbon Mitigation Approaches (IFCMA)—a body convened by the OECD—has done foundational work.⁷⁵ The

⁷¹ UNCTAD. (2026). Global Trade Update: Invisible Barriers – The cost of non-trade measures. UNCTAD Policy Insights, p. 15. https://unctad.org/system/files/official-document/ditcinf2026d5_en.pdf.

⁷² See the World Bank's *Carbon Pricing Dashboard* for descriptions of the various national and sub-national regimes: <https://carbonpricingdashboard.worldbank.org/>.

⁷³ OECD. (2025). "Towards interoperable carbon intensity metrics: Assessing monitoring, reporting and verification systems", *Inclusive Forum on Carbon Mitigation Approaches Papers*, No. 9, OECD Publishing, Paris, <https://doi.org/10.1787/b185bcfa-en>.

⁷⁴ Aisbett, E. & Burkitbayeva, S. (2025). "Designing a high-performance international regime for embedded emissions accounting," Working Paper 25-01, July 2025, Centre for Climate and Energy Policy, Crawford School of Public Policy, The Australian National University. https://crawford.anu.edu.au/sites/default/files/2025-07/High%20Performance%20EEF%20regime%20CCEPWP2501_0.pdf

⁷⁵ See OECD (2025) above. Also see OECD. (2024). "Towards more accurate, timely, and granular product-level carbon intensity metrics: challenges and potential solutions." An IFCMA report. Paris: OECD.

IFCMA is comprised of 60 OECD and non-OECD members. Its 12-member steering group includes developing, developed and least developed countries. One of its core workstreams focuses on carbon intensity metrics as a carbon mitigation approach, and on assessing ways in which those metrics might be made more interoperable.

Interoperability is also one of the mandates of the Climate Club. Originally an initiative of the G7, the Climate Club has grown beyond that with a membership of 48 developed and developing countries. It describes itself as “an open, inclusive and ambitious high-level forum for cooperation on accelerating climate action and increasing ambition, particularly in the field of industry decarbonisation.” The second of the Climate Club’s three-pillar work programme, Transforming Industries, includes efforts to advance toward common or interoperable definitions and standards for low-carbon steel and cement, with the intent to use those starting points as a basis for ultimately advancing similar cooperation in other industrial sectors.

There has also been excellent work by academics, such as a research group convened by the Australian National University combining economic, engineering, science and policy perspectives to explore the possibilities of what they call embedded emissions accounting.⁷⁶ As well, a group of academics and a prominent US think tank joined forces in 2020 to work toward a harmonized greenhouse gas calculation framework applicable to mineral and industrial supply chains: The Coalition on Materials Emissions Transparency (COMET).⁷⁷

Building on those sorts of foundations, there have been early-stage attempts within the World Trade Organization (WTO) to reach agreement on interoperability in the context of trade-related climate measures such as BCAs. Recent member submissions to the WTO’s Committee on Trade and Environment include one from Japan and others laying out non-binding guidance on methodologies for measuring embodied emissions, including both best practice – e.g., use of de minimis thresholds, basing measurement methodologies on international standards such as ISO 14067, allowing for the use of default values – and offering template forms for self-reporting measures that conform to that best practice.⁷⁸ But, given the limitations of the WTO as a negotiating forum, progress there has been slow.

Also at the WTO, an open group of 79 members regularly convene in a set of dialogues parallel to the WTO processes called the Trade and Environmental Sustainability Structured Discussions (TESSD). The talks feature four streams of discussion, one of them being trade-related climate measures (TrCMs) – a category that includes BCAs. At the WTO’s 14th Ministerial Conference in March 2026, TESSD presented outcomes and reflections from five years of work, including a compilation and mapping of the various types of TrCMs, and reflections on areas for enhancing cooperation, which included fostering convergence on carbon measurement standards and conformity assessment and certification.⁷⁹

https://www.oecd.org/en/publications/towards-more-accurate-timely-and-granular-product-level-carbon-intensity-metrics-challenges-and-potential-solutions_87bbd6bf-en.html

⁷⁶ See <https://researchportalplus.anu.edu.au/en/projects/embedded-emissions-accounting-frameworks-for-trade-in-a-net-zero-/>.

⁷⁷ See <https://ccsi.columbia.edu/project/the-coalition-on-materials-emissions-transparency-comet/>. The coalition includes the Columbia Center on Sustainable Investment, the Rocky Mountain Institute, MIT’s Sustainable Supply Chains initiative, and the Colorado School of Mines.

⁷⁸ WTO. (2026). “Non-Binding Guidance on Methodologies for Measuring Embedded Emissions: Communication from Australia, Canada, Chile, Costa Rica, Israel, Japan, the Republic of Korea, New Zealand and the United Kingdom.” WT/CTE/W/269/Rev.5. February 20.

<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/CTE/W269R5.pdf&Open=True>

⁷⁹ WTO. (2026). “Trade and Environmental Sustainability Structured Discussions (TESSD): Statement by the TESSD Co-Convenors (Addendum).” WT/MIN(26)/22/Add.1. March 19, 2026.

<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/MIN26/22A1.pdf&Open=True>

At UNFCCC's COP-30, the Brazilian Presidency launched the Integrated Forum on Climate Change and Trade (IFCCT) – a non-negotiating space for dialogue and solution-building at the intersection of climate change and trade. The IFCCT was arguably born of pressure within the UNFCCC process to more effectively address the concerns raised by unilateral trade-related climate measures such as BCA. The IFCCT, co-Chaired by Brazil and Australia, held its first meeting in June 2026, and one of the four discussed channels of work was interoperability of trade- and climate-related MRV instruments (“Bridging Climate and Trade Tools”). While it is likely this will be a focus of the IFCCT’s work going forward, the Forum has got off to a slow start, and may lack a broad enough base of engaged governments to produce meaningful results in the near term.

There have also been attempts by standard setters themselves to establish something like an internationally agreed standard for product-level carbon accounting. In 2025, the International Organization for Standardization (ISO) and the GHG Protocol announced the launch of a collaboration to develop a new product-level GHG accounting standard. The explicit aim is “to reduc[e] fragmentation in the GHG accounting landscape,” while “support[ing] implementation of Carbon Border Adjustment Mechanisms which are on the rise globally through an aligned methodology.”⁸⁰ This collaboration is an important move toward harmonization, undertaken as it is by the custodians of the most widely used carbon accounting standards globally. It remains to be seen how widely the resulting standard will serve as a basis for any new border carbon adjustment regimes as they emerge. The challenge is that this will be a multi-year process, and there are already existing and emerging product-level standards created by the EU and the UK CBAMs.

Ultimately, while it is widely agreed that countries need to work together to achieve interoperability in MRV for product-level carbon accounting—and not just for BCAs—the gap so far is in a viable platform for that cooperative governance to take place. At present, there is abundant international interest in interoperability, but there is no obvious leader from among the many bodies active in this space, and no movement toward inter-institutional cooperation on a way forward. Until those gaping lacunae are filled, the anticipation of a fragmented system of BCA-related requirements will continue to fuel international concern.

4.2 Discriminatory BCA regime elements

The elaboration and implementation of a BCA regime involve many decisions – forks in the road at which the designers can turn either toward fair treatment of foreign producers, or toward features designed to benefit domestic producers. For example, assigned (mandatory) default values for emissions intensity are arguably less fair to foreign producers than allowing them to declare their actual emissions. Not giving credit for carbon prices already paid in the country of origin, or assigning a carbon price at the border that is in excess of the carbon price levied domestically, are other examples in the same vein.

Much of the international push-back against the EU’s CBAM, described in some detail in Section 3.3, accuses the instrument of being unfair to foreign producers – to being discriminatory and protectionist.⁸¹ But the reality is that there are few agreed standards by which to measure BCA; it is a novel instrument, and the international community has not yet come together to agree to what constitutes appropriate policy when pricing carbon at the border.

⁸⁰ GHG Protocol: <https://ghgprotocol.org/blog/iso-ghg-protocol-partnership-frequently-asked-questions>.

⁸¹ See, for example, the BRICS Rio de Janeiro Declaration of 2025: “We reject unilateral, punitive and discriminatory protectionist measures, that are not in line with international law, under the pretext of environmental concerns, such as unilateral and discriminatory carbon border adjustment mechanisms (CBAMs).” (para. 88.) http://www.brics.utoronto.ca/docs/250706-BRICS_Leaders_Declaration_EN.pdf

There are rudiments of guidance that would help policy makers ensure that their BCA regimes were in line with international agreement on best practice. The UNFCCC Parties have agreed that “Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.”⁸² But that text is not particularly useful in determining whether specific measures like the EU’s CBAM does or does not respect that guidance.

Somewhat more explicit is guidance in the form of WTO law (from which UNFCCC Article 3.5 is derived) under which members agree to treat foreign products no worse than they treat like domestic products, and not to discriminate among exporting WTO member countries. Beyond those basic principles, there are many more specific elements of WTO law that provide guidance on how a BCA regime should be elaborated and implemented.⁸³ However, much of that law was agreed in 1947 before climate change and carbon taxes existed as policy concerns, so the text must be reinterpreted in a modern context to answer questions such as whether high-carbon steel is “like” low-carbon steel, or whether carbon taxes are direct taxes like VAT, and so can be refunded at the point of export. Often there is no obvious guidance in WTO law that relates to the complexities of BCA design, such as whether an export tax counts as a carbon price that should be credited at the point of import. As well, there are important questions that are beyond the scope of WTO law, such as the question explored above: whether revenue from BCA regimes should be recycled to producers or their host countries.

The institutional landscape

There have been efforts to enunciate principles or guidance at the multilateral level that lays down what is and is not appropriate in the context of BCA.

They include the submissions described above by Japan and other WTO members in the Committee on Trade and Environment: draft guidelines for transparency and good practice. But, while the submitting nations are abiding by those voluntary guidelines, they are few in number at this point. Also at the WTO the TESSD, described above, has a mandate that might lead to guidance on good practice in trade-related climate measures, and some have pushed for that outcome. But the idea has been rejected by other participants who prefer to keep the discussions at the level of information sharing.

As well, as noted above, within the UNFCCC process the most recent COP produced a mandate for a set of dialogues on trade and climate change “to consider opportunities, challenges and barriers in relation to enhancing international cooperation related to the role of trade.”⁸⁴ The first of these three annual mandated dialogues convened in June 2026. They were in part the result of a push by Parties to have the multilateral climate negotiations address unilateral trade measures such as the EU’s CBAM in a systematic fashion. It is too early to say whether the dialogues might result in anything like best practice guidance, but any such aim on a three-year timeline in the UNFCCC process would be ambitious.

The IFCT, discussed above, might also be a candidate for producing guidance of this type. But, given that it doesn’t fall neatly into any of the four proposed channels for discussion discussed at its inaugural

⁸² UNFCCC, Article 3.5.

⁸³ The literature on BCA and WTO law is rich, and grows more so by the day. For a good assessment of BCA under both WTO and UNFCCC law, see Espa, I., François, J. and von Asselt, H. (2022). “The EU Proposal for a Carbon Border Adjustment Mechanism (CBAM): An Analysis under WTO and Climate Change Law.” World Trade Institute Working Paper no. 2/2022. https://www.wti.org/media/filer_public/ee/61/ee6171fd-a68d-4829-875e-d9b0c32298b5/wti_working_paper_06_2022.pdf

⁸⁴ UNFCCC. Decision 1/CMA.7 (Global Mutirão), para. 57.

meeting, and given that the effort is still in very early days, it may be too optimistic to hope for any such progress in the near term.

There has also been a host of proposed guidance and principles emanating from outside of multilateral channels: a group of global stakeholders convened by the International Institute for Sustainable Development;⁸⁵ a group of legal experts convened by the Forum on Trade, Environment and the SDGs;⁸⁶ the International Chamber of Commerce;⁸⁷ and a group of international experts convened by Columbia University,⁸⁸ to name a few. All of these efforts have added value to the global discourse, but as of yet none has been broadly adopted or championed by governments looking for international consensus that could diminish the potential for protectionism in BCAs.

4.3 High compliance costs, lack of support for decarbonization

Under national and regional carbon pricing regimes like the EU ETS, there are usually dedicated mechanisms to help covered producers respond appropriately to the carbon price. These exist because producers may have a poor business case for responding to the carbon price by investing in decarbonization without strategic support such as that provided by the Innovation Fund and various EU member-state-level industrial decarbonization schemes. Without such support, combined with parallel policies to provide needed inputs such as low-carbon electricity and clean hydrogen, the carbon price is often simply a cost of doing business, not an incentive.

The same logic applies, of course, to foreign producers—especially those in low-income countries—who may be challenged to invest in decarbonization by obstacles such as high costs of finance, lack of government support, slim options to procure low-carbon electricity, and poor access to technology. The broad array of systemic barriers to decarbonization in India’s massive steel sector paints an excellent portrait of these sorts of obstacles.⁸⁹ Absent any coordinated governance aimed at supporting industrial decarbonization among vulnerable high-emitting producers, BCA simply represents a cost of doing business and a market restriction, not an incentive.

This logic is one of the arguments for mechanisms that “recycle” BCA revenue to producing firms and countries.⁹⁰ Such a mechanism would entail challenging institutional/governance efforts, for example to identify to whom funds should go, in what amounts, and on what conditions if any.⁹¹ In the event of

⁸⁵ Aylett, C., et al. (2025). “Guidance on Border Carbon Adjustment: Results of the Global Stakeholder Dialogues.” International Institute for Sustainable Development. <https://www.iisd.org/publications/report/border-carbon-adjustment-guidance>

⁸⁶ International Legal Expert Group on TrCMs. (2023). “Principles of International Law Relevant for Consideration in the Design and Implementation of Trade-Related Climate Measures and Policies.” Forum on Trade, Environment, & the SDGs (TESS). <https://tessforum.org/latest/principles-of-international-law-relevant-for-consideration-in-the-design-and-implementation-of-trade-related-climate-measures-and-policies>

⁸⁷ International Chamber of Commerce. (2024). “Global Principles for Effective Border Adjustments.” <https://iccwbo.org/news-publications/policies-reports/global-principles-for-effective-border-adjustments/>

⁸⁸ “International Dialogue on Climate and Trade,” convened by Columbia University’s Center on Global Energy Policy. <https://www.energypolicy.columbia.edu/international-dialogue-on-climate-and-trade/>

⁸⁹ Van der Ven, C. and Tuljapurkar, S. (2026). “The CBAM and beyond: Leveraging EU-India trade cooperation to decarbonise Indian steel.” Tulip Consulting Policy Report. <https://www.tulipconsulting.ch/content/uploads/2026/04/FINAL-Tulip-CBAM-Final-.pdf>

⁹⁰ See ERCST et al. (2024). “Declaration: Calling on the EU to direct revenues from the CBAM towards international climate finance.” <https://ercst.org/declaration-calling-on-the-eu-to-direct-revenues-from-the-cbam-towards-international-climate-finance/>.

⁹¹ See Marcu, A. et al. (2024). “The Use of CBAM Revenues.” ERCST. <https://ercst.org/the-use-of-cbam-revenues/>.

multiple BCA regimes, there would be clear advantages to coordinated efforts, potentially multiplying impacts and reducing administrative costs.

Another related but distinct argument for revenue recycling in BCAs like the CBAM is to assist with the inevitable costs of compliance. That is, even if foreign producers do invest in low-carbon production of CBAM-covered goods, and thereby lower their costs at the border, they are still liable for the costs of compliance: setting up and running internal GHG accounting regimes, soliciting and integrating GHG emissions data from upstream suppliers, regular reporting in compliance with CBAM requirements, and verifying their reports and data by contracting with an accredited verifier. These costs can be considerable—and will be more acute for small producers that have to spread the fixed costs over a smaller revenue base—in effect meaning lost market share.

The institutional landscape

To date under the EU CBAM there have been no fiscal mechanisms to compensate for compliance costs, or to help foreign producers lower their carbon costs through decarbonization. This has been an important source of diplomatic tension.⁹² There are, however, no live discussions on this issue, and no organizations with a specific mandate to address it, though there are many international efforts aimed at energy efficiency, decarbonization more generally, and building capacity for carbon pricing.

4.4 Multilateral spillover impacts

The lack of progress in addressing the international aspects of the CBAM, as discussed in this section, has been an important vector of instability and controversy in multilateral fora such as the UNFCCC and the WTO.

Section 3.3 describes the frictions over unilateral trade measures (always with BCAs as the poster child) that have led to years of agenda fights and controversy within the UNFCCC process. Within those negotiations, border carbon adjustment is a keystone issue that draws its power from long-running lines of historical disagreement, largely between developing and developed country Parties. It provides a focal point for controversy that threatens—in the words of the Russian Federation—to poison discussions in other forums of the negotiations.⁹³

In the WTO, there have been repeated attempts to discuss BCA in both the Committee on Trade and Environment, the Technical Barriers to Trade Committee (TBT), and the parallel process of the Trade and Environmental Sustainability Structured Discussions (TESSD), but lack of consensus has frustrated those efforts. As noted above, The Russian Federation in May 2025 made a formal request for consultations with the EU in the WTO's Dispute Settlement Body, and in July 2026, requested the establishment of a dispute panel on the issue, and the EU objected to the request and so it was blocked. But the second time the request is made, the EU will be unable to do so, and in that case the panel would proceed.

⁹² Glaser, A. and Caspare, O. (2021). “Less Confrontation, More Cooperation: Increasing the acceptability of the EU Carbon Border Adjustment in key trading partner countries. Germanwatch. <https://www.germanwatch.org/sites/default/files/Less%20confrontation%2C%20more%20cooperation%20%28EN%29.pdf>.

⁹³ Earth Negotiations Bulletin. (2025). “Daily report for 13 November 2025: UN Climate Change Conference - Belém, November 2025.” IISD. <https://enb.iisd.org/belem-un-climate-change-conference-cop30-daily-report-13nov2025>

For the WTO, a dispute on the CBAM is a no-win proposition. If a panel finds against the CBAM, the WTO will be accused by the climate policy community of being anti-environmental. If the panel finds for the CBAM, the WTO will be accused by many of the EU's trading partners of interpreting the law so as to shelter politically important climate measures, to the detriment of world trade and development.⁹⁴ Either outcome would erode the viability and legitimacy of the WTO as a relevant custodian of international economic governance, at a time when the Organization is already weakened by rising unilateralism and a crippled dispute settlement system.

The institutional landscape

As described above, COP 30 mandated a series of discussions at the UNFCCC that will, over three years, tackle the issue of unilateral trade measures for climate purposes. The first of these was held in June 2026 at the Subsidiary Body meetings in Bonn, with participation from the WTO, the International Trade Centre and UN Trade and Development (UNCTAD). The tone of that meeting was constructive, though developed countries maintained that it was not the appropriate forum for discussing specific measures such as CBAM. According to one observer, "The test now is whether future dialogues can move beyond airing differences and identify concrete areas for cooperation."⁹⁵ While this sort of dialogue is sorely needed, given the long history within the UNFCCC process of discussions at the Forum on the Impacts of the Implementation of Response Measures, it is hard to be optimistic that the Dialogues might produce any agreement to defuse international tensions.

As well as the formal dialogues, COP 30 produced the Presidency-led initiative described above: the IFCCT. This effort, in no small part an attempt to head off the agenda controversy that had plagued previous COPs, has a mandate for discussions that could lead to constructive soft law agreement. But it has gotten off to a rocky start, with its launch at the June Subsidiary Body meetings missing key developed country representatives, and with a slow effort to define the scope of work.

At the WTO, the most obvious place for discussion on BCAs is the TESSD parallel process, but within that process there has been stubborn resistance by many Parties to going beyond sharing of experiences – an important first step, but only a first step.

Discussions within the Committee on Trade and Environment have centred on the lowest-hanging fruit—interoperability of standards—and some members have started voluntary reporting of trade-related climate measures according to a template they have proposed.⁹⁶ This is positive movement, but necessarily slow, given that the WTO like the UNFCCC works on the principle of multilateral consensus.

4.5 Interim Conclusions

The analysis above paints a picture of a mis-match. While the evolution and dissemination of BCAs such as the CBAM advance apace, the processes to foster international cooperative governance for managing their effects advance much more slowly. If the EU and UK hope to address the international aspects of their regimes—across issues like interoperability, support for compliance costs and decarbonization, and the need to agree on best practice—and to deflate the tensions spilling over into

⁹⁴ To be clear, the likely outcome of any dispute is a finding that certain specific aspects of the EU CBAM are in breach of the EU's WTO obligations. It's unlikely that the CBAM would get a complete rejection or absolution.

⁹⁵ E3G. (2026). "Bonn week 2: E3G insights and expectations." <https://www.e3g.org/news/bonn-week-2-e3g-insights-and-expectations/>

⁹⁶ See the template attached to the 2026 submission by Japan et al. at <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:WT/CTE/W269R5.pdf&Open=True>

multilateral fora, they will need to go beyond many of the existing efforts to work on their own solutions where possible.

On interoperability, for example, the EU and UK should be proactively ensuring that their two regimes are interoperable, and that they are open to interoperability with other subsequent regimes. On finance, the EU should be devoting dedicated funds—perhaps from CBAM revenues—to easing costs of compliance and fostering decarbonization for the most vulnerable foreign producers, and should be coordinating pooling of resources with the UK to the same end.

There is still a need to engage with the host of multilateral actors, IGOs and international processes looking for progress. It is only at those levels, for example, that there can emerge anything like agreement on what constitutes best practice in the implementation and elaboration of BCA.

Only with dedicated efforts will the EU be able to ensure that its CBAM is widely internationally accepted, and avoid the damaging spillover that comes from foreign concern and distrust. Ultimately, such a result is to be desired for the sake of multilateral progress on issues ranging from climate change to international trade policy and beyond.

5. Takeaways and Recommendations

In January 2026, the CBAM entered its definitive phase as a unilateral policy instrument whose functioning is nonetheless influenced, at least in part, by factors that lie beyond its territory and sovereign control. This report has analyzed such international linkages through three different lenses: the EU's rules relating to or affecting developments in third countries, the resulting reactions from those third countries, and the arguments and potential venues for cooperation. A number of takeaways emerge from our analysis.

First, although the CBAM is an internal measure adopted by the EU and applied at its own borders, many of its provisions are directed outward. What a declarant owes under the CBAM hinges on emissions released at production facilities in third countries, on carbon prices levied under the rules of third country governments, on rebates and subsidies granted by those governments, and on attestations by verifiers accredited within the EU but working abroad. CBAM rules ask foreign producers to quantify and report emissions to EU specifications, and compel foreign governments to design pricing instruments and supply related evidence the EU will accept. That is a substantial external demand, and in some cases the rules are presently evolving or remain incomplete, creating lingering uncertainty. Features to reduce attendant burdens on foreign producers and administrations, such as default carbon prices or the negotiation of bilateral agreements under Article 2(12) of the CBAM Regulation, have not yet been operationalized.

Second, irrespective of whether one considers it a legitimate incentive or a problematic means of coercion, the CBAM's role as a lever for the international diffusion of carbon pricing is a potentially significant outcome. Although primarily aimed at preventing carbon leakage from the EU, the CBAM may have fundamentally altered the political economy of carbon pricing in third countries: a domestic carbon price has become a means for states to retain fiscal revenue internally rather than transferring it to the EU. This shift is reflected in the timelines and scope of carbon pricing advancements in several large trading partners of the EU, including China, India, Brazil, and Türkiye. Recent econometric research indicates that exposure to the CBAM increases the probability of a country implementing carbon pricing. While the causal weight of the CBAM should not be overstated – given that most of these decisions followed years of domestic policy debate and preparation – it still evidences how an

instrument directly covering only a small fraction of global emissions can influence policies that cover a substantially larger share.

Third, the CBAM has triggered international resistance that is unlikely to dissipate in the near term. Developing countries have spent years advocating for the inclusion of unilateral trade measures on the UNFCCC agenda, successfully securing a first reference in a decision text and a three-year dialogue series last year in Belém. Simultaneously, Russia's WTO challenge is proceeding towards establishment of a judicial panel. The "green squeeze" critique continues to be articulated by governments even as these advance their own carbon pricing systems and domestic MRV frameworks, suggesting that existing grievances are as much about principle as they are about specific policy details: trade partners resent being coerced into policy choices, regardless of the soundness of those choices. For the EU, whose share of global emissions is already below six percent, extraterritorial leverage may be an important tool to influence climate outcomes, but it must also avoid overplaying its hand, especially as it considers extending the scope of the CBAM.

Fourth, the WTO is unlikely to resolve these concerns. Recent case law does not indicate a trend towards greater accommodation of trade-related climate measures under Article XX of the GATT, yet any unfavorable report adopted by a panel could be appealed into the void, denying it practical effect. Overall, international acceptance of the CBAM is more likely to depend on diplomatic engagement than a favorable legal ruling.

Fifth, the proliferation of border adjustments is outstripping the governance required to manage them. Following the EU, the UK CBAM will launch in January 2027, with other jurisdictions following while several Asian economies, Australia, and Canada evaluate their options. Absent coordination, exporters face a "spaghetti bowl" of different design elements, MRV requirements, and compliance costs. While interest in interoperability is high, as evidenced by the activity of the Climate Club, the IFCMA, TESSD, the new IFCCT, and the collaboration of ISO and the GHG Protocol, no single body currently leads or possesses a mandate recognized by all the others. Paradoxically, the CBAM has done more to catalyze the conversation on harmonization than a decade of intentional multilateral effort, yet it seems unlikely that a major breakthrough on actual coordination will be secured anytime soon.

From our preceding observations, a number of policy recommendations emerge that could help address some of the foregoing tensions and improve the functioning of the CBAM:

- Article 9 must be rendered fully operational. The EU should publish the values and methodology for default carbon prices before 2027, calibrating them to ensure they neither reward inaction nor discourage producers from certifying actual prices. To resolve borderline cases left open by the four cumulative conditions, a single operative test should be applied to compensation and rebates: whether the support preserves the marginal incentive created by the carbon price.
- The EU should test Article 2(12) with a willing partner by concluding an initial government-to-government arrangement. Whether it is interpreted narrowly to only enable dialogue and administrative cooperation, or more expansively to enable a new channel for less burdensome recognition of third-country carbon pricing, the mandate remains currently unused. Our belief is that it could serve as a basis for tailored accommodation of national circumstances and particularities.
- Any potential verification gaps should be closed before 2027. The proposed extension of Article 2(12) could be used to establish mutual recognition of third-country accreditation bodies. In parallel, the EU should consider allowing reliance on ISO conformity and membership in recognized international accreditation frameworks, similar to the approach taken by the UK

CBAM. Until sufficient capacity is established, the default track should avoid mark-ups that penalize producers unable to avoid it.

- Further extensions of the CBAM scope, whether into new sectors or downstream, must be sequenced with care. Such moves should be accompanied by demonstrable progress in verification and recognition, ensuring that expansion is perceived as the evolution of a functioning system.
- The EU should pair its leverage with support. Technical cooperation and readiness assistance should be directed toward exporting economies that possess the incentive to price carbon but lack the institutional capacity to act upon it. A share of CBAM proceeds should be dedicated to supporting industrial decarbonization and easing compliance costs in developing countries.
- Interoperability should be anchored in the EU-UK relationship. The two CBAMs must be interoperable regarding verifier recognition, default values, and MRV from the moment of launch of the UK CBAM in 2027, with an arrangement designed to be open to subsequent regimes as a functional precedent between the first two movers.
- As a first mover, the EU could consider backing a body to lead on MRV interoperability, before the proliferating landscape of product carbon accounting standards becomes too heterogeneous and complex to coordinate. Such a body could coordinate technical work, engage other stakeholders, and distinguish between design elements that require harmonization and those that can be accommodated.
- The EU should engage substantively in the various fora established by its trade partners. The IFCCT and UNFCCC trade dialogues should be treated as venues for hearing specific concerns and explaining implementation choices, rather than as threats to be contained. Such engagement has no meaningful cost, yet could help limit the risk of the CBAM spilling over into unrelated negotiations.
- Beyond mere engagement, the EU could contribute to a shared standard of good practice. It could support the UNFCCC dialogues, the Committee on Trade and Environment, and TESSD in moving beyond mere information sharing toward agreed guidance on the nature of a fair border adjustment. Such a standard would protect the legitimacy of the CBAM more effectively than any legal defense.

Since it was first proposed under a decade ago, the CBAM has already demonstrated that a unilateral measure can have an influence on global climate policy debates and third country policy choices. Whether this influence ends up being seen as legitimate and a positive force on climate action depends on the willingness of the EU to engage with its trade partners and build on its first mover advantage so that further proliferation of similar measures does not result in uncoordinated fragmentation, but an accepted, interoperable architecture that is even-handed in its treatment of trade partners, alert to their differing capacities, and mindful of the economic burden it imposes.

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