



Launch event: Extension of the CBAM scope

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Agenda

- **Presentation of the report “*Extension of the CBAM scope*”**
 - Context & starting points
 - Horizontal extension
 - Vertical extension
 - Key criteria for scope extension
 - Concluding remarks
- **Panel interventions**
- **Roundtable discussion**
- **Upcoming events**

Context

- The EU CBAM, which will enter into the definitive phase on 1st Jan 2026, will cover products in the following sectors: **cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen.**
- The CBAM Regulation itself (Recital 67 and Article 30) anticipates a progressive **expansion of its scope by 2030** to cover **all EU ETS sectors**, goods at **high risk of carbon leakage**, and **downstream products** with significant embedded emissions.
- The European Commission is mandated to **assess and report on these scope extensions**, including embedded indirect emissions, transport emissions, additional goods at risk (like organic chemicals and polymers), and other input materials. Reports on these extensions are anticipated in the second half of 2025.
- DG TAXUD has launched **two studies** to evaluate the feasibility of extending CBAM's scope to:
 - Additional sectors (e.g., organic chemicals, polymers), precursors, and transport emissions, due in Nov 2025.
 - Downstream products (e.g., finished metal goods, fabricated steel components), due in Jul 2025.
- The European Commission has confirmed its intention to propose a legislative extension of CBAM's scope to cover certain **downstream steel and aluminum products** by the end of 2025.

Starting points

- **Defining scope extension:**
 - Horizontal extension: Includes entirely new sectors or goods not currently in Annex I (e.g., chemicals, refineries, paper, glass, ceramics, plastics).
 - Vertical extension: Broadens the scope within existing CBAM sectors, either upstream (raw materials/intermediate products) or downstream (more processed products).
- **Key criteria for inclusion (from Recital 31 of CBAM Regulation):**
 - Relevance of sectors in terms of greenhouse gas (GHG) emissions.
 - Sector's exposure to significant risk of carbon leakage.
 - Need to balance broad product coverage with limiting complexity and administrative burden.
- **Interdependent factors influencing extension decisions:**
 - **Developments under ETS Reform**: The future of free allocation and indirect cost compensation in the EU ETS will impact competitiveness and carbon leakage risk.
 - **Elaboration of the CBAM**: Further details on export coverage, prevention of resource shuffling, circumvention measures, administrative simplification, indirect emissions, and default values will all influence the implications of scope extension.
 - **Vertical and horizontal scope interdependence**: Decisions on horizontal extensions can depend on assumptions about how far vertical coverage will extend down the value chain.

Horizontal extension (1)

- To focus the analysis, we assume CBAM is fully effective in preventing leakage and resource shuffling, and free allocation phases out as outlined in the CBAM regulation. This allows us to isolate other critical factors for decision-making.
- **Leakage risk (threshold condition):**
 - The fundamental consideration is the extent to which a new sector faces a high risk of carbon leakage as free allocation is reduced and a full carbon price is paid. If leakage risk isn't high, further analysis for inclusion is unnecessary.
 - Consider leakage risk for producers just beyond the proposed CBAM coverage point in the value chain. If a sector has a highly complex downstream value chain (e.g., plastics with numerous products), it's harder to set an appropriate cut-off, making inclusion of the entire sector more complex.
- **Conditions of competition:**
 - When considering new sectors, it's crucial to minimize competitive distortions between sectors.
 - Sectors with significant competitive relationships (e.g., steel and aluminium products) should ideally be jointly included or excluded from CBAM coverage to prevent one from gaining an unfair advantage.

Horizontal extension (2)

- **Burden of complexity for operators (“CBAM-to-CBAM” imports):**
 - Does the candidate sector import CBAM-covered inputs? This adds complexity for producers in obtaining and verifying GHG intensity data for these intermediate imports, varying with the number of producers and value-added stages.
- **Inputs for other CBAM sectors:**
 - Does the candidate sector produce inputs for other CBAM-covered sectors? Expanding to such a sector increases the burden for downstream producers in other sectors to obtain and verify GHG intensity data for those imports.
- **Administrative challenges for regulators:**
 - Would including the sector significantly increase the number of authorized declarants and associated reports, or require many new product methodologies and default calculations?
- **Methodology development difficulty:**
 - Is the sector's production structure inherently difficult for crafting appropriate methodologies for estimated embodied emissions (e.g., petroleum refining with diverse products from single installations)?

Horizontal extension: The Special Case of Transport

The issue:

- The CBAM Regulation requires an assessment by end-2025 on extending scope to embedded emissions in the transport of Annex I goods and transportation services.
- Transport is not a sector or a good – it is a service that is an input to all other sectors.
- Presumably coverage would align with ETS coverage:
 - Maritime transport is already covered under ETS: 100% for intra-EU, and 50% for voyages to and from EU
 - Road transport will be covered under ETS2 as of 2027.
- No point in covering maritime transport under CBAM – no leakage risk. But potential coverage of production-related road transport emissions in countries of export.

Considerations:

- Including foreign road transport would add significant complexity to measurement, reporting, and verification across all other CBAM sectors due to unique data needs (e.g., miles, transport modes, emissions allocation). Also heightened risk of cheating the system, associated burden of ensuring compliance.
- Administrative burden/complexity: ETS2 has its own carbon price. Also, transport does not receive free allocation and so unlike other sectors would not be subject to CBAM factor adjustments to charges.
- Over 70 jurisdictions have diverse carbon taxes on transport fuels, which would significantly increase the administrative burden for determining "effective" prices for CBAM credits.

Vertical extension (1)

Upstream extension in covered sectors

- Primary driver: **Upstream carbon leakage risk** – Focus on segments with high emissions, especially as free allocation is reduced.
 - Example: Alumina refining for aluminum production is energy-intensive and already faces leakage risk due to EU ETS coverage without dedicated free allocation benchmarks.
- **Downstream ramifications:** Upstream CBAM increases raw material prices, potentially increasing downstream leakage risk, which might necessitate further downstream extension to prevent circumvention.
- **Export-related leakage:** For globally traded precursors (like metal concentrates), upstream CBAM needs robust solutions for export-related leakage, as EU producers are price-takers.
- **Existing carbon pricing exposure:**
 - Under EU ETS (without benchmarks): Inclusion could level the playing field and prevent leakage.
 - Outside EU ETS: Introducing CBAM is complex, requiring new methodologies for embedded emissions (e.g., from mining/refining) and significant administrative capacity building.

Vertical extension (2)

Downstream extension in covered sectors

- Primary driver: **Carbon leakage risk for downstream goods** – Analyze the ratio of embedded carbon to gross value added, and trade intensity.
- **Generally diminishing risk:** Leakage risk typically decreases further down the value chain as more value is added relative to carbon content, and non-price factors become more important for final goods.
- **Vulnerable products:** Despite general trends, products with high metal content (e.g., cookware, automotive components, white goods, machinery) can be acutely vulnerable as free allocation for upstream inputs diminishes.
- **Administrative & compliance challenges:**
 - **Complex supply chains:** Sectors like machinery and automotive have multi-tiered international supply chains, making emission measurement and verification highly difficult and costly.
 - **Sector-specific differences:** Simpler value chains (e.g., cookware, white goods) have a more pronounced cost of input materials relative to final product value, leading to different assessments of administrative burden vs. leakage benefits.

Vertical extension (3)

Overall assessment

- Preventing carbon leakage and maintaining a level playing field are universal, but administrative burdens vary significantly.
- Divergent industry views:
 - Upstream industries stress compliance challenges and export-related leakage.
 - Downstream industries differ: While some advocate for inclusion due to competitive threats, others express reservations due to extreme administrative complexity.
- **Recommendations:**
 - Upstream extensions: Proceed cautiously, addressing potential increases in export-related and downstream leakage risks.
 - Downstream extensions: Require targeted assessment, favouring simple product categories with high CBAM-covered content and demonstrable leakage risk, balancing environmental ambition with economic practicality.
 - Overall: Calls for a phased implementation, extensive stakeholder engagement, rigorous methodology development, and targeted mitigation strategies.

Key criteria for CBAM scope extension (1)

- **Risk of carbon leakage:**
 - This remains the **central rationale** for any extension. The assessment must quantify potential leakage if free allowances are removed and the sector/product remains outside CBAM. This dictates urgency and necessity.
- **Emissions intensity:**
 - **Horizontal extension: Cumulative GHG emissions** of the sector indicate overall impact and potential contribution to leakage.
 - **Vertical extension:** For upstream activities, focus on the **emissions intensity** of specific operations; for downstream products, consider the **ratio of embedded carbon to gross value added and trade exposure**.
- **Competitiveness and market dynamics:**
 - **Horizontal extension:** Assess if **direct competitors** are already covered and the extent of competition. Evaluate if importing covered precursors would introduce new compliance/input costs.
 - If a sector **produces precursors for many other CBAM-covered sectors**, its inclusion could impose significant burdens on downstream industries, requiring careful evaluation of cascading effects.

Key criteria for CBAM scope extension (2)

- **Administrative burden and complexity:** Limit complexity and administrative burden for operators and regulators.
 - **Horizontal extension:** Scrutinize value chain complexity, feasibility of clear cut-off points, and difficulty in crafting methodologies for embedded emissions. Assess burden on regulatory bodies (e.g., increased declarants, reports).
 - **Vertical extension:** Examine new administrative/compliance burdens, especially challenges in obtaining accurate data from suppliers for downstream products.
- **Circumvention risk:** (specific to downstream vertical extension)
 - Assess how the extension would reduce mis-labeling or minimal processing to avoid CBAM obligations.
- **Interdependencies:** Decisions on scope extension are not isolated and depend on:
 - Ongoing **EU ETS reform** (free allocation, indirect cost compensation).
 - Further **elaboration of CBAM** itself (export coverage, anti-circumvention, administrative simplification, indirect emissions, default values).
 - Inherent **interdependence between vertical and horizontal scope.**

Concluding remarks (1)

- **Coordinated approach with ETS Reform:** CBAM scope extension should be addressed in tandem with ongoing EU ETS reforms to ensure coherence, effectiveness, and fairness, providing greater policy certainty. This should form part of a broader, well-timed policy package.
- **Targeted downstream vertical extension:** Some downstream sectors facing immediate pressures or compelling needs for coverage may warrant short-term, targeted downstream vertical extension to address acute leakage risks.
- **Unsuitable candidates:** For other downstream sectors (e.g., machinery, automotive), the low embedded carbon cost relative to value, coupled with complex international supply chains, may render CBAM inclusion administratively unjustifiable.
- **Address foundational challenges first:** Critical design and implementation issues (e.g., indirect emissions, export rebates, circumvention risks, methodology harmonization) must be resolved before significant expansion to build credibility and ensure industries recognize benefits.

Concluding remarks (2)

- **Realistic perspective & credibility:** CBAM is not a "silver bullet." If perceived as unworkable or overly complex, sectors will resist inclusion. Build credibility through a functional, transparent, and fair system before expanding.
- **Adequate time for compliance:** Any included sectors/products must be afforded adequate time to develop necessary systems for data acquisition, reporting, and verification.
- **Stakeholder consultations:** Integral to any decision, these consultations provide valuable insights into practical implications and sector-specific characteristics. However, industry interest alone is not sufficient; decisions must be evidence-based against defined criteria.
- **Complementary measures:** Even with scope extension, complementary measures (e.g., fixing design gaps, financial incentives, improved MRV, international cooperation, demand stimulation) are necessary to ensure the competitiveness of decarbonizing European industries.

Panel interventions

- Martin Becker, **DG TAXUD, European Commission**
- Jean-Pierre Debruxelles, **FuelsEurope**
- Reena Skribbe, **Öko Institut**
- Maria Brakatsoula, **VDMA**
- Nicola Rega, **Cefic**
- Marc Löning, **Directorate-General for Energy and Climate, France**

Roundtable discussion

Upcoming CBAM events and activities

- **10th September 2025:** Expert Consultation: Implementation challenges of CBAM.
- **22nd October 2025:** Launch Event: Implementation challenges of CBAM.