CENTRE FOR EUROPEAN REFORM
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Press release

Learning from CBAM's transitional phase: Early impacts on trade and climate efforts

With its new Carbon Border Adjustment Mechanism (CBAM), the EU will impose the same carbon price on both domestic and foreign producers of certain industrial goods. But because CBAM will impose a new barrier to trade, it has irked many of the EU's trade partners. Several countries, particularly developing nations with carbon-intensive industries, have called CBAM discriminatory: China and India have already signalled legal challenges at the World Trade Organisation.

A new CER policy brief by Elisabetta Cornago and Aslak Berg, 'Learning from CBAM's transitional phase: Early impacts on trade and climate efforts', argues that the EU should lead the industrial decarbonisation revolution by pairing CBAM with concrete actions to support clean industrial investments in least developed and developing countries. The authors find that, so far, CBAM has not noticeably changed trade flows of affected goods – iron, steel, cement, aluminium, fertiliser, electricity and hydrogen. That is perhaps not surprising, since fees for carbon content will only be imposed in 2026 (although importers must already deal with bureaucratic costs like estimating carbon content and reporting on it). But CBAM has had some positive 'policy spillovers', having encouraged several governments to consider adopting carbon pricing policies that would diminish the burden of CBAM on their economy.

CBAM is expected to gradually reshape global industrial production of the affected goods, incentivising foreign producers to shift towards lower-carbon production processes. But its economic impact is going to be asymmetric: the countries most affected by CBAM will be those that export a lot of carbon intensive goods to the EU and do not apply a domestic carbon price.

Countries like China, the United Kingdom and the United States will feel the impact of CBAM, though they have the economic capacity to adapt. For smaller economies like Mozambique or Zimbabwe, where CBAM-affected goods represent critical economic sectors, the implications could be more profound. And larger emerging economies like Brazil, India and Ukraine will also need support from the EU to transform their industry in line with net zero emissions targets.

The policy brief argues that to avoid backlash against CBAM, the EU should acknowledge its regressive impact on some of its trade partners and use CBAM revenues to mitigate the impact. The EU should make concrete support for investments in industrial decarbonisation abroad a key part of its climate diplomacy and external investment strategy, both with financial aid, capacity building and technology transfers.

Elisabetta Cornago, senior research fellow at CER said: *"While still in its early days, CBAM has already accelerated the uptake of carbon pricing outside the EU. But the EU should not pat itself on the back, because a CBAM without support schemes would be damaging for lower income countries, and potentially for climate action as well. CBAM revenues should be channelled towards financial and technological support for cleaner industry in lower income countries."*

Aslak Berg, research fellow at CER said: *"CBAM has had little effect on trade so far, but it has already caused trade tensions since many countries see it as a protectionist measure. Full implementation of CBAM will aggravate tensions further. The EU should therefore adopt a pragmatic approach to co-operation with developing countries."*

Notes for editors:
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