

CBAM carbon tax: focus on full development alongside simplification

In a week, the European Commission is expected to present the first 'Omnibus' simplification proposal to reduce regulatory and bureaucratic complexity for EU companies. This will begin with a simplification of the CBAM, the Carbon Border Adjustment Mechanism, a key component of the Green Deal championed by President Ursula von der Leyen during her first term. However, the focus should not be solely on simplifying the mechanism to reduce administrative burdens. Instead, CBAM must be fully developed first by **expanding its scope to include downstream goods, aligning it more effectively with the EU Emissions Trading System (ETS),** and introducing a **more flexible approach to default values (DVs) for complex products.** These are the critical areas that will ensure CBAM remains effective and fair for European manufacturers.

Here are our **three recommendations for a CBAM that works for EU businesses:**

Expand CBAM to include downstream products

One of the most pressing concerns regarding CBAM is its current scope, which does not include downstream manufactured goods. This exclusion creates a **loophole that allows non-EU producers to bypass carbon costs** by exporting finished products rather than raw materials. To truly ensure a level playing field for European manufacturers, CBAM must be expanded to cover downstream goods. Otherwise, there is a risk of increasing carbon leakage, where production shifts to countries with less stringent climate policies ultimately weakening the EU's climate objectives

Adopt a flexible default value system for downstream products

A practical and effective way to integrate downstream goods into CBAM is through a flexible system approach to default values (DVs). For complex downstream goods at risk of carbon leakage, this system should use a **simplified methodology that prioritises the main carbon-intensive components based on default values.** This flexibility is essential for ensuring that CBAM can be implemented effectively across a wide range of industries without compromising its core objective of preventing carbon leakage and promoting sustainable manufacturing within the EU. Without this flexibility, compliance will become impractical, leaving EU industries vulnerable to global competition and carbon leakage risks.

Accelerate the publication of the Article 30(3) downstream report

The European Commission's delay in releasing the Article 30 (3) downstream report until the end of 2025 is a major setback as it creates **uncertainty for businesses** that need to prepare for the transition. This report, which is critical for assessing CBAM's impact on downstream industries and carbon leakage risks, must be delivered as originally scheduled to allow for necessary legislative adjustments. With CBAM import certificates set to replace free EU Emission Trading System (ETS)'s allowances from 2026, the delay prevents policymakers from making critical adjustments in time, increasing uncertainty and risks for EU manufacturers.

In conclusion, any future changes to CBAM must align with the EU ETS to ensure a coherent and fair carbon pricing system. The two mechanisms are designed to work in tandem to establish a fair and consistent carbon pricing framework. Without proper coordination, EU industries could face dual regulatory burdens, while non-EU competitors may continue to exploit existing loopholes. Any changes to CBAM must be reflected in ETS to avoid placing EU manufacturers at a disadvantage.

APPLiA, representing leading EU home appliance brands, remains committed to working closely with policymakers to refine CBAM, ensuring it supports both the EU's climate goals and the competitiveness of European manufacturing. Collaboration between industry and policymakers is crucial to creating a Mechanism that not only prevents carbon leakage but also promotes sustainable manufacturing within the EU. Only by addressing the above mentioned issues can CBAM achieve its full potential in preventing carbon leakage, promoting fair competition, and safeguarding European industries.