

# EU's carbon cost rules are changing: how companies can prepare for CBAM

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As the EU's Carbon Border Adjustment Mechanism (CBAM) transitions from its reporting-only phase to full implementation in January 2026, the implications for global trade, compliance obligations, and corporate strategy are becoming increasingly urgent for companies in scope. Many businesses are still grappling with the complexity of the mechanism, particularly amid evolving legislative developments and gaps in technical guidance.

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This article outlines the current state of CBAM implementation under Regulation (EU) 2023/956, the pending simplification proposal issued by the European Commission in February 2025, and key steps affected companies can take now to prepare for the upcoming compliance burden.

## From transition to enforcement: What changes in 2026?

CBAM was designed to place a carbon cost on imports of goods in carbon-intensive sectors, specifically iron and steel, aluminum, cement, fertilizers, electricity and hydrogen. These sectors are identified in Annex I of the CBAM Regulation using CN codes. During the current transitional phase, which ends in December 2025, importers are only required to report embedded emissions in covered goods.

Starting in January 2026, the CBAM obligation becomes significantly more burdensome. Importers will be required to surrender CBAM certificates corresponding to the embedded emissions in imported goods, marking a shift from informational compliance to reporting obligations with financial implications. In practice, this means that importers must first purchase the

certificates and then hand them over to the authorities as proof that they have paid for the emissions produced.

However, a postponement of the certificate purchase timeline has been proposed in the European Commission's simplification proposal: *Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism*, COM(2025) 87 final, dated 26 February 2025 (hereinafter, the "Simplification Proposal").

The obligation to surrender CBAM certificates for imports from January 2026 onward remains unchanged. However, under the proposed simplification framework, the actual purchase of certificates would be deferred until 2027. Specifically, importers could begin purchasing certificates for 2026 imports starting in February 2027, providing additional time to assess emissions exposure and plan compliance budgets.

## De minimis thresholds and default values: what the simplification proposal changes

In February 2025, the European Commission introduced the aforementioned simplification proposal as part of the first "EU omnibus simplification package" (COM(2025) 87 final), currently under discussion by co-legislators (i.e. EU Parliament and Council of the European Union). The proposal does not simplify emission calculation methodologies, an area where industry has called for clarity, but rather focuses on selective exemptions.

The main feature is the introduction of a de minimis threshold: importers bringing in less than 50 tons/year of CBAM-covered goods may self-declare as "occasional importers" and be exempt from CBAM obligations. The Commission estimates this will exclude 90% of importers while still capturing 99% of emissions from the targeted sectors.

If adopted, this change could significantly reduce the compliance burden for small-volume importers, but it also underscores the mechanism's intent: CBAM is not about regulating every economic actor but rather addressing the bulk of emissions leakage from high-intensity goods.

Another noteworthy change concerns default values, which are pre-set estimates of the carbon emissions associated with a product, introduced by the co-legislators to assist importers who don't have precise data from the actual production process. During the transitional phase, these could only be used in exceptional cases, typically when third-country data could not be obtained. Under the simplification proposal, companies will be able to use default values without prior justification, even as a strategic choice.

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This means a reduced administrative burden and more predictability for both importers and exporters, where relevant. The simplification proposal also allows default values to be used when the carbon price paid in a third country cannot be verified, another nod to practical challenges in global supply chains.

### Secondary legislation: the missing puzzle piece

While the simplification proposal clarifies certain structural elements, a significant gap remains: the technical legislation necessary to fully operationalize CBAM. The European Commission is expected to finalize several pieces of technical (secondary) legislation through so-called implementing and delegated acts.

These include:

- A delegated act on CBAM certificate sales and repurchases.
- An implementing act on carbon pricing: This will define how to calculate a yearly average carbon price in third countries and how it will translate into certificate reductions.
- An implementing act on EU ETS adjustment: This will determine how free allowances under the EU Emissions Trading System (ETS) are phased out and how CBAM benchmarks are set.

The delay in adopting the necessary technical legislation creates significant uncertainty for companies seeking to estimate their future CBAM-related costs. This uncertainty is compounded by the absence of a finalized methodology for calculating embedded emissions beyond the transitional period.

While a methodology exists for the transitional phase, there is currently no indication that it will apply to the definitive period starting in 2026. Additionally, the lack of clarity on how carbon prices paid in third countries will be recognized further undermines companies' ability to accurately plan budgets and develop reliable compliance models.

### Extension to downstream products: a broader scope on the horizon

The European Commission is also exploring the possibility of extending CBAM to downstream goods, i.e., finished products that contain CBAM-covered materials. A public consultation and call for evidence, that was open from July 1 to Aug. 26, 2025, aims to inform a legislative proposal expected by Q4 2025.

For affected sectors, this extension could significantly broaden the scope of CBAM, pulling in additional compliance burdens for industries not initially covered by the regulation.

### UK-EU ETS linking agreement: A strategic carveout?

Another critical development is the potential linkage of the UK and EU ETSs. Following a May 2025 political declaration, the Council authorized the Commission to begin negotiations with the UK. If successful, this agreement would exempt UK-origin goods from CBAM charges under Article 2(5) of the Regulation, which excludes countries with ETSs linked to the EU's.

For companies operating across the UK-EU border, this agreement, if finalized, could remove a substantial compliance risk and create a level playing field similar to intra-EU trade. However, it remains to be seen how quickly and comprehensively such a linking agreement can be negotiated and implemented.

### Practical impact: What should companies do now?

Despite the remaining uncertainties, one thing is clear: CBAM is here to stay. Its twin objectives, i.e. climate protection and economic competitiveness, align with the EU's long-term policy priorities. As such, companies should assume full implementation in 2026 and act now to prepare.

Here are five key action items for businesses in scope:

- (1) Map your supply chain: Identify where CBAM-covered goods enter your EU operations and assess volumes against the new de minimis threshold.
- (2) Engage third-country suppliers: Establish processes to collect emissions data or consider whether using default values may be preferable.
- (3) Budget for certificate purchases: Although prices remain uncertain, companies should begin financial planning for certificate surrender obligations.
- (4) Monitor technical legislation: Pay close attention to forthcoming implementing and delegated acts, especially those concerning emission calculation and carbon price recognition.

- (5) Participate in consultations: Especially for companies dealing in downstream goods, this is a chance to shape the rules that may govern your future obligations.

### Conclusion: a mechanism in motion

CBAM represents a transformative shift in how the EU approaches climate policy at its borders. While its full

implementation is still in progress, companies cannot afford to wait for perfect clarity before taking action. Legal counsel and compliance teams should prepare for a regulation that is both complex and consequential. The burden of inaction is likely to be far greater than the cost of early compliance.

### About the authors



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