

The Future of CBAM: Global Impact and Evolution

The Carbon Border Adjustment Mechanism (CBAM) represents a transformative moment in the intersection of global trade, climate diplomacy, and carbon pricing. As the world's first large-scale carbon border tax transitions from its reporting phase to full financial implementation in 2026, CBAM is catalyzing unprecedented changes in international commerce and climate governance. Understanding CBAM's trajectory is essential for grasping the future of both climate policy and international trade.

Global Responses: A Shifting Landscape

Countries Adopting Similar Mechanisms

The United Kingdom will introduce its own CBAM from 2027, covering the same sectors as the EU's mechanism, while Norway is also preparing similar measures. In the United States, lawmakers have proposed a "Foreign Pollution Fee" based on the carbon intensity of imported goods, while Canada and Australia are in early development stages. This momentum signals that CBAM is not merely an isolated European experiment but the vanguard of a potential global shift in trade policy.

UK/Norway/USA/Canada/Australia

Research confirms that carbon leakage is a real issue, with estimates showing that when one country mitigates 100 tonnes of carbon dioxide, 13% to 25% of this effort is offset by emissions increases elsewhere. This reality has made border carbon adjustments increasingly attractive as a policy tool.

Emerging Economies Respond

Turkey is launching a national ETS pilot in 2025, aligned with EU rules to offset CBAM liabilities, while Indonesia is preparing a national ETS. Brazil passed legislation in May 2025 to establish a regulated carbon market, and Japan is developing its voluntary carbon trading scheme (GX-ETS). These developments underscore a critical dynamic: rather than passively accepting EU carbon charges, many countries are implementing domestic systems that allow them to retain carbon revenues while satisfying CBAM requirements.

Turkey/Indonesia/Brazil/Japan

Legal Challenges at the WTO

Russia initiated a formal WTO case against CBAM in May 2025, marking the first major legal challenge to the mechanism. India has warned that CBAM could be a deal-breaker in its ongoing free trade negotiations with the EU, while South Africa is also considering a formal WTO complaint. Russia's claims concern violations of the General Agreement on Tariffs and Trade and excessive administrative burdens on foreign producers.

The EU maintains that CBAM is WTO-compatible, as it is designed to be non-discriminatory and based on domestic carbon pricing. However, the WTO's dysfunctional appellate body means that any resolution could take years and face enforcement challenges.



CBAM's Impact on Global Emissions and Trade

The introduction of CBAM reverses carbon leakage effects, with **approximately 0.15 tonnes of CO2 saved in non-EU countries for every tonne saved within the EU** due to the rerouting of imports towards less emission-intensive sources. **This increases global emission reductions by 36% compared to a scenario without CBAM**—a remarkable achievement for a mechanism covering just 0.31% of global greenhouse gas emissions directly.

Countries with low-emission production and existing carbon pricing, such as Turkey, Chile, Mexico, and Canada, experience modest value-added gains in CBAM sectors. Conversely, countries like India, Tunisia, and South Africa, which rely on high-emitting exports, experience small declines. In 2025, EU customs data show a massive decline in high-emission imports, with exporters investing in cleaner technology—tangible evidence that CBAM is already altering production decisions before financial obligations have fully taken effect.

The Expansion Trajectory

Sectoral and Vertical Growth

The EU is considering horizontal expansion to new sectors such as glass, ceramics, chemicals, and plastics, with a legislative proposal expected in early 2026 and new products phased in from 2027. Essential inputs currently outside CBAM's scope—including scrap, coke, lime, alumina, and ferro-silicon—will likely be added by 2026 to ensure consistent carbon pricing across production stages.

The mechanism is also moving toward downstream products. To prevent circumvention, the EU plans to extend CBAM to simple downstream products primarily made of steel or aluminum. By 2030, CBAM is expected to cover almost all sectors included in the EU ETS, eventually capturing more than 50% of emissions in ETS-covered sectors. This aggressive timeline signals the EU's determination to make carbon pricing comprehensive across its economy and trade relationships.



The Global Carbon Pricing Revolution

Carbon pricing now covers around 28% of global emissions, mobilizing over USD100 billion for public budgets in 2024. According to the World Bank, there were 80 carbon pricing instruments in place in 2025. This proliferation is creating a patchwork of systems with varying levels of ambition, coverage, and price signals.

The pattern of multi-regional climate clubs is gradually taking shape. The climate club concept envisions groups of countries implementing compatible carbon pricing systems that recognize each other's mechanisms. **The WTO has stated its aim to advance an international carbon pricing system with the IMF, OECD, and UN, allowing for regional differentiation.** If 2024 emissions were priced at USD50 per ton of CO₂ equivalent, total annual revenue could hit USD2.6 trillion, representing about 2% of global GDP and far exceeding current climate finance flows.

The EU supports Canada's Global Carbon Pricing Challenge, which calls for **covering 60% of global emissions by 2030**—requiring a doubling of current coverage in just five years, an ambitious but potentially achievable goal given CBAM's catalytic effects.

CBAM and International Climate Policy

The Paris Agreement Tension

CBAM operates within a complex relationship with the Paris Agreement. Some countries criticize CBAM for being too non-discriminatory, as the Paris Agreement emphasizes 'common, but differentiated responsibilities,' meaning developed countries should assume greater responsibility. Brazil has repeatedly argued that CBAM disregards this principle, shifting costs from developed nations onto developing countries.

These critiques highlight a fundamental tension: CBAM applies uniform carbon pricing requirements regardless of development status. The EU counters that carbon leakage undermines global climate goals and that CBAM creates incentives for all countries to decarbonize.

Diplomatic Challenges and Opportunities

CBAM has prompted policy spillovers by encouraging governments to implement carbon pricing mechanisms, indicating that incentives for industrial decarbonization will strengthen worldwide. However, discontent among developing economies is affecting bilateral and multilateral discussions. China led criticism of carbon border mechanisms at the COP29 climate conference in November 2024.

The question of how CBAM revenues are allocated is crucial. If the EU does not show willingness to use CBAM revenues to support developing trade partners, there will be little enthusiasm in the developing world to embrace its climate ambitions.

Using these funds for clean technology transfer could transform CBAM from a trade tension source into a mechanism for global climate cooperation.

Predictions for Future Developments

Near-Term (2026-2028)

The immediate future will see CBAM moving from transitional reporting to full financial enforcement. **Importers will not be required to purchase CBAM certificates until 2027, even though imports will be subject to carbon pricing from 2026.** The Commission has proposed simplifications, including a de minimis threshold exemption of 50 tonnes mass, exempting around 90% of importers while keeping 99% of emissions in scope.

A full review of CBAM in 2025 will assess its potential extension to other ETS sectors, downstream goods, and indirect emissions, followed by a legislative proposal in early 2026. This review will be critical in determining CBAM's future trajectory.

Medium to Long-Term (2028-2050)

Within the next few years, carbon pricing could cover as much as 80% of global trade, with CBAM as the catalyst. The phasing out of free allowances under the EU ETS will accelerate, with rates increasing from 2.5% in 2026 to 100% by 2034. This gradual approach ensures domestic industries have time to adjust while maintaining environmental integrity.

By the 2030s, CBAM could be part of a broader architecture of interconnected carbon pricing systems. Research proposes scenarios where climate clubs impose carbon tariffs based on uniform minimum carbon prices. The ultimate question is whether CBAM evolves into a truly multilateral framework or remains primarily a European tool with imitators. The development of mutual recognition agreements for carbon pricing systems will be crucial.

Challenges and Strategic Implications

Measuring embedded emissions across complex global supply chains remains technically challenging. The expansion to more complex products will amplify these challenges, requiring sophisticated accounting methodologies across multiple supplier tiers. Although overall economic exposure to CBAM charges is small in most cases for developing countries, specific impacts can be significant—Ukraine faces potential losses of USD2.7 billion in investment and USD4.7 billion in export losses during 2026-2030.

CBAM is driving significant innovation in clean production technologies, creating clear market incentives for developing low-carbon alternatives. Companies pioneering cleaner production methods gain competitive advantages in the European market. EU importers are demanding transparency and environmental performance data, with companies having low-emission procedures ahead of the curve.

For businesses, the choice between paying carbon costs, investing in cleaner production, or restructuring supply chains will define competitive positioning for years. For policymakers, governments must navigate the complex intersection of trade policy, climate ambition, and diplomatic relations. The most strategic response may be implementing domestic carbon pricing systems, allowing countries to retain revenues domestically while positioning themselves as clean energy transition leaders.



Conclusion

CBAM represents far more than a carbon tariff—it is a fundamental reimagining of how international trade and climate policy intersect. As the mechanism transitions to full implementation in 2026 and expands coverage in subsequent years, its influence on global emissions, trade flows, and diplomatic relationships will intensify.

The future trajectory depends on several critical factors: WTO dispute resolution, the willingness of major economies to adopt similar mechanisms, the EU's approach to supporting developing countries, and the technical feasibility of expanding CBAM to complex products. What is clear is that CBAM has already catalyzed global action on carbon pricing, forcing countries and companies worldwide to confront the carbon intensity of production and trade.

The mechanism's long-term significance will be measured not by revenues generated or trade flows redirected, but by its contribution to global emissions reductions and its role in building a comprehensive international architecture for carbon pricing. If CBAM evolves from a unilateral European measure into a catalyst for multilateral climate cooperation, it could mark a turning point in humanity's response to climate change.

As we look toward 2030 and beyond, CBAM stands as both a promise and a challenge—a demonstration that climate policy and trade policy can no longer be separated, and a test of whether the international community can cooperate to price carbon in ways that are effective, equitable, and enduring. ■

Key Takeaway: CBAM's long-term significance extends far beyond European borders. As the world's first large-scale carbon border adjustment mechanism, it is reshaping global trade patterns, accelerating carbon pricing adoption worldwide, and testing the limits of unilateral climate action. By 2030, carbon pricing could cover 60% of global emissions, with CBAM serving as the catalyst. The mechanism's success will depend on balancing environmental ambition with diplomatic sensitivity, providing support for developing countries, and evolving toward multilateral cooperation. For businesses and policymakers alike, CBAM represents a fundamental restructuring of how carbon costs are integrated into the global economy—a transformation that will define international trade and climate policy for decades to come.

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