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Reform CBAM to secure Europe's competitiveness and avoid de-industrialisation

Executive Summary

The combination of CBAM (Carbon Border Adjustment Mechanism) and the phase-out of free allocation under the EU's Emissions Trading System (ETS), risks inflicting lasting damage on Europe's industrial competitiveness. As major users of CBAM goods (such as steel and aluminium), the industries represented by Orgalim will see their manufacturing costs soar, fundamentally undermining their ability to compete both on the EU market and on foreign export markets. In addition, CBAM compliance presents a challenging cost burden for downstream manufacturers as a result of the late publication of technical CBAM legislation for the definitive period, particularly concerning the verification of actual emissions.

The December 2025 CBAM legislative package falls short of providing appropriate solutions to secure the competitiveness of downstream industries, despite its intent to mitigate the negative impact of CBAM on downstream users of CBAM goods.

In order to safeguard the competitiveness of Europe's technology industries and avoid the risk of deindustrialisation, Orgalim calls for:

1. Making CBAM compliance feasible and non-punitive, including for complex downstream goods:

- The postponement of the deadline to submit the first annual CBAM declaration to 31 December 2027, to allow more time for companies to have actual emissions verified by accredited verifiers.
- The creation of a dedicated compensation mechanism for importers who made all reasonable efforts to use actual values but who were instead forced to report based on default values.
- A provision ensuring that no mark-up shall apply to default values when these are used to report embedded emissions in complex downstream goods.

2. The creation of compensation instruments to restore the export competitiveness of downstream industries:

- The creation of a dedicated instrument to compensate downstream users of CBAM goods for the loss in export competitiveness, established for an indefinite period of time.
- As a temporary solution, the eligibility criteria to receive compensation under the Temporary Decarbonisation Fund should be broadened to ensure downstream manufacturers can access compensation.

3. The development of an effective risk management mechanism to avert future harm by CBAM to downstream industries:

- Goods should be removed from the scope of CBAM via an effective safeguard clause in case severe harm is being caused to downstream users of those goods.

CBAM: a persisting threat to Europe's industrial competitiveness

As Europe's largest manufacturing sector with a strong export orientation, technology industries are major downstream users of raw materials that fall under the scope of CBAM, such as steel and aluminium. CBAM, together with the progressive phaseout of free allowances under the EU Emissions Trading System (ETS FA), has significantly **increased the cost of primary manufacturing inputs already – a trend that is set to accelerate dramatically in the years to come**. As a result, technology companies across Europe are facing a **major structural loss of competitiveness at home and abroad, while third country manufacturers** will enjoy the continued benefit of accessing raw materials at far more affordable prices.

In March 2025, Orgalim completed a [study](#) to quantify the combined impact of CBAM and the parallel phaseout of ETS FA on competitiveness, assessing the resulting risk of carbon leakage for downstream products. The results of the study are staggering:

- **Three quarters of the products surveyed will be at risk of carbon leakage by 2034**, when CBAM will be fully phased in.
- **Companies will experience increases in production costs of up to 48% in some cases**.
- On top of the price increase, our industries also face the burden of complying with **highly complex rules to calculate and report on embedded emissions** in imported CBAM goods.

In light of the above, Orgalim believes that **CBAM in its current form, combined with the phaseout of ETS FA, is a flawed measure that will shift carbon leakage risks downstream in the EU's value chains, leading to relocation and job losses. The increase in prices for both EU and imported raw materials is significantly weakening the competitive position of European technology companies. Furthermore, it will generate a considerable administrative burden that will penalise SMEs in particular. This will put hundreds of thousands of jobs at risk across Europe and deal a significant blow to the EU's attractiveness as an investment location.**

In December 2025, the European Commission published two new legislative proposals related to CBAM:

- A Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures¹ (hereinafter "Legislative Proposal on downstream extension and anti-circumvention")
- A Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the Temporary Decarbonisation Fund² (hereinafter "Legislative Proposal establishing the Temporary Decarbonisation Fund").

While these proposals were intended to mitigate some of the negative effects of CBAM for both CBAM goods producers and downstream industries **they largely fail to address the negative impact that CBAM and the phaseout of ETS FA will have on our industries**. This paper summarises our key concerns about the proposals and provides recommendations for urgent correction measures that are needed to prevent a fatal blow to the competitiveness of downstream industries.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0989>

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025PC0990>

Reducing the compliance burden during the CBAM definitive period

The beginning of the CBAM definitive period on 1 January 2026 brings new challenges for our industries.

First, Orgalim wishes to stress that the important technical information needed to calculate the impact of CBAM and make critical business decisions was only published late in December 2025, a few days before the beginning of the CBAM definitive period. The lack of realistic timeframes for companies to put in place appropriate strategies to deal with regulatory changes is highly damaging for our members.

As mentioned in our position paper on the CBAM transition period³, technology companies have largely **relied on default values** for the calculation of embedded emissions in imported CBAM goods, due to the huge difficulties in obtaining actual emissions data. We expect that this will continue to be the case during the definitive CBAM period. In addition, during the definitive period, **actual emissions will need to be verified by accredited verifiers**. This will bring **additional difficulties and costs for CBAM declarants**. Embedded emissions from precursors have to be included in the calculation of overall embedded emissions of CBAM goods. In practice, this requires third country suppliers to ensure full traceability of their supply chains and to make the related data accessible to accredited verifiers, which entails significant challenges. Even the first step in this process, i.e. identifying which production inputs may qualify as relevant precursors for CBAM purposes, is extremely burdensome. Suppliers need to identify the customs codes for all production inputs, which is difficult – especially when dealing with domestic supplies for which there is no obligation to use customs classifications.

Many suppliers will experience delays in engaging accredited verifiers, especially because the Delegated Act on Accreditation and Verification⁴ was only published in the EU Official Journal on 22 December 2025, days before the beginning of the CBAM definitive period. For this reason, companies currently face **huge uncertainty as to whether a large enough pool of accredited verifiers will be available in time for the first CBAM Declarations**, due by September 2027. If not enough verifiers are available, verification costs could easily rise substantially to unsustainable levels and many CBAM declarants will be left with the only option of using default values. It should be noted that technology companies typically set prices in advance for extended periods of time in long-term contracts with their customers. This means that even if a large enough pool of accredited verifiers becomes available by September 2027, all pricing decisions for 2026 and a large part of pricing decisions for 2027 would already have been taken based on default values.

For all the above reasons, Orgalim remains concerned that, in many cases, despite all reasonable efforts to obtain actual emissions data, technology companies across Europe will be forced to rely on default values. This will result in significant problems, as default values for the definitive period have been set **at extremely high levels that do not reflect the actual average emission intensities** of key countries that supply CBAM goods to the EU. Furthermore, **companies using default values will be penalised by the progressive application of a mark-up**, which will force them to artificially declare higher emissions – thereby incurring additional costs.

Finally, the published CBAM benchmarks under the compensation for free allocation appear misaligned with the current ETS benchmarks. We understand the Commission will soon publish revised ETS benchmarks for 2026-2030. It is important to maintain alignment in this space, as well as predicatability and certainty, which is currently lacking.

³ https://orgalim.eu/wp-content/uploads/Orgalim-recommendations-CBAM-transition-period_o.pdf

⁴ [Commission Delegated Regulation \(EU\) 2025/2551 of 20 November 2025 supplementing Regulation \(EU\) 2023/956 of the European Parliament and of the Council by specifying the conditions for granting accreditation to verifiers, for the control and oversight of accredited verifiers, for the withdrawal of accreditation and for mutual recognition and peer evaluation of accreditation bodies](#)

In light of the above, Orgalim wishes to make the following recommendations:

- The current deadline for submitting the first CBAM declaration (30 September 2027) should be **postponed to 31 December 2027**, to grant more time for importers who decide to rely on actual emissions to have them verified by accredited verifiers.
- A **compensation mechanism** should be put in place for importers who made all reasonable efforts to use actual values but were forced instead to report based on default values because of legitimate reasons – such as the unavailability of accredited verifiers.
- A **calculation tool** should be made available by the Commission to help importers estimate their CBAM costs based on default values. A similar tool has been provided by the French government⁵ and it would be important to avoid a situation where each Member State implements its own calculation tool, to ensure uniform guidance for companies at EU level.

An export solution that works for downstream industries

It should be noted that extending the scope of CBAM may only solve part of the issues created by CBAM and the phaseout of ETS FA. Some manufacturers of downstream products that are included under the scope of CBAM and are not exposed to global markets may see their competitiveness restored on the EU market. However, export-oriented downstream manufacturers will still face a **major loss in competitiveness when they export to third countries**, as they will have to compete with manufacturers of the same products who have access to raw materials and components at lower prices.

Considering that exports to third countries account for approximately **one third of our industries' revenues (€789 billion)**, Orgalim has repeatedly **stressed the need to implement an appropriate solution to restore and secure export competitiveness for our industries**.

In light of the above, it is clear that the approach taken by the Commission in the Legislative Proposal establishing the Temporary Decarbonisation Fund (TDF) not only fails to achieve this objective, but appears not even to acknowledge the problem. The proposal sets very narrow eligibility criteria that **restrict access to compensation exclusively to operators of ETS installations, i.e. producers of CBAM goods** such as steel and aluminium. Also, access to financial support under the fund is made conditional on deliverables that are mainly relevant to ETS industries, such as investments in low-emissions production processes. This means that the legislative proposal will leave the export competitiveness issue completely unaddressed for our industries, despite the fact that technology companies will bear disproportionate costs stemming from the implementation of CBAM and the phaseout of ETS FA.

Orgalim therefore calls for the establishment of a **separate instrument aimed at compensating Europe's technology industries for the loss in export competitiveness due to CBAM and the phaseout of ETS FA**. It is important to ensure the following:

- The instrument must be **adequately devised**, so as to fully compensate downstream industries for the loss in their export competitiveness.
- The instrument must be established for an **indefinite period of time**.

⁵ https://www.ecologie.gouv.fr/sites/default/files/documents/Calculatrice_redevance_MACF_v25_12_o.xlsx

- **Only manufacturers of downstream goods** that include CBAM goods as inputs should be eligible to receive compensation under the instrument.

As a temporary solution, Orgalim calls for the **eligibility criteria set out in Article 6 of the Legislative Proposal establishing the Temporary Decarbonisation Fund to be broadened**. It is essential to ensure that not only operators of ETS installations, but also manufacturers of downstream goods that are at risk of carbon leakage, are able to claim compensation under the fund.

An effective safeguard clause to prevent harm to downstream industries

Orgalim takes note of the Commission's proposed new Article 27(a) on "serious and unforeseen circumstances", in the Legislative Proposal on downstream extension and anti-circumvention. The Article:

- mandates the Commission to *"monitor the impact of CBAM on the Union internal market"*
- empowers the Commission to remove goods from the scope of CBAM by means of delegated acts, in cases where the inclusion of a good under the scope *"causes severe harm to the Union internal market due to serious and unforeseen circumstances related to the impact on the prices of goods"*.

Orgalim wishes to stress that the proposed wording of the Article is extremely vague and it is unclear which conditions could trigger the removal of a good from Annex I.

For this reason, clearer and stricter rules should be set for the application of the Article, to ensure it can work as an **effective safeguard clause, triggered only in exceptional situations in which severe harm is being caused to downstream industries**, while ensuring adequate protection for producers of CBAM goods.:

Orgalim therefore calls for the following changes to the proposed new Article 27(a):

- Require the Commission to **monitor the impact of CBAM specifically on downstream industries**, rather than generally on the Union market, and to also take into account the impact of the phaseout of ETS FA.
- Require the Commission to track the impact of CBAM and the phaseout of ETS FA on the average prices of CBAM goods, adjusting for any other relevant factors (e.g. inflation, supply/demand shocks).
- Set a **clear threshold in terms of average price increases of CBAM goods** (adjusting for inflation and any other relevant factors) that should trigger **an investigation into whether CBAM, in combination with ETS CO₂ pricing, is causing severe harm to users** of that good. In our view, such a threshold should be set at **8%, taking the year 2025 as a baseline**.
- During the investigation, the Commission shall **consult all relevant industry stakeholders within reasonable timeframes**, including both producers and users of the CBAM good in question. If the investigation concludes that severe harm is being caused to users of a certain good in the scope of CBAM, **the good shall be removed from the scope of CBAM** by means of delegated acts.
- In a case where a good is removed from Annex I, **appropriate carbon leakage protection shall be restored** for Union producers of that good, which should not result in adverse impacts on users of that good.

- In the case of producers of CBAM goods also covered by the EU ETS (e.g. steel and aluminium producers), such carbon leakage protection should consist of continued allocation of free ETS allowances.
- In the case of producers of downstream CBAM goods not covered by the EU ETS, carbon leakage protection could consist of tailored compensation mechanisms (e.g. refunding of CBAM and/or indirect ETS costs) to restore their domestic and international competitiveness, thereby avoiding relocations of value chains outside of the EU.
- The Commission shall **periodically review the 8% threshold and evaluate the need to increase it** in light of relevant developments, such as the progressive phase-in of CBAM and phase-out of free ETS allowances, the evolution of the price of EU ETS allowances, and the implementation of carbon pricing mechanisms in third countries. In such cases, the Commission shall be empowered to adopt **implementing acts** to proportionally increase the threshold.

Finally, Orgalim would welcome measures to facilitate the monitoring of the impact of CBAM and of the phaseout of ETS FA on EU prices of steel and aluminium, which are key production inputs for our industries covered by CBAM. We therefore believe that EU producers of steel and aluminium, as well as third country exporters of steel and aluminium to the EU, should be required to **disclose on all commercial invoices the cost of the EU domestic carbon pricing and/or the cost of CBAM as components of the final price of the CBAM goods they sell on the EU market.**

No mark-up on default values for importers of complex downstream goods

Since the beginning of the CBAM transitional phase in October 2023, Orgalim members have repeatedly confirmed that in the vast majority of cases **default values are the only option** for companies to calculate and report on embedded emissions in CBAM goods.

For this reason, Orgalim believes that, in principle, no mark-up should apply to default values, so as not to unfairly penalise companies for which the use of default values is *de facto* the only viable option in the vast majority of cases.

Given the unquestionable difficulties in obtaining reliable actual emissions data for basic CBAM goods, it is clear that in practice it will be **impossible for importers of complex downstream goods that have been included in the scope of CBAM to use actual emissions data**. This is rightfully acknowledged in Recital 44 of the Legislative Proposal on downstream extension and anti-circumvention. For this reason, pursuant to Article 6(c), the Commission may adopt "*a list of downstream goods for which, due to the complexity of the supply chain and without prejudice to the environmental integrity of the CBAM, no mark-up is to apply*".

In our view, the above provision should be strengthened and its implementation should not be left to secondary legislation. We therefore call for an amendment providing that for all the downstream goods that have been included in the scope of CBAM, **if importers choose to declare embedded emissions using default values, no mark-up is to apply to such values.**

Conclusion

CBAM, combined with the phaseout of ETS free allowances, poses a profound and increasing threat to the competitiveness of Europe's technology industries. Without urgent adjustments, ranging from measures to reduce compliance burdens in the definitive period to an effective solution to restore export competitiveness, European manufacturers risk structurally higher costs, weakened global positioning and significant carbon-leakage pressures. To preserve Europe's industrial base, protect jobs, and maintain the EU's attractiveness as an investment location, policymakers must act swiftly to redesign CBAM implementation so that it supports, rather than undermines, the competitiveness and resilience of downstream industries.

Orgalim represents Europe's technology industries, comprised of 770,000 innovative companies spanning the mechanical engineering, electrical engineering, electronics, ICT and metal technology branches. Together they represent the EU's largest manufacturing sector, generating annual turnover of over €2,750 billion, manufacturing one-third of all European exports and providing over 11 million direct jobs. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.

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