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EU Carbon Border Adjustment Mechanism (CBAM) Enters Definitive Phase

Overview

As of January 1, 2026, the European Union's Carbon Border Adjustment Mechanism ("CBAM") has officially entered its definitive phase following the conclusion of the transitional reporting period.

During the transitional phase, importers were primarily required to report embedded greenhouse gas emissions associated with imported goods. Under the definitive phase, however, importers will be required not only to report emissions but also to purchase and surrender CBAM certificates corresponding to the carbon emissions embedded in imported products.

Although the sale of CBAM certificates will commence on February 1, 2027, the emissions subject to the mechanism are measured based on imports made on or after January 1, 2026. As a result, exporters to the European Union should now view carbon emissions as a cost factor comparable to a customs duty that may directly affect pricing, competitiveness, and market access.

Background and Policy Objectives

CBAM forms a central component of the European Union's broader climate strategy under the "Fit for 55" package, which seeks to reduce greenhouse gas emissions by 55% from 1990 levels by 2030 and achieve climate neutrality by 2050.

The mechanism is intended to equalize carbon costs between EU producers, which are subject to the EU Emissions Trading System ("EU ETS"), and foreign producers exporting goods into the European market. It also seeks to address "carbon leakage," whereby production shifts to jurisdictions with less stringent environmental regulations, potentially increasing overall global emissions.

Key Changes Under the Definitive Phase

The transition from the reporting phase to the definitive phase introduces several significant compliance obligations.

Most importantly, importers must now purchase and surrender CBAM certificates corresponding to the embedded emissions of covered products. In addition, annual emissions reporting and third-party verification requirements become substantially more rigorous.

The current scope of CBAM continues to cover:

- Iron and steel;
- Aluminum;
- Fertilizers;
- Cement;
- Hydrogen; and
- Electricity.

However, the European Commission has proposed expanding the regime beginning in 2028 to include approximately 180 downstream products containing steel or aluminum.

Authorized CBAM Declarant Requirement

One of the most significant changes under the definitive phase is the introduction of the Authorized CBAM Declarant regime.

Unlike the transitional period, importers may no longer import covered goods into the European Union without authorization. Businesses wishing to continue importing CBAM-covered products must obtain Authorized Declarant status from the competent EU authorities.

Following amendments adopted in 2025, importers whose annual import volume does not exceed 50 metric tons are generally exempt from CBAM obligations. However, this exemption does not apply to electricity or hydrogen imports, which remain subject to CBAM regardless of import volume.

Companies that conduct import customs clearance within the EU should therefore promptly assess whether they qualify for the exemption and, where necessary, obtain Authorized Declarant status.

Emissions Reporting and Verification

Under the definitive phase, importers must submit annual CBAM declarations through the CBAM Registry by September

30 of the year following importation.

Emissions may be calculated using either actual emissions data or default values. However, default values are intentionally conservative and are generally based on relatively high emissions benchmarks. Consequently, reliance on default values may result in higher CBAM liabilities than calculations based on actual emissions.

Companies capable of measuring and documenting actual emissions may therefore achieve significantly more favorable outcomes.

Importantly, where actual emissions data are used, annual third-party verification becomes mandatory. Verification must be conducted by a verification body accredited by an EU-recognized national accreditation authority, and the verification report must be submitted through the CBAM Registry.

CBAM Certificate Obligations

Beginning February 1, 2027, Authorized Declarants will be required to purchase CBAM certificates through the EU's centralized platform.

Certificate prices will generally be linked to the weekly average market price of EU ETS allowances. For the initial 2026 compliance year, however, special transitional pricing rules will apply based on quarterly average EU ETS prices.

Importers must also maintain a minimum inventory of CBAM certificates throughout the year. Following the 2025 amendments, the required holding level has been reduced from 80% to 50% of cumulative embedded emissions associated with imports made since the beginning of the calendar year.

A notable feature of the system is the recognition of carbon prices already paid in the country of production. To the extent Korean producers have incurred carbon costs under Korea’s emissions trading regime, corresponding adjustments may be available to reduce CBAM liabilities and mitigate double carbon pricing.

Expansion of Scope Beginning in 2028

On December 17, 2025, the European Commission proposed legislation that would significantly expand the scope of CBAM beginning in 2028.

The proposal would extend CBAM coverage to approximately 180 downstream products containing steel or aluminum, substantially increasing the number of affected industries. Products identified in the proposal include:

- Trucks and certain commercial vehicles;
- Engines and industrial machinery;

- Construction and material-handling equipment;
- Motors, transformers, and selected electrical equipment;
- Household appliances, including refrigerators, washing machines, and dryers; and
- Numerous categories of industrial and manufactured products incorporating steel or aluminum components.

Of particular importance is the fact that CBAM obligations may apply selectively to specific components or materials within a product rather than to an entire product category. As a result, companies must evaluate not only tariff classifications but also the underlying material composition of their products.

In June 2026, the Council of the EU proposed expanding CBAM by adding approximately 200 steel-intensive items and metal scrap, effectively closing carbon-cost evasion loopholes. Additionally, the amendment strengthens the European Commission's enforcement powers, enabling direct action against high-risk companies that submit false or deceptive reports.

Practical Implications

The transition to the definitive phase marks a fundamental shift in the nature of CBAM compliance. Carbon emissions are no longer merely a reporting metric; they have become a direct economic cost that may affect pricing, margins, and competitiveness in the European market.

For Korean exporters, compliance efforts should extend beyond regulatory reporting and encompass broader operational and commercial planning. Companies should establish internal systems capable of accurately measuring product-level emissions, maintaining reliable emissions data, and supporting independent verification processes. Where feasible, actual emissions calculations should be used in place of default values to minimize potential CBAM costs.

The introduction of certificate-purchase obligations also necessitates closer coordination between exporters and EU importers. Companies should proactively address issues such as emissions-data sharing, verification responsibilities, and the allocation of CBAM-related costs within commercial agreements.

Looking ahead, the proposed expansion of CBAM to downstream products suggests that the mechanism will increasingly affect a wide range of industries beyond traditional carbon-intensive sectors. Businesses should therefore conduct comprehensive risk assessments based not only on product classifications but also on supply-chain structures, material composition, and embedded emissions profiles.

More broadly, CBAM should be viewed as part of a long-term structural shift in global trade regulation. Companies that integrate emissions management, supply-chain decarbonization, sustainable sourcing, and climate-related compliance into their broader business strategy will likely be better positioned to manage regulatory risks and maintain competitiveness in international markets.

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