African Future Policies Hub

PROPOSED CBAM AMENDMENTS

Implications for African Exporters

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Introduction

Over the past year, African exporters and their European Union (EU) counterparts have been diligently compiling the information needed for EU importers to comply with the bloc's Carbon Border Adjustment Mechanism (CBAM). When the EU Commission proposed amendments to the mechanism in late February, many became concerned that they would need to reassess its impact on their operations and review how information was exchanged and reported.

So far, the changes to scope and payment date look like they will not have a material impact, either positive or negative, on African exporters. But the devil is in the details. While some of the more subtle changes to the default values bring some welcome simplifications and help manufacturers that lack the necessary data, they are likely to negatively affect exporters who may be required by the EU counterparts to use these values for administrative simplicity.

What is the CBAM

The CBAM aims to level the playing field for EU manufacturers of carbon-intensive goods, who pay a carbon price under the bloc's Emissions Trading Scheme (EU-ETS), by imposing what is effectively a border tariff on similar imports. Ostensibly, it is also geared at fostering low carbon development in other countries, as the costs associated with CBAM compliance will likely be partially or fully passed on to exporters.

The CBAM is currently in its transitional phase, which is due to end in December 2025, during which period EU importers of CBAM-covered goods are obliged to report their embedded emissions. It applies to a limited range of goods and some precursors, initially including aluminium, iron and steel, cement, fertilisers, electricity, hydrogen and some downstream products ("covered products"). Next year, once the CBAM enters its definitive phase, importers will start incurring financial liabilities and will need to purchase and surrender CBAM certificates, equivalent to the carbon embedded in their imports, with the price of certificates linked to an average EU ETS carbon price. The scope of covered products may also expand.

A study conducted by the African Climate Foundation and the London School of Economics and Political Science in 2023 forecasted that, among a range of models, the CBAM could reduce Africa's GDP by 0.91% (equivalent to a fall of $25 billion at 2021 levels of GDP).[1] Its impact as a share of GDP would also be higher for African countries, more than any other region in the world, both because the EU is an important export market for Africa, and because of the relative carbon intensity of some African commodities.

Proposed amendments

These measures primarily aim to ease the compliance burden on EU importers and reduce costs by introducing delays and modifying the scope. It argued that excessive regulation and bureaucracy had become burdensome for the region's economy and was undermining productivity.

Several EU manufacturers, however, remained supportive of the measure, particularly because of the competitive protections it afforded. As a compromise, on 26 February 2025, the European Commission put forward a Clean Industrial Deal in the form of an Omnibus "simplification package" for many of its sustainability regulations, including proposed amendments to the CBAM regulations.

The thrust of these measures is to ease the compliance burden on EU importers and reduce the associated cost of the measure on its economy by introducing some delays and by changing the scope. The EU Commission remains adamant, however, that it will not affect the environmental integrity of the measure. The proposed simplification will, according to the EU, not only save money and administrative effort but also better place it to expand the CBAM's scope to other downstream products in coming years.

The proposal gives a nod to the associated co-benefits that affected exporters would enjoy. It is not, however, geared towards easing the financial impacts or compliance burden on exporting nations. The main change is to postpone the timing of when importers' payment obligations kick in. This is coupled with a change to the volume of products covered by the CBAM through the introduction of a bigger threshold so that only imports of over 50 cumulative tonnes/year are included. More stringent penalties for non-compliance balance these concessions.

The changes will likely have some small to medium positive benefits to exporting nations, given that a chunk of exports previously covered by the CBAM will no longer be so. However, the Commission states that the same volumes of embedded emissions, some 99% that are covered in the existing regulation, will remain covered, and, as such, the financial projections of impact on Africa, based on the assumption of existing scope, will likely hold true.

There are also proposed amendments to how embedded emissions are calculated and how to account for carbon prices paid in exporting states that will likely influence African exports. We address each of these below.

Scope and Exemptions

A key aspect of the CBAM amendment proposal is the introduction of a de minimis threshold, exempting occasional or smaller importers—typically small to medium-sized enterprises (SMEs) in the EU. Based on information gleaned from the transitional period, approximately 80% of importers in the EU brought in products representing 0.1% of emissions. Only 10% of importers accounted for more than 99% of the emissions targeted by the CBAM. Accordingly, the threshold for which the CBAM applies was adjusted to target these larger importers and exempt smaller importers.

Previously, there was a €150 import value threshold below which the CBAM did not apply, which is linked to existing exemptions in EU customs regulations. It is planned to do away with this customs exemption, and in its place, the CBAM will have a volumetric threshold below which it will not apply. This threshold was set at 50 tonnes/product for each importer, assessed cumulatively over a year. Importers who fall below this will only need to monitor their volumes to ensure they don't exceed, which is data already provided in customs declarations.

There is a risk that EU importers could try to avoid this threshold by restructuring their operations and splitting imports across companies, but this was thought to be unlikely given the associated financial costs and the application of more stringent anti-abuse provisions.

Notably, the threshold and related exemption only applies to EU importers, not SMEs in Africa or other exporting states. As alluded to earlier, African exporters of products to SMEs in Europe will likely also benefit from this proposed change, however, given that the overall tonnages into the

region are largely unaffected by it (the same 99% of emissions are still in the CBAM), these benefits are likely to be minimal and the wider economic impacts on exporting states are anticipated to be similar if not the same. For example, analysts in South Africa doubt the proposed scope change would alter the CBAM's impact on aluminium exports in the country, and the same could be said for Mozambique, whose aluminium exports are also highly vulnerable.

Payment Timing

African countries have advocated for either a full postponement of the CBAM or an exemption for exports from African states or Least Developed Countries (LDCs) in the short to medium term.

The proposed amendment provides neither of these. Instead, it only defers the payment obligation for importers to slightly later. The proposed changes will still see the CBAM coming into full operation on 1 January 2026, but the timing for surrendering CBAM certificates is proposed to be delayed until 31 August 2027. As such, the costs associated with imports with embedded emissions in 2026 still arise for African exporters.

Default values

What are default values?

Beyond the headlines are some smaller refinements that will likely impact African exporters, but the implications of these are hidden in the detail. One of these is the proposed changes to how the amount of emissions embedded within a product is determined. Under the current transitional reporting regime, declarants must indicate all the CBAM goods they have imported during that quarter and demonstrate the embedded GHG emissions in each product. Because embedded emissions are not readily quantifiable, sustainability reporting methods and the CBAM rely on a calculation that delivers the best approximation, using either new data or data from existing sources.

If data comes from a country in which the product was produced, it will be more accurate, and if it comes directly from an emitting installation, it will be even more accurate. But this information is not always easily available or available at all. This has led to the development of "default values", estimation methods that work on averages for how the same product might be produced elsewhere in the world (or in similar facilities within the same country), which are used in place of actual installation data.

For example, under the current transitional CBAM, there is a default value for aluminium cans that is based on the average carbon intensity (or greenness) of electricity worldwide and how much electricity is used to make a can, using a weighted global average. If an African aluminium can manufacturing facility does not have the GHG-related data it needs to report to EU importers under the CBAM, the importers can rely on this default value to estimate how much carbon is embedded in the imported cans, based on worldwide averages of GHGs embedded in aluminium cans during production.

Default values seem like a useful simplification, as they remove the administrative burden of collating and checking installation data, such as location and the amount of fuel and electricity consumed during production. This poses a high administrative burden on producers and importers to collate. Stakeholders in the EU called on the Commission to move towards default values developed on a

country-specific basis, exclusively because it was so burdensome. But often default values can result in higher values of embedded emissions than might be the case. Using the example above, they tend to overestimate the carbon in the aluminium can. This would then penalise exporters of carbon-intensive goods in African countries– it all depends on how the default value is calculated. Tinkering with the approach for default values is something the proposed amendment seeks to do.

Offering a choice of which data to use

Currently, CBAM declarations must justify why they are not using actual data from installations and instead relying on default values. The proposal seeks to change this so that declarants (importers) can freely choose between actual data or default values.

What is the impact?

The positive of this is that African exporters that lack this data can continue to export with the confidence that their counterparts can simply rely on default values. As previously reported, "exporters from African countries… do not yet have carbon markets and so are unlikely to have well-established systems in place for monitoring and measuring carbon content in production."[2]

However, there is a significant trade-off for African exporters because the default values typically estimate a higher embedded carbon value and thus, a higher associated CBAM cost. The EU is well aware of this risk in its proposal but prompts that it will only incentivise exporting countries to get more accurate data in the longer term.

Changes to how default values are set

Another change is that, at present, default values are supposed to be set as the average emission intensity for each exporting country, with a markup applied. However, if an exporting country does not have what the EU deems to be "reliable" data (as is likely to be the case for many African exporting states), then the current regulations provide that the emissions intensity of the ten worst-performing EU installations be used for that product. For example, if Egypt's GHG data is deemed unreliable, the ten dirtiest EU steel mills will be used as a reference value, and their exports will be treated as if manufactured in a highly carbon-intensive EU steel mill. The proposal to amend the CBAM seeks to change this.

The reason is that there isn't enough information for the EU to do these sums. Even the EU admits it does not have the data for some of the processes and goods covered by the CBAM because its EU ETS covers a smaller set of goods than the CBAM does. Without this data it cannot then determine what the ten worst performers in the EU would be. It also claims that some of its dirtiest producers are still more efficient than in other countries, so using them as a default is unfair.

Accordingly their view is that it would be "simpler" to not use EU installations as the reference point but rather the average of the ten highest default values globally. I.e. to average out the emissions embedded in the ten most carbon-intensive or "dirtiest" producing countries that have reliable data, and assume that as a default value for countries that do not have reliable data.

How does this impact African exporters?

Changes to default value calculations are likely to negatively impact exporters, but the extent of the impact will differ from facility to facility. For example, if Egypt does not have reliable data for its steel exports, the default values for its products will be treated as if manufactured in the ten dirtiest /most carbon-intensive countries across

the world (and not the ten dirtiest facilities in the EU). Any advantage Egypt might have had in being treated as if it was an EU manufacturer - which manufacturers also receive financial and other support to decarbonise and operate at different and likely improved levels of energy efficiency - would fall away.

Carbon Pricing Deductions

To encourage carbon pricing in exporting countries and avoid double charging, the EU included a provision within the CBAM that allowed importers to deduct a carbon price that was paid by an exporter domestically. For example a carbon tax paid by a producer in South Africa could be deducted to reduce the associated CBAM liability of the product.

The approach however placed a burden on exporters and importers as these parties were required to provide evidence about the "effective payment" of a carbon price in the country of origin, showing that the price was paid on the emissions embedded in the exported product, and then having this evidence certified by a person independent from the importer and authorities in the exporting country. The EU was then supposed to set rules around the steps for claiming this deduction before the end of 2025.

Choice of default carbon price or actual carbon price paid

To simplify the process the Commission suggested that it should rather develop a set of default carbon prices for each country, representing the carbon price paid on average over a year. This would also consider any rebate or compensation available in the exporting country. Where insufficient information about carbon pricing is available in a particular country, the Commission would set "more conservative default values", i.e. assume that the carbon price is lower, to incentivise the provision of reliable data. Once set, importers could then choose to either use certified evidence of the price paid locally based on actual data or rely on the default value put forward by the Commission.

Impact on African Exporters?

The carbon price default value may certainly simplify reporting for both importers and exporters and eliminate the process of evidence gathering and approval. They would be a particularly attractive administrative saving measure and is in line with EU stakeholder calls for the use of more default values generally.

However, it may not always stand to benefit African exporters, particularly where there are asymmetrical balances of power between importers and exporters, and the latter are simply expected to absorb all CBAM costs and have little say on whether default values are used or not. If an EU importer elects to use a default value instead of evidence of a carbon price paid because it is easier, this may increase the associated cost for African exporters.

Moreover, default values in a carbon price context are vulnerable to the same challenges that beset them with embedded emissions. They might over or underestimate and not fully account for nuance in each country or operator in each sector. If an exporter is forced to use default values, they may lose out on the full benefit the rebate could have given them.

Conclusion

While the CBAM revisions introduce some welcome simplifications, most—if not all—are designed to benefit EU importers rather than their exporting counterparts. Changes to the default values could benefit both parties by simplifying the administrative processes, but this comes at a cost to exporters who may be forced by their EU counterparts to use default values that are more punitive than before (in the case of embedded emissions) or which do not confer the same full benefit (in the case of carbon pricing).

End Notes

[1] The African Climate Foundation and the Firoz Lalji Institute for Africa at the London School of Economics Implications for African Countries of a Carbon Border Adjustment Mechanism in the EU (2023).

[2] *ibid*

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