African Future Policies Hub

ARTICLE 6 AND THE CBAM

Can and should African Article 6 Credits be CBAM eligible?

August 2025

www.africanfuturepolicieshub.org

Acknowledgments

This report was prepared by Climate Legal for the African Future Policies Hub (AFPH).

We acknowledge and are grateful for the insights of the stakeholders who kindly shared their views on the topic. Any errors remain our own.

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Executive Summary

The impact of the European Union's (EU's) Carbon Border Adjustment Mechanism (CBAM) on Africa is anticipated to be significant. Left with little flexibility measures to mitigate its impact, African countries are constrained to implement a carbon price or Emissions Trading Scheme (ETS) to reduce their exposure, in circumstances where it may neither be nationally appropriate or feasible, nor align with government's intended climate policy.

One option to reduce its impact on exporters, would be to allow them to deduct payments made by them for credits generated under Article 6 of the Paris Agreement from their CBAM liability, as a form of effective payment of a carbon price in the country of origin. This potential has been increasingly raised by various commentators as a meaningful option to reduce the burden borne by exporting states, stimulate local carbon markets and retain related revenues within their borders. This analysis discusses the potential merits and challenges of such an approach, highlighting that through careful design concerns around greenwashing, leakage and equity can be addressed. Not only is this in the interest of African exporters, but it ensures the health and viability of the Article 6 mechanism, which has historically received strong backing from the EU.

This report explores this issue by discussing the existing CBAM architecture, and how it currently accounts for carbon prices paid in exporting states, focusing on what does and does not qualify under the existing regime. We then turn to the anticipated impact of the CBAM on African countries and general concerns with its application. We then discuss the nomenclature of carbon pricing, what Article 6 intends to govern, and the relationship between the two instruments. In support of our argument that Article 6 credits should be permitted under the CBAM, we then address the current state of African carbon pricing instruments and carbon markets.

Our analysis then clarifies why Article 6 instruments are currently ineligible under the CBAM, before turning to a discussion of whether they should be so in future. We argue that carbon credits represent a visible price coupled with an effective payment and associated cost incurred by exporters, and are sufficiently clear and certain to work within the existing CBAM accounting framework. The inclusion of Article 6 credits within the CBAM is strongly motivated on equity grounds, in light of the relative cost of the CBAM to African governments, the lack of revenue recycling measures, historic and current emissions profiles, and lack of an equitable distribution of costs.

Importantly, it enables host governments to shore up the revenue from carbon credit projects, and provides them with more policy freedom to choose between the design of their domestic carbon pricing system, if any, and the mix of measures they intend to utilise. This aligns with the bottom up and self-determined nature of the Paris Agreement. It would also avoid the CBAM undermining hybrid carbon tax and carbon markets that some have already developed, as illustrated in the South African example discussed in this report. We also argue

that it will also more likely support international cooperation on climate change, particularly since the EU has long promoted the use of the Article 6 mechanism.

Moreover, while including credits may influence the incentive for countries to develop a further domestic carbon price, it is unlikely that this will be a determinative factor. There are a host of considerations which could prompt a country to adopt a carbon price, including the national emissions profile and sources, maturity of revenue collection system and related administrative mechanism, and regressive impact risks, that will play a strongly influential role in whether and how to price carbon in African countries. Our review also suggests there is already considerable appetite within African countries to build their carbon markets, with equivocal sentiment on whether to adopt a carbon tax or ETS. Permitting the use of international credits within the CBAM would also boost demand for Article 6 credits globally, and particularly so if limits are placed by the EU on the geographic origin of credits. It may also boost the historically low average sale value that African credits command and make projects on the continent more viable. Limitations on the relevant standards from which credits could be generated could adequately address concerns on integrity, as could fine tuning measures to avoid leakage, which we propose in detail in this report.

Whether CBAM policy will evolve to include carbon credits, is however, unlikely. While the EU is entertaining the use of international credits to meet its 2040 target, it is unlikely to permit them in other contexts such as the EU ETS or the CBAM. Moving the needle on this issue would require considerable debate, and motivation on equity and legal grounds to advance the arguments set out above. In this context, we conclude our analysis with a series of recommendations on for EU and African countries to consider in advance of the EU's assessment of the CBAM's impact on developing countries in the latter half of 2025.

List of Abbreviations

Article 6.4 ERs	Emission Reduction Credits generated under Article 6.4. of the Paris Agreement Crediting Mechanism
CBAM	Carbon Border Adjustment Mechanism
CBDR RC	Common but Differentiated Responsibilities and Respective Capabilities
CDM	Clean Development Mechanism
CERs	Certified Emission Reductions, a type of carbon credit issued under the CDM
ETS	Emissions Trading Scheme
EU	European Union
GDP	Gross Domestic Product
GHG	Greenhouse Gases
IISD	International Institute for Sustainable Development
ITMO	Internationally Transferred Mitigation Outcome
JI	Joint Implementation under the Kyoto Protocol
LDC	Least Developed Countries
MRV	Monitoring, Reporting and Verification
NDC	Nationally Determined Contribution
OECD	Organisation for Economic Cooperation and Development
PACM	Paris Agreement Crediting Mechanism
VCS	Verified Carbon Standard

1 Introduction

Legislated as part of the EU's Green Deal, the CBAM was brought into operation on 1 October 2023, when it commenced its transitional phase. Due to be fully implemented in January 2026, it seeks to impose a form of border tariff on carbon intensive goods imported into the EU.

Its purpose is to avoid carbon leakage and level the playing field for EU producers subject to the EU's Emissions Trading Scheme (EU ETS). It has also been presented by the EU as a mechanism to facilitate decarbonisation in exporting countries by encouraging them to develop carbon pricing instruments, such as a carbon tax or ETS. [1]

Market reaction to the CBAM has been mixed. Some have responded by enhancing existing or establishing new carbon pricing schemes, while others have opposed it.[2] For example, the United Kingdom and Norway will introduce a CBAM in 2027. Canada's new Prime Minister, Mark Carney has expressed interest in developing one, Australia is reviewing the feasibility of introducing one and Taiwan intends to publish draft CBAM regulations later this year. Many developing countries have yet to develop a legislated response to the CBAM. Most African countries lack domestic carbon pricing systems. Where they do exist, they are still in their infancy, and the relative carbon price cannot compete with the rate of the CBAM.

Several developing countries, particularly those within the BRICS group, such as Brazil, India, and South Africa, have strongly opposed it, arguing it unfairly impacts developing countries, and is contrary to international trade and environmental law. They argue that the measure disproportionately impacts low- and middle-income countries, who are often reliant on carbon intensive exports, and may lack the financial resources to decarbonize within the timeframes of the CBAM's implementation.

The lack of carbon pricing systems in Africa prevents them from safeguarding carbon price revenues that flow to the EU under the CBAM, with developing countries arguing that they are being forced to pay for Europe's decarbonisation efforts. In this way the CBAM could exacerbate global inequalities, and is argued to be contrary to the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC).

Its full impact on the wide breadth of African exports is not yet well understood, although studies are underway. Research by the African Climate Foundation and the Firoz Lalji Institute for Africa has found that, under one model, it may reduce continental GDP by -0.91% (equivalent to a $25-billion reduction in GDP at 2021 levels), and that the impact on African countries would be larger, as a share of their gross domestic product (GDP), than on all other regions.[3] At present there is no exemption

1 This narrative has been part of the EU's broader promotion of the measure (See https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanismen) and is also captured in Recital 10 of the Preamble of the CBAM Regulation.

2 IETA International Reaction to the EU Carbon Border Adjustment Mechanism. April 2024

3 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).

or special dispensation for African or Least Developed Countries (LDCs).

To mitigate its impact, some African countries and their exporters have been considering the full range of options available to them, such as introducing a domestic carbon pricing scheme in the form of a carbon tax or ETS, as well as strengthening and refining systems for monitoring, reporting and verification of greenhouse gas (GHG) emissions data. None of these methods are simple. African countries have unique emissions profiles, particularly because of their forestry, agriculture and land use sectors, that are notoriously difficult to estimate GHG emissions from and, in turn, price.[4] They also face other challenges in implementing pricing schemes, varying between immature revenue collection schemes, a diffuse tax base, a relative lack of the necessary administrative infrastructure for implementation, and a greater risk of regressive impacts on poorer populations.[5]

In this context, it is understandable that the debate around whether to allow international carbon credits, including those under Article 6 of the Paris Agreement under the CBAM, has intensified. In its current form the CBAM only permits importers to deduct the price of a carbon tax or ETS paid in the country of origin from the CBAM liability. The EU has recently announced that it intends to allow for the use of foreign credits to meet its 2040 mitigation target, signalling a change in how it has previously treated foreign credits. This creates an impression that the EU might also be willing to entertain the use of international credits in some of its other mitigation mechanisms such as the EU ETS and the CBAM. Some commentators have also been calling for the use of international carbon credits within border carbon adjustment mechanisms as a means to address some of their impacts on exporting states.[6]

Enabling the use of international carbon credits, including Article 6 credits, under the CBAM would theoretically enable exporters to generate much needed climate finance and shore-up carbon pricing revenue domestically, instead of it being paid towards the CBAM.[7] It would potentially spur demand for offsets in African and other developing markets, and help to shepherd demand for African credits in a context where they still command a relatively lower market price compared to other countries. It could also promote greater integration between compliance and voluntary carbon credit markets.[8] On the other hand, it could introduce even further complexities and unintended consequences within an already highly complex framework, is likely to encounter strong opposition within the EU Council, Commission and Parliament, and it has raised concerns about integrity and leakage that need to be addressed.

4 A Gilder and O Rumble "Appropriate Carbon Pricing in Least Developing and Emerging Economies (Dialogue Outcomes Report)" Konrad Adenauer Stiftung, 18 May 2022.

5 Ibid.

6 Ely Sandler and Daniel P Schrag Leveraging Border Carbon Adjustments for Climate Finance: Matching Carbon Tax Assets with Carbon Tax Liabilities Harvard Kennedy School Belfer Centre for Science and International Affairs 2 December 2024, and Chris Aylett et al Guidelines for Border Carbon Adjustments International Institute for Sustainable Development (July 2025).

7 See for example L Hernandez and J Fernando International carbon credits and EU climate targets Think Tank European Parliament 5 June 2025, Ely Sandler and Daniel P Schrag (supra).

8 IETA Evolution of Global Response to EU CBAM June 2025

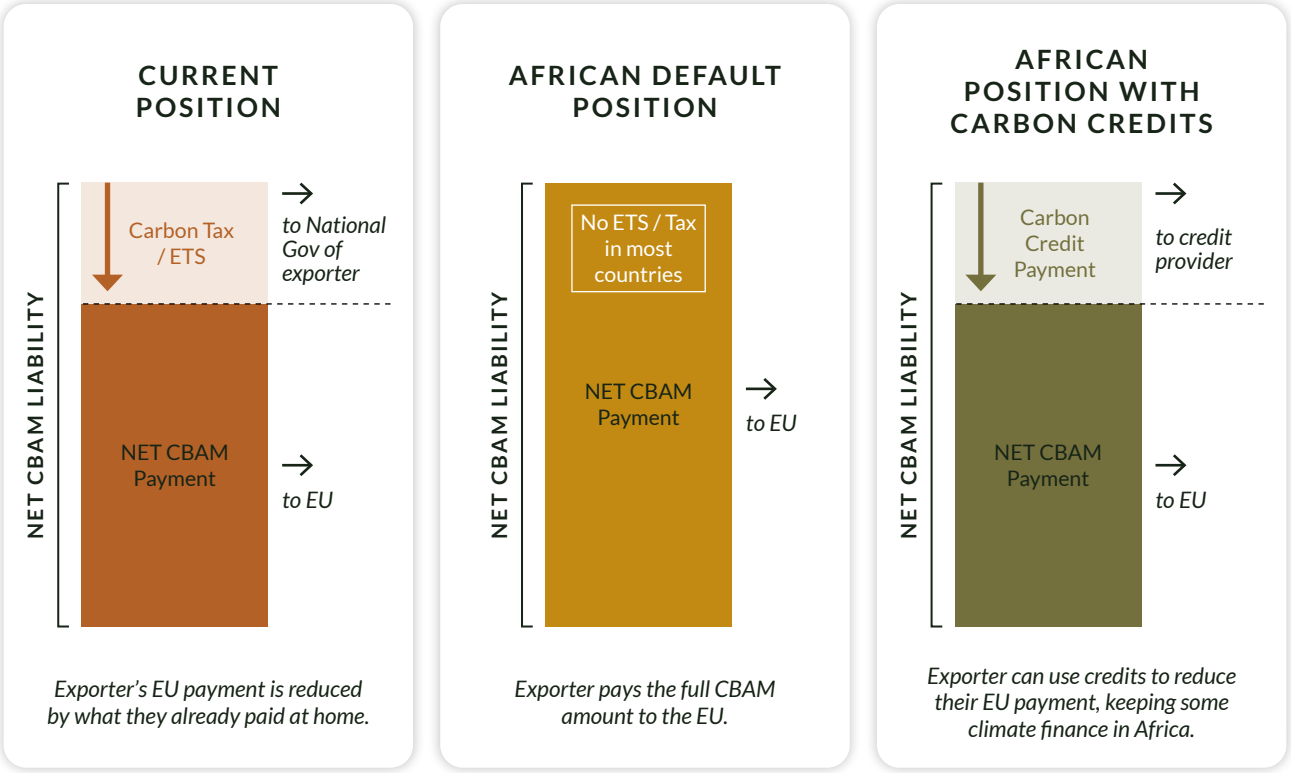

Figure 1: Allowing carbon credits under CBAM could redirect climate finance to African communities and projects — but it also raises risks of added complexity and political resistance. This figure assumes the full CBAM cost will be passed from Importers to Exporters.

The direction the EU follows on this issue will be important for the future development of not only its CBAM but also for the proposed CBAM mechanisms elsewhere that may follow the EU's lead. As IETA have observed, the rise of multiple, uncoordinated border carbon adjustment systems may lead to overlapping compliance obligations, inconsistent methodologies, and potential conflicts in trade relationships, especially in sectors with complex and cross-border supply chains.[9] Accordingly, it is not only in the interest for African countries to settle this issue within the context of the EU's CBAM, but also to set a principled stance on the point in respect of similar mechanisms elsewhere.

This report explores this issue by discussing the existing CBAM architecture, and how it currently accounts for carbon prices paid in exporting states, focusing on what does and does not qualify under the current regime. We then turn to the anticipated impact of the CBAM on African countries and general concerns with its application. We discuss the nomenclature of carbon pricing, what Article 6 intends to govern, and the relationship between the two instruments.

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9 Ibid.

2 The CBAM

CBAM overarching design

The CBAM seeks to level the playing field for EU manufacturers of carbon intensive goods who pay a carbon price under the bloc's ETS by imposing what is effectively a border tariff on carbon intensive goods imported into the EU.

The intended effect is for the carbon price of imports to be equivalent to the carbon price that domestic producers pay. The reason for this is to avoid "carbon leakage" where emissions reductions in the EU are offset by increases in emissions elsewhere. In the case of carbon leakage, domestic producers are at a competitive disadvantage, and may elect to relocate to countries or regions that have a lesser carbon price.

Ostensibly, the CBAM is also geared at fostering low carbon development in other countries in support of the EU's wider climate goals. This is because the costs associated with CBAM compliance that are paid by EU importers, will likely be partially or fully passed-on by to exporters in other countries, which, in theory, would incentivise them to pursue lower carbon production and also incentivise their governments to implement carbon pricing regimes.

The CBAM's transitional phase, ends in December 2025, during which period EU importers of CBAM covered goods are obliged to only report their embedded emissions.[10] During this phase it applies to a limited range of goods and some precursors, including aluminium, iron and steel, cement, fertilizers, electricity, hydrogen and some downstream 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 the weekly average auction price of allowances in the EU ETS.

Between 2026 and 2034, the free allowances currently given to EU emitters under the EU ETS will also be phased out so that EU manufacturers will pay an increased carbon price. This is intended to ensure a level playing field between markets. The scope of covered products may also expand in the definitive phase.

Emissions of imports must be calculated using EU approved monitoring methods. However, this information is not readily available for many countries, and as such the regime also allows the use of default values to calculate emissions.

What will become of the revenue generated by the CBAM is contentious. Initially European policymakers proposed several measures during the design phase to lessen the CBAM's impact on developing countries, for example directing a portion of revenues to a dedicated fund as well as exemptions.[11] However the proposals

10 Embedded emissions are defined as the emissions that occur in the process of production of the goods but not physically incorporated in the goods, i.e. it covers scope 1 and 2 emissions. See European Union Regulation 2023/956,

11 Ruiz, M.A.G., 2023. The Achilles heel of border carbon adjustments: unintended effects on developing countries, in: Taxation and the Green Growth Challenge. Edward Elgar Publishing, pp. 69–83.

were ultimately not included in the final law due to concerns about weakening the competitive balance for EU industries, the risk of carbon leakage, and resistance to increasing international development funding.[12] Instead, the EU has recently proposed that revenues generated by the CBAM be used to compensate EU exporters who are at risk of increased costs and carbon leakage as a result of planned phaseout of EU ETS free allowances.[13] A formal proposal in this regard is expected by the end of 2025.

An additional proposed amendment to the CBAM was also published by the EU Commission this year (CBAM Amendment),[14] which seeks to reduce the compliance burden on EU importers. The main change is 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 liable. This is coupled with a change to postpone the timing of when importers' payment obligations kick in, making them later in the financial year. These concessions are balanced by more stringent penalties for non-compliance. The proposed amendments also introduce the concept of a "default" carbon price paid in exporting states, as discussed below.[15]

The EU Commission is still to define several crucial elements of the CBAM for its definitive phase, such as the rules for deducting domestic carbon prices, and how free allowances will be phased out under the EU ETS.

Deducting a carbon price

Under its current design, if the country of export has a carbon price, for example a carbon tax or an ETS, the amount of CBAM certificates that must be surrendered can be reduced. In other words, the cost of the CBAM levied on a good can be reduced if it can be shown that its manufacturers have already paid some form of national carbon price during its generation.

To demonstrate compliance, the EU importer must retain documentation that shows that the embedded emissions in the imported goods were subject to an "effective payment" of a carbon price in their country of origin, have evidence of actual payment, and evidence of any applicable rebates or other compensation. This must also be certified by an independent person in the country of origin. A relatively challenging and laborious process for developing country exporters who must source this information and who may not have systems to monitor or record it.

One of recent proposed amendments to the CBAM, includes a change in how to account for carbon prices paid in exporting states. The draft CBAM Amendment proposes to enable importers rely on either the paper based route set out above, or to use a set of default carbon prices for each country, equivalent to the carbon price paid on average over a year. The exact

12 Sandler and Schrag (above note 7).

13 As the third countries within those export markets do not yet have equivalent carbon pricing systems. See the Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee on the Regions on Delivering the Clean Industrial Deal I, 2 July 2025.

14 The proposed amendments are available here.

15 At present, the Council of the EU and European Parliament have a provisional agreement on the amendment, but it still requires final endorsement by each of these bodies, expected by September 2025. See European Council Carbon border adjustment mechanism (CBAM): Council and Parliament strike a deal on its simplification 18 June 2025

design has not yet been clarified but in practice it would entail an importer simply referring to a published numeric value to calculate the domestic carbon price paid, instead of having the actual payments made. Again, these default values would also take into account any rebate or compensation available in the exporting country.16 As is usually the case with default values, they are more practical to use, but can often penalise exporters by underestimating actual values or by adding a premium. Both options have drawbacks, and ideally to avoid penalising exporters any default carbon price values for African countries should be set at a value that does not penalise them for not yet having a carbon price. Whether this will be the case under the CBAM will be clearer once the Regulations for carbon prices are published.

What counts as a carbon price under the CBAM?

Whether it be a default value or demonstration of actual price paid, Article 9(1) of the CBAM Regulations[17] provides that importers can only deduct a "carbon price… effectively paid in the country of origin."[18]

It does not define what "effectively paid" means. The Regulations do, however, define "carbon price" as:

"The monetary amount paid in a third country under a carbon emissions reduction scheme in the form of a tax, levy or fee or in the form of emission allowances under a greenhouse gas emissions trading system, calculated on greenhouse gases covered by such a measure, and released during the production of goods."[19]

The above seems to suggest that to count as a carbon price:

- there must have been a monetary amount paid to an entity in the country of origin,
- that the payment is made is pursuant to a "carbon emissions reduction scheme."
  - a carbon emissions reduction scheme must either be in the form of:
    - a tax
    - a levy, or
    - a "fee" taking the form of an allowance under an ETS.
- there must also be a direct relationship between the GHGs which are subject to the carbon price payment and the GHGs which are subject to the CBAM.

16 While seemingly easier, default values have their own hidden challenges, as they are typically designed to be more conservative than relying on actual data, and so an exporter would likely be disadvantaged if default values and not actual values are used.

17 Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism (CBAM Regulations).

18 Article 9(1) of the CBAM Regulations. Explanatory note 46 provides: An authorised CBAM declarant should be allowed to claim a reduction in the number of CBAM certificates to be surrendered corresponding to the carbon price already effectively paid in the country of origin for the declared embedded emissions. Explanatory note 57 also refers to any carbon price "effectively paid abroad". Article 9(1) provides "An authorised CBAM declarant may claim in the CBAM declaration a reduction in the number of CBAM certificates to be surrendered in order to take into account the carbon price paid in the country of origin for the declared embedded emissions. The reduction may be claimed only if the carbon price has been effectively paid in the country of origin. In such a case, any rebate or other form of compensation available in that country that would have resulted in a reduction of that carbon price shall be taken into account.

19 Article 3

As Marcu et al point out,[20] this definition, along with the legislative history of the CBAM Regulation, including amendments proposed by the European institutions in the Trilogue process that would have changed the language to "explicit carbon pricing", indicates that the regulators intended to narrow the scope to limit it to carbon pricing systems that impose a direct and revealed carbon price on foreign emitters. The reason for this, they argue, is to limit the types of climate policy efforts deemed worthy under the regime, justified by the fact that the Regulation requires climate policies to be quantified, i.e. translated into a monetary value, so that they can be netted against a financial compliance obligation under the CBAM.

While the CBAM is still in its transitional reporting phase, an interim set of regulations was published to guide what must be reported on.[21] While these regulations cease to have relevance in 2026 during the definitive phase, they offer some guidance as to how "carbon prices" are being considered under the CBAM, pending the finalisation of the relevant implementing acts. Article 7 of these regulations requires declarants to publish a set of minimum information on carbon prices, including the type of price paid, the amount due and, the "legislative act" which provides for any rebate paid, indicating that the carbon price must be mandated through an Act of parliament or similar legal instrument.[22]

Going forward, the EU intends to review the CBAM's functioning during its transitional phase before it definitively enters into force. Included within this will be a series of studies, such as an impact analysis and further economic modelling, for example on the impact of the CBAM on LDCs, as well as a study on carbon prices paid in third countries.

The carbon price study commenced in September 2024, and is focused on carbon taxes and ETS schemes in third countries. It intends to propose a methodology for converting the price paid into a share of CBAM certificates, propose possible approaches on how to certify a carbon price paid. The result of this work is intended to inform the development of the implementing act on carbon prices paid.

20 Andrei Marcu et al Border Carbon Adjustments in the EU- Part IV ERSCT 2023

21 Commission Implementing Regulation (EU) 2023/1773 of 17 August 2023

22 Declarants must report on the type of product; the type of carbon price and the country where it's due; the form or rebate or other form of compensation that would have resulted in a reduction of that carbon price; the amount of the carbon price due, a description of the carbon pricing instrument and possible compensation mechanisms; an indication of the legal act providing for the carbon price rebate, or other forms of relevant compensation, including a copy of the legal act; the quantity of embedded direct or indirect emissions covered by any rebate or other form of compensation, including free allocations, if applicable.

Impact on African countries and critiques of the mechanism

While the CBAM may be driving carbon pricing in some economies, it is likely to have a significant and persistent negative economic impacts on developing countries, and African countries more specifically.

It has been criticized for allowing its most significant burdens to be borne by countries which are the least equipped to cope with the ensuing costs. [23] The full impact of the CBAM on the wide breadth of African exports is not yet well understood although studies are underway, however early assessments by the European Commission predicted that the CBAM may reduce exports from African countries by between €5.6 - €6 billion in 2030, to €3.9bn.[24] Research by the African Climate Foundation and the Firoz Lalji Institute for Africa has found that, under one model, it may reduce the continent's GDP by -0.91% (equivalent to a $25-billion reduction in GDP at 2021 levels), and that the impact on African countries would be larger, as a share of their GDP, than on all other regions.[25]

Xiaobei, Fan and Jun suggest that, with a CBAM price of $75/ton (at the time of writing it was approximately €72.15/ton)[26], Sub-Saharan African exports to the EU could fall by -8.9% for chemicals; -0.5% for aluminium/non-ferrous metals; -18.8% for iron and steel; and -19.9% for cement/non-metallic metals by 2030.[27] Another analysis found that Mozambique, Zimbabwe and Cameroon are three of the most exposed countries, with Mozambique being the most impacted as almost 20% of its exports are aluminium to the EU. Zimbabwe's vulnerability is mostly because of its iron and steel exports.[28]

While many emerging economies countries have accelerated carbon pricing efforts since the publication of the CBAM with seventeen of the G20 countries already having or planning an ETS,[29] their uptake still remains low in African countries, as discussed in section 5 below. The absence of such systems means that not only will importers and, in turn, exporters pay a higher CBAM fee, but that the host country is unable to retain and thus benefit from that income nationally. This further exacerbates the fiscal constraint already faced by many African countries, who carry high levels of external debt, and with affordable and accessible climate finance on the decline.

But it not simply the lack of pricing systems that presents a risk. The CBAM's design and

23 Corvino, F., 2023. The Compound Injustice of the EU Carbon Border Adjustment Mechanism (CBAM). Ethics, Policy & Environment 1–20.

24 European Commission Proposal for a Regulation of the European Parliament and of the Council Establishing a carbon border adjustment mechanism, COM/2021/564 final (2021)

25 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).

26 See https://tradingeconomics.com/commodity/carbon

27 Their analysis was based on a carbon price on direct emissions only. See He Xiaobei, Zhai Fan and Ma Jun, The Global Impact of a Carbon Border Adjustment Mechanism: A Quantitative Assessment (The Task Force on Climate, Development and the International Monetary Fund, 2022) https://www.bu.edu/gdp/files/2022/03/TF-WP-001-FIN.pdf.

28 Magacho, G., Espagne, E. and Godin, A. Impacts of CBAM on EU trade partners: consequences for developing countries (2022) AFD Research Papers, Issue 238.

29 Brazil, India, and Türkiye have accelerated efforts, and China's national ETS is moving towards an absolute cap on emissions. IETA Evolution of Global Response to EU CBAM June 2025

assumptions on how easy it is to price carbon, are also challenging. African countries have different emissions profiles to many developed ones ,and a population that is significantly more vulnerable to regressive impacts, when they arise[30]. African emissions tend to be linked primarily to land use and agriculture, which are notoriously difficult to estimate GHG emissions from and, in turn, tax. As Ankel-Peters et al, point out, only a fraction of the emissions from the continent (excluding South Africa) is taxable:

"A carbon tax can be easily levied on formalized fuels such as petrol, coal and gas, which are used in transport, electricity generation and industry. The majority of [SubSaharan Africa's] current emissions, though, [comes] from deforestation and land-use change as well as agriculture, that is, mostly livestock."[31]

Informal firewood and charcoal collection and use contributes. Deforestation and land use are mainly due to smallholder farming and domestic demand, or in the case of peatlands-oil exploration. A carbon tax does not easily mitigate these sorts of emissions.

African countries also face other challenges. At present most countries lack the industrial scale needed to operate an ETS (which requires a minimum number of emitters of scale to trade allowances), they have immature revenue collection schemes, and a diffuse tax base, and many energy systems are state owned or controlled.[32] There is also a relative lack of the necessary administrative infrastructure for implementation, with developing nations still developing the technical and financial resources needed to establish carbon pricing mechanisms.[33]

Carbon pricing can also have regressive impacts on a region that hosts the majority of the world's ultra-poor populations. While in theory a carbon tax on energy is paid by the wealthiest 25%, in Sub-Saharan Africa, even those within that bracket could not be considered "better off.[34] Populations in that bracket may struggle to pay a carbon tax on fuels used for domestic purposes. Cash transfer schemes and other measures to provide relief come at a high administrative cost that African countries are not always well equipped to provide. [35] There are also insufficient studies to assess the distributional impacts of carbon pricing in Africa.[36]

That is not to say that carbon pricing's benefits (increased government revenue, environmental and health advantages), cannot benefit African countries, but that the approach should not be uniformly applied and that each country's circumstances should be considered individually. In particular, whether or not a country should

30 Jörg Ankel-Peters, Gunther Bensch, Ashwini Dabadge, Anicet Munyehirwe, Julian Rose, Maximiliane Sievert, Emmanuel Nshakira-Rukundo & Jann Lay "Tax carbon cautiously for sub-Saharan Africa" Nature Climate Change 13 December 2024 and A Gilder and O Rumble "Appropriate Carbon Pricing in Least Developing and Emerging Economies (Dialogue Outcomes Report)" Konrad Adenauer Stiftung, 18 May 2022.

31 Ibid.

32 A Gilder and O Rumble "Appropriate Carbon Pricing in Least Developing and Emerging Economies (Dialogue Outcomes Report)" Konrad Adenauer Stiftung, 18 May 2022

33 Carattini, S., 2022. Political challenges of introducing environmental tax reforms in developing countries. World Bank.

34 Ankel Peters. They highlight that in 2019, approximately 93% lived below the US$6.85 per day poverty line.

35 Ankel Peters (above).

36 Govinda R. Timilsina and Samuel Sebsibie "Distributional Effects of Carbon Tax in Ethiopia: A Computable General Equilibrium Analysis" World Bank Policy Research Working Paper 10476, 2023

adopt a tax, ETS or some other approach, should be reflective of the country's administrative and capacity constraints, the nature and extent of the national emissions profile and emitters, its revenue collection system and ability to implement relief mechanism, its capacity for sequestration and other variables.[37] This varies significantly within African countries.

To offer a meaningful opportunity to reduce CBAM liability, African countries need to introduce a carbon price that is equivalent in real terms to the EU's carbon price. However, African countries are unlikely to be able to introduce a carbon price at a comparative rate. As it currently stands, the price of CBAM certificates is already far in excess of the prevailing carbon prices, in exporting states, leading researchers to argue that the idea of convergence of carbon pricing systems and related prices is remote.[38]

Even if countries wanted to have a carbon price on par with the EU, it would take time to phase into a new carbon pricing instrument. Experience suggests[39] that the introduction of carbon pricing mechanisms like an ETS, cannot begin with full coverage without offering significant allowances (effectively discounts on the carbon price). An effective carbon price of a new tax or ETS in Africa would take time to design and then likely to start off low, leaving exporters significantly CBAM exposed in the early years.

The CBAM also imposes a host of administrative and other costs on exporting states, particularly with gathering data to report emissions Many African countries do not have this type of detailed information available, particularly small to medium sized exporters. While revisions to the CBAM introduce the option of using default values to fill this information gap, the formulation of these calculations may penalise exporters that do not have actual data.[40]

The CBAM has also come under fire on equity grounds. In the context of the Just Transition, many developing countries argue that developed countries should take the lead on carbon pricing with developing ones being granted a much longer phase in period. They should also factor in historical emissions to distribute costs more equitably.[41]

Based on its current structure and revenue design, it has also led to criticism that the CBAM requires African (and other developing) states to fund the EU's decarbonisation efforts. Moreover, the CBAM is being applied alongside a host of other related measures initiated by the EU that are likely to have an adverse effect upon African nations, including the EU Deforestation Regulation, the EU Methane Regulations, and the inclusion of the shipping sector within its EU-ETS. The recent US-EU framework agreement on fair trade in terms of which the EU committed to providing flexibilities to the US in the implementation of

37 A Gilder and O Rumble "Appropriate Carbon Pricing in Least Developing and Emerging Economies (Dialogue Outcomes Report)" Konrad Adenauer Stiftung, 18 May 2022

38 Magacho, G., Espagne, E. and Godin, A. Impacts of CBAM on EU trade partners: consequences for developing countries (2022) AFD Research Papers, Issue 238.

39 Ibid.

40 See African Future Policies Hub Proposed CBAM Amendments: Implications for African Exporters 14 March 2025

41 Bednarek, J., 2023. Is the EU Realizing An Externally Just Green Transition? An Analysis of the Carbon Border Adjustment Mechanism from the Perspective of the Common but Differentiated Responsibilities Principle. An Analysis of the Carbon Border Adjustment Mechanism from the Perspective of the Common but Differentiated Responsibilities Principle (May 1, 2023).

the CBAM, also lends credence to the argument that the CBAM is a protectionist trade and not an environmental measure. Moreover, the assumption of an equitable playing field rests on pricing parity, but ignores the fact that many EU industrial operations have benefitted from subsidies, incentives and other support, in addition to ETS allowances, over the decades, while many in Africa have not. Equally, nominal crediting fails to reflect differences in real world transaction and abatement costs that vary across countries.[42] Tied to this is the argument that it prioritises carbon pricing over alternative climate policy approaches and could be perceived as an attempt to apply EU policy extraterritorially.

While recent CBAM proposed amendments have sought to reduce the overall scope of its application, and certainly reduce the reporting and compliance burden for both importers and exporters, it is unlikely to reduce the overall GDP and economic impact on countries. This is because the same volumes of embedded emissions, some 99% that are covered in the existing Regulation, will remain covered under the amended version.[43] There is also still no exemption or special dispensation for Africa or LDCs, nor is there any commitment to recycle all revenues to impacted states.[44] Indeed, as indicated above, the EU intends to channel some of the CBAM's revenue to its own exporters. Moreover, the recent EU budget for the 2028 to 2034 period, relies on the use of 75% of CBAM revenues, amounting to EUR 1.4 billion annually, on average during that period. This resource will be one of five new "own resources" that are needed to address "growing demands in key areas."[45] This suggests that the generation of CBAM revenues for the EU are an important driver of the measure.

In this context it is understandable that impacted countries and exporters are looking to alternative means to mitigate the impact of the CDM, including the use of Article 6. Before discussing how, we canvas what Article 6 is intended to govern and its operation.

42 See Andrei Marcu Michale Mehling, Aaron Crosby and Sara Svensson "Methods for Crediting Carbon Prices under the CBAM-Border Carbon Adjustments in the EU - Part IV" ERSCT 2023

43 See African Future Policies Hub Proposed CBAM Amendments: Implications for African Exporters 14 March 2025

44 Ibid

45 EU Commission Europe's Budget: Own Resources, July 2024

3 Article 6 of the Paris Agreement

Article 6 regulates carbon markets under the Paris Agreement. It creates a market mechanisms for countries to participate in and to cooperate with each other to achieve their Nationally Determined Contributions under the Paris Agreement (NDCs) and reduce their emissions. These market mechanisms are set out in Article 6.2. and 6.4.

Article 6.2 enables countries to cooperate together to achieve their NDCs, through the trade in credits, known as Internationally Transferred Mitigation Outcomes (ITMOs).

Using this mechanism, countries can agree to transfer ITMOs between them and one of them can count them towards their NDC or other climate goals. For example, Switzerland purchases ITMOs from a clean cookstove carbon offset project in Ghana, and will use these ITMOs to meet its NDC target.[46] Article 6.4 establishes a carbon credit standard regulated by the UN, as a successor to the Kyoto Protocol's Clean Development Mechanism (CDM). The mechanism is known as the Paris Agreement Crediting Mechanism (PACM). It a market-based instrument that public and private entities can use voluntarily to generate credits called Article 6.4 Emission Reductions (A6.4 ERs).

The PACM is still in the development phase, and it is anticipated that the first credits from this mechanism will be issued in 2025 or 2026. Anecdotally, some believe that these credits may have a higher market value as they have the potential to be of a higher quality and have more transparency associated with them, based on the Paris Agreement rules for these credits.

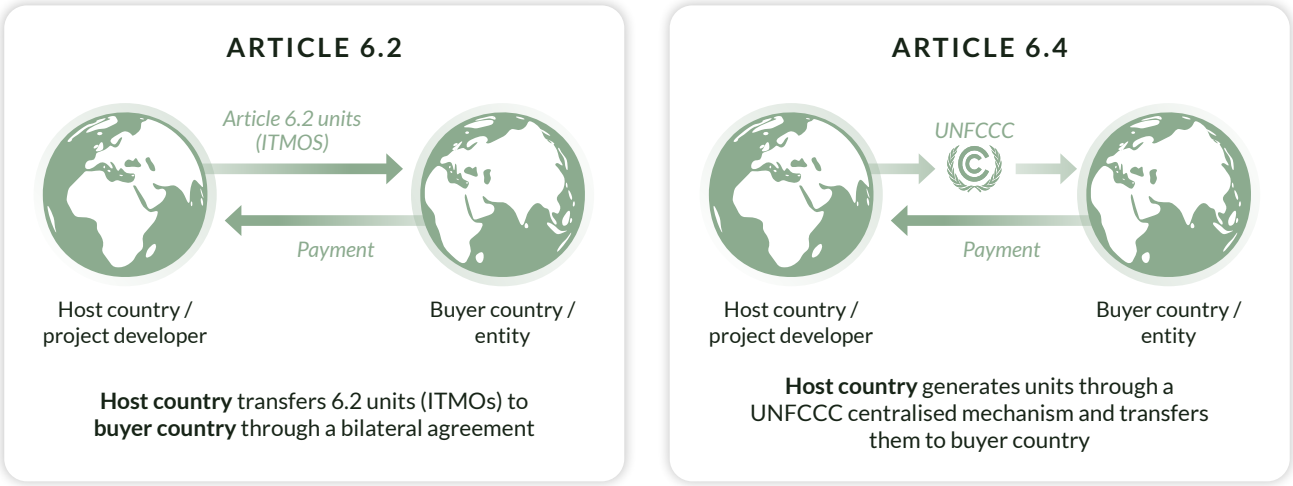

Figure 2: Comparison of Article 6.2 and 6.4 mechanisms under the Paris Agreement.

46 Credits traded as ITMOs can come from a variety of sources including credits issued by independent standards such as the Verified Carbon Standard (VCS) and the Gold Standard, or from regulated markets standards such as the Paris Agreement Crediting Mechanism (PACM)

4 Defining Carbon Pricing and Carbon Markets

Carbon pricing has achieved growing prominence with emerging consensus on its critical role as one of a suite of mitigation mechanisms required for the successful transition to a low-carbon and climate resilient global economy. In particular, carbon taxes and ETSs are generally regarded as standard or default carbon pricing instruments with the Organisation for Economic Cooperation and Development (OECD) referring to them as the "building blocks" of any climate policy package.[47]

Long touted for the co-benefits, carbon pricing has been hailed as a means to not only generate fiscal revenue for public investment and climate action, but also create new industries and jobs, boost low-carbon investment, improve air quality, and enhance energy security.[48]

Carbon taxes place a regulated price typically on industrial carbon emissions, often in the form of a fossil fuel tax, with market forces being left to determine the level of emissions reductions achieved, driven by the pricing signal. Under an ETS, governments usually adopt either a cap-and-trade approach or a baseline-and-credit approach. For cap and trade approaches, the state sets a cap or limit on emissions for a particular period and issues allowances that collectively make up the cap. These are then auctioned or allocated. Under a baseline and credit approach, baselines are set for emitters.

Those which have emissions above their baseline must surrender credits to make up their emissions. Those that emit below the bassline on the other hand receive credits which can be sold to other emitters.

Both carbon taxes and ETSs are treated by the World Bank in their annual State and Trends of Carbon Pricing reports as "explicit" forms of carbon pricing, namely forms of pricing that are "enacted by a government mandate and impose a price based on carbon content."[49] This is contrasted with so called "implicit" forms of carbon pricing, where a policy can indirectly derive a carbon price, calculated as the equivalent monetary value per tonne of carbon associated with a given policy instrument.[50] Examples of an implicit price include performance and efficiency standards, for example buildings and appliances regulatory standards, or regulations that mandate the use of specific low- or zero-carbon technologies.

For many years the World Bank has included "crediting mechanisms" or carbon credit systems, both mandatory (Article 6 and CDM) and voluntary credits as examples of explicit or

47 OECD Improving Economic Efficiency and Climate Mitigation Outcomes through International Co-ordination on Carbon Pricing – Environment Working Paper No. 147 May 2019 at 8, available at: www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/WKP(2019)6&docLanguage=En.

48 Partnership for Market Readiness. Benefits of Carbon Pricing (Forthcoming). Washington, D.C.: World Bank Group.

49 World Bank State and Trends of Carbon Pricing, 2021.

50 Ibid

direct carbon pricing.[51] This is because the price signal for carbon credits is explicitly/directly linked to the emissions associated with the activity generating the credit.

Carbon Markets and carbon credits, do, however, differ in many fundamental respects to carbon taxes and ETSs. Broadly, carbon markets include global market for carbon credits, including the Article 6 market discussed above and the voluntary market. It is typically project or programme related. By comparison, carbon pricing, is a national economy wide instrument that puts a price on carbon usually requiring legislation for implementation. In general, although there are exceptions,[52] an ETS or carbon tax, operates as a financial disincentive geared to change the behaviour of emitters or those that consume their products.

By comparison, carbon markets are designed to have an incentive effect, geared at attracting and foster investment within domestic carbon offset projects that mitigate or reduce GHG emissions, particularly in low income countries.

A landscape that was once a dense forest and bushes has now transformed into an integrated steel plant in Manhize. Photo by Dinson Iron & Steel Company Zimbabwe (Disco). Source: https://x.com/Disco_Zimbabwe/status/1764900809660039278/photo/4

51 Ibid.

52 For instance, the baseline and credit ETS incentivizes emitters to introduce mitigation measures to generate tradable credits

5 The State of African Carbon Markets and Carbon Pricing

Interest in the carbon markets is at an all-time high after having been relatively low in Africa following a credit price slump in the 2010s. Capitalising on this, many countries are in the process of developing bespoke carbon market regulations and frameworks often including provisions to operationalise Article 6.

For example, Ghana, Kenya, Tanzania, Zambia and Zimbabwe have all developed carbon market regulations containing provisions that establish a Designated National Entity to approve PACM projects, national registries, and processes regulating the transfer of ITMOs.[53] Other countries like Senegal have developed a national strategy for trading carbon credits under Article 6, including a budgeted medium-term roadmap for establishing the infrastructure to trade credits internationally. South Africa has published a draft Carbon Markets Framework. Similarly, Mozambique formed the Inter-ministerial Taskforce on Carbon Markets, which is developing the country's carbon market regulations.

The drive to foster regulation and enhance policy certainty is reflective of an appetite to attract more investment in carbon offset projects in the region, looking to grow the current 16% global market share. Historically, African countries did not significantly benefit from the CDM, and the region is looking to overcome legacy challenges, such as a lack of policy certainty, perceptions of investment risk, high upfront and implementation costs, as well as capacity and methodological constraints.[54] Reflective of this, African governments were quick to express a desire to participate within Article 6 mechanisms in their NDCs, with very few expressing an interest in carbon taxes or ETSs in the previous round.[55] Their intention is primarily to generate credits and sell them within the global market.[56]

Building on this the African Carbon Markets Initiative, has launched a drive to scale the market 19 fold by 2030, with a view to having 300 MtCO2e of African credits retired annually by 2030, generating US$6 billion in revenue, and 30 million jobs.[57] To do so, they motivate that African governments must address not only the challenges that beset the CDM and continue to constrain the voluntary market, but also address concerns regarding the integrity of offset projects in the region. In the past two years a number of African REDD+[58] and

53 See Ghana's Environmental Protection Act 2025 (Act 1124), Zambia's Green Economy and Climate Change Act 2024, Zimbabwe's Carbon Trading (General) Regulations 48 of 2025; Tanzania's Environmental Management (Control and Management of Carbon Trading) Regulations, 2022 under Government Notice No. 636 of 2022, and Kenya's Climate Change (Carbon Markets) Regulations, 2024.

54 Climate Legal and Konrad-Adenauer-Stiftung e. V. Carbon Pricing in Sub Saharan Africa. 2020

55 Ibid.

56 Ibid.

57 African Carbon Markets Initiative 2022 Roadmap

58 REDD+ projects are projects that reduce emissions from deforestation and forest degradation.

cookstove carbon projects were subject to widespread criticism and scrutiny, with concerns over their additionality, equity, monitoring, and potential greenwashing being flagged.[59] Together REDD+ and cookstove carbon projects comprise almost 90% of African credit supply, and so the implications are significant. This also partially explains the drive to develop national carbon market regulations that oversee the integrity of local projects, as discussed above, although the approach between states has been uneven.[60]Equally, African governments are eager to see credits from the continent generated at a higher value. While the region produces more credits than the global average from categories that attract high prices, anecdotal evidence indicates that, for the same project type, African credits may receive lower prices than the global average.[61]

Trades, particularly those under Article 6.2 of the Paris Agreement are seen as being instrumental to driving credit demand, with the potential to ensure that African projects command higher prices.

According to ACMI, 21 agreements for the trade of credits under Article 6.2. have been signed in the past year, increasing the total agreements to 64, a rise of 47%.[62] One third of bilateral Article 6.2. agreements signed in the past year have involved African countries, with Ghana taking a leading role in these initiatives, and Senegal and Zambia also making substantial progress.[63]

By comparison, the uptake of carbon pricing in Africa has been more muted. This is well illustrated in the World Bank's recent analysis of new and emerging carbon pricing systems across the globe, in Figure 3 below. While South Africa's carbon tax is now fairly mature, and about to enter its second phase, it remains the only country on the continent to have an operational carbon tax (or ETS).

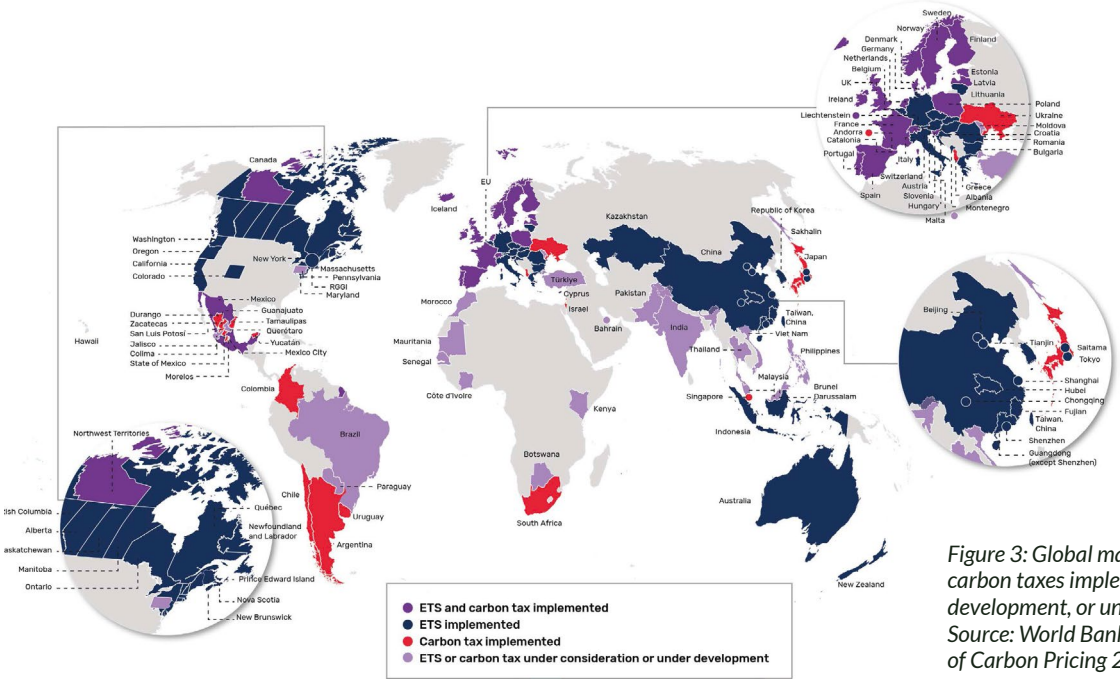

Figure 3: Global map of ETS and carbon taxes implemented, under development, or under consideration, Source: World Bank State and Trends of Carbon Pricing 2025

59 ACMI (above note 55)

60 For example, previous draft versions of Zimbabwe's carbon market regulations intensified investor speculation that governments would command a high market share of project revenue, highlighting political risk.

61 ACMI (above note 55) The ACMI reports that African carbon credits average around US$3 for renewable energy carbon credits and up to $13 for credits from REDD+ projects.

62 ACMI report (above note 55)

63 ACMI report (above note 55)

Sentiment on carbon pricing appears mixed, although it is hard to discern a real appetite amongst the wealth of foreign support for African countries to roll out carbon pricing systems. In 2023, Kenyan President William Ruto promoted the implementation of carbon taxes at the African Climate Summit, as a means to access new financial resources and catalyse renewable energy investment.

Acting on this, the Kenyan government recently published proposed amendments to the Excise Duty Act, which would empower revenue authorities to collect a "carbon excise duty" on all fossil fuel products entering or being refined in the country. It will have particular application to imported fuels, as well as domestic fuel refineries, and is anticipated to have a modest tax rate of likely around Sh2 per litre due to increase gradually over a five-year period.

The other country which has taken modest steps is Nigeria, which stated it intended to develop a tax back in 2023, following provisions in the Climate Change Act 2021 that provide for a carbon tax framework to be developed. The Nigeria Revenue Service and National Council on Climate Change are reportedly developing a carbon tax framework. The Democratic Republic of the Congo included a reference a future interministerial decree that sets the rate and collection procedures for a Carbon Tax in its Ordinance 23/007 of 2023, but has yet to take further legislative steps.

South Africa	Carbon tax under the Carbon Tax Act 2019
Kenya	Proposed amendments to the Excise Duty Act to introduce a carbon tax
Democratic Republic of the Congo	Provision for possible future decree on carbon tax under Ordinance 23/007 of 2023
Nigeria	Climate Change Act 2021 mandates a carbon tax framework, framework under development.
Botswana	Investigated a carbon tax but not taken formal steps
Benin	Completed a study on the various carbon pricing options
Côte D'Ivoire	Indicated an intention to explore a carbon tax
Senegal	Completed a study on the various carbon pricing options
Liberia	Indicated an intention to explore a carbon tax
Sierra Leone	Indicated an intention to explore a carbon tax/ETS

Discussions about a possible carbon tax in Botswana, however, are very much still in their infancy and have not materialized into any reportable developments yet. Similarly the World Bank's Regional Climate Centre for West Africa reports that Benin, Côte D'Ivoire, Senegal, and Liberia have indicated their intentions to explore a carbon tax while Sierra Leone is seeking to explore the use of a carbon tax or ETS or a combination thereof. The statement bears interrogation, however. Senegal and Benin completed a study on the various pricing options but has not announced any firm intentions regarding next steps. Liberia has not actively progressed any national carbon tax on GHGs.

For now, there is a notable amount of funded support to investigate carbon pricing options but aside from Kenya, and South Africa, states have yet to take clear legislative measures.

Factory of National Cement Share Companyin Ethiopia. Source: https://commons.wikimedia.org/wiki/File:Factory_of_National_Cement_Share_Company.jpg

6 The Relationship Between the CBAM and Article 6

Under its current design, and pending the enactment of CBAM regulations on carbon pricing deductions, the CBAM leaves little opportunity for the use of carbon credits, including those from Article 6 mechanisms within it. In this section we discuss why.

Article 6.4.ERs equivalence

It could be argued that an Article 6.4. activity under the PACM within a CBAM covered sector might reveal a domestic carbon price, i.e. an implicit form of carbon price, that would warrant an adjustment of CBAM liability. For instance, it could be argued that the expenditure on such projects could be considered an actual or effective payment in the country of origin, or that they are measures within a "carbon emissions reduction scheme".

However, PACM projects do not meet the requirement of being either a tax, a levy, or a "fee" taking the form of an allowance under an ETS, i.e. implicit carbon prices do not qualify under the Regulations. Furthermore, many if not most projects are typically or often offsite, would not meet the requirement in the CBAM Regulations of having a direct relationship between the GHGs which are subject to the carbon price payment and the GHGs which are subject to the CBAM.

The CBAM Guidance refers to carbon market instruments.

While the CBAM Guidance note for the interim period issued by the European Commission, makes reference to carbon markets, it does so in the context of monitoring, not in the calculation of domestic carbon prices. In discussing how to calculate embedded emissions, the Implementing Regulations allow for the use of national Monitoring, Reporting and Verification (MRV) systems in certain instances. One of the options for measuring emissions is to use non-EU country-specific methods so long as these lead to similar outcomes that are prescribed in the Regulation's approach. Discussing these monitoring methods, the Guidance Note mentions that the MRV methodologies under the CDM could be an example of an acceptable monitoring approach. Notably this applies to GHG monitoring, it does not relate to what qualifies as a domestic carbon price.

Carbon Credits could be used to reduce the GHG footprint and be used indirectly when calculating embedded emissions.

It may also be argued that Article 6.4. ERs could be used to reduce the GHG footprint of an exporter for the purposes of calculating the effective carbon price. I.e. it is relevant when calculating the embedded emissions, as opposed to when determining the domestic carbon price paid. However, the manner in which embedded emissions are calculated under the CBAM does not allow for the inclusion of Article 6 mechanisms (or any other form of carbon credit).

Article 6.2. can be used to demonstrate equivalence

It could be argued that the trade and transfer of ITMOs under Article 6.2, could be used to demonstrate an "equivalent" ETS scheme between the EU and the transferring country under the CBAM. Again, however, this would not qualify under the current Regulations. Article 6.2. transfers are voluntary and follow a bilateral or multilateral agreement, they do not arise as a result of a domestic price on producers from a compliance obligation.

Article 6 utilisable as a rebate within existing carbon pricing schemes

The only manner in which Article 6.4ERs could potentially be used within the existing CBAM regime, is in the form or a rebate or credit when calculating the effective carbon price under a carbon tax or ETS in the country of origin. Article 9(1) of the CBAM Regulations provides that when calculating the price it must take into account "any rebate or other form of compensation available in that country that would have resulted in a reduction of that carbon price shall be taken into account."

Some carbon pricing instruments, such as those in Singapore, Colombia, Mexico, and South Africa expressly permit tax liable entities to use carbon offsets to reduce their tax liability. For example, the South African carbon tax currently permits tax liable entities to deduct between 5 to 10% of their carbon tax liability by using carbon offsets, defined to include carbon credits from approved projects under the CDM, Gold Standard, VCS and any domestic offset standard that may be developed. The deduction is in the form of an "offset allowance".

In South Africa, carbon tax liable entities who are also CBAM liable - by virtue of the cost being passed onto them by CBAM declarants- if they make use of their offset allowance, would then likely need to account for the use of this allowance as a rebate or "other form of compensation", when demonstrating their carbon tax paid in South Africa. This has led to a situation where, given the higher Euro denominated EU-ETS linked price of the CBAM, it is anecdotally, more cost effective for some exporters to not utilise some or all of

the domestic tax's offset allowance (i.e. pay a higher carbon tax) to claim a larger carbon price deduction under the CBAM. In other words, it is more cost effective for some exporters to forgo investing in the domestic offset market resulting in them paying a higher carbon tax locally, and then paying the CBAM and then deduct the higher carbon tax liability from it.

Ironically this has the opposite effect of what South Africa was hoping to achieve with the carbon tax offset allowance. The country wanted the offset allowance to be used to bolster investment in the local carbon market. Instead, emitting exporters are actively avoiding the use of the national offset allowance to reduce their CBAM liability.

In effect this re-channels investment that would have gone in to the South African carbon market and undermines the policy design of the domestic tax.

Carbon Credits not Utilisable in EU-ETS

Between 2013 and 2020, the EU ETS allowed participants to use credits generated from the CDM and another mechanism under the Kyoto Protocol known as Joint Implementation (JI) activities.

In 2021 the EU then reversed this approach and disallowed the use of international credits under the EU ETS. Although there is no agreement on this issue, these credits were perceived as being too cheap, lacking environmental integrity and ultimately the cause of the market crash in the early years of the ETS. It was feared that the oversupply of credits would keep prices of EU allowances down, and reduced the EU carbon market's effectiveness, a concern some believe would still persist today.

Similar objections have been raised in the context of the inclusion of international credits in the EU's 2040 target. NGOs such as Bellona, Carbon Market Watch, and the European Scientific Advisory Board on Climate Change, have reportedly expressed opposition, with concerns relate to the relocation of decarbonization investments outside Europe, and the risk of international credits not reflecting realistic and permanent emissions reductions. There are also concerns that the comparatively elevated costs of high integrity carbon credits would create a perverse incentive to under-regulate them and allow low quality credits into the system.

In determining whether a pricing mechanism should qualify under the CBAM, Marcu et al argue that a deciding factor should be whether it mimics the behaviour of the EU ETS. The observe that "in the EU ETS the CBAM is an external companion to the EU ETS, replacing an internal EU ETS provision of free allocation to address the risk of carbon leakage." Following this philosophy, since international carbon credits are disallowed at present under the EU ETS, they should be similarly disallowed under the CBAM.

Proposal for International Carbon Credit Use is for the EU 2040 Target Only

Over the past year debate has intensified on whether international credits should play a role in the EU's 2040 target.

The discussion has its origins in an increased focus on competitiveness and affordability of meeting the bloc's regional climate obligations and its impacts on industry and consumers. An anticipated future lack of liquidity within the EU ETS is also a concern, prompting interest in the use of international credits within the EU ETS. There has been hesitation amongst EU member states about the ambition of the 2040 target, leading Climate Commissioner Wopke Hoekstra to explore "flexibilities".

Within its 3 July 2025 proposal, the EU Commission announced that it intended considering the potential use of carbon credits under Article 6 to meet the EU's 2040 emission reduction targets. In commenting on the proposal Hoekstra justified the measure as necessary to "give breathing space for hard-to-abate sectors. It will also open new markets for durable carbon dioxide removals technologies."

However, the proposal is clear that such credits will not be able to play a role in the EU's compliance market, i.e. the EU ETS. By implication, given that the CBAM and EU ETS are designed to complement each other, they would not be allowed under the CBAM either. As such while the EU discussing the revision of its approach to the use of international credits, this is only in the context of its 2040 target, and not the CBAM.

Findings

In sum, the CBAM in its present form does not allow the use of international carbon credits to reduce the amount liable. In some limited instances, where countries have a domestic carbon tax linked to carbon markets, such as South Africa, these could account for the use of Article 6.4.ERs, however, doing so would in most instances only serve to increase CBAM costs borne by an exporter, alternatively, if used would only serve to undermine local carbon markets.

7 Benefits and Challenges of Permitting Article 6 Credit Use Within the CBAM

Risks and challenges of including Article 6 credits

The ERSCT argue that, while it may support climate finance and decarbonisation in developing countries, permitting the use of international carbon credits within the CBAM could weaken the incentive for exporting countries to establish their own domestic carbon pricing schemes. Their discussion paper suggests that "if importers can rely on credits from unrelated or loosely verified emission reduction projects, there may be less pressure on trading partners to adopt robust carbon pricing or emissions trading systems. This could undermine one of CBAM's broader strategic goals: to encourage global convergence around strong climate policies."

Other arguments pertaining to greenwashing and credit integrity, concerns about shifting investments that would have gone to the EU to abroad, that were raised in the context of the 2040 target, would also find application regarding their use in the CBAM. Furthermore, permitting the use of international credits within the CBAM, would introduce new levels of complexity into an already highly technical and continuously evolving regime.

Potentially it also invites a risk that trading partners would challenge the inclusion of carbon credits, but not other forms of carbon pricing (for example regulatory standards and other implicit measures), as being unfair or arbitrary.

Further, the EU Commission has proposed developing default values to estimate carbon prices in third countries, to make it easier for EU importers to use them. This would also alleviate some of the reporting burden of exporters, however, as noted above, default values tend to be set as a rate to penalise their use and may likely end up further penalising exporters if importers insist on using them. Adding carbon credits into this mix creates further complexity for African exporters and EU importers who would then be pressed to use actual data and the related administrative approval requirement, instead of default values, when the aim of the amendment was to achieve the opposite. In this regard the only risk to African exporters that may arise from allowing international credits is there would be a slightly increased administrative burden in demonstrating the amount paid for the carbon credits when sharing reporting data to importers under the CBAM.

Lastly, the proposal is likely to come under opposition on economic grounds. As discussed earlier, the EU budget for 2028-2034 includes CBAM revenues as being one of five new "own resources" it requires to address "growing demands in key areas". The EU Commission has also proposed to use part of the revenues to compensate EU exporters for the costs of phasing out the EU ETS free allowances. Following the Draghi report, and the desire to

increase EU competitiveness, permitting the use of international credits, including Article 6 credits within the CBAM would reduce the overall revenue it generates for the EU (even though it is a relatively minimal amount), and may thus come under internal opposition on economic grounds.

Advantages of including Article 6 credits

On the other hand, there is a strong case to argue for the use of international carbon credits within the CBAM scheme on equity grounds.

African governments should at least have the opportunity to domesticate some of the revenue earmarked for the CBAM into local carbon market projects. For the same reasons that the EU Climate Commissioner cited in the context of the 2040 target, of the need to use international credits to give hard to abate sectors within the EU "breathing room", African countries with hard to abate sectors should have similar benefits afforded to them under the CBAM by enabling them to use credits.

Permitting international carbon credits under the systemUnder a revised scheme that permitted international credits, r In this way it can unlock finance for mitigation efforts in the global south.

Of equal importance, is that it would give host governments more policy freedom to choose between the design of their domestic carbon pricing system, if any, and the mix of measures they intend to utilise, including the extent they wish to foster and grow local carbon markets. This aligns with the bottom up and self-determined nature of the Paris Agreement. Not only will it provide more policy latitude to African governments, but it would also avoid undermining the carbon markets that some have already developed. See in this regard the discussion in paragraph 6 above, where the CBAM has partially undermined the South African governments aim of fostering a local carbon market under its carbon tax. It will also more likely support international cooperation on climate change, particularly since the EU has long promoted the use of Article 6 mechanism.

Permitting the use of international credits within the CBAM would, of course, also boost demand for Article 6 credits globally, and particularly so if limits are placed by the EU on the geographic origin of credits (as discussed below). Recent valuations indicate that the EU will need over 140 to 150 million Article 6 credits to meet its 2040 climate target possibly rising to 700 million, at a cost of approximately €46 billion annually. Increased demand for Article 6.4. ERs may also help to improve the average sale value that African carbon credits command in a supply constrained market.

More importantly, it would achieve the outcome that some EU critics feared. Further, the case for allowing carbon credits is more easily motivated than other forms of carbon pricing, such as implicit measures. Carbon credits represent a visible price coupled with an effective payment and associated cost that the exporter incurs, and the exporter would still need to pay the difference between the credit price and the CBAM certificate price.

Lastly, while the caution about weakening the deterrent effect of the CBAM is economically sound, it is unlikely that the inclusion of credits

within the CBAM will be determinative of whether a country adopts a carbon price or not. As illustrated earlier, there are a host of factors, including emissions profile, maturity of revenue collection system and related administrative mechanism, and regressive impact risks, that will play a strong, if not more, influential role in whether to price carbon in African countries.

Green hydrogen. Source: https://www.dbsa.org/press-releases/unveiling-sa-h2-fund-south-africas-dedicated-green-hydrogen-fund

8 Detailed Design Considerations

How international credits are incorporated into the CBAM has important implications for their success, as they need to address integrity, equity, and leakage considerations. Which standards are used, whether there would be an overall limit on the use of credits, and how the credits are accounted for within the CBAM, and how can design measures be used to boost credit supply from more deserving areas or projects, are all considerations that would need to be covered.

In respect of integrity, many would agree that only high integrity credits should be allowed. But who would determine which are high quality? Vetting credits within the EU would be a time consuming and laborious exercise. One means to overcome this is to limit them to credits governed by global rules, in particular those generated under the revised methodologies and guidance of the Article 6 PACM. This is one of the reasons this paper has primarily focused on Article 6 credits, as they are credits generated under negotiated global rules. If there were concerns about the integrity of some of these methodologies, at risk classes of carbon credit project types could be disallowed, as the EU ETS has historically done. In this way limiting credits to a particular standard such as Article 6.4. avoids debates about which voluntary standards have more integrity. In addition, or in the alternative, credit supplies could be limited to programs and credits that are approved by the Integrity Council for the Voluntary Carbon Market.

When it comes to equity and quality, some have also suggested that more ambitious regimes could consider delimiting credit supply to only those from LDCs to boost demand in those countries as an indirect means of supporting climate finance. Indirectly it could also be used as a means to support nature based solutions, as these types of projects represent 52% of LDC-sourced carbon credits. Over and above this, if the EU is committed to its climate partnership with the African continent, it could include African credits more broadly as part of the suite of credit sources permitted under the CBAM.

In respect of leakage, the International Institute for Sustainable Development (IISD) recently issued guidance on the design of carbon border adjustments, recommending that foreign producers should be allowed to claim the cost of purchasing offsets as a carbon price effectively paid, subject to certain conditions. First, the claim would be limited to the price actually paid for the credits, not the volume of GHGs they offset. As Sandler and Schrag have explained, "by linking CBAM deductions to the price paid for carbon assets, exporters face equivalent economic pressures to reduce emissions, avoiding risks of carbon leakage and perverse incentives towards low-quality assets… By directly linking the ECP to the carbon asset's cost, this method ensures firms face the same economic decision whether to pay the CBAM fee or purchase carbon assets." The approach is not without methodological challenges, however, which would require careful attention during design.

9 Conclusion and Recommendations

The impact of the CBAM on African countries is anticipated to be significant. Left with little flexibility measures to mitigate these impacts, African countries are constrained to implement a carbon price or ETS to reduce their exposure, in circumstances where it may neither be nationally appropriate or feasible, or align with government's intended climate policy.

Even if a price was introduced, it will not be in economic parity with the CBAM, It also increases the complexity of mitigation policy instruments that African governments would need to manage if they intended to introduce others. In this context the proposal by the EU Commission to use credits traded under Article 6 of the Paris Agreement to meet its 2040 target, opens an avenue to discuss the broader possibility of exporters using Article 6 carbon credits to reduce their CBAM liability. Our review above highlights the potential merits and challenges of such an approach. We argue that it is an imperative on equity grounds: it will ameliorate some of the negative impacts of the CBAM on exporting states, shore up revenue within African borders and support decarbonisation efforts within exporting states, and spur the demand for Africa carbon credits which have historically been underpriced. We also demonstrate that, through careful design, concerns around greenwashing, leakage and equity can be addressed. Not only is this in the interest of African exporters, but it ensures the health and viability of the Article 6 mechanism, which has historically received strong EU backing.

At present, while the EU has been open to the use of international credits to meet its 2040 target, it is unlikely to allow them within the CBAM and EU ETS. This follows long and hard fought battles over the years to keep international credits out of the EU ETS (and in turn the CBAM), following concerns on greenwashing and market liquidity. Moreover, CBAM revenue has already been earmarked under the bloc's 2028 budget, and it is proposed that some of it will be used to compensate EU exporters. Any change that would dilute the volume of CBAM revenue, for example the use of international credits, would likely come under opposition. Moving the needle on this issue would require considerable debate, and motivation on equity and legal grounds to advance the arguments set out above.

In this context, we recommend that:

- Exporters be allowed to use international carbon credits, when demonstrating the domestic carbon price paid. This would require amendments to Article 9 and the definition of a "carbon price" in the CBAM Regulations.
- A proposed redesign of the CBAM to account for international carbon credit use, should include provisions that:
  - Ensure integrity, e.g. through limitations on the standards that can be used to generate credits, for example limiting it to Article 6.4 only and/or credits and

programmes endorsed by the Integrity Council for the Voluntary Carbon Market. Given that Article 6.4. will take some years to be fully operational it would warranted to have other standards approved by Integrity Council for the Voluntary Carbon Market as an interim or complementary form of eligible credit;

» Avoid leakage, by linking the deduction to the actual price incurred in purchasing carbon credits, and not the associated GHG emissions reduction volume represented by those credits;

» Promotes equity and the use of credits with high co-benefits, for example by limiting eligible credits to those originating from Africa and LDCs, which in turn will promote the use of credits with high environmental and social co-benefits;

» In designing the system account for existing carbon pricing systems that already allow for the use of carbon credits as offsets, to ensure a uniform and equitable approach.

- African states should be actively engaging with the EU on the above design considerations, motivating why it would be in accordance with the principle of CBDR-RC, and would align with the underlying purpose of the CBAM to foster decarbonisation (this particularly so given the carbon pricing challenges African nations face), if these changes were introduced.
- African exporting states impacted by the CBAM may benefit from simultaneously enacting or revising existing carbon market regulations to align with any specific design criteria agreed with or set by the EU, for example regulating credit integrity, accounting, registration and transfer, as well as co-benefit requirements in their national laws to address concerns regarding integrity, transparency and accountability within their markets.

Applying fertilizer through microdosing, placing small quantities of appropriate fertilizer during planting. Source: https://ifdc.org/2023/09/06/promoting-the-4rs-of-nutrient-stewardship-to-boost-agricultural-productivity-across-west-africa/

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