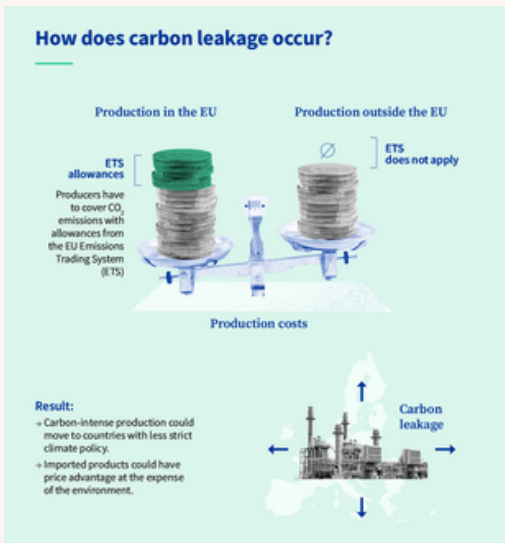


# EU CBAM: Key Impacts on U.S. Exporters



## Overview of EU CBAM

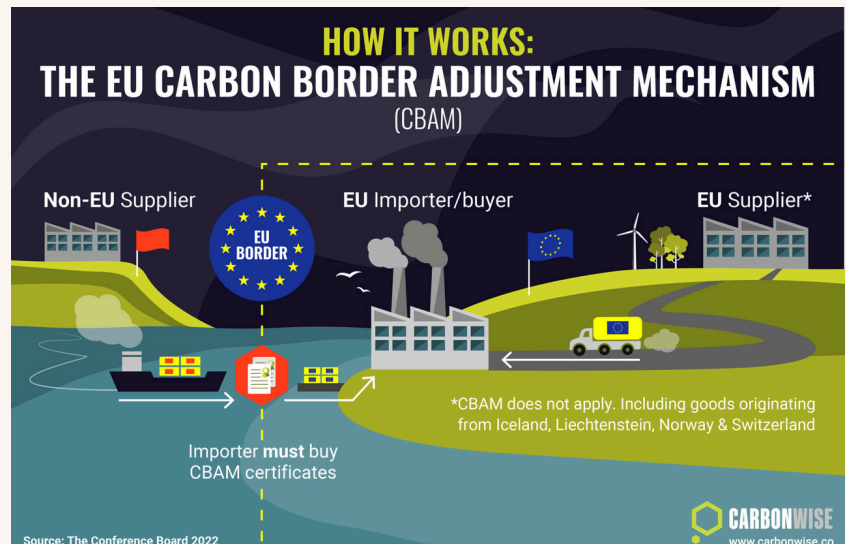
The European Union's Carbon Border Adjustment Mechanism (CBAM) is designed to prevent carbon leakage by placing a carbon cost on imports of carbon-intensive goods from countries without similar regulations. It serves dual purposes as both a climate action tool and a mechanism to level the playing field for EU producers subject to the EU Emissions Trading System (ETS).

CBAM entered its transitional phase in October 2023. During this phase (2023-2025), U.S. exporters in affected industries must submit quarterly declarations of embedded greenhouse gas emissions associated with their products. This includes both direct emissions (Scope 1) from production processes and indirect emissions from electricity (Scope 2), depending on the product.

Although the U.S. lacks a federal carbon pricing mechanism equivalent to the EU ETS, the transitional period provides time for preparation. Starting in 2026, importers into the EU will need to purchase CBAM certificates—effectively paying a carbon price equivalent to that faced by EU manufacturers, unless an equivalent carbon price exists in the exporter's country.

## Essential Points

- **Mandatory Reporting Phase:** CBAM reporting is now required for covered products exported to the EU (iron, steel, aluminum, cement, fertilizers, hydrogen, electricity), with U.S. suppliers needing to disclose embedded emissions data immediately.
- **Financial Impact Coming:** While only emissions reporting is required during the transitional phase (2023-2025), by 2026, U.S. exporters will face carbon costs at the EU border unless equivalent carbon pricing is implemented domestically.
- **Expanding Scope:** CBAM coverage is likely to expand to downstream products (metals-intensive machinery, equipment, fasteners, automotive components), significantly increasing compliance burdens throughout manufacturing value chains.



## Compliance Requirements and Risks

For U.S. companies exporting to the EU, CBAM creates both a compliance obligation and a market access risk. Firms unable to report verifiable emissions data may face unfavorable default values (typically higher than average emissions) applied to their products, potentially eroding price competitiveness or resulting in rejection by EU customers seeking low-carbon supply chains.

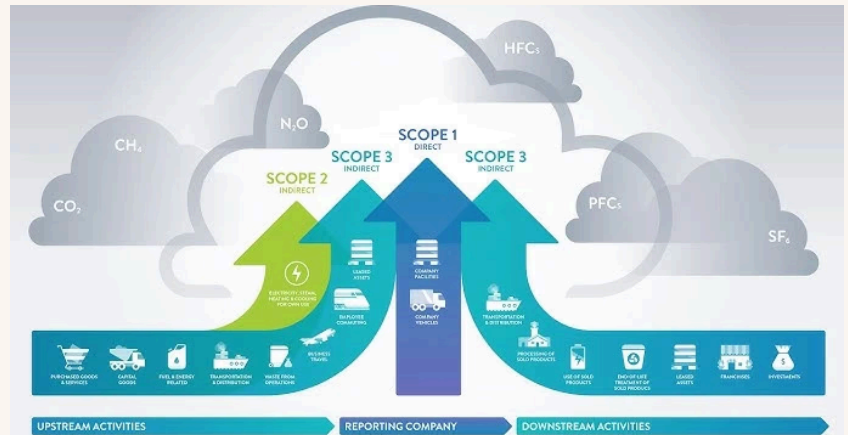
In addition to CBAM requirements, U.S. exporters should be aware that the EU's Corporate Sustainability Reporting Directive (CSRD) introduces complementary compliance challenges. The CSRD will require detailed sustainability disclosures from companies doing business in the EU, including non-EU suppliers in their value chains. This creates a dual compliance burden where U.S. manufacturers must not only report carbon emissions for CBAM purposes but also meet broader environmental, social, and governance reporting standards to maintain EU market access.

U.S. steel and aluminum producers exporting to the EU must gather verified emissions data consistent with EU standards, including alignment with ISO 14067 and frameworks such as GHG Protocol. Value-added manufacturers must assess the origin and emissions footprint of their material inputs, even if their own operations are low-emitting.

### Digital Compliance Tools

The EU is promoting digital CBAM compliance tools, including electronic reporting portals and integrated product sustainability declarations. U.S. suppliers need:

- Structured emissions data linked to enterprise systems
- A clear bill-of-materials mapping emissions from raw materials to final products
- Early adoption of digital material passports and traceability solutions



### Strategic Implications

Proactive U.S. companies can leverage these tools to position themselves as low-carbon suppliers of choice in the EU market. Energy efficiency and low energy costs potentially place U.S. exporters at an advantage.

While CBAM may initially appear as a trade barrier, it presents a strategic opportunity for climate-aligned U.S. exporters to differentiate on sustainability. As the EU moves forward, other economies are considering their own border carbon measures. Early compliance can offer reputational, operational, and financial advantages.

However, without a federal carbon pricing scheme in the U.S., exporters may be at a disadvantage under CBAM. Some industry groups and policymakers are exploring carbon clubs or sectoral agreements, particularly for clean producers in the U.S. steel and aluminum sectors.

### Conclusion

For U.S. metals and manufacturing firms, CBAM introduces new expectations and opportunities. Companies that invest now in emissions transparency, traceability, and digital readiness will be best positioned to maintain competitiveness in the decarbonizing European market.



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