

## **IFIEC's response to the CBAM consultation: 25/09/2025**

IFIEC Europe, as a responsible industry association, supports the climate objectives of the European Union and the EU's efforts to prevent carbon leakage. We recognize the importance of ambitious climate action and the need for a level playing field for European industry.

### **1. Implementing act on methodology determination of embedded emissions**

[Link n°1 Carbon border adjustment mechanism \(CBAM\) methodology for the definitive period starting on 1 January 2026](#)

For the determination of embedded emissions, the scope should remain only on direct emissions, including those linked to heat generation. We recommend not extending CBAM scope to indirect emissions for industries that are already covered by the EU ETS Indirect Carbon Cost Compensation Scheme and to avoid competition distortion within the European Union adapt the indirect carbon cost compensation scheme to ensure that eligible sectors to it are effectively compensated..

Due to the marginal pricing system of power in Europe, power prices are affected by the price of CO2 allowances. European power consumers therefore have indirect CO2 costs in their power price, regardless of using renewable or fossil-based power. This is unique to Europe. If including indirect emissions in CBAM while phasing out the indirect carbon cost compensation scheme, this will lead to a huge disadvantage for European industry, negatively impacting global decarbonisation efforts, as well as being detrimental to Europe's strategic autonomy and competitiveness. To avoid this, the inclusion of indirect emissions in CBAM shall be considered only for industries that are not already covered by the EU ETS Indirect Carbon Cost Compensation Scheme. Indirect carbon cost compensation should therefore be the preferred carbon leakage protection instrument for indirect emissions.

If indirect emissions from electricity at some point were to be included, the carbon content of consumed electricity should be calculated by reference to the weighted average of the CO<sub>2</sub> intensity of electricity produced from fossil fuels in the exporting country. No exemption to this rule shall be applied.

Determining actual embedded emissions in third countries requires a high administrative effort. Emissions from the energy used, raw materials and auxiliary materials consumed would have to be independently assessed and certified to obtain a fair treatment. The standards to be applied for this would have to be described in detail, as the EU ETS also has very high requirements, e.g. for the availability of the data and for measurement accuracy. For achieving this, requirements shall mirror the robustness of the EU ETS in monitoring, reporting and verification.

In the case of a supply from another country, a corresponding certificate would also have to be attached. Indirect emissions linked to process heat, have to be implemented in CBAM and should be calculated solely on fossil fuel-based generation. This type of emissions trading is very complex and places high administrative hurdles in the way of the free flow of goods. Such an approach requires a larger trade area and broader standardization.

Provisions should be made to include new production routes for the CBAM goods where needed. Mass balance traceability systems need to be recognized under CBAM methodology to demonstrate the origin and embedded emissions of precursors e.g. Hydrogen precursor when sourced from a pipeline network that is fed by different production routes.

Default factors should be developed at product level for fallback benchmarks (heat, fuel and process emissions). The factors need to be designed keeping in view the key objective of carbon cost equivalence between EU ETS and CBAM.

Default values should reflect the average emissions intensity of the highest-emitting 10% of producers in the exporting country. Absent this large-scale alignment the regime would create further incentives for resource-shuffling, thus undermining CBAM's environmental integrity.

## **2. Implementing act on free allocation**

[Link n° 2 : CBAM certificates – adjustment of obligation to surrender them to take into account the EU ETS free allowances](#)

Contact : I.Chaput

**IFIEC Europe**  
International Federation of Industrial Energy Consumers  
Silver Building, Boulevard Reyers, 70 – 1030 Brussels  
[www.ifieceurope.org](http://www.ifieceurope.org) | [chaput@ifieceurope.org](mailto:chaput@ifieceurope.org) |  
Mobile: +32 496 59 36 07  
a.i.s.b.l. NI 436 343 513 | VAT: BE 0436.343.513  
EU Transparency Register: 1978775156-31

CBAM does not provide the same carbon leakage protection granted by the current level of ETS free allowances and a broad eligibility for indirect carbon costs compensation. The current CBAM framework does not sufficiently prevent industries to relocate outside Europe, and therefore it is not enough to ensure EU's industry competitiveness and progress towards climate transition. Keeping stronger safeguards such as free allowances, and compensation for indirect carbon costs are critical to maintain these objectives.

Specifically on the methodology, the CBAM product benchmarks shall be defined by using a similar methodology to the one used for determining the EU ETS product benchmarks. The benchmark scope shall take into account process emissions, direct emissions linked to energy consumption and indirect emissions linked to purchased heat. For this benchmark determination, the most recent performances of the 10 % best European producers shall be taken into account and the obtained value shall be extrapolated 5 years in advance assuming that the annual improvement rate will be the same as in the past.

Importers shall submit accurate and verified emission reports when they claim for CBAM free allocations. In case they use green technologies, their CBAM free allocations should be reduced as it is the case within EU ETS (e.g. heat provided by non-ETS facilities).

In addition, we raise your attention to the fact that the current CBAM rules foresee a gradual reduction in free allocation for European manufacturers of CBAM products. This rule will jeopardize the competitiveness of European producers who export CBAM products out of the EU. They will lose market share on the international market.

Furthermore, the competitiveness of downstream products will be reduced, as intermediate products from non-EU countries are better priced because they are unburdened by emissions trading costs for their upstream products. Accordingly, we request the Commission to promptly table a legislative proposal addressing the several issues stemming from the lack of an export solution.

### **Implementing act on the CO2 price paid in a third country**

[Link n°3 : Carbon border adjustment mechanism \(CBAM\) – carbon price paid in a third country](#)

To ensure a level playing field for European producers, it is essential that a very cautious and conservative approach is adopted in recognizing the carbon price effectively paid in third countries . When crediting emissions trading in third countries, the local CO2 price

Contact : I.Chaput

**IFIEC Europe**  
International Federation of Industrial Energy Consumers  
Silver Building, Boulevard Reyers, 70 – 1030 Brussels  
[www.ifieceurope.org](http://www.ifieceurope.org) | [chaput@ifieceurope.org](mailto:chaput@ifieceurope.org) |  
Mobile: +32 496 59 36 07  
a.i.s.b.l. NI 436 343 513 | VAT: BE 0436.343.513  
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is not a sufficient indicator to assess the real CO2 cost borne by the third country producers. A comparison of the CO2 trading systems should only be made on the basis of emitted CO2 levels including indirect emissions for process heat and free allowances allocated by the third country to the respective installations. Direct or indirect rebates should be fully taken into account to calculate the net carbon costs effectively paid by third country producers . For this purpose, third country carbon pricing systems must have a high degree of transparency in order to detect greenwashing, hidden rebates, and sanction it accordingly via the CBAM.

Moreover, all decisions related to free allocation under the ETS are made public. Operator reports must provide information for all their emissions sources and source streams in tons of CO2 (Article 68(3) and Annex X Commission Implementing Regulation 2018/2066). To reflect this level of transparency, which also invites public scrutiny and provides a greater level of confidence to the Commission, we recommend adding to the CBAM Regulation a transparency instrument mirroring the ETS system. This way, circumvention risks and illicit benefits from subsidies would be better tackled.

The CBAM must assess the credibility of a foreign pricing system based on the actual quantity of emissions that are effectively reported and subject to taxation, rather than on the theoretical price displayed. A system where most emissions are exempted or underreported should not be recognized, in particular systems that exclude key emission components or provide them with an excess of free allowances. Under no circumstances should it lead to the allocation of CBAM allowances. The CBAM should require proof that the carbon price is effectively paid on all emissions embedded in the product, based on verifiable data. For the assessment to be fair, it is essential to impose complete transparency on the emissions data of imported products. Third country operators exporting to the EU must be able to provide detailed and verifiable information on the emissions incorporated into their products. Furthermore, the CBAM must take into account the risks of carbon leakage not only at the commodity level, but also at the level of the entire production chain. The aim is not only to prevent carbon leakage, but also to encourage decarbonisation

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