

Safeguarding the EU's CBAM to strengthen global partnerships

TOOLS TO ENHANCE CARBON PRICING DIPLOMACY

Eva Pander Maat, Ellie Belton, Pierre Leturcq

In an increasingly fragile geopolitical context, the EU cannot risk the CBAM undermining key trade partnerships. The measure has faced resistance from the outset, but recent developments have raised the stakes. Continued criticism of the CBAM from EU trade partners calls for a reassessment of both the instrument itself and the supporting diplomatic strategy. As the CBAM review legislative process advances and major diplomatic milestones approach, EU policymakers have an opportunity to strengthen trade partner relations through more effective carbon pricing diplomacy. A robust CBAM, embedded within a coherent international cooperation strategy, will be essential to advancing the EU's economic, geopolitical and decarbonisation goals.

The EU's Carbon Border Adjustment Mechanism (CBAM) entered into force on 1 January 2026, despite opposition from trade partners and concerns from European industry over higher costs and administrative burdens. The decision to push ahead with the scheme marked a major commitment to climate policy from the EU, even as other initiatives have been scaled back in recent years. But continued criticism of the CBAM risks eroding trust in the EU as a reliable trade partner and therefore poses a threat to its global agenda.

This briefing assesses the international implications of the CBAM in today's geopolitical and trade environment. Although the measure has faced trade partner opposition from the outset, we find that recent developments – both in the global context and the domestic legislative agenda within the EU – demand a fresh look at the CBAM, and a revised approach to the diplomacy strategy supporting it.

If not tackled head-on, the continued diplomatic challenge that the CBAM poses could disrupt the EU's heightened efforts to forge strategic partnerships to diversify trade relations and advance security, competitiveness and resilience aims. At the same time, proposed substantial revisions to the CBAM which primarily respond to concerns from EU industrial stakeholders will have considerable consequences for how the tool impacts trade partners. This risks stoking further tensions.

Trade partners' reactions to the CBAM have been diverse, depending on their political and economic interests. In some cases, there is strong evidence that it has incentivised countries to adopt their own carbon pricing schemes. In others, it has prompted pushback and damaged bilateral relations. The EU therefore needs to take a flexible approach to CBAM diplomacy, tailoring responses to the needs of different trade partners. India is an example of where the EU has successfully mitigated CBAM tensions during the course of FTA negotiations, by introducing a broad cooperation package on carbon pricing.

In the context of the current legislative process to agree substantial revisions to the CBAM, and with key diplomatic moments on the horizon, the EU has an opportunity to reset its approach to CBAM diplomacy in 2026. This will ensure that the CBAM supports and strengthens the EU's international partnerships, rather than obstructing them.

Key recommendations include:

1. Improve support for developing countries

Leveraging bilateral partnerships to support decarbonisation in CBAM-affected third countries, as well as strengthening existing technical assistance and capacity building, would deliver win-win outcomes for the EU and its trade partners.

2. Advance regulatory coordination

Leading efforts to improve the interoperability of national carbon pricing systems and border adjustment mechanisms would demonstrate the EU's commitment to promoting a fair and open global clean economy.

3. Enhance CBAM communications

Proactive and transparent engagement with trade partners on CBAM impacts, and participating constructively in international initiatives, could help to better demonstrate the support that is available. Trade partner interests should also be reflected in any revisions to the CBAM, and any regulatory amendments clearly and proactively communicated. This includes the following aspects of the ongoing legislative review process:

- ▶ Setting clear rules, developed in consultation with trade partners, for how carbon prices and international carbon credits are to be deducted from CBAM charges.

- ▶ Removing Article 27a, which allows for sectors to be retroactively excluded from the scope of CBAM, to offer greater regulatory certainty to third countries.
- ▶ Restricting any scope expansion to energy- and trade-intensive goods, proportional to the level of carbon leakage risk, to limit the additional administrative burden.

1. State of play

The CBAM is a necessary tool to maintain the pace of the EU's decarbonisation – both domestically and through its overseas carbon footprint – and sustain industrial production in the EU. By removing any competitive advantage for companies in relocating production overseas to avoid higher emissions standards,¹ it preserves a credible long-term price signal for EU industry as free allocations under the EU's Emissions Trading System (ETS) are gradually phased out. Without a CBAM, domestic decarbonisation efforts could be undermined, and EU industry would lose competitiveness as emissions would shift to different jurisdictions.

However, international criticism of the CBAM risks undermining its resilience. This is not only a worrying sign for global climate ambition, but also has wider implications for the EU's geopolitical and trade relations. We find that, with some targeted tweaks and adjustments, the EU could significantly improve its international and diplomatic strategy with respect to the CBAM. These improvements could give a substantial boost to the EU's international partnerships at a time of rising global tensions, and would preserve the integrity of the CBAM mission.

Political context in Europe and the world brings greater complexity

The world looks considerably different to when the EU first announced its intention to introduce a CBAM in 2019.

The political context in Europe has shifted. The CBAM proposal was introduced as a landmark piece of legislation under the European Green Deal, at a time where there was a strong political backing for climate action in Europe. By contrast, the current European Commission mandate has been characterized by strong pushback on climate ambition and a focus on deregulation, with competitiveness, security and resilience rising to the top of the political agenda. This shift has impacted the CBAM by shaping how policymakers have approached revisions and implementation, including a substantial simplification of the measure introduced in 2025.²

A key example of the fallout from these political shifts on the CBAM is the upcoming revision of the EU Emission Trading System (proposal expected July 2026). In the context of

¹ European Parliament, March 2021, [Carbon leakage: preventing firms from avoiding emissions rules](#)

² Besides the Omnibus [revision](#) of CBAM, see the simplification packages on sustainability legislation ([Omnibus I](#)) and environmental legislation ([Omnibus VIII](#)).

the energy price spike in the wake of the Iran crisis, there has been immense pressure on policymakers to dilute the ETS and bring down carbon costs. As CBAM is designed to mirror the EU ETS, this could have significant consequences for the final design of the measure. This domestic political context has introduced the risk that the CBAM is interpreted by external partners primarily as a tool for boosting EU competitiveness, rather than serving its original purpose of addressing carbon leakage and raising climate ambition.

This is unfolding at a time when **the global trading system is subject to unprecedented tensions**, with escalating tariffs and supply chain disruptions contributing to widespread uncertainty and further complicating the politics of carbon border measures. In this context, regulatory tools such as the CBAM can be interpreted as additional trade-distorting interventions by external partners. Volatile geopolitical dynamics are also reinforcing the importance of **economic security and trade diversification**, which makes bilateral partnerships an increasingly important tool for the EU to achieve its objectives.³

In this context, **the EU has been strengthening its trade defence toolkit**, including tightening its steel safeguards and introducing “Made in EU” local content requirements for public procurement through the Industrial Accelerator Act. These measures have been well received within Europe, but they risk stoking tensions with trade partners as the EU moves towards greater protectionism. This underlines the need to reposition the CBAM as a bridge for cooperation, so that the backlash against unilateral measures does not escalate.

Revisions to the CBAM risk increasing the burden on trade partners

The revision package presented in December 2025 contained three important changes which – though in some cases necessary for the proper functioning of the CBAM – could have challenging implications for EU trade partners.⁴ These stand in contrast to the significant *reduction* in administrative burden that should result from the “de minimis” mass-based annual threshold of 50 tonnes of CBAM goods introduced in 2025,⁵ which has substantially reduced the number of economic operators subject to CBAM obligations.⁶

The international implications of these ongoing amendments should be given appropriate consideration in the upcoming legislative process, and going forward EU trade partners should be promptly and comprehensively notified of any further changes to the CBAM.

³ The EU's [Global Climate and Energy Vision](#) (October 2025) focused on “clean economic partnerships” and highlighted Clean Trade and Investment Partnerships as a key tool. The communication on [Strengthening EU Economic Security](#) (December 2025) focused on diversifying supply through cooperation with partners, including “building on its extensive network of trade agreements and other forms of bilateral and plurilateral cooperation”.

⁴ As well as a review of the application of the measure. European Union, December 2025, [Report from the Commission to the European Parliament and the Council on the application of the Regulation on the Carbon Border Adjustment Mechanism](#)

⁵ European Union, October 2025, [Regulation \(EU\) 2025/2083 of the European Parliament and of the Council of 8 October 2025 amending Regulation \(EU\) 2023/956 as regards simplifying and strengthening the carbon border adjustment mechanism \(Text with EEA relevance\)](#)

⁶ Primarily excluding small and medium-sized enterprises and occasional importers of CBAM products.

1. The proposed **scope expansion to downstream products** and additional anti-circumvention measures⁷ contribute to making the CBAM a more effective carbon leakage tool. However, they will increase the burden for EU trade partners which export large quantities of such products, such as India.
2. The power to **remove goods from the scope of the CBAM** retroactively by a delegated act (Article 27a) presents a serious threat to the CBAM's resilience. It would make exclusions an easy target of incumbent industry lobbying, making it even more difficult for trade partners to anticipate the impacts of CBAM on their economies. The regulatory uncertainty created by this provision has already destabilised trade flows.⁸
3. The **Temporary Decarbonisation Fund (TDF)** addresses a legitimate concern – that EU exporters face a competitive disadvantage in markets without carbon pricing. However, financing the TDF through CBAM revenues simultaneously tells developing countries that the CBAM exists to advance climate integrity, while using those same revenues to subsidise EU industrial exports. This inconsistency risks undermining both arguments. Separating the two instruments financially would preserve the credibility of each.

A further change that may *alleviate* the burden on trade partners is a recently published proposal setting out rules for how the CBAM can incorporate carbon pricing systems in third countries, including to account for international carbon credits.⁹ This is a key update to support policy ambition in third countries and ensure their domestic decarbonisation efforts are factored into the equation. However, the lack of clarity on this to date has been criticised on the basis that it has created uncertainty for trade partners over whether to introduce carbon pricing and in what form. The inclusion of credits is also likely to be controversial given challenges around ensuring the quality of credits and the risk of creating perverse environmental incentives.¹⁰

2. Evaluating trade partner responses to the CBAM

The introduction of the CBAM has prompted a variety of reactions from the EU's trade partners. In some cases, there is evidence that the CBAM has encouraged other countries to adopt their own carbon pricing schemes. In other cases, it has prompted extensive debate in international institutions over the use of unilateral measures.

The extent to which the CBAM impacts a third country will depend on its **economic** profile, including export exposure to the EU in CBAM-affected sectors and the fiscal resources

⁷ European Union, December 2025, [Proposal for a regulation of the European Parliament and of the Council amending Regulation \(EU\) 2023/956 as regards the extension of its scope to downstream goods and anti-circumvention measures](#)

⁸ S&P Global, 5 February 2026, [CBAM uncertainty stalls EU fertilizer trade ahead of spring demand](#)

⁹ European Commission, May 2026, [Call for evidence on CBAM implementation](#)

¹⁰ European Scientific Advisory Board on Climate Change, June 2025, [Scientific advice for amending the European Climate Law Setting climate goals to strengthen EU strategic priorities](#), pp. 40–41.

available to implement the required regulation. However, a country's *response* to the CBAM will also depend on its **political** priorities. This demonstrates the challenge the EU faces in formulating a coherent diplomatic response. There is no "one size fits all" approach.

The EU therefore needs a flexible approach to CBAM diplomacy which can be tailored to different trade partners. To facilitate this approach, we have categorised EU trade partner positions on CBAM into the groups set out in Table 1.

This framework helps to illustrate the diversity of issues that the EU must contend with when seeking to advance its CBAM diplomacy. But it should be noted that not all trade partners fit neatly into one category, and some will feature in multiple. This is illustrated in Figure 1, showing the positions of some key EU trade partners; more detailed notes on each trade partner's response to the CBAM are given in the [Annex](#).

Table 1: Broad categories of trade partner response to the EU CBAM

Group	Description	How the EU can respond
Emulation	Countries that have adopted or enhanced domestic carbon pricing schemes to retain CBAM revenues and maintain access to the EU market.	Knowledge and information sharing to advance domestic efforts, cooperate on the eligibility of domestic pricing schemes for deduction from CBAM, and allow for dual carbon pricing. ¹¹
Constructive cooperation	Countries that are engaging with the EU at a technical level, such as to align monitoring, reporting and verification systems or achieve partial credit for domestic prices.	Highlight positive examples of technical cooperation as part of an enhanced communication strategy on the CBAM with other trade partners.
Circumvention	Countries that have attempted to gain exemptions to the CBAM.	Reinforce the position that no exemptions will be granted. Avoid vague language such as in the Turnberry Agreement, and explore new solutions such as in the EU-India FTA.
Direct opposition	Countries that have been vocal in their opposition of the CBAM across global platforms, including legal and diplomatic challenges.	Tailor-made approaches to draw focus to the EU's vast cooperation and support offer and invest in building broad coalitions to avoid criticism from disrupting multilateral progress.

¹¹ Dual carbon pricing implies that third countries' exports which fall within the CBAM scope are subjected to an additional export tax, equal to the difference between the carbon price in the third country and the EU ETS carbon price. It allows third countries to retain the full CBAM revenue and deploy it for the decarbonisation of industrial processes. It also improves political and public acceptance of the CBAM within trade partner countries.

Trade partner positioning on the CBAM

South Korea is involved in technical cooperation on carbon pricing with the EU, but also negotiated recognition of its ETS as deductible from the CBAM levy.

Egypt has requested support to address compliance barriers for fertiliser exporters, but has also requested a temporary exemption from the CBAM (not granted).

Viet Nam has diversified export markets for aluminium and fertilisers to minimise potential exposure to the CBAM, while also developing its domestic carbon market.

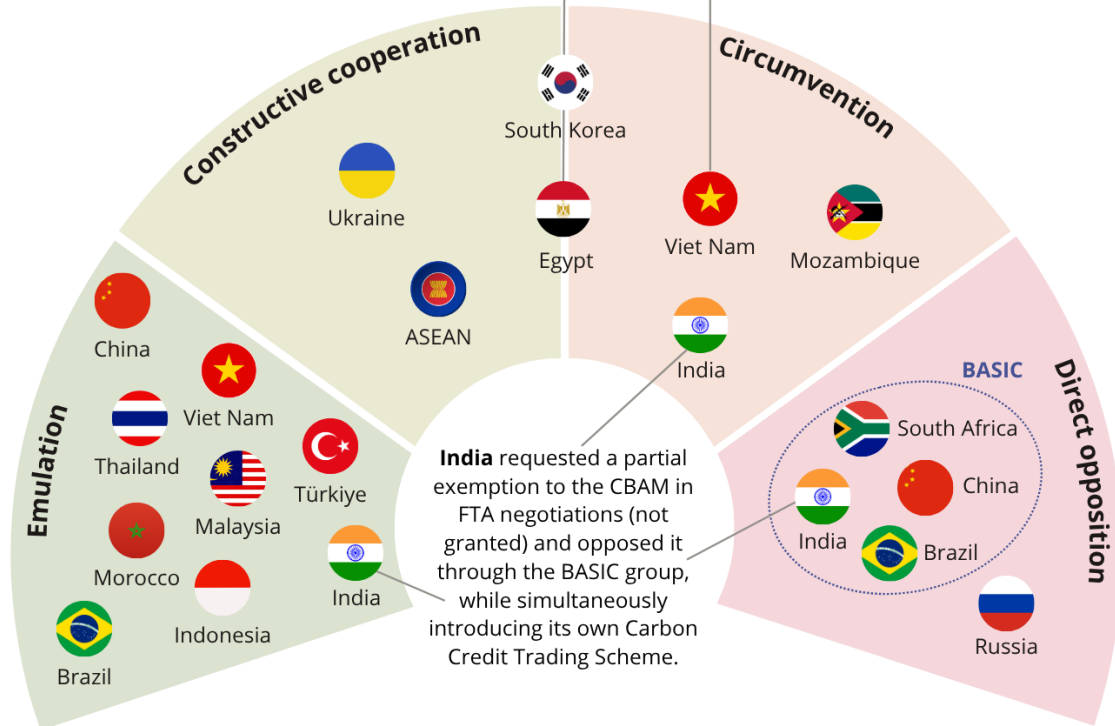


Figure 1: EU trade partners have responded in a range of ways to the CBAM, meaning the EU is best served by taking a flexible approach to CBAM diplomacy that responds to partner countries' economic and political priorities.

The EU's response to CBAM concerns from trade partners

How to manage trade partners' responses to the CBAM is not a new dilemma; the Commission and EU Member States have already been taking remedial action to alleviate criticism, both at the bilateral and multilateral level. But rising geopolitical instability places this predicament under the spotlight: as trade patterns reconfigure in response to the shifting world order, the depth and endurance of the EU's trade partnerships become increasingly important to delivering on both its domestic and international objectives. The EU will need to go further than before to demonstrate that it is dependable and that it can offer a more compelling partnership proposal than its global competitors.

The following examples outline where the CBAM has featured in recent trade conversations.

Bilateral trade negotiations



The **EU-US Turnberry Agreement** sparked a range of questions as the Commission committed “to work to provide additional flexibilities in the CBAM implementation”.¹² However, this commitment is unlikely to result in concessions to specific trade partners, and any future changes – including greater flexibility – would be applicable to all CBAM-affected countries.



The **EU-India FTA** included a “most favoured nation” guarantee, meaning that the EU will not treat any other trade partner more favourably than India under the CBAM.¹³ The CBAM Annex of the agreement includes a rapid response mechanism, allowing either party to request an urgent meeting on measures which impede trade.¹⁴ The public pressure to grant India a CBAM exemption under the FTA risked undermining support for the mechanism.

However, despite brewing tensions, **the EU-India FTA should also be celebrated as a positive example** of how the EU can address trade partner concerns about the CBAM through bilateral arrangements. The FTA contains a broad cooperation package on carbon pricing, including a €500 billion fund for India’s industrial transformation, agreement to enhance technical cooperation and share experiences on carbon pricing, and recognition that India’s domestic carbon pricing will be deductible from the CBAM levy.¹⁵

These are positive signs of progress and could serve as a proof of concept for addressing CBAM frictions through trade negotiations with other partners. However, such an approach would not be suitable in all cases since the EU is unlikely to negotiate FTAs with all CBAM-affected partners, particularly the least developed economies that are worst affected. There is also little evidence that recent progress in advancing bilateral trade relations will do anything to mitigate CBAM tensions with India at the multilateral level.

Multilateral trade tensions



At the **UNFCCC**, the BASIC group of countries has been most vocal in its opposition, tabling proposals at recent COPs expressing “concerns with climate change related trade-restrictive unilateral measures”.¹⁶ This has placed the EU under the spotlight in international climate negotiations and risks distracting from vital progress elsewhere on the agenda.

¹² United States and European Union, 21 August 2025, [Joint Statement on a United States-European Union Framework on an Agreement on Reciprocal, Fair, and Balanced Trade](#) (Turnberry Agreement)

¹³ EU-India free trade agreement, January 2026, [Annex 14-A](#), Article 2.

¹⁴ Article 18.8 of the [Institutional Provisions](#) of the agreement allows Parties to convene a meeting within 45 days to address measures which create “significant disruptions or impediment to trade”.

¹⁵ European Union and India, January 2026, [EU-India: Text of the agreements](#)

¹⁶ BASIC, [request to include concerns with unilateral trade measures in the provisional agenda of SBI/SBSTA, COP28, CMP8 and CMA5](#)



At the **WTO**, Russia has submitted a formal complaint against the EU, and India and South Africa have threatened to do the same. Discussions on the CBAM have taken up ample speaking time in various Committees, so far without tangible result and with several members – particularly developing countries – drawing attention to the principle of Common But Differentiated Responsibilities (CBDR).¹⁷

The WTO is the main multilateral platform where the EU has engaged with trade partners on the CBAM to date, and it is positive that the Commission has proactively notified WTO members of CBAM amendments and revisions in this context.¹⁸ However, existing EU commitments to support developing countries through technical support, capacity building and ongoing dialogues on carbon pricing have not succeeded in assuaging trade partner concerns at this forum.¹⁹ This debate draws unwanted negative attention to the EU at a time when strengthening global cooperation through trade is of paramount importance.

Navigating plurilateral initiatives

Several international initiatives are working to address CBAM-related tensions. This has created a resource issue for the European Commission, with officials required to represent EU interests across multiple fora. Focusing efforts on a few key initiatives – such as those highlighted below – could help to streamline the Commission's existing diplomacy efforts. The EU should also take a more proactive pathfinder role in facilitating inter-institutional cooperation between these initiatives, as a key pillar of its CBAM diplomacy.

The Integrated Forum on Climate Change and Trade (IFCCT)

The IFCCT is a new platform, launched by Brazil as part of the COP30 Action Agenda, which seeks to bring together trade and climate communities to strengthen cooperation and identify practical solutions. It is institutionally independent of the UNFCCC and WTO, allowing for more open dialogue. EU attendance at these discussions – as either a member or observer – would demonstrate a progressive approach to embracing new methods for international cooperation, particularly those initiated by developing countries.

¹⁷ [European Union and its Member States - Carbon border adjustment mechanism - Request for consultations by the Russian Federation](#), May 2025; WTO, Committee on Trade and Environment, August 2021, [Report of the Meeting held on 23 June 2021 WT/CTE/M/72](#) (PDF); WTO, Committee on Market Access, October 2021, [Report of the meeting held on 29 and 30 April G/MA/M/74](#); WTO, Committee on Trade and Environment, August 2025, [Report of the meeting held on 30 June - 4 July 2025](#) (PDF); WTO, May 2025, [Perspectives on LDC environment - Friendly trade and trade-related climate challenges - Communication from Djibouti on behalf of Least Developed Countries \(LDCs\) - Revision](#) (PDF)

¹⁸ WTO, January 2026, [Carbon Border Adjustment Mechanism - Communication from the European Union WT/CTE/GEN/37/Rev.1](#) (PDF)

¹⁹ Vanden Bosch, X., July 2025, [Update on the implementation of the Carbon Border Adjustment Mechanism](#) (PDF), presentation for WTO Trade and Environment Week

WTO Committee on Trade and Environment (CTE)

In discussions initiated by South Korea,²⁰ several countries have expressed their willingness to continue working on interoperability at the CTE and acknowledged that trade-related climate measures do fall within the scope of measures covered by WTO rules. Discussions are clearly progressing and continue to be actively pursued within the CTE, demonstrating a window of opportunity for multilateral progress. This presents an important avenue for the EU to advance technical solutions which will mitigate CBAM tensions.

Climate Club

The Climate Club, launched in 2023, is a politically driven coordination initiative designed to align ambitious climate policies – particularly on industrial emissions – while addressing concerns around carbon leakage and competitiveness. With around 40 participating countries, it is formally open to all but remains dominated by advanced economies. The EU should continue to play an active role in advancing cooperation within this framework, particularly by cooperating with other members as they introduce their own CBAMs.

Integrated Forum for Carbon Mitigation Approaches (IFCMA)

The IFCMA is a technical platform aimed at enhancing compatibility and interoperability across diverse carbon mitigation policies through analytical work, rather than political coordination. With participation from over 100 countries, it is largely composed of OECD members and partners, with some participation from developing countries. The EU should continue to play an active role in shaping and participating the work of the IFCMA, and could incorporate this further into its CBAM diplomacy offer by ensuring that robust analytical output is used to inform political dialogues with trade partners.

4. What happens next

2026 is a crucial year for the EU to advance a more comprehensive diplomatic agenda on the CBAM to support its global partnerships. The EU has built an impressive toolkit for international cooperation on carbon pricing, but the patchwork of positive examples is still overshadowed by continued CBAM criticism. Addressing this now will ensure that trade partner concerns do not hinder progress in EU bilateral relationships and multilateral spaces further down the line. We recommend that, by repositioning the CBAM as a central component of a coherent trade and climate toolkit, the EU can strengthen its global relationships, sustain its long-term industrial decarbonisation pathway and reinforce its role as a trusted partner.

²⁰ WTO, Committee on Trade and Environment, [Minutes from 2025 meetings](#)

Opportunities to advance CBAM diplomacy in 2026

Timing tbc

EU-South Africa Summit

The EU could expand the cooperation framework in the EU-SA Clean Trade and Investment Partnership with technical cooperation and support on CBAM and industrial decarbonisation, drawing inspiration from the EU-India free trade agreement.

EU-India Trade and Technology Council

An important moment to further flesh out the way in which the €500bn fund for India's industrial transformation is being spent.

May

Foreign Affairs Council on Trade

EU trade ministers can gather momentum for further international cooperation on carbon pricing.

Jun

G7 Summit

An opportune moment to liaise with other developed economies on the interoperability of border carbon adjustments.

UNFCCC Subsidiary Body Meetings

Will include a new dialogue on trade and the inaugural meeting of the Integrated Forum on Climate Change and Trade (IFCCT). The EU is not currently participating in the IFCCT but is expected to attend the formal trade dialogue.

Jul

UK-EU Summit

Opportunity to advance international cooperation on carbon pricing diplomacy with the UK, ahead of the introduction of a UK CBAM in 2027.

Summer

Commission proposal on the revision of the EU ETS

A vital moment to reinforce the EU ETS as the backbone of Europe's industrial decarbonisation strategy. The review will need to balance carbon price stability, innovation support, and carbon leakage protection, while ensuring coherence with the CBAM.

Aug

BRICS Summit hosted by India

An important stocktaking moment for the positions of the key opponents to the CBAM.

Oct

G20 Climate and Environment Ministerial Meeting

Could help to bring focus to the G20 as a potential space to build international consensus on border carbon adjustments, ahead of the G20 Summit in December.

Nov

COP31

An opportunity to evaluate progress on mitigating CBAM tensions in multilateral climate negotiations following the trade dialogues in Bonn.

Dec

CBAM revision package

Final agreement across European Council and Parliament expected late 2026, to be presented by the Commission in December.

Figure 2: 2026 presents a range of opportunities for the EU to advance its diplomacy on the CBAM, in both bilateral and multilateral settings.

5. Recommendations

Why a revamped CBAM diplomacy strategy is needed

Despite the EU's current efforts, the evidence suggests that more needs to be done to address the mounting criticism of the CBAM from trade partners and unlock progress on trade and climate cooperation. As the EU is making a concerted effort to diversify its trade relations, establish stronger cleantech supply chains and keep the multilateral rules-based order alive, the international response to the CBAM continues to pose a diplomatic challenge which could disrupt wider efforts to strengthen global partnerships.

CBAM tensions might not yet have escalated to the point that a key trading relationship is undermined, but in the shifting global context where international cooperation is becoming increasingly unpredictable, the risk calculus is shifting. Tensions could escalate further if no remedial action is taken. In this new world order, the global impact of domestic measures must be given greater consideration: endangering trade partnerships is not a risk that the EU can afford to take. Given the threats to industrial decarbonisation within the EU, it is understandable that EU policymakers have so far focused primarily on the domestic implications of the CBAM. But refreshing the EU's approach to **CBAM diplomacy** can complement these efforts and is no longer something that can be avoided.

Opportunities to strengthen the EU's CBAM diplomacy include:

1. Improve support for developing countries

More can be done to address the disproportionate impact of the EU CBAM on developing countries. This should be a diplomatic priority for the EU in order to reestablish itself as a reliable and collaborative partner, particularly given many developing country trading relationships will be vital to securing resilient EU supply chains for the climate transition.

The EU should commit to systematically monitoring and assessing the distributional impacts of the CBAM and its upcoming revisions on low- and middle-income countries. This data should inform decision-making within the Commission to deepen trade cooperation activities with least developed countries. Positioning the CBAM as a key consideration in future EU trade relations will not only deliver investment and development benefits to affected countries, but will also present the CBAM as a central component of the EU's progressive trade and climate agenda, rather than as a standalone punitive measure.

The EU should earmark at least 25% of CBAM revenues to finance an increased support package for least developed countries, mirroring the functioning of the Temporary Decarbonisation Fund (TDF). Although recycling CBAM revenues for climate finance has proved politically unpopular, more innovative methods should be explored to utilise the funds for both EU and global benefit. This funding should prioritise investments in the development of robust monitoring, reporting and verification (MRV) systems, alongside targeted technical assistance to facilitate CBAM compliance. As an alternative or

complement to this, the EU could consider extending access to TDF resources to third-country companies, conditional on their participation in the decarbonisation of EU-based value chains, in sectors such as automotive manufacturing.

The CBAM can also be leveraged as an export and investment opportunity for developing countries to build resilient low-carbon economies. It allows them to secure the competitiveness of their exports to the EU by building lead markets, anchoring clean value chains and creating green export corridors. The EU should prioritise new bilateral trade deals, such as Clean Trade and Investment Partnerships (CTIPs), with CBAM-affected countries, to support decarbonisation both at home and abroad. Using CBAM revenues to finance these initiatives would deliver mutually beneficial outcomes to both the EU and its trade partners. The CBAM should be an enabler, rather than a barrier, for this cooperation.

2. Advance regulatory coordination

As the CBAM model gains traction in other parts of the world, with the UK and Australia expected to introduce similar measures,²¹ the EU should cement its role as a pathfinder in shaping international cooperation on carbon pricing and border adjustments. This should include taking a leading role in international initiatives – including the Climate Club, IFCMA and IFCCT – to facilitate the interoperability of carbon pricing systems, for example by establishing accredited verifiers and accounting methodologies for CBAM reporting.

This would help to reduce the CBAM's regulatory burden on EU trade partners and progress the current debate over the use of unilateral measures in venues such as the WTO and UNFCCC. By refocusing the attention of third countries on the potential forthcoming coordination challenges arising from a global patchwork of CBAM schemes, the EU can continue to champion climate progress and position itself as a progressive and cooperative partner. This would also complement the EU's existing work to coordinate emissions trading systems through initiatives such as the Florence Process, which seeks to exchange knowledge and foster cooperation on carbon markets worldwide.²²

To further advance these efforts, the EU could consider collaborating with like-minded partners such as the UK to create an interconnected global network of CBAMs. This could help to build political momentum around the central role carbon pricing will continue to play in international cooperation. Incorporating regulatory coordination on CBAM into new trade partnerships should further help to build international support for the model.

²¹ UK government, February 2026, [Draft regulations: Carbon Border Adjustment Mechanism](#) (CBAM); Australian government, February 2026, [Australia's Carbon Leakage Review](#)

²² European Union, October 2025, [Joint communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: EU global climate and energy vision: securing Europe's competitive role in world markets and accelerating the clean transition](#)

3. Enhance CBAM communications

The continued negative reception to the CBAM internationally suggests that a revised strategy for engaging with trade partners would be timely. While the EU already conducts extensive engagement at both the bilateral and multilateral level – including policy briefs, diplomatic missions and training exercises – these efforts could be more effectively harnessed as part of a coordinated CBAM communications strategy.

Relatively low-cost solutions to improve existing communications could include publishing concise information sheets, improving online resources to reach wider audiences, and hosting participatory workshops tailored to specific country contexts. These should set out the EU's offer on technical assistance and capacity-building, provide proactive updates to trade partners on any regulatory changes to the measure, and amplify the benefits of decarbonisation to remain competitive in the EU market. This activity should be streamlined in a coordinated manner across EU institutions, with the EU's Task Force for International Carbon Pricing and Markets Diplomacy providing technical expertise, and the EEAS centring positive CBAM communications in existing diplomacy initiatives.

Improving CBAM communications will also require reaffirming the instrument's stated objective as a carbon leakage mitigation tool, and communicating a more consistent narrative on this. As the EU's wider trade and industrial policy toolkit becomes increasingly defensive due to evolving geopolitical pressures, the CBAM has been caught up in debates over competitiveness and is increasingly interpreted as a punitive measure. The EU must take a more assertive approach to avoid any deviation from the CBAM's stated climate rationale, so as not to undermine existing communication and support efforts.

More should also be done to emphasise the focus on the CBAM in the EU's "Global Europe" spending, which includes a 30% target for spending on climate and the environment, and to harness this effectively as a diplomatic tool.²³ Clearer guidelines on how this money will be used to support decarbonisation in developing countries would provide certainty and demonstrate that the EU is taking action to address the concerns raised to date.

²³ "While CBAM gradually enters into application, we intend to maximise the contribution of Global Europe to developing countries' decarbonisation and adaptation needs, in line with the instrument's 30% climate and environment spending target. This would help alleviate concerns raised on EU legislation as well as strengthen partnerships and support broader regulatory reforms. To this end, we will also mobilise EU Member States' expertise as well as targeted use of Technical Assistance and Information Exchange (TAIEX) for the clean transition" – European Union, October 2025, [Joint communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: EU global climate and energy vision: securing Europe's competitive role in world markets and accelerating the clean transition](#), p10

Conclusion

The steps outlined here to advance CBAM diplomacy could be a lifeline for the EU's trade partnership agenda. In an increasingly volatile and divided world, the EU must use all the tools at its disposal – including strategic engagement on unilateral measures – to build trust and strengthen ties with its international partners. By safeguarding the CBAM from external pressures, the measure will be more robust in the long term, and the EU will cement its role as a progressive and collaborative global partner. Now is the moment to double down on climate ambition and strengthen international cooperation – both of which will be crucial to delivering a safe and resilient future for Europe and the world.

Annex

1. EU trade partner positioning on the CBAM

This provides further detail on CBAM responses from the countries depicted in Figure 1.

Emulation

- ▶ **Brazil** established an ETS-compatible cap-and-trade emissions trading system in 2024. Brazil's diplomatic positioning has also shifted – from strong criticism during COP28 and COP29 to a more constructive stance during its COP30 Presidency, where it launched the proposal for the Integrated Forum on Climate Change and Trade (IFCCT).
- ▶ **India** launched its Carbon Credit Trading Scheme (CCTS) in 2025. Its carbon price will be deductible from the CBAM levy as part of the EU–India FTA – although this will make a negligible difference because India's carbon price is considerably lower than the EU's.
- ▶ **Indonesia** phased in a carbon tax under the 2021 Harmonisation of Tax Regulations Law, which matured in parallel with the 2026 CBAM implementation date. Government officials explicitly identify the CBAM as a catalyst for Indonesia's carbon pricing reforms.
- ▶ **Morocco** passed its Climate Resilience and Carbon Market Law in 2024. The policy framework prepares exporters (especially in fertilisers and steel) for CBAM compliance, with government officials openly citing the CBAM as a decisive external driver.
- ▶ **Türkiye** established a domestic ETS in 2025. The relevant legislation also offers the possibility of introducing a CBAM. Türkiye opened a technical dialogue with the EU in 2025 and achieved partial recognition of its domestic carbon pricing regime for steel exports, aiming to maintain market access.
- ▶ Other countries that have recently introduced domestic carbon pricing schemes include **Malaysia, Viet Nam and Thailand**.

Constructive cooperation

- ▶ **Ukraine** upgraded its national ETS and entered into negotiations with the EU for mutual recognition of carbon pricing, aiming to reduce CBAM exposure while still signalling climate cooperation.
- ▶ **Egypt** requested technical assistance and financial support to address CBAM compliance barriers for fertiliser exporters, and is working closely with the EU on adaptation pathways.
- ▶ The **ASEAN** bloc and **Korea** are also closely involved in technical cooperation on carbon pricing with the EU.

Circumvention

- ▶ **India** requested a partial exemption of small companies from the CBAM's scope in the EU–India FTA negotiations, which has not been granted. As the majority of India's steel production is consumed domestically, its opposition to the CBAM is also political.
- ▶ **Egypt** has requested a temporary exemption from the CBAM, which has not been granted by the EU.
- ▶ **South Korea** successfully negotiated recognition of its national ETS as deductible from the CBAM levy.
- ▶ **Mozambique** is evaluating opportunities to redirect trade to South Asian and Middle Eastern markets, since 75% of its affected exports go to the EU and the CBAM is projected to have a 7% impact on national GDP.
- ▶ **Viet Nam**, alongside developing its domestic carbon market, has diversified export markets for aluminium and fertilisers to minimise potential exposure to the CBAM.

Direct opposition

- ▶ **South Africa** has vocally opposed the EU CBAM in BRICS meetings, at formal WTO sessions, and as part of the BASIC group at the UNFCCC.
- ▶ **Russia** filed a formal complaint against the CBAM at the WTO in May 2025. Moscow's official objection frames the CBAM as a discriminatory, protectionist measure incompatible with WTO law.
- ▶ **China** issued critical statements at G20, WTO and UNFCCC meetings, condemning the CBAM as a form of unilateral climate trade coercion.
- ▶ The **BASIC** group has issued joint communiqués at the UNFCCC and other fora, emphasising that the CBAM undermines climate equity and should allow for differentiated treatment, exemption pathways, and partial revenue recycling to developing countries.

2. CBAM diplomacy in future geopolitical scenarios

Looking ahead as the global landscape for carbon pricing and border adjustments evolves, various factors could drive the system towards either **fragmentation or coordination**. The extent to which **climate ambition** remains central to international cooperation could also impact how the CBAM influences future trade partnerships.

However, there remains clear agency for targeted CBAM diplomacy by the EU to push the outcome towards a more coordinated and high climate ambition future scenario (Figure 3). Here, the EU takes a pathfinder role in building an interoperable network of CBAMs which maintains global climate ambition and is inclusive of developing countries. Carbon pricing diplomacy is therefore not just a near-term goal to minimise reputational damage, but

would also mitigate the longer-term risk that the EU becomes alienated in a future global system where CBAM backlash prevails – this would not only be a setback for global climate action, but for the EU's economic and political relations with the rest of the world.

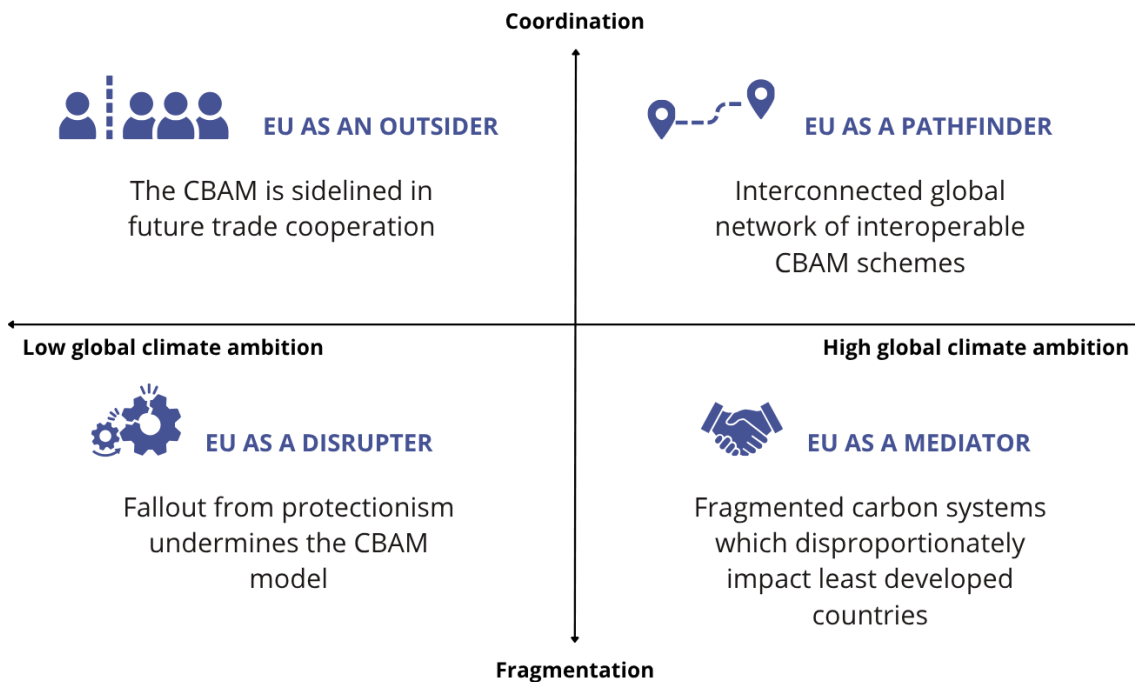


Figure 3: Four possible scenarios for the future of CBAMs

ABOUT E3G

E3G is an independent think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

More information is available at www.e3g.org

COPYRIGHT

This work is licensed under the Creative Commons Attribution – Non-Commercial – Share Alike 4.0 License.

© E3G 2026

AUTHORS

Eva Pander Maat is a Policy Advisor in the Clean Economy team. She drives E3G's work on climate and EU trade policy in the Brussels policy space.

Ellie Belton is a Senior Policy Advisor in the Clean Economy team, based in London. She leads E3G's work to drive climate action through trade cooperation in the UK, EU and internationally.

Pierre Leturcq is a Senior Associate in the Clean Economy team in Brussels. Pierre supports E3G's work on the trade and climate policy nexus with a focus on the trade dimensions of the EU's environmental action.