Response from Finnwatch
to European Commission on
CBAM downstream extension
25.8.2025

Carbon Border Adjustment Mechanism (CBAM) – downstream extension, anti-circumvention and rules on electricity emissions

Finnwatch welcomes the initiative to expand the scope of the carbon border adjustment mechanism (CBAM) to downstream products and encourages the commission to also consider expansion to new products groups. The mechanism has multiple overlapping benefits for the goals of climate policy. First, it introduces the possibility of addressing concerns related to carbon leakage without the use of free allowances in the EU ETS. Second, it expands the application of the polluter pays principle also by incentivizing the introduction of carbon pricing in jurisdictions outside the EU (see https://doi.org/10.1007/s10784-025-09667-z).

In addition to the wider coverage of emissions pricing, the CBAM also helps companies to better understand their climate impact. In a study by Finnwatch eight out of thirteen companies within the scope of CBAM stated that plans to implement CBAM had already in 2023 improved their understanding of their value chain emissions (available in Finnish: https://finnwatch.org/fi/julkaisut/tuontipaastoja-vahentamassa). In this way the CBAM regulation complements other key pieces of the EU climate legislation such as climate reporting under the CSRD or the use of environmental footprint tools (PEF and OEF).

As the transition period from the free allowances in the EU ETS to the full implementation of the CBAM was decided to be as long as ten years and thus extend to 2035, it is of utmost importance that any adjustments to the CBAM scheme (including the expansion of the scope) will not cause further delays for the phase-out of free allowances in the EU ETS.

While considering the expansion of the CBAM, the EU also needs to take into account the negative impacts CBAM may have on its low-income trading partners that have a limited capacity to avoid the costs by implementing their own pricing schemes. The EU could, for example, use a share of the CBAM revenues to support such countries in developing their environmental policy (including carbon pricing).

Also, Finnwatch would like to raise a concern about the recent “commitment” from the commission “to work to provide additional flexibilities in the CBAM implementation” (in the “Joint Statement on a United States-European Union framework on an agreement on reciprocal, fair and balanced trade” on August 21st 2025, https://policy.trade.ec.europa.eu/news/joint-statement-united-states-european-union-framework-agreement-reciprocal-fair-and-balanced-trade-2025-08-21_en). Any such flexibilities must be designed in a way that does not undermine the environmental purpose of the instrument.

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