

CBAM Position Paper

Rethinking CBAM's unworkable design

Introduction

The Carbon Border Adjustment Mechanism (CBAM) is rooted in the EU's ambition to incentivise climate action in third countries and prevent carbon leakage by discouraging the relocation of industries to regions with weaker environmental policies. CBAM is intended to complement the EU Emissions Trading System (ETS), the cornerstone of EU climate policy. The machinery and plant sector strongly supports climate action through the manufacture of innovative technologies that drive sustainability and decarbonisation across industries while investing in its own transformation. CBAM only has a negligible climate effect within the sector due to the complexity of supply chains abroad and the lack of availability of many materials, parts, and components within the EU. Instead, the current CBAM design poses a risk to the competitiveness of EU machinery manufacturers. A lack of solutions for the export-oriented machinery industry, disproportionate material, manufacturing and implementation costs risk pushing the danger of carbon leakage onto non-ETS sectors further downstream in the value chain, and accelerating production relocation, resulting in high economic losses with negligible emission reduction impacts.

Fundamental design flaws in CBAM

Since the start of the transitional phase in Q4 2023, companies have struggled with complex reporting requirements, technical issues within the CBAM transitional registry, delays in registration and the publication of default values. Companies face significant uncertainty in planning for CBAM's full implementation starting from January 2025 as key technical regulations, such as benchmarks for calculating the price of certificates, have still not been published. SMEs are disproportionately affected, lacking the internal infrastructure, market power, and financial resources to manage the intricate emissions calculations. The introduction of a new mass threshold of 50 tonnes under the CBAM simplification proposal in the Omnibus I package is a first good step improving the current design, since it reduces the number of companies affected, particularly smaller importers. However, VDMA regrets the lack of meaningful relief for companies that remain in the scope. With implementation costs often reaching six-digit figures, and the viability of firms at risk, a more thorough assessment of CBAM's impact on non-ETS industries with a high export quota is urgently needed before any further expansion of its scope is considered.

CBAM accelerates production relocation and jeopardizes European value creation

The current design of CBAM significantly increases the financial and administrative pressure on export-oriented companies, especially in complex industries such as mechanical and plant engineering. The lack of low-emission materials within the EU, combined with high costs for CBAM certificates and complex reporting requirements, means that companies are increasingly forced to relocate their production to third countries – not despite, but because of CBAM. This

development directly contradicts the EU's goal of preventing carbon leakage and jeopardizes industrial value creation in Europe in the long term. Without practical solutions for exports and realistic implementation of the mechanism, CBAM threatens to become a driver for relocation, thereby undermining the competitiveness and innovative strength of key European industries.

Premature Scope Extension and lack of export solutions for all sectors

The EU's intention to extend CBAM to downstream steel and aluminium goods in late 2025 is a premature decision overlooking the complexity of the current unworkable CBAM design for the simpler goods already covered. The absence of concrete solutions for exports of all EU industries continues to overlook the negative impact of CBAM in export-oriented downstream sectors, while offering support only to sectors within the CBAM/ETS scope. This approach threatens the competitiveness of the European machinery industry and undermines its essential role in enabling the green transition.

In light of these developments, VDMA has revised its position on CBAM and calls for the abolition of the legislation due to its unworkable and impractical design. This decision reflects the increasingly hostile global trade environment marked by US tariffs under the Trump Administration and CBAM's hurtful impact on ongoing trade negotiations with international partners restricting access to new markets for the EU industry. One example remains India, which explicitly warned CBAM as a deal-breaker for its Free Trade Agreement negotiations with the EU.

VDMA calls for the abolition of CBAM. If this is not politically feasible, CBAM must address the following issues:

- **Ensure default values reflect real emissions values during full implementation phase**

VDMA welcomes the Commission's intention to allow the use of default values for emissions calculations. VDMA favors a methodology which ensures that the new default values reflect real emission levels with the aim of facilitating reporting and not punishing EU companies who are unable to obtain real emissions data due to long supply chains before import into the EU. Otherwise, companies will have to report artificially higher emissions levels and pay for more certificates than necessary, financially penalizing EU companies for the non-compliance of third country companies. A timely adoption of the default values preferably in Q3 2025 at the latest is an absolute necessity for EU importers to factor in CBAM certificate costs into their business plans.

- **Support for companies with limited resources and SMEs**

Due to the complexity of the reporting obligations, many companies are forced to seek support from expensive external consultants to ensure CBAM compliance. However, the EU and the

national competent authorities must provide more hands-on and immediate support for companies who do not have the resources to cope with CBAM in-house and struggling with the extremely high costs of outsourcing to consultants.

- **CBAM potential interference with ESPR**

The upcoming product regulations under the Ecodesign for Sustainable Products Regulation (ESPR) foresees the calculation of the carbon footprint for specific products, including imported intermediate goods. For those industries where both CBAM and ESPR will apply, there is a significant risk of double regulation in emissions reporting. To prevent unnecessary administrative overlap and ensure regulatory efficiency, it is essential to avoid double regulation of emissions calculations across these two frameworks.

- **Consider alternative climate solutions**

Climate goals must remain the focus of EU globally oriented mechanisms. With this in mind, CBAM must not disadvantage strong European industry sectors which offer climate-friendly solutions to help Europe's (and the world's) transition. The mechanical and plant engineering sector as an enabler of net-zero innovation should be considered for targeted relief measures that reflect their enabling role in achieving the EU's climate objectives and EU's industrial resilience. VDMA also supports the complementary or in a best-case alternative concept of a Climate Club of front runners with a comparable level of ambitions and therewith similar transition burden. Our industry urges the EU to accelerate the work for the Climate Club established at COP28 making it a realistic alternative to CBAM benefiting the green industrial competitiveness, while ensuring an efficient and fast transition toward climate neutral economies. At the same time, the creation of lead markets for low-carbon products, such as green steel, should involve close consultation with the downstream sectors, like the machinery industry, since they will ultimately bear the higher costs of greener materials in their manufacturing, and hence their competitiveness must be safeguarded through concrete and effective policy measures.

- **CBAM must be harmonised with EU and international Company, and Product Carbon Footprint (PCF) calculation standards**

Existing Company Carbon Footprint (CCF) and Product Carbon Footprint (PCF) calculation methodologies already provide a framework for companies to undertake their emissions accounting. With CBAM the EU explicitly demands companies to calculate the carbon content of a product using a third CBAM-specific methodology which is not related to either CCF or PCF calculations. The allowance to use a company's pre-existing PCF calculations based on current standards would help to ease the whole process and increase acceptance for all participants in the supply chain. Elsewise a method for translating PCF data into CBAM data would be helpful.

- **Make CBAM reporting user-friendly**

To facilitate compliance and reduce administrative burden, CBAM reporting processes must be streamlined across authorities. This includes harmonising the use of portals and interfaces, improving the CBAM registry, and eliminating redundant data entry, particularly between customs and CBAM authorities, to ensure a more user-friendly and efficient reporting experience for companies. Furthermore, technical changes to the CBAM registry should be avoided during active reporting periods to prevent disruptions and ensure stability for reporting companies.

Scope extension only if CBAM becomes implementable

In late 2025, the Commission plans to present a legislative proposal extending the CBAM scope to downstream goods before presenting earlier the long-awaited comprehensive CBAM review. VDMA regrets seeing this decision which neglects the competitiveness of exporting industries, like the machinery industry. They will bear a higher cost burden due to the higher import costs making their products less competitive on the global market while increasing the risk of carbon leakage.

Machinery and plant sector products are complex and regularly have many different parts and components built in, each of which involve several often complex processing steps. Whilst acquiring primary emissions data for simple or semi-complex goods has already proven to be a complicated and lengthy process, the accumulation of emissions data along long and complex value chains based in third countries will be impossible to accurately represent. Prior to extending the CBAM scope to downstream products, VDMA calls the European Commission to consider the following points:

- Conduct a detailed impact assessment of CBAM for our downstream industries producing in EU including the higher cost burden for EU exporting industries.
- Design concrete export solutions together with export-oriented downstream industries. The use of CBAM revenues should be able to adjust the competitive disadvantage for all export industries negatively affected by CBAM, especially those not covered by EU ETS, while incentivizing the uptake of low-carbon products in their manufacturing processes.
- Increase the yearly cumulative de minimis mass-based threshold, while also reintroducing the original consignment-based threshold for easier application. Even when the yearly mass-based threshold is surpassed, allowing a small consignment-based threshold is essential to shield companies, particularly SMEs, from unnecessary financial and bureaucratic burdens.
- Look at the complexity of obtaining emissions for more complex products down the value chain. It is essential to secure flexibility by providing realistic default values, since gathering

emissions for simple or semi-complex goods has already proven a complicated and lengthy process.

- A phase-in period of at least two years is important for EU companies to test, prepare and plan the reporting of emissions with their suppliers and factor in price changes when closing contracts with customers. Rushing implementation without proper preparation could disrupt supply chains and hinder the competitiveness of European industries.

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