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REPUBLIC OF TÜRKİYE
MINISTRY OF ENVIRONMENT,
URBANIZATION AND CLIMATE CHANGE

Promoting Enhanced EU ETS Alignment in Türkiye Emerging ETS

*This activity is part of the European Union Climate Dialogues Project
(EUCDs)*

CBAM Declaration and Compliance

Part 2

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Additional Technical Aspects



01

Obligations Along the Supply Chain

Who is legally bound, who supplies the data, and how responsibility cascades from non-EU producers to EU importers.



02

The Free Allocation Adjustment (FAA)

Why EU free ETS allowances shape the CBAM formula, with worked sector benchmark examples.

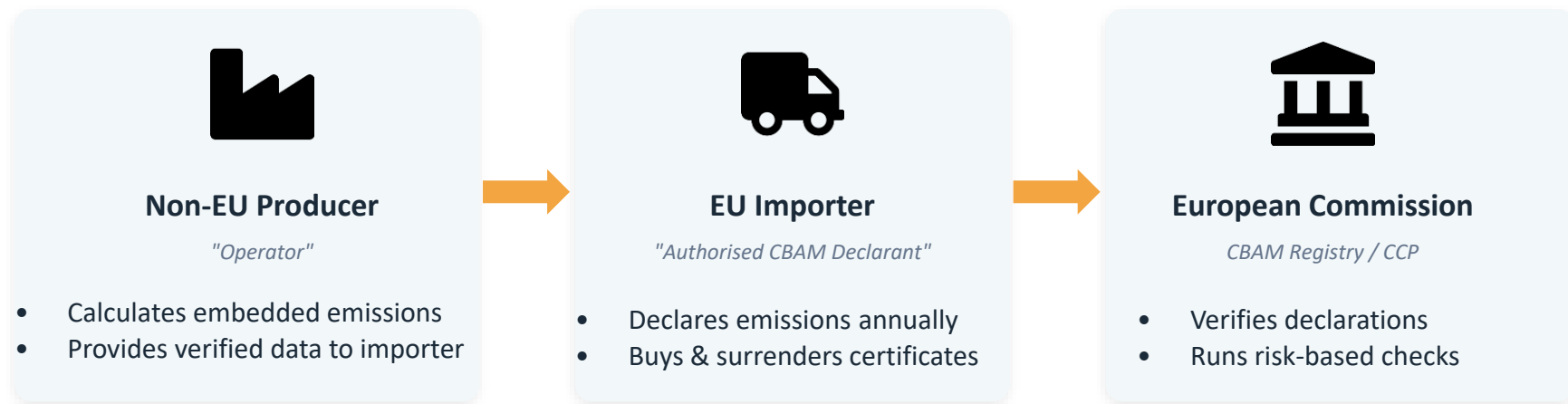
01

How Obligations Transfer Along the Supply Chain



The Compliance Chain

The EU has no jurisdiction over foreign producers — obligations cascade contractually and commercially, not legally.



 Only the EU importer is legally liable — but without producer data, costlier default emission values apply.



Two Roles, Two Sets of Duties



EU Importers (Declarants)

Legally obligated

- Register as an Authorised CBAM Declarant
- Submit the annual CBAM declaration
- Purchase & surrender CBAM certificates
- Hold $\geq 50\%$ of quarterly estimated emissions in certificates
- Face fines of €10–50 per undeclared tonne CO₂



Non-EU Producers (Operators)

Commercially incentivised

- Calculate direct (and indirect) embedded emissions
- Transmit data using the EU-defined methodology
- Obtain third-party verification (from 2026)
- Supply proof of any carbon price paid at origin
- No direct EU sanction — but risk losing market access



Why Producers Comply without a Legal Mandate

The EU cannot sanction a foreign producer directly — so the mechanism works through cost pressure passed down the chain.



No verified data

Producer does not supply verified emissions data to the EU importer



Default values apply

Importer must use conservative EU default values — typically higher than real emissions



Higher certificate cost

More CBAM certificates must be purchased, raising the landed cost of the goods



Competitive disadvantage

Importers favour suppliers who can prove clean, verified, low-carbon production

Bottom line: verified real data is a commercial advantage, not just a compliance checkbox — it can cut CBAM exposure by 60-70% versus default values.

A Note on Default Values and WTO Compatibility



Some trading partners argue that high default values discriminate against non-EU producers. The Commission's design responds to that concern on several fronts.



Origin-neutral by design

The same default values apply to every non-EU producer of a given good, regardless of country of origin — satisfying the WTO's core non-discrimination (MFN) test structurally.



Mirrors the EU's own ETS

EU installations that fail to report verified data face the same conservative, benchmark-based treatment — the logic is extended outward, not invented for imports.



An incentive, not a penalty

The markup above average emissions rewards verified reporting and is entirely avoidable: any producer can eliminate it by supplying real, audited data.



Grounded in GATT Article XX

CBAM is designed under the environmental exceptions of GATT Art. XX(g)/(b), which permit measures that are not arbitrary or unjustifiable discrimination.

The legal debate remains open — several partners have raised formal objections at the WTO. But for exporters, the practical answer holds either way: **strong verified data makes default values, and this debate, irrelevant.**

The Role of Default Values in the Definitive Phase



A fallback mechanism, not an alternative. Default values apply only when an importer cannot obtain verified, installation-specific data from the producer. Since the definitive phase began on 1 January 2026, they ensure every shipment has an emissions reference point even where real data is missing — they are not meant to be a parallel, freely-chosen compliance route.



Verified data is the legal standard; defaults are the exception. Regulation (EU) 2023/956 sets verified, installation-specific emissions (Art. 8, Annex VI) as the standard method; default values (Art. 7(2)(a), Annex IV) apply only as a fallback. The specific figures for the definitive phase are set out in Implementing Regulation (EU) 2025/2621, with legal basis in Art. 7(7) of the founding Regulation.

① Verified Installation Data

Standard method



② Default Values

Fallback, if verified data unavailable



02

The Free Allocation Adjustment (FAA) Mechanism



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Why the FAA Exists



EU producers don't pay for all their emissions. Under the EU ETS, a large share of allowances is still allocated free of charge to protect competitiveness during the transition.



So CBAM must mirror that reality. Charging importers for 100% of embedded emissions — while EU rivals pay for only part of theirs — would over-tax imports and risk breaching WTO non-discrimination principles.

The FAA solution: certificates are owed only on emissions that exceed what an efficient EU plant would receive for free.

How the Formula Works

Certificates due = (Emissions – Benchmark) × CBAM_y × CSCF_y

$$\text{Certificates} = (\text{ESE} - \text{BMg}) \times \text{CBAM}_y \times \text{CSCF}_y$$



ESE

Verified real emissions
of the imported goods
(tCO₂e/t)



BMg

CBAM benchmark —
reference emissions
for that product
category



CBAM_y

Phase-in factor: 2.5%
(2026) rising to 100%
(2034)



CSCF_y

Cross-sector
correction factor,
mirroring the ETS
mechanism



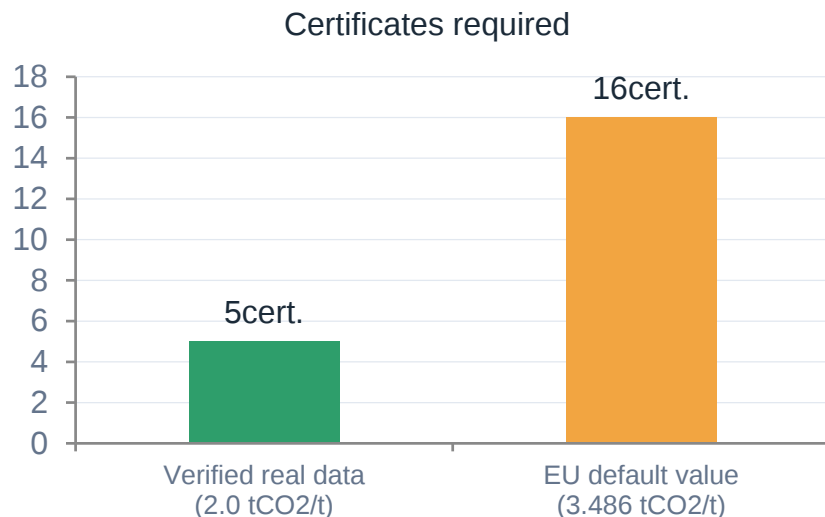
Sector Benchmarks Examples

Sector	Production route	Benchmark (tCO ₂ /t)
Steel	Blast furnace / basic oxygen furnace (BF/BOF)	1.364
Steel	Direct reduced iron / electric arc furnace (DRI/EAF)	1.033
Steel	Scrap-based electric arc furnace (EAF)	0.288
Aluminium	Primary (electrolysis)	1.423
Aluminium	Secondary (recycled)	0.091
Cement	Clinker / Portland cement	0.666

Green values = lowest-carbon routes → smallest FAA gap → fewest certificates owed.

Worked Example — Steel (BF/BOF), 300 t imported, 2026

Benchmark 1.364 tCO₂/t · Default value 3.486 tCO₂/t · CBAM_y (2026) = 2.5% · Certificate price ≈ €80/tCO₂



With verified data

€400

5 certificates × €80

With default values

€1,280

16 certificates × €80

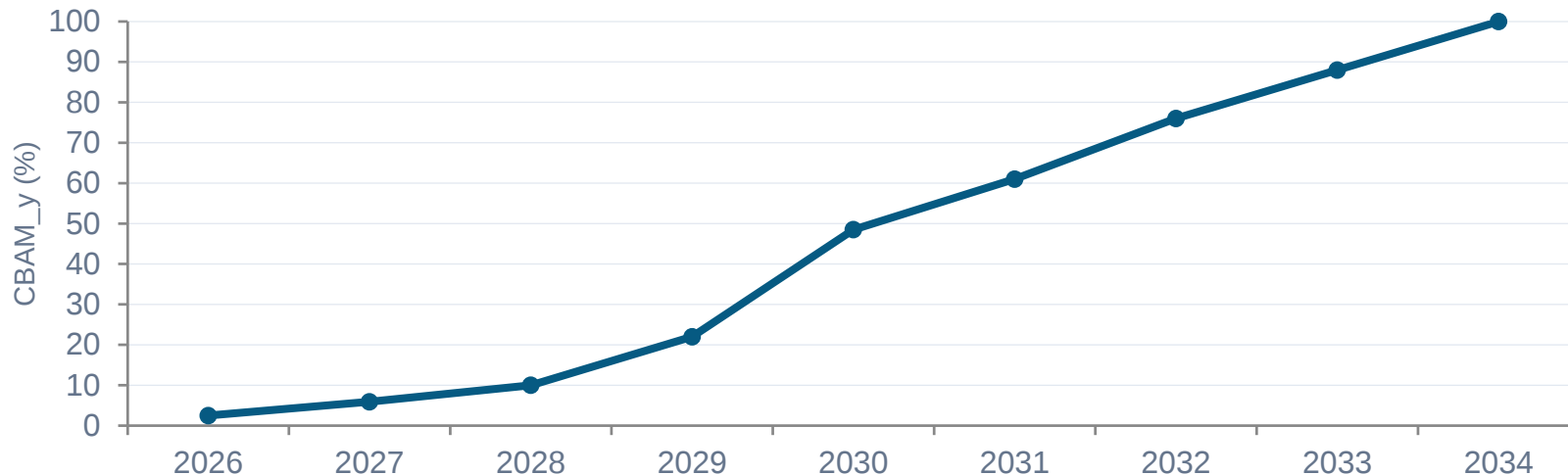
3.2×

higher cost when relying on default
values instead of verified supplier data



The Phase-In: CBAM_y Rises Through 2034

As free EU ETS allowances are progressively withdrawn, the share of the FAA gap that must be covered by CBAM certificates rises in lockstep.



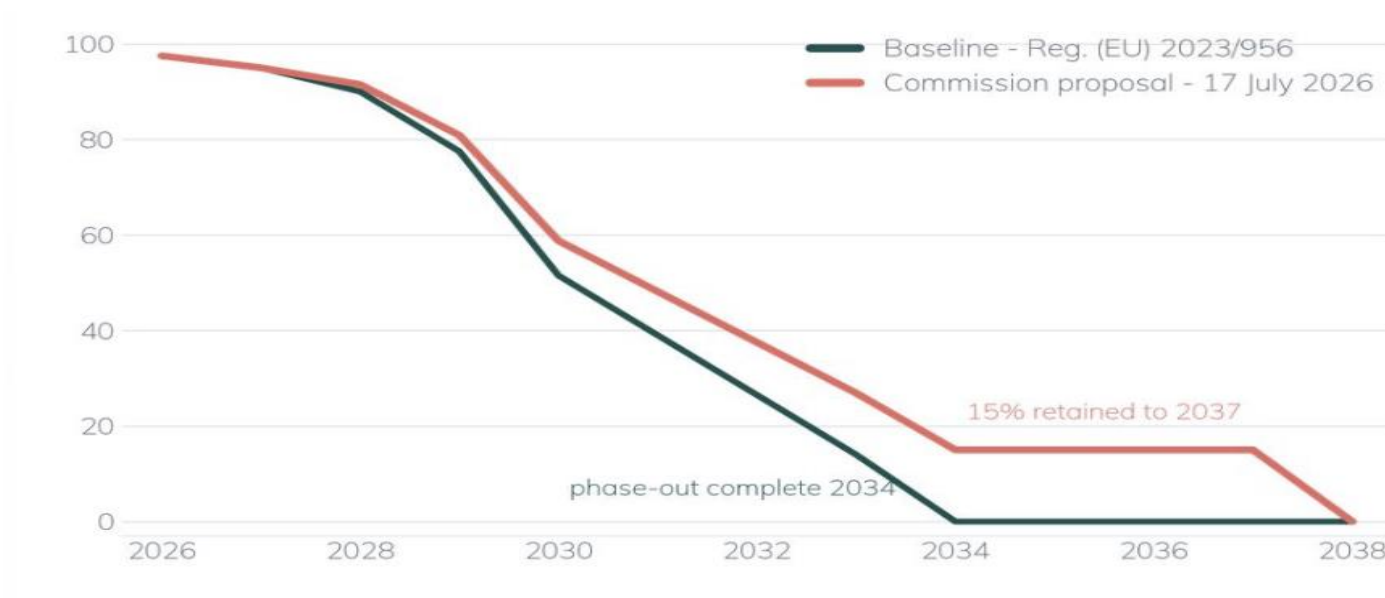
2026 2.5% — Definitive phase starts

2030 48.5% — Roughly half the burden

2034 100% — Free allocation fully phased out

CBAM factor – free allocation retained (%)

Proposed ETS revision slows the phase-out: full CBAM in 2038, not 2034



Key Takeaways



Liability sits with the EU importer

But data must originate from the non-EU producer — responsibility cascades commercially.



FAA keeps the system fair

Certificates cover only emissions exceeding the EU benchmark, mirroring free ETS allowances.



The bite grows over time

CBAM_y climbs from 2.5% (2026) to 100% (2034) as free allocation phases out.



Verified data pays off

Real, verified emissions data can cut CBAM exposure by 60-70% versus default values.



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Thanks for your Attention!

